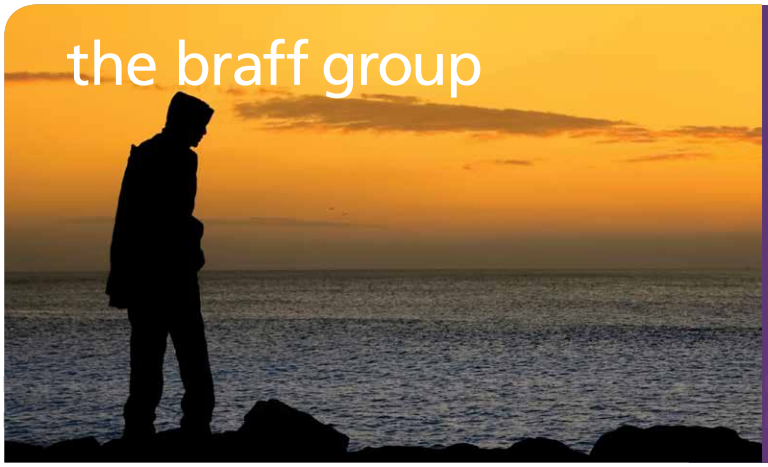



# marketWATCH

BEHAVIORAL HEALTH & SOCIAL SERVICES

## AMIDST A WIDELY FELT FALL-OFF IN ACTIVITY, BEHAVIORAL HEALTH M&A SLIDES 32% IN Q1

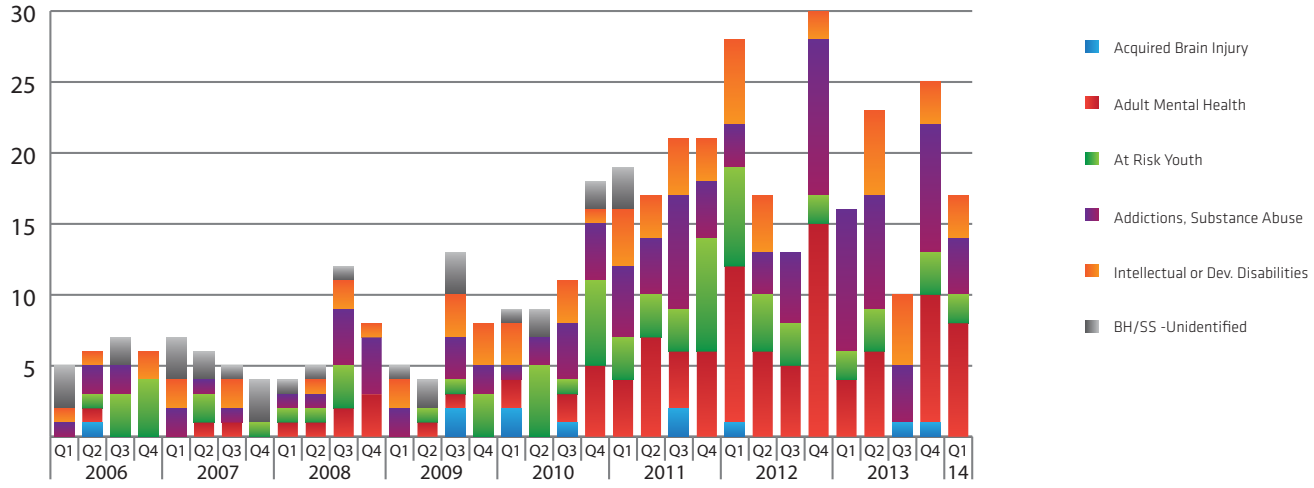
Based upon proprietary mergers and acquisitions data collected and analyzed by The Braff Group, aggregate behavioral health and social services transaction volume fell from 25 deals in Q4 to 17 in Q1 – a 32% drop-off.

While results from one quarter do not make a trend, especially in a narrow niche where relatively small movements in deal counts can translate to seemingly large percentage changes, a 32% fall-off bears some scrutiny.

So, when we dove deeper into the numbers, this is what we found:

First and foremost, the first quarter of 2014 produced M&A declines in a wide sampling of trend indicators. Consider the following:

- **Based upon data collected from Thomson Reuters, overall middle market (below $500M) mergers and acquisitions activity fell 14% in the first quarter of 2014.**
- **According to Pitchbook Platform, a firm that tracks private equity transaction activity, PE deal volume overall fell 7% in Q1.**
- **Based upon our own proprietary data, aggregate deal volume for all of the health care service sectors that we track (behavioral health and social services, home healthcare, hospice, pharmacy services, home medical equipment, and healthcare staffing) fell 20%, from 99 deals in Q4 to 79 in the first quarter of this year.**
- **Similarly, our data shows that private equity investment activity in Q1 across all these sectors fell 13%.**




Source: The Braff Group

Second, more than half the fall-off in behavioral health and social services deal volume was attributable to a sharp decline in transactions in the addictions and substance abuse segment, which dropped from nine deals in Q4 to four in Q1 (not at all surprising after 18 months of stratospheric activity).

So, what should we make of all of this?

Well, while we'd love to proffer some compelling insight to explain this widely felt downturn, the fact of the matter is that, beyond some strained and pained parsing of largely anecdotal observations, there is simply little out there to decode the malaise.

**In fact, there is far more evidence to predict an upswing than there is to explain a downturn.**

If we were inclined to pundit a rationale (as others have), we could opine that the first quarter is a consequence of a dearth of sellers created after the remarkable run-up in deal flow at the end of 2012 to capture favorable capital gains treatment. Or, we could suggest (as others have) that the market continues to reflect a sluggish economy or uncertainty regarding wage and tax policy. Or, as it relates to healthcare market conditions, we can re-cycle (as others have), the old stand-by of uncertainty regarding health care reform.

While all of the above *has* had an impact on M&A, their influence has largely been flushed through the transactional pipeline by now. We're more than 15 months past the great tax rush of '12. The sluggish economy has been sluggish for more than five years. As for health care reform? After supreme court rulings, eight million signups, and the veto power of a Democratic president for at least 30 more months, regardless of your political position on the matter, it is becoming increasingly unlikely that, at least, the core elements of healthcare reform – and their impact on the economy and health care delivery – will not be in place for the foreseeable future.

On the "B" side of this record, we have a rocking stock market with seemingly no end in sight. Gads of private equity money sitting around un-invested and just waiting to produce Wolf of Wall Street returns. Debt markets that are opening up to levels we haven't seen since the market melt-down in 2008. And giddy optimism that values technology companies with zero revenues at billions of dollars.

As for behavioral health, we have parity initiatives that fuel optimism for surges in utilization. An endless stream of news that continues to bombard our collective conscious with the need for greater access to mental health care. A recent report entitled, ***Economic Impact of Integrated Medical-Behavioral Healthcare: Implications for Psychiatry*** that concludes that **"effective integration of medical and behavioral care could save $26-$48 billion annually in general healthcare costs."** Private equity interest that is producing greater numbers of offers for our behavioral health clients than we have seen in other sectors that have gone through similar periods of frenzied activity.

**All things considered then, with the balance of evidence clearly weighted on the side that predicts robust mergers and acquisitions activity across the board, and in particular, behavioral health and social services, we anticipate another strong year of volume and valuation.**

So why the Q1 results?

We're going with Voldemort.

**Call us to see how we can put our experience to work for you.**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