Behavioral Health Business

Very few private equity groups started new platforms in autism services in 2020 — a sign that deal activity in the sector, which has been white hot for years, could be primed for a slowdown. Specifically, platform formation deals in the space dropped to their lowest level since 2016, according to Dexter Braff, president of the M&A advisory firm The Braff Group.

"That's a significant issue and an area of some concern for us as relates to the overall health of the market," Braff said. "It's those platform formations that support the ongoing activity over a prolonged period of time. … They are a leading indicator of what you might see over the next three or four or five years."

Braff made those comments during a Tuesday presentation at the 2021 virtual Autism Investor Summit put on by the Behavioral Health Center of Excellence. There, Braff delivered a state of the industry market analysis.

Overall, transaction activity in the autism services space fell more than 27% year-over-year in 2020, according to Braff data. That's largely because of the impact COVID-19 had on autism providers, causing census fall-offs especially in clinic settings. In all, there were 32 deals in the space last year, with "very few" coming as the result of private equity groups starting new autism services platforms.

He characterized a platform-sized autism services company as one that bring in "anywhere north of $10 to $15 million in revenues." Braff said he wasn't sure if and when those platform formation deals would return.

On one hand, the autism investment thesis hasn't changed, and the market is stabilizing after its coronavirus-related disruption. Plus, post-COVID-19 investment demand is high, and private equity firms have a lot of capital left to deploy.

On top of that, President Biden's stated plans to raise capital gains taxes could be an incentive to transact this year.

Braff said tax increases are inevitable given the quickly growing national debt and COVID-19 economic recovery plan. He predicts those tax increases will come in early 2022, with buyers and sellers racing to complete their transactions before then.

"A lot of people in the merger and acquisition world, across the board, believe that 2021 might be a record year in terms of transactions," Braff said. "It could, in fact, be a record year in autism services as well."

On the other hand, though, the autism services space has a fairly crowded investment environment, with more than 35 private equity groups getting into the space in the span of the past four years or so. Additionally, valuations in autism are still extremely high, with some buyers offering up to 14x or 15x EBITDA.

In a move that could drive those sky-high valuations down a bit, the autism services space could also see platform deals coming back as follow on transactions, specifically for larger, more mature companies looking to move the dial on revenues and earnings, Braff said.

"What you wind up sometimes seeing are consolidators then looking to buy companies that previously would have only been bought as an initial platform," he said. "Sometimes the valuations aren't as high. Acquisition of a platform as a platform carries extra value because the buyer needs it to get an infrastructure in order to build on top of it."

Even if platform formation deals don't return to pre-pandemic levels, it's not a death sentence for autism mergers and acquisitions in the years to come, Braff said.

"It's not great, but it's not horrible," Braff said. "It's an indication of a market slowdown. We've always known there's going to be a slowdown in the market. Nobody can sustain levels that we've seen. In fact, they've been sustained for longer than I would have ever imagined."