Behavioral Health Business

It's been about 15 months since the COVID-19 emergency first shook up the U.S. economy, turning nearly every industry upside down. Despite the turmoil, the substance use disorder (SUD) mergers-and-acquisitions market has remained largely unaffected by the pandemic.

While deal activity varied by quarter last year, the space saw 51 deals overall in 2020. That's just two fewer than the 53 transactions it posted in 2019, according to The Braff Group.

And currently, the outlook for SUD M&A is "about as bright as it has ever been," according to Dexter Braff, president of the M&A advisory firm.

He shared those insights in the State of Addiction Treatment 2021, a report designed to give SUD treatment providers a comprehensive overview of COVID-19's impact on commercial SUD treatment. The publication was produced by Joanna Conti and published by Vista Research Group.

In the report, Braff highlighted several factors contributing to the favorable SUD M&A outlook.

For one, the pandemic worsened the nation's behavioral health. On the SUD front, that translated into a new record high for deadly opioid overdoses in the U.S., with the Centers for Disease Control and Prevention (CDC) reporting 87,203 deaths in the 12-month period ending in September 2020.

On top of that, private equity (PE) buyers have capital they need to deploy, and fewer viable targets to chase. Because demand for SUD treatment is expected to rise, providers in the space fit the bill.

Plus, SUD is already popular with PE investors, who have been especially active in the space over the past 10 years and who accounted for more 70% of the deals in the SUD segment in 2020. Plus, PE activity was up 24% from 2019 last year.

"Not only will [increased demand] spur PE sponsors with existing SUD platforms to accelerate their expansion, but it will also bring entirely new entrants seeking investment platforms into the space," Braff said in the report.

Finally, proposed changes to the capital gains tax stand to push more sellers to market by the end of the year, according to Braff. If President Biden's proposed tax plan passes, it could increase the capital gains tax from 20% to 39.6%.

"That would slash a seller's net proceeds," Braff wrote. "So, much like we saw in the run-up to 2013 and the expiration of the Bush tax cuts, deals that would have otherwise been contemplated in 2022 or 2023 will be moved up to beat a potential December 31, 2021 deadline to lock in current rates."

Already in 2021, SUD M&A is off to an active start. The space saw 14 transactions in Q1 2021, up from 9 in Q4 2020, according to The Braff Group, which has not yet released its proprietary deal data for Q2 2021.

As far as sub-sectors of interest go, the medication-assisted treatment (MAT) market has been especially hot lately, with PE sponsors posting 18 MAT follow-up deals in 2020, as opposed to 11 in 2019. Meanwhile, transactions in the non-residential, non-MAT space fell off substantially in 2020, dropping almost 77% year-over-year, according to Braff.

In addition to M&A trends for 2021, the State of Addiction Treatment 2021 report also predicted that providers will soon see the expanded enforcement of EKRA; SUD-specific regulatory updates; and more audits, in addition to other changes. You can find the full report here.