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marketWATCH

BEHAVIORAL HEALTH & SOCIAL SERVICES

AMIDST A CONTINUED SLIDE IN HEALTH CARE M&A, BEHAVIORAL HEALTH AND SOCIAL SERVICES DEAL VOLUME FALLS TO ITS LOWEST LEVEL SINCE THE SECOND QUARTER OF 2010

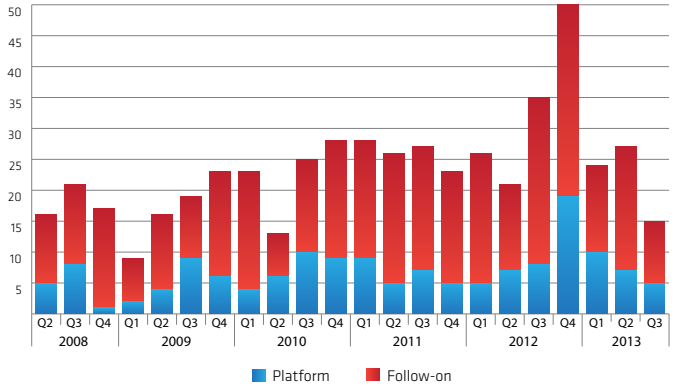
Across all health care sectors in aggregate, the first nine months of mergers and acquisitions activity in 2013 have been pretty bleak. Based upon proprietary data collected and analyzed by The Braff Group, after the tax incentive inspired surge in activity at the end of 2012, we have seen deal flow slide for three consecutive quarters, closing out Q3 2013 at the lowest levels since the first quarter of 2009. While private equity investment in all industries is generally down from a year ago, it has, more or less, leveled off. Not so in the health care service sectors we cover, where PE sponsored deal activity has plunged to its lowest level since the second quarter of 2010. Moreover, according to Thomson Reuters, over the first three quarters of the year, the aggregate M&A value of all health care transactions (including pharmaceuticals, medical devices, senior housing, etc.) has fallen 65%.

Not surprisingly, the conventional wisdom is that the "across-the-board" plunge is due to the extraordinary uncertainty regarding the initiation of health care reform. This is undoubtedly true. However, there is almost certainly another factor at work here.

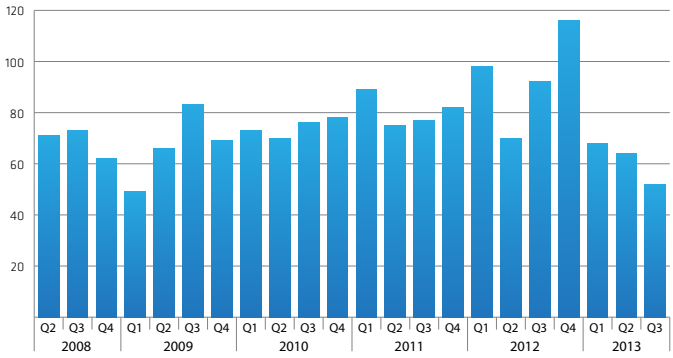
Distraction.

As The Braff Group vividly illustrated in its analysis of investment trends, pre- and post-technology bubble of 2001, health care investment tends to run counter to technology. When technology is down, stock market and corporate buy-out money rushes to comparatively safer, demand resistant, health care vehicles. But, when technology is up, the market becomes all a-twitter (pun intended) about the latest "billion dollar opportunity du jour." Even though the majority of these opportunities turned into "quicksilver" (remember pets.com, etoys, webvan?), the rush is on once again to chase the likes of twitter and its spawn.

Private Equity Investment in Health Care Services



All Health Care Services Deal Trends



Source: The Braff Group

"Long view" money will always be in health care, especially when there are opportunities to capitalize on market disruptions such as health care reform.

But for now, a lot of money is distracted – a distraction which has likely siphoned off some M&A demand in health care services.

But, as sure as you can say "myspace," the dollars will be back, particularly in behavioral health and social services.

Because the promise of a "game-changing" surge in utilization is about to be realized.

Parity Guidelines Released

While initiatives to require insurance companies to provide behavioral health coverage "on-par" with medical benefits have been in-play since 2010 (the Mental Health Parity and Equity Addiction Act was signed into law in 2008 with a start date of January 1, 2010), and, have been expanded as a part of health care reform, providers have consistently reported that insurers have narrowly interpreted these guidelines, largely circumventing the laws' intent. However, on November 8th, CMS issued its long-awaited final rule on mental health parity implementation guidelines. Broadly speaking, among other items covered, the final rule clarifies that "in addition to mental health/substance use disorder, intermediate level services (including residential treatment, partial hospitalization, and intensive outpatient therapy) must be covered under the regulations" and that they apply to "large group health plans/issuers, individual market and non-grandfathered small group health plans both within and outside of the health insurance exchanges." [1]

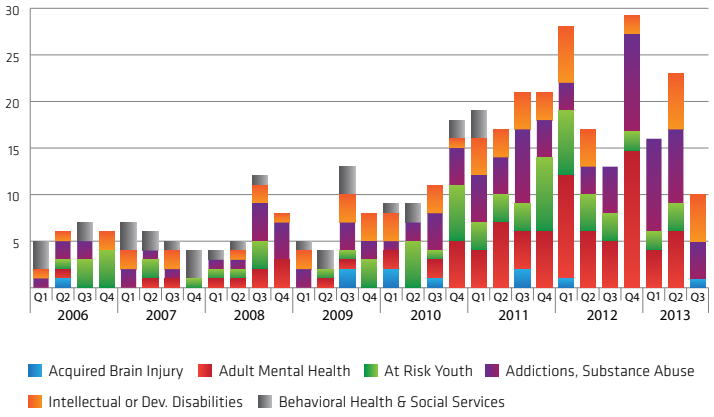
With these more definitive guidelines scheduled to take effect January 1, 2014, the National Association for Psychiatric Health Systems estimates that an additional 60 million people will gain expanded access to behavioral health care and psychiatric services.

This is the kind of legislation that lays the groundwork for both a predictable and extended period of growth.

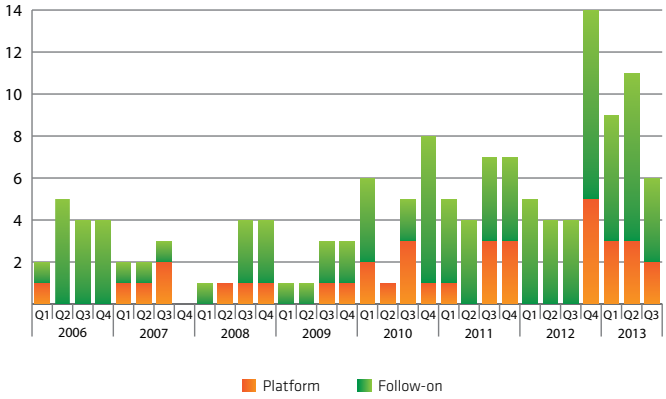
And unlike the current wave of technology upstarts, the sector actually produces revenues…and profits.

How boring.

BH & SS Deal Trends



Private Equity Investments Trends in BH & SS



Source: The Braff Group

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[1] **Deutsche Bank Market Research**