

WHEN IS THE BEST TIME TO SELL YOUR AUTISM COMPANY (AND WHY IT'S OKAY TO THINK ABOUT IT)

"Wait a minute Mr. Postman."

"I got into treating autism spectrum disorders to help people. It's never been about the money."

For many of you, just the thought of selling out makes you feel like, well, you're selling out.

We get it. But consider this: You've already dedicated your professional life to improving the lives of hundreds, perhaps thousands, of kids and their parents. In doing so, you may very well have passed on other more lucrative opportunities. You're OK with that. But what if you're fortunate enough that your life's work turns into something with substantial equity value as well? Does realizing this value detract from the good you've done?

(Pause for dramatic effect.)

Well, as it turns out, the need for, access to, and funding of ASD services are in near-perfect alignment, providing ASD providers with opportunities they never anticipated, but no less deserve.

So how to make the most of them?

The Braff Group Decision Construct

To bring some rigor to such a difficult and often emotion-laden decision, The Braff Group developed a three-part decision construct to narrow down the best time to sell or perhaps seek an equity investment.

Imagine the bullseye of a target, designating the perfect time to sell to maximize both financial and professional returns. Now imagine three "decision spheres" – the three most important variables that drive this timing. When all three spheres converge over the bullseye, well, the moon is in the seventh house, and Jupiter's aligned with Mars.

Decision Sphere One: The Mergers and Acquisitions Dynamics for Autism Services

This first decision sphere is pretty intuitive. How vibrant is the M&A market for your behavioral health niche, i.e., "Is it a good time to sell?"

- Does the sector meet a pressing need, supported by current and anticipated health care economic policy, which, in turn, portends a sustained run of both utilization and funding?
- Are private equity investors blanketing the space, funding consolidations that can rapidly accelerate deal flow and sector visibility?
- Are there a substantial number of buyers competing for high quality ASD providers?
- Do they come from different corners of the market, with varying strategic goals and objectives, increasing the likelihood that the needs of one or more buyers will line up nicely with your unique strengths and characteristics?
- Are there any visible risk factors that could quickly derail the industry?

So how does autism measure up on these indicators?

Need, Utilization, and Funding is Coalescing. The need for services is undeniable. And with earlier diagnoses and services extending into early adulthood, this need is growing. Sprinkle in high profile community outreach (e.g. Autism Speaks), which stimulates the breadth and depth of awareness and funding, and you have the makings of a sector on the rise with a high ceiling for growth.

PE is on the Prowl. Given the above, and the fact that the autism services sector is extremely fragmented with few players topping \$20M, private equity sees substantial opportunity to get out in front of the market and build regional, and even national, service footprints.

The Buyer Pool is Deep AND Broad. Following a pattern we have seen repeatedly in other health care consolidations, the early private equity movers have not only drawn other PE firms into the mix, they have put pressure on ancillary service providers and not-for-profits to pursue acquisition strategies of their own to remain competitive in their markets.



Scoring about as high as a health care sector can get on each of these measures, the ASD M&A Decision Sphere landed smack dab in the middle of the target about 24-36 months ago.

And it has remained there, more or less, since.

It's the less, however, that merits further discussion.

First, to be clear, valuations for autism service providers remain extremely high when compared to every other health care services sector we cover.

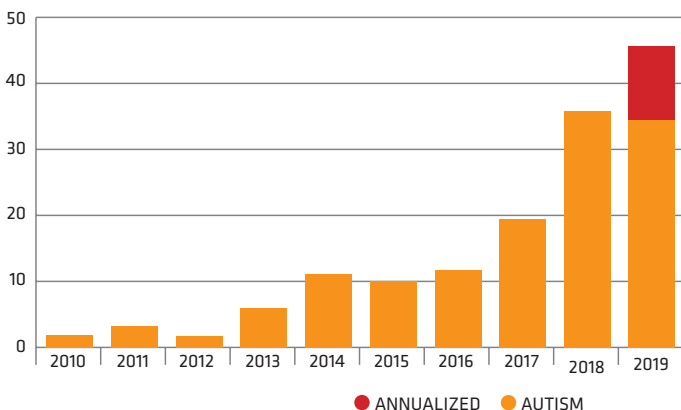
But we have begun to see signs that the inevitable pressure on pricing is beginning to ineviate (yeah, we made up that word).

- Where once even small(ish) providers with around \$5M in revenues would garner 10 or more qualified offers, we're now seeing 4-7 proposals. Still, quite enough to surface competitive offers, but nonetheless, fewer.
- The lower end of the valuation multiple range proffered by buyers had previously bottomed out at 7-8 times earnings before interest, taxes, depreciation, and amortization. The low end now includes offers of 5-6 times EBITDA. On the positive side, the high-end of the range is largely unchanged.
- Buyers that entered the market at double digit valuations are turning toward start-ups to lower their "dollar-cost-average" investment multiples in order to make it easier to exit profitably. This, in turn, reduces demand, as reflected in the first bullet above.

So, where does this leave ASD with respect to the M&A Dynamics Decision Sphere?

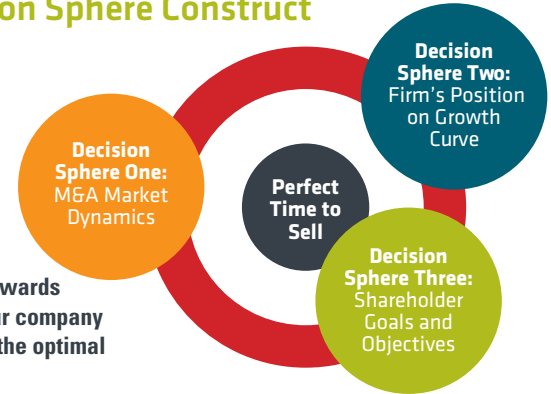
As evidenced by the proprietary transaction data gathered and analyzed by The Braff Group, the market clearly remains dynamic and record-breaking.

Autism Deal Trends



Source: The Braff Group

The Decision Sphere Construct



As the Decision Spheres move towards the bullseye, your company moves closer to the optimal time to divest.

Source: The Braff Group

But...

An honest appraisal of the market indicates that while previously in the bulls-eye of the market timing target, the M&A Dynamics Decision Sphere is now perhaps a smidge off center.

Still great. But ever-so-slightly beginning to drift.

And, of course, this is expected. For in virtually every rapid consolidation we've seen in health care, there is a pattern of activity that is tough to dodge:

When a sector is on a roll:

- Startups proliferate
- Ne'er do wells replicate
- Acquisition candidates propagate
- Spending accelerates
- Payors, legislators, and regulators investigate
- Risk begins to escalate
- Acquisition demand slowly abates
- And the decision sphere inevitably relocates.

Decision Sphere Two: Position on the Growth Curve

Buyers typically adjust their valuations to reflect a seller's anticipated growth, or decline, respectively.

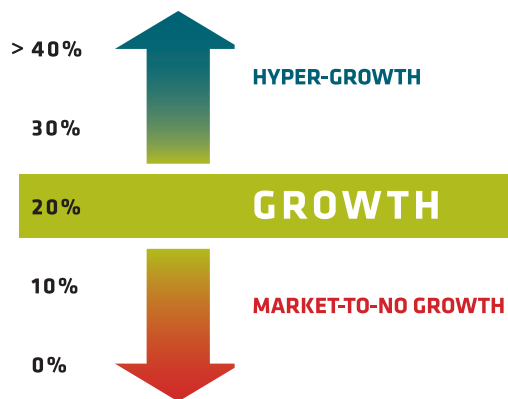
In a growth situation, then, the question is whether or not the bump in the multiple adequately reflects this growth?

This depends on where the company sits on the growth curve.

For simplicity sake, we categorize growth into three bands:

Hyper-growth. Although it can occur any time, hyper-growth often begins around a third of the way towards company maturity, and tails off by the mid-stage. It can be very high – as much as 25-50% or more, but is generally difficult to sustain for more than a few years.

Converting Growth to Value



Growth. Often coming on the heels of hyper-growth, we're talking about growth that is out-pacing the market as a whole (which means a company is grabbing market share from its competitors). Typically, this ranges somewhere between 15% and 25%. Unlike hyper-growth, the most creative, innovative, and nimble companies can remain in the growth stage for many years.

Market-to-No Growth. As the name implies, this occurs when a company is growing at, or below, the growth rate of their sector. In a burgeoning health care market, "natural" market growth can be as much as 15% or more. So between a rate of 0% and 15%, a company in this stage is either holding its market share or seeing it slip.

So which band is optimal?

Market growth is already baked into health care valuation multiples. So in particularly vibrant segments like autism services, sellers don't receive much, if any, bump in their valuation multiples, even if they're growing between 10-15% per year. On the contrary, in sectors like ASD, little to no growth is more likely to generate a reverse bump (a dump?).

What about hyper-growth? Of course, buyers love that kind of growth, but they know it's not likely to last. You'll be rewarded with a nice increase in your multiple but in virtually all cases, not enough to fully capture the go-forward opportunity. Alternatively, if you're willing to wait as little as a year, even if your growth slows a bit, the jump in earnings is likely to far outweigh what is likely to be a modest reduction in your growth adjusted multiple.

In the end, it's when you're in the growth band – when you're growing between 15%-25% per year, when you're still gaining market share, and when it's possible to sustain this rate for several years – that a company can realize the best combination of elevated multiple and income.

Decision Sphere Three: Personal Goals and Objectives

When I was a kid (and my room looked like you would expect from a 10-year-old with way too many regiments of plastic

soldiers), my mom would pass by my room muttering, "This room is so messy I could vomit!" (Mom had a way with words.)

So what does this have to do with personal goals and objectives (PGOs)?

If, more often than not, when you pass by your office, you could... you know... re-enact the pea soup scene from the Exorcist, you're probably well beyond worrying about M&A dynamics and growth curves. You've had enough with insurance denials, keeping your employees happy, and presiding over the thermostat wars; taking a nap becomes your primary goal and objective.

And so it is with Decision Sphere Three. Its positioning is personal, and it's frequently rooted in some form of burnout. You could continue to grow and compete – but you simply don't want to.

Perhaps you have other business interests which may provide better financial and/or professional returns. There may be conflict with your partners – business or life. Breaking up a partnership – or a marriage – often triggers a need to divest. Maybe there is an ailing loved one that requires more of your time and attention.

One personal inventory item merits particular attention, not only because it is rarely considered, but because it can be a defining pivot point.

The Psychic Value of the Incremental Dollar. Developed by The Braff Group, this PGO variable is most easily explained with a simple example. Take Bill Gates (figuratively, not literally, that would be kidnapping). We can all imagine that the first million dollars he made held tremendous value to him, both financially and psychically. But how about a million dollars today? Not so much. In fact, it's easy to imagine that the psychic value of an incremental dollar to Bill Gates today is zero.

How does this fit in with our construct?

Quite simply, once the psychic value of any increment in the selling price of your business begins to decline – and that figure will differ widely for each individual – the value of holding on for a higher multiple or another year of growth begins to diminish as well. Every year you operate beyond this point, you take on the day-to-day risk of reductions in reimbursement, regulatory scrutiny, professional liability, etc., in exchange for very little psychic return. This alone can place you squarely in the "sell-zone."

Alas, the world is rarely kind enough to present you with a circumstance in which all three decision spheres are lined up perfectly over the selling target.

The trick, then, is to keep your eye on each for the direction – and velocity – it's headed and use this insight to narrow down the time frame when you're likely to have the greatest convergence of decision spheres around the bullseye.

Yeah, it's a juggling act.

But if you stay alert, you won't drop the sphere, uh...ball, on what could be a life-changing decision.

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, telepsychiatry, at-risk-youth, and acquired brain injury provider community.

Braff is the leader in autism services mergers and acquisitions. From collecting and analyzing autism specific data points to benchmarking their performance, from properly positioning clinic, school based, multidisciplinary, and at-home services to evaluating contracts and other payor sources, from promoting recruitment history of BCBA's to understanding CPT codes, we know the variables – and how to communicate them – that can turn a good deal into a great one.

Since being founded in 1998, The Braff Group has completed more than 335 transactions. According to Thomson Reuters, The Braff Group has repeatedly been ranked among the top 5 health care mergers and acquisitions advisory firms.



Intelligent Dealmaking[®] in Health Care M&A

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



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