

BRAFF REPORT

Insight into Health Care Services Mergers & Acquisitions

2025 Behavioral Health Year End M&A Update

As we laid out in our broad health care services roundup entitled “In 2024 We Predicted a Banner Year in Health Care Services M&A in 2025: Here’s What We Got Right and What We Didn’t Anticipate,” there were a variety of macroeconomic issues impacting mergers and acquisitions activity across all industries—health care in particular.

Among them were the following:

- unexpected rise in inflation in the beginning of 2025
- the Fed’s resulting decision to delay anticipated cuts to interest rates
- economic uncertainty resulting from tariff policies
- change in eligibility standards for Medicaid courtesy of the One Big Beautiful Bill (OBBB)
- expiration of Covid-era ACA premium subsidies

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We also indicated that throughout the year, the M&A environment could be characterized as a battle between these macroeconomic headwinds and acquisition demand, with demand having the edge.

This was quite evident in the broad behavioral health care space, with many – though not all – segments recording gains that outpaced the other health care service sectors we cover.

Let’s break it down.

Medicaid and Expiration of ACA Subsidies

Given that, depending on the segment, 25-50% or more of individuals receiving some form of behavioral health care are covered by Medicaid, buyers’ evaluations of go-forward risk due to changes in eligibility standards – primarily a new work requirement – weigh heavily on demand and valuation. This is particularly noteworthy because the actual impacts will likely not become clear until at least mid-2027 after the guidelines become effective January 1st of that year.

Many individuals receiving behavioral health services are generally excluded from the work requirement. But it is feared that, in some cases, the administrative burdens required to

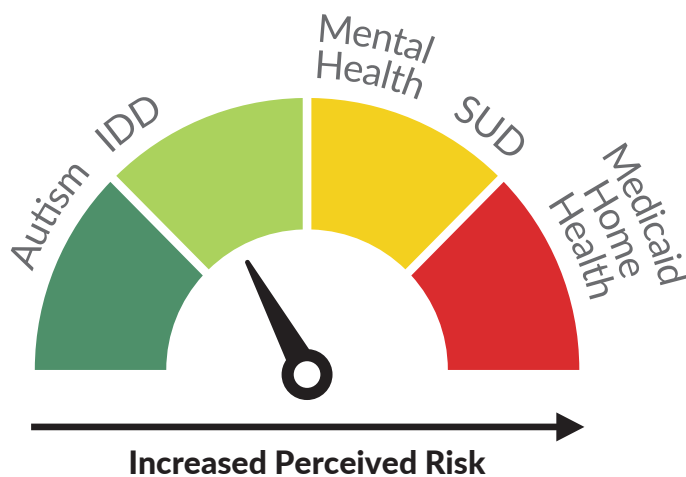
“It is feared that, in some cases, the administrative burdens required to obtain [work requirement] exclusions may result in otherwise appropriate individuals losing Medicaid coverage.”

obtain these exclusions may result in otherwise appropriate individuals losing Medicaid coverage. What makes it even murkier is the fact that each state has the authority to determine how it will adopt these requirements. Even murkier still is how the loss of ACA subsidies will impact those receiving care under these plans. With so many unknowns, it’s no wonder that buyers interpret the risk of reduced utilization differently both individually and across segments.

Based on nearly eight months of feedback from buyers, below is our impression of how buyers – rightly or wrongly – are assessing this risk. For context, we include Medicaid home health.

One more thing.

With respect to the work requirements dictated in the OBBB, between 2018 and 2019, Arkansas and New Hampshire introduced their own such requirements to their Medicaid programs. The result? The very same fears mentioned above:



a substantial number of enrollees that dropped out of each program did so **not** because they weren't working, but because of the administrative burdens and complex paperwork necessary to document employment status. Moreover, neither state reported any significant increase in employment as a result of their initiatives. In the end, Federal courts ruled that, among other reasons, the legislation was inconsistent with Medicaid's core objective of providing medical assistance, and both programs were halted. Will the same befall work requirements contained in the OBBB? Unclear. But it would appear there is precedent.

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Substance Use Disorder

As the chart below illustrates, recent trends in SUD transaction volume have been lackluster. The reasons are manifold.

The sector has been consolidating for more than ten years, leaving fewer and fewer acquisition candidates. This is particularly the case in medication assisted treatment. Moreover, due to a variety of reasons including preparations for an exit, shifts in strategy, and pauses to integrate deals, the buyers that dominated the space in MAT between 2020 and 2023 have largely been on the sidelines. Add to that the challenging macroeconomic environment and concerns regarding Medicaid, the fall-off is not surprising. What was surprising, however, was the decline in outpatient addiction deal flow. With a decline from 16 to 12 transactions, the

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2025 volume could simply be an anomaly. But with trends favoring lower cost non-residential services, we would have anticipated an increase.

The good news is that private equity sponsored platforms and large independent companies remain committed to the space. Moreover, they know that acquisitions are generally the fastest avenue to growth and, notably, the most expedient route to expand geographic coverage or fill in service gaps to be better positioned to negotiate potentially lucrative contracts with private insurers. As such, demand for sizeable opportunities or highly strategic add-on providers remains, but not necessarily from the serial buyers that once dominated the SUD M&A landscape. It's coming from a different cohort of buyers, who are highly selective and focused on pursuing a limited number of strategic opportunities each year.

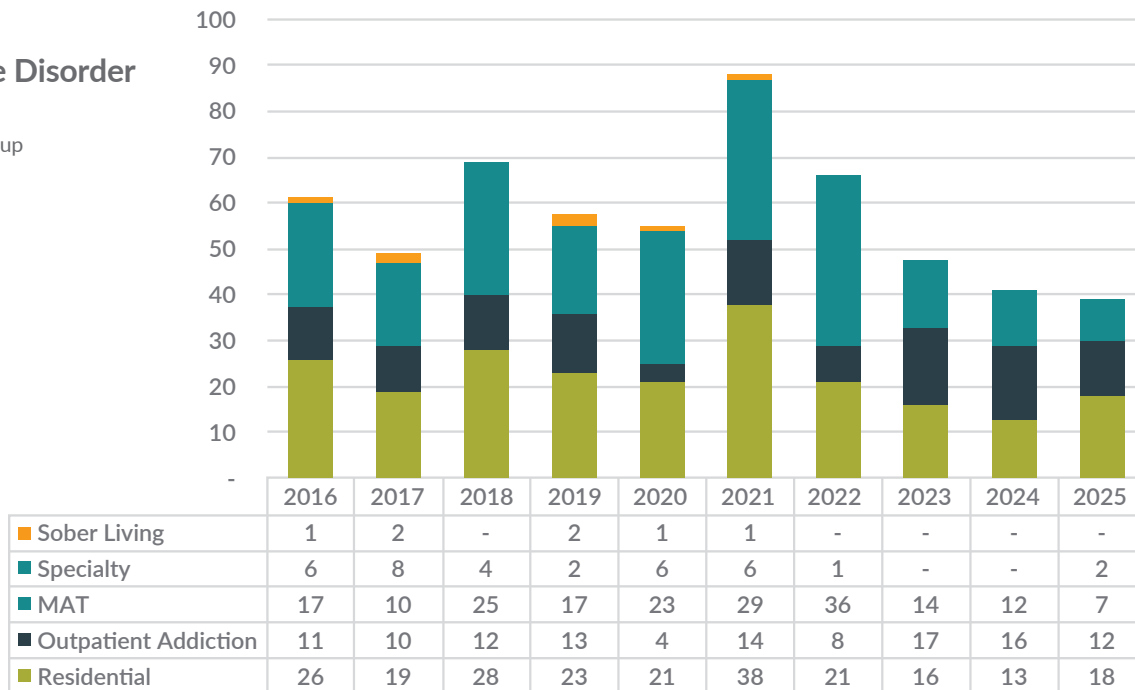
So, the buyers are out there.

But identifying them requires a more refined and strategic process.

While SUD deal flow has been tepid, **the remaining behavioral health segments have performed extremely well.**

Substance Use Disorder Deal Trends

Source: The Braff Group



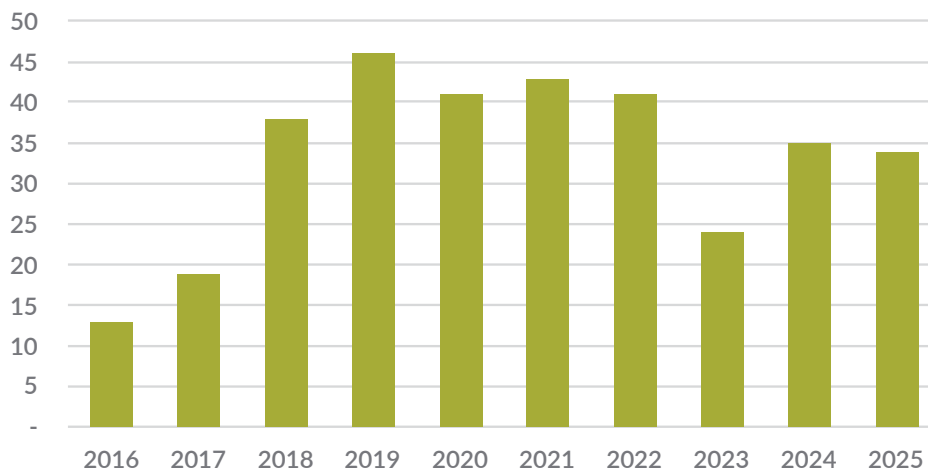
Autism Services

Perhaps most noteworthy is the turnaround we've seen in autism services. Not necessarily in volume trends – strong as they are, the recent growth in autism deals has been outpaced by what we've seen in mental health and intellectual and developmental disabilities.

But the resurgence of private equity sponsored platform transactions is very telling.

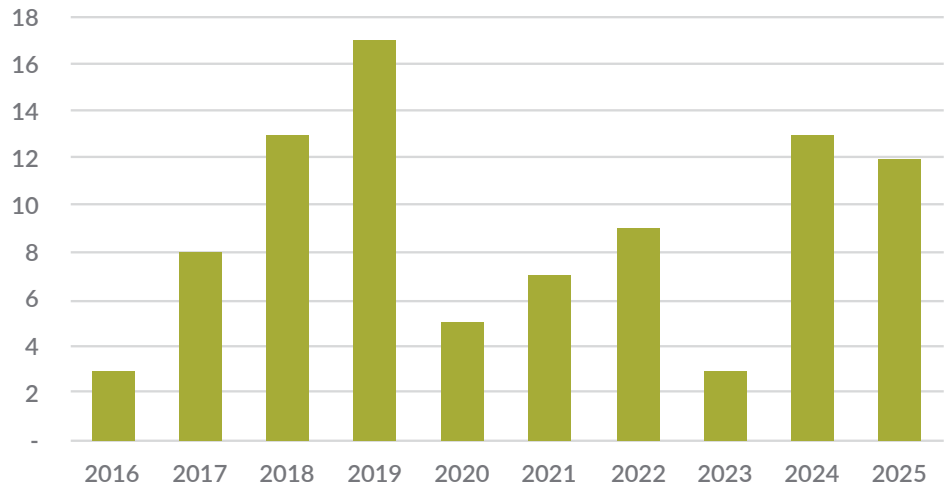
Autism Services Deal Trends

Source: The Braff Group



Private Equity Sponsored Platform Deals in Autism Services

Source: The Braff Group



While shy of the peak reached in 2019, platform activity over the past two years has been the highest we've seen since 2020. The pull-back between 2020-2023 was eminently predictable. During this period autism was reeling from continued bad press, pressure from private insurers, strains on staffing, and notably, hangover from the failure of several high-profile consolidators (see the Braff Report, "Autism M&A Roars Back"). But with much of these concerns largely in the rear view (except perhaps payor

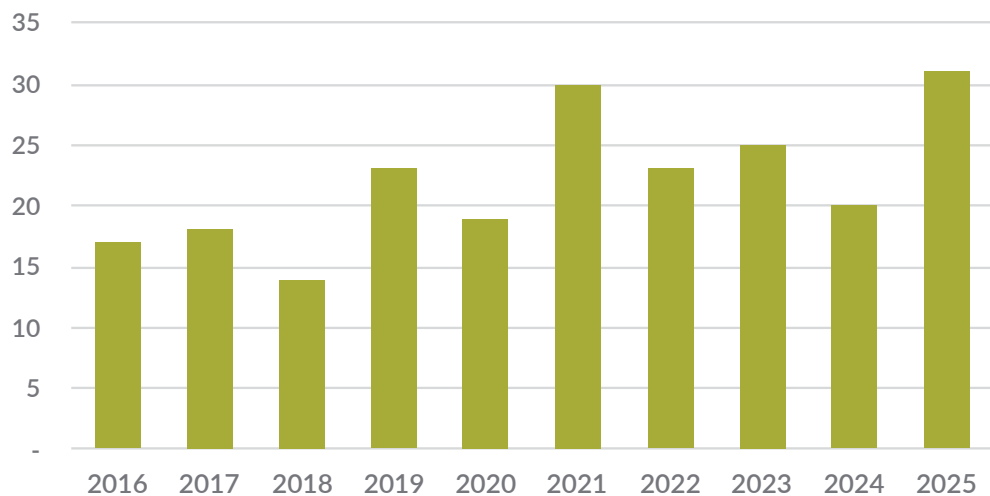
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Intellectual and Developmental Disabilities

Intellectual and Developmental Disabilities Deal Trends

Source: The Braff Group



Despite the uncertain Medicaid environment, the I/DD space reached a new high in transaction volume in 2025 with 31 deals, just eclipsing the 30 recorded in 2021. Perhaps most interesting is that unlike most of the sectors we cover where deal flow plunged in 2022 and 2023 due to high inflation and rising interest rates, I/DD pretty much kept pace – and even exceeded – pre-pandemic levels. The takeaway? Sustained confidence in the demand and coverage for, and support of, such critical behavioral health care services.

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Mental Health

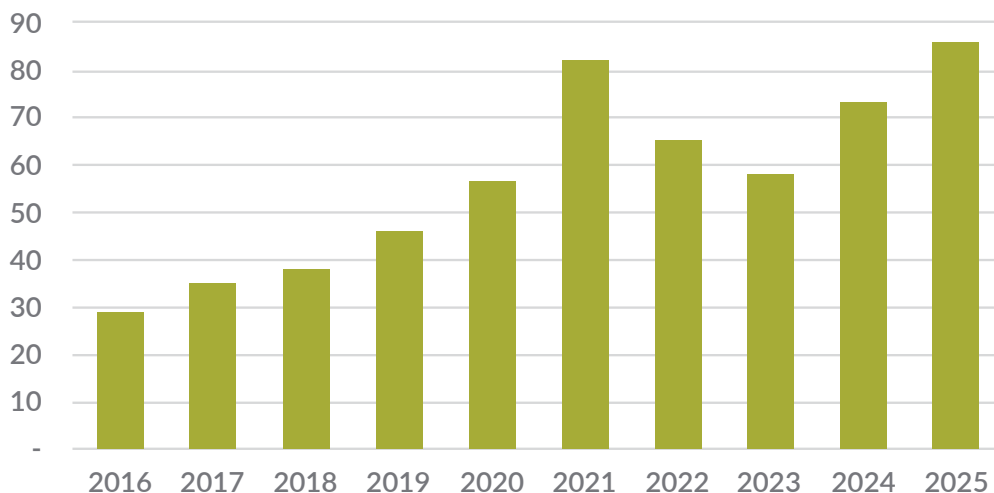
We’ve long reported that as vibrant as the M&A market has been for autism services and I/DD over the recent past, mental health has surged to the top of behavioral health investors’ wish lists. No surprise then that the 45-degree upward trend that began in 2017 has continued largely uninterrupted. There has been, however, a subtle shift in focus, as buyers are increasingly interested in providers that, in addition to traditional psychiatry, also offer interventional psychiatry including, among other treatments and medication management, transcranial magnetic stimulation (TMS), and esketamine/ketamine therapy.

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Mental Health Deal Trends

Source: The Braff Group

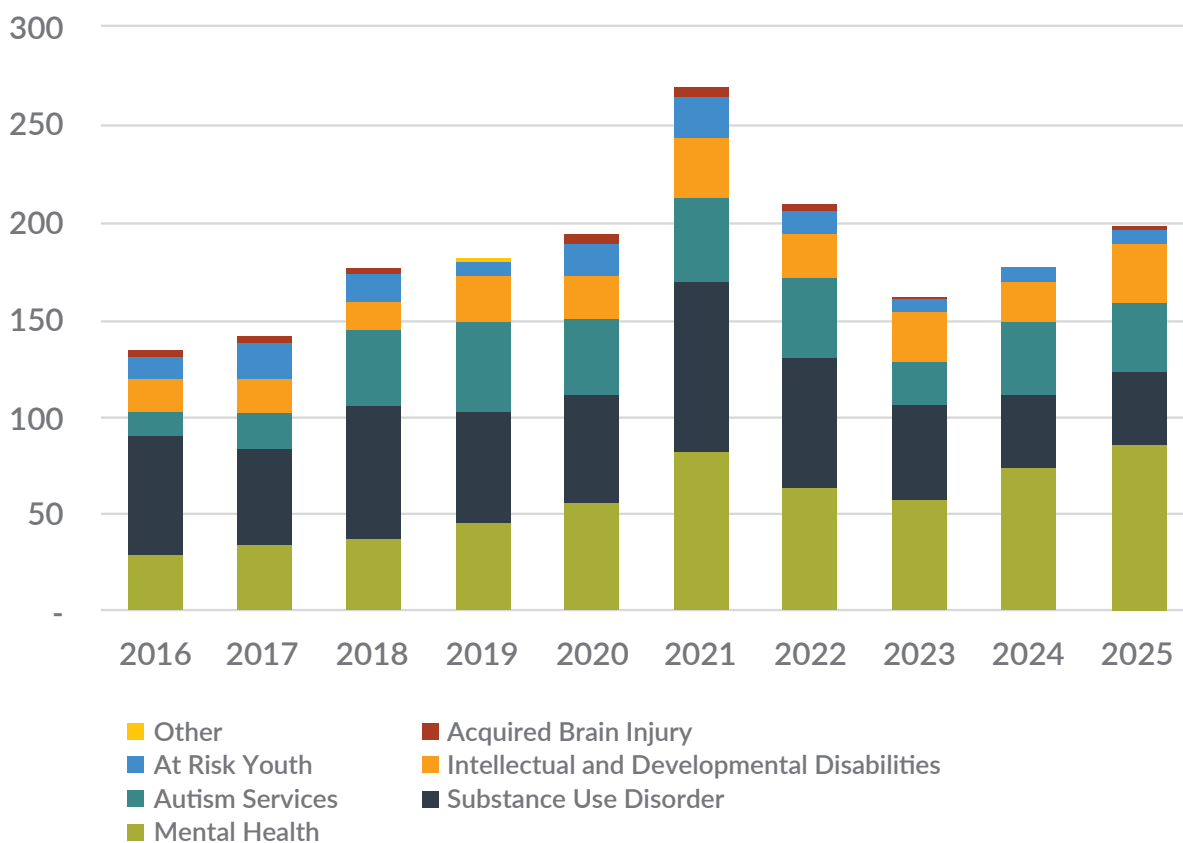


Putting It All Together

When we add all the segments together, including at-risk youth and acquired brain injury, aggregate behavioral health deal flow in 2025 was up 17% over the prior year. Moreover, 2025 marked the second consecutive year of gains over 2023.

Behavioral Health Deal Trends

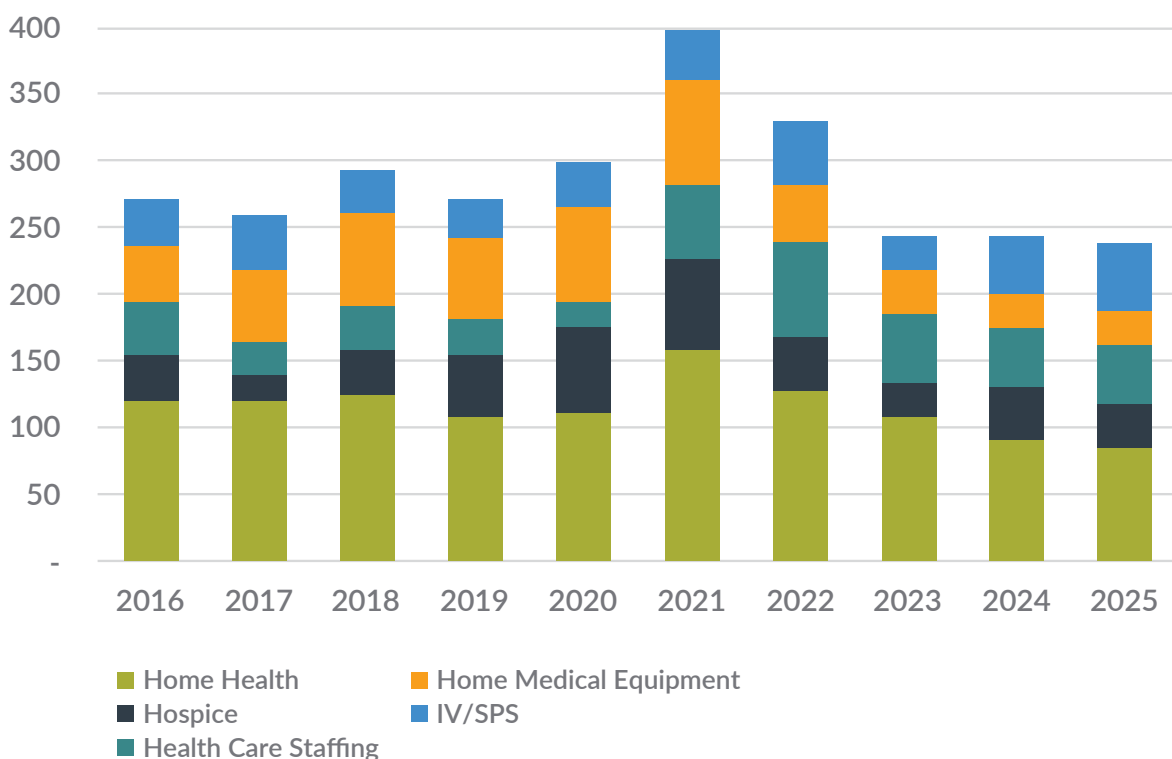
Source: The Braff Group



This trend becomes more impressive when we compare it to all the other health care service sectors we cover – excluding behavioral health – which have been flat over the past three years.

Healthcare Services Deal Trends Excluding Behavioral Health

Source: The Braff Group



Outlook

As mentioned earlier, over the past year, we've summed up the market as a standoff between unfavorable macro and micro economic conditions and pent-up acquisition demand born of the slowdown between 2022 and 2024.

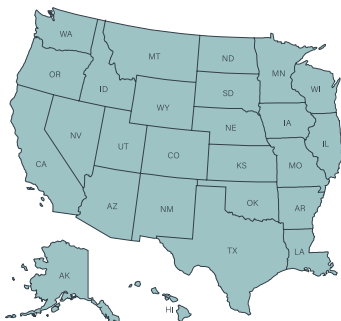
While below its peak in 2021, M&A demand for behavioral health has clearly overcome the headwinds that have held other sectors largely in check. Given increased utilization that is expected to continue well into the future, it remains one of the most sought-after sectors in health care services.

We expect more of the same in 2026.

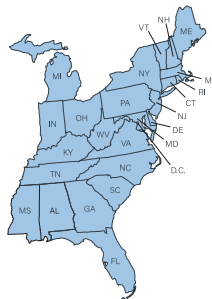
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