WILL AT-RISK YOUTH BECOME THE NEXT BIG THING IN BEHAVIORAL HEALTH M&A?

The signs are out there.

And they're pointing the way towards a possible resurgence in at-risk youth (ARY) mergers and acquisitions activity.

Some background.

Although there are many variations on the theme, conditions are ripe for a rise in consolidation activity in health care services when some or all of the following market factors are in play.

- **Market Dynamics.** Quite often, you can trace the start of a new wave in health care mergers and acquisitions to a change in health care economic policy, clinical options and protocols, reimbursement, funding mechanisms, or technology – changes that promise increased utilization, profitability, or value proposition in the health care delivery system.
- **Fragmentation.** If there are a lot of independent players in a space, the ground can be quite fertile to cobble together multiple acquisitions and create critical mass in operations, infrastructure, marketing, and contracting.
- **Previous Investment Success.** There's nothing like a high-profile consolidation success, typically engineered by private equity sponsors, that brings out buyers looking to duplicate its returns.
- **Adjacencies to Investment Success.** After the first wave of me-too activity suggested above, we often see an entirely new wave of dealmaking in sectors that either share or complement one or more characteristics of the market or players that made the first big splash.

  Of particular import here is that these connections do not have to be perfect to become a twinkle in buyers' eyes. In fact, we have seen more than just a few rushes on sectors – with all the frenzy, supply, and demand characteristics that can produce breathtaking valuations – go down based upon a tenuous, or even misguided read of just how adjacent one segment actually is to another.
- **Uniform Services.** Markets with relatively uniform service offerings and operations make it relatively easy to both identify and integrate potential acquisition targets.

An excellent example of these factors at play can be seen in the medication assisted treatment space.

- Successful acquisition activity and profitable divestitures in high-end residential substance use disorder programs (which, in part, was spurred on by mandated insurance coverage "on-par" with medical benefits), served as a readily apparent **previous investment success**.
- As an alternative treatment option, medication assisted treatment (methadone and suboxone clinics and practices) for opioid dependency is naturally **adjacent** to residential addiction treatment programs.
- With many independently owned providers operating one to three clinics serving 300 to 500 patients each, the MAT market is extremely **fragmented**.
- Although providers can and do distinguish themselves from one another in terms of execution, and, notably, "wrap around" counseling and other support services, the core distribution of methadone and suboxone is largely **uniform** from clinic to clinic.
- Finally, with the proliferation of the opioid epidemic, emergence of federal and state initiatives (a.k.a. funding) to reign it in, and payors seeking alternatives to more costly residential programs with soft clinical outcomes, **market dynamics** are ripe for substantially increased utilization of medication assisted treatment.

Considering the same analytical framework, imagine this conversation playing out in a private equity sponsor boardroom near you:

Investor 1: *Behavioral health is still one of the hottest segments in health care M&A, and we're still sitting on the sidelines with nothing in play. We need something in this space.*

Investor 2: *I know, but mental health has been picked over by Acadia.*

Intellectual and developmental disability services programs have been on ResCare's (BrightSpring Health) and Mentor's (Civitas) radar for years.

We're late on residential substance abuse treatment, and that's moving from out-of-network to in-network as we speak.

Medication assisted treatment is interesting, but there have been quite a few platform deals in the space over the past few years.

And autism? The valuations in that space are too rich for us.

Investor 1: *So, what's left?*

Investor 2: *There's acquired brain injury, but I'm not sure the space is large enough for us. Plus, there's reliance on Michigan no-fault insurance.*

Investor 1: *How about non-residential substance abuse?*

Investor 2: *I really like that area, but my guess is that successful players in that market will be combining it with residential programs, and, as I said, we're pretty late there.*

Investor 1: *Ok. Let's break it down.*

We like the economies of scale we can generate from residential treatment programs – particularly in addictions treatment where there is ample opportunity to differentiate services.

We like mental health, but not in the larger institutional settings that Acadia has staked out.

Group homes are interesting, but state funding varies quite a bit-plus-do we want to deal with so many individual residences?

Investor 2: *Not really.*

Here's a thought.

We know autism is hot.

And we also know that pediatric health care in general is also attracting a lot of capital, especially after the successful consolidation and exit of Epic to Bain Capital.

Investor 1: *Wait a second.*

Didn't Epic also offer autism services?

And didn't ResCare (BrightSpring Health) just make a big play in the space?

With the overall move to provide more comprehensive services to targeted populations, is there an argument for an investment thesis that targets a wide range of behavioral health needs for youth, from group homes, to autism services, to mental health, trauma, and even addiction?

Investor 2: *I think you're on to something.*

So where can we make a play?

Investor 1: *How about the at-risk youth market?*

It's not just those wilderness programs you've heard about.

There's long term residential programs for children and teens suffering from trauma, mental health, and other developmental issues that require more intensive interventions than the group homes offer. Plus, there's the educational component that needs to be met.

Investor 2: *Kind of reminds me of those eating disorder treatment programs that some of our competitors have jumped on.*

Investor 1: *Yup. A lot of what we like about addictions, residential treatment, mental health, group homes, and ASD, but in a segment that hasn't seen much activity since a spate of bad press knocked it off the wish list a while back.*

Investor 2: *Plus, viable exit points into IDD, including autism, mental health, all manner of residential behavioral health treatment programs, and pediatric health care?*

Investor 1: *Exactly.*

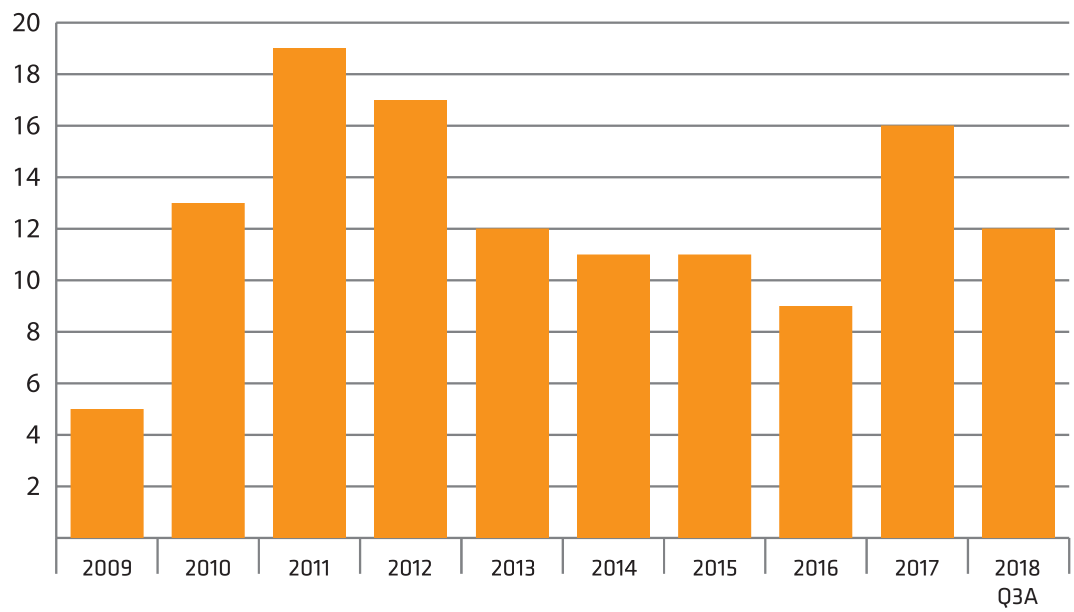
While ARY likely scores low on uniformity of services, such is the case across virtually all the segments in behavioral health care except medication assisted treatment.

It clearly ticks off the boxes for **adjacencies, market dynamics,** and **fragmentation**. And it doesn't take much of a stretch to draw a dotted line from consolidation of at-risk youth to previous – or soon to be realized – investment successes notched in IDD, mental health, addictions, and pediatric services.

Moreover, as illustrated in the proprietary transaction data collected and analyzed by The Braff Group and presented below, the beginnings of a rebound in at-risk youth deal flow over the past 21 months may very well be an early indicator that the discussion above is already taking place.

AT-RISK YOUTH DEAL TRENDS

Source:
The Braff Group



So, will at-risk youth become the new autism services M&A market?

Probably not, as what we've seen in ASD is every bit as much of a unicorn as the latest binge on scooter investments on the left coast.

But is there real reason to believe that the space will see increased acquisition demand – and valuation – over the next 12-24 months?

You bet.

market**ALERT**

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BRAFF

The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team of dealmakers focused exclusively on behavioral health care.

We provide sell-side only transaction services to the mental health, substance use disorder, autism services, I/DD, eating disorder, at-risk-youth, and acquired brain injury provider community.

Since being founded in 1998, The Braff Group has completed more than 325 transactions. According to Thomson Reuters, The Braff Group has repeatedly been ranked among the top 5 health care mergers and acquisitions advisory firms.

FOR MORE INSIGHT INTO THE BEHAVIORAL HEALTH M&A MARKET, CONTACT ONE OF OUR INDUSTRY EXPERTS:

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