

## BEHAVIORAL HEALTH AND SOCIAL SERVICES

### Is the Sector in the Midst of a Sustained Slowdown in M&A Activity?

According to proprietary data collected and analyzed by The Braff Group, on the strength of a record breaking tally of transaction volume in behavioral health and social services in the first quarter of 2012, the sector is running 5% behind the same period last year – a year in which the space posted record transaction activity.

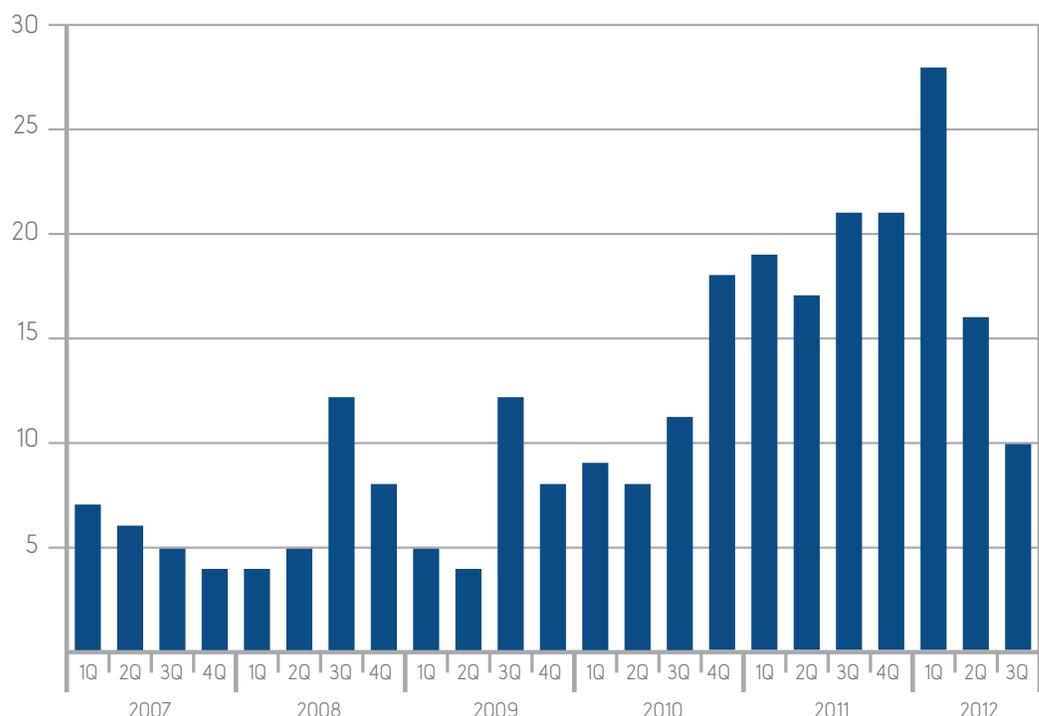
But, as the chart below indicates, after a near-steady two and a half year run-up in deal volume, the sector has posted successive quarterly declines in the second and third quarter of 2012, which begs the question:

*Does this suggest the beginning of a sustained decline in M&A activity in behavioral health?*

In a word, we believe the answer is **no**.

Before we explain why, let's take a deeper dive into the data.

Behavioral Health & Social Services Deal Trends

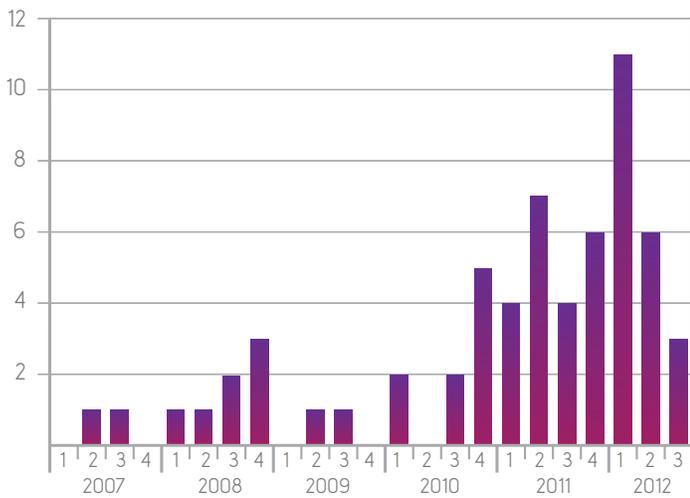


First, it's instructive to evaluate the deal trends in each of the sub-segments that we track – adult mental health, at-risk youth, addictions and substance abuse, intellectual or developmental disabilities, and acquired brain injury.

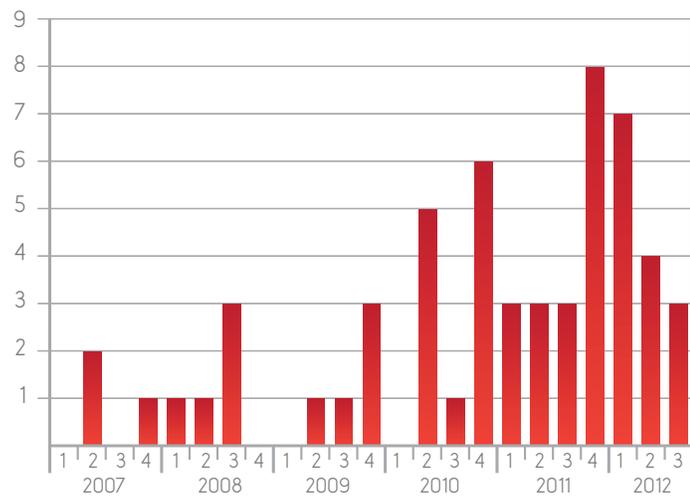
Interestingly enough, as the charts below clearly indicate, every segment experienced virtually the same two quarter decline. Accordingly, the fall-off is not due to a disproportionate retrenchment in transaction activity in one particular area of behavioral health.

As such, broader environmental factors must be in play.

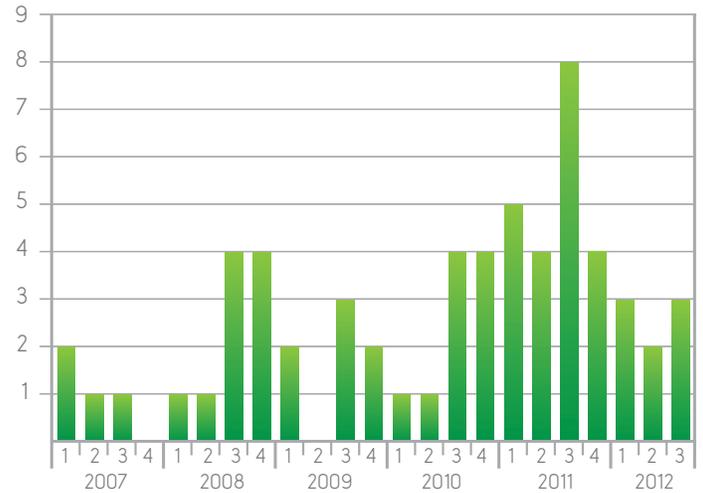
### Adult Mental Health Deal Trends



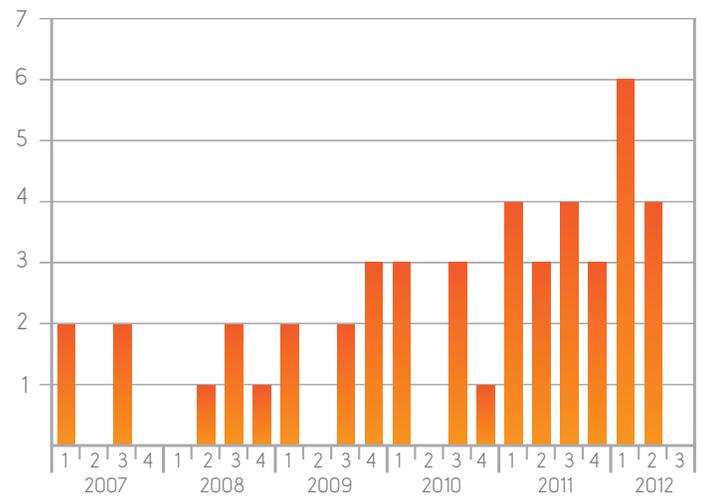
### At-Risk Youth Deal Trends



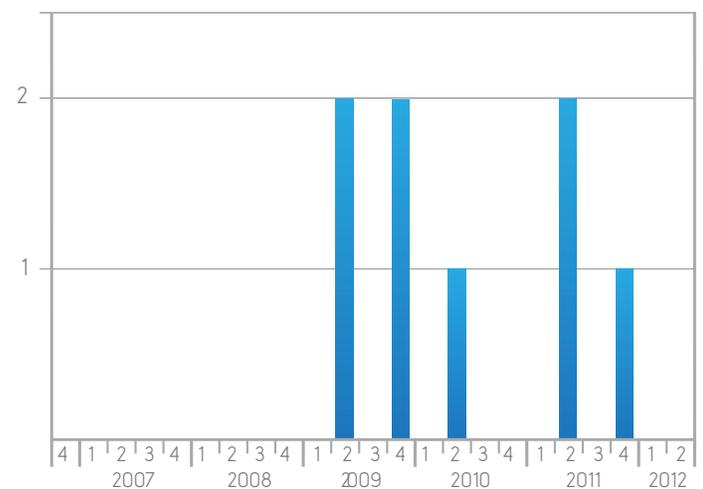
### Addictions & Substance Abuse Deal Trends



### Intellectual or Dev. Disabilities Deal Trends

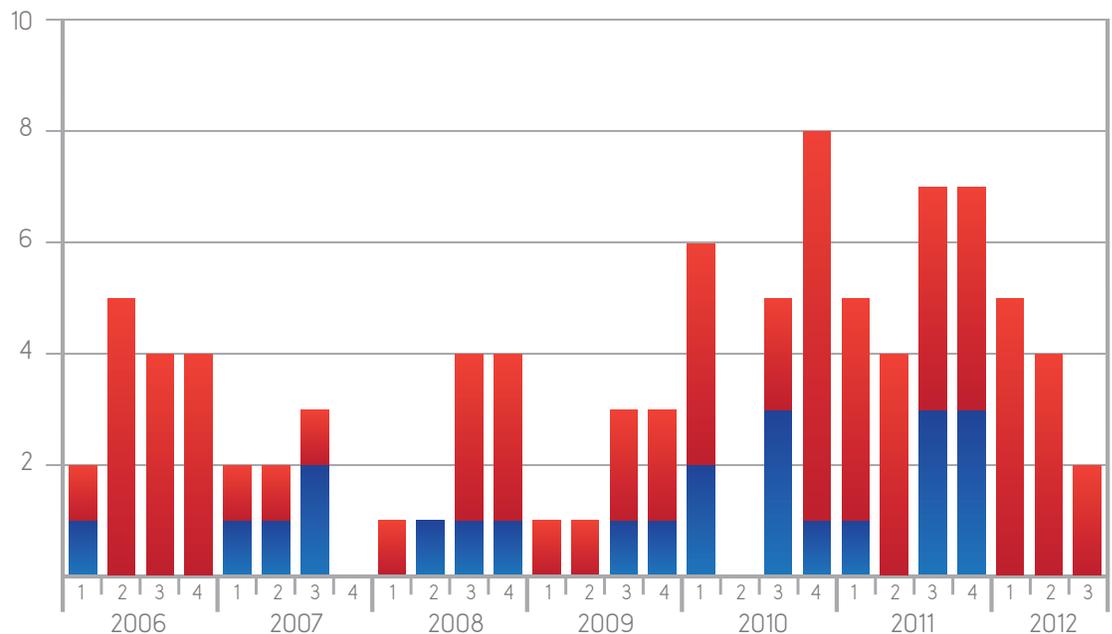


### Acquired Brain Injury Deal Trends



## Private Equity Investment Trends in BH/SS

■ FOLLOW-ON  
■ PLATFORM



A clue emerges when we examine trends in BH/SS acquisition activity by private equity groups.

Again, based upon proprietary Braff Group data and illustrated in the chart above, there has been a steady decline in PE activity in the space. Particularly noteworthy is the absence of any new platform sized, market-entry transactions thus far in 2012.

As such, at least some of the fall-off in BH/SS transaction volume is due to diminished activity by private equity investors.

The question is why?

Notably, there have been no broad-based – or unanticipated – changes in reimbursement, health care policy, demand for services, etc., nor has the sector widely come under the cloud of utilization or compliance scrutiny (as we have seen in other health care arenas), that would negatively impact the risk-return fundamentals of behavioral health, which, in turn, drive acquisition demand.

This is further evidenced by the fact that in our dealings with buyers every day, we have seen no decline in interest, nor any emerging trepidation to further invest in the space.

Accordingly, our sense is that the decline in transaction volume is likely due to a phenomenon we have seen in other health care sectors – particularly those that are niche oriented, such as behavioral health: namely, a temporary in-balance in supply vs. demand.

In comparatively small sectors (in terms of number of providers) where we have seen a wave of sudden and accelerating consolidation over a relatively short period – notably hospice, home infusion therapy, and specialty pharmacy in the past – the initial pool of sizeable, “mature,” acquisition candidates that are ready to test the M&A market can shrink equally rapidly. When this occurs, while demand remains high, transaction volume is limited by supply. However, as emerging companies begin to mature, and are perhaps encouraged to come to market earlier than their forbearers to capitalize on an attractive M&A climate, the pipeline of acquisition candidates begins to refill, prompting a second, somewhat smaller, but often longer lasting wave of transaction activity.

Not only does this impact platform investments by private equity, the same dynamics “trickle down” to smaller, follow-on acquisitions (as evident in the chart above), as well as those targeted by strategic buyers – many of whom have been drawn to the market to remain competitive with PE sponsored consolidators.

We believe that the conditions described above currently apply to behavioral health and social services.

**As such, we anticipate a slow, but steady rebound in acquisition activity in the sector over the next 15 months. Moreover, with supply likely to lag demand for the foreseeable future, we anticipate a sustained, attractive and competitive market – characterized by a broad base of private equity sponsored, strategic, and not-for-profit buyers – for the best providers coming to market.**



## THE BRAFF GROUP DIFFERENCE

The Braff Group is the leading merger and acquisition advisory firm specializing in health care services including behavioral health and social services, home health care, hospice, infusion therapy, specialty pharmacy, health care staffing, and home medical equipment.

We provide an array of transaction advisory services including sell side representation, debt and equity recapitalizations, strategic planning, and valuation. Headquartered in Pittsburgh, PA. The Braff Group has satellite offices in Atlanta, Chicago, Ft. Lauderdale, and Palm Springs.

According to Thomson Reuters, for the three years ended 2010 –The Braff Group was ranked number one in Health Care Services merger and acquisition transaction volume.

Winner, Health Care Deal of the Year, 2004, 2005, 2006, and 2009.

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