It was an extraordinary year in behavioral health mergers and acquisitions. Based upon proprietary data collected and analyzed by The Braff Group, there were a record 251 deals completed in the space, up 32.8% over the prior record set in 2020, with mental health, substance use disorder, and I/DD all up more than 44% year over year.

The chart above is the traditional way of illustrating total deal flow over time. But with vastly different trends and total deals completed, it falls short in comparing activity between sectors -- a view that can be extremely revealing.

To address these shortcomings, The Braff Group has developed "Heat Maps," as illustrated below. Along the vertical axis is the total number of transactions completed over the past five years. Along the horizontal axis is the slope of the trend line over that period. For those of you who remember middle school math, the slope is the “m” in the formula, \( Y = m(x) + b \). The greater the “m” in the formula, the sharper the slope -- in this case, the sharper the rise in transaction volume over the period. Taken together then, the highest and furthest to the right a segment is, the greater -- and more robust - the acquisition interest in that segment, both in terms of volume and growth.

To best understand the behavioral health market, it’s instructive to start broadly, and then drill down to a segment-by-segment basis.
HEALTH CARE SERVICES M&A

There is little question that over the past five years, behavioral health has distanced itself from all other health care service sectors in terms of transaction growth and volume. While the volume of home health and hospice transactions are comparable, behavioral health deal flow is growing at a faster pace. As we have written about extensively, interest in behavioral health had been growing steadily since 2010 due to, among other factors, increased demand, utilization, funding, and acceptance. That was before COVID. Since the pandemic, however, the consensus opinion is that the strain of the past two years (and counting) will spike even greater increases in demand, and hence, elevated acquisition interest, transaction volume, and valuation.

BEHAVIORAL HEALTH M&A

If we drill down into behavioral health, we can see which segments within the sector are faring the best in terms of M&A activity. As the chart clearly illustrates, substance use disorder accounts for the greatest number of deals over the past five years. And while it ranks high among all behavioral health segments in terms of growth, on this variable, mental health has jumped out to the front of the pack. This is largely attributable to the pandemic, as buyers seek to build out their community-based clinic and practice offerings which are both easily accessible and comparatively affordable. They are also seen as the next logical step in the progression of those that tapped into the proliferation of app-based products and want more personalized, comprehensive care.

Lastly, after such a remarkably fast run-up in interest, deal growth in autism services has finally leveled off – albeit at historically elevated levels.
SUBSTANCE USE DISORDER

With the greatest number of transactions in behavioral health over the past five years, we thought it would be illuminating to delve further into substance use disorder to see how each individual sub-segment is faring.

As the chart indicates, perhaps the most notable observation is the vast separation between residential high-end addiction treatment programs and those that are in the mid-range to value side of the spectrum. Although the ramp up in interest in substance use disorder M&A began in high-end facilities, over the past five years, it has shifted substantially to lower-cost programs. While high-end acquisition activity is contracting (negative slope territory), mid-range to value providers are the fastest growing sub-segment in substance use disorder M&A.

This is part of a trend we predicted seven years ago as the greatest growth potential belongs to programs that are more affordable or funded by Medicaid or other government programs, which, in turn are more accessible to the vast majority of individuals that require treatment.

Not surprisingly, given its position as the lowest-cost treatment option with the historically best long-term results, buyers continue to target medication assisted treatment companies. We do note that within this space, we are seeing increasing interest in providers that focus largely on Suboxone.

Finally, we note the low levels of activity in PHP/IOP as well as outpatient counseling programs. This belies the trend we are seeing across the health care spectrum to push more services into the least costly settings including outpatient facilities and the home. With clinic-based mental health receiving so much attention (as discussed above), we anticipate that interest in this area will likely bleed off into all manner of outpatient addiction treatment. Accordingly, we anticipate that these sub-segments will garner increasing acquisition interest over the next 12-36 months.

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Outlook

Probably the biggest headwind facing behavioral health is staffing – or the lack thereof. According to the Substance Abuse and Mental Health Services Administration (SAMHSA), "The U.S. needs about 4.5 million additional behavioral health professionals to provide care for the current population with mental illness and substance abuse issues. The current behavioral health professional workforce is about 700,000 individuals..." representing a "...staggering shortage of 87%." Other than that, the go-forward outlook for behavioral health is extremely favorable, suggesting a long run of acquisition activity. We do note, however, that the extraordinary valuations many providers are receiving are based not only upon the sector’s attractive risk-growth-return fundamentals, but also broad market conditions including access to debt, a strengthening economy, and optimism fueled market momentum. Should any of these, or other external factors falter, we would expect current market premiums to contract. Still premium. But not as much.

The Braff Group is the leading mergers and acquisitions advisory firm specializing exclusively in health care services, including behavioral health, home health, home care, and hospice, home medical equipment, pharmacy services, staffing services, urgent care, digital health and ancillary services. The firm provides an array of sell-side only transaction advisory services including representation, debt and equity recapitalization, strategic planning, and valuation. Founded in 1998, The Braff Group has completed more than 370 transactions. According to Refinitiv, The Braff Group has repeatedly been ranked among the top 5 health care mergers & acquisitions advisory firms.

- Behavioral Health
- Home Health, Home Care, and Hospice
- Home Medical Equipment
- Health Care Staffing Services
- Pharmacy Services
- Urgent Care
- Digital Health
- Ancillary Services

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