

# Perspective in HEALTHCARE

A FEATURE EXAMINING THE ROLL OF PRIVATE EQUITY IN THE HEALTHCARE INDUSTRY

Private equity interest in the behavioral health sector has surged in the last couple of years. With an opioid addiction crisis boosting demand for addiction treatment centers, and the Mental Health Parity and Addiction Equity Act of 2008 and the Affordable Care Act of 2010 combining to put health insurance coverage within reach of many more affected individuals, investment firms have seen an opportunity to build value and increase accountability in an extremely fragmented system.



Strategic and financial acquirers have been active in the sector, driving consolidation as investors seek roll-up deals to create larger platforms with increased synergies. New Mainstream Capital acquired Constellation Behavioral Health in May 2016, and plans to

build upon that platform with a combination of de novo startups and strategic acquisitions, according to a press release. In January 2016, North Castle Partners acquired Turning Point, which offers 92- to 360-day treatment programs for addiction and recurring mental illness. And in December 2015, Deerfield Management Company invested \$231.5 million in Recovery Centers of America to fund the development or purchase of eight treatment centers in North America, potentially adding 1,200 inpatient beds by the end of 2017, according to *The Wall Street Journal*.

Behavioral health-related technology and apps are also drawing interest from private equity firms and other investors hoping to round out their healthcare portfolios. In October 2015, Lyra Health raised \$35 million in a Series A funding round led by Greylock Partners, to fund screening tools that help identify employees with mental health and substance abuse issues, match them to the most appropriate treatment, and track their progress and outcomes over time. Mental health startup Lantern, which provides tools to deal with stress, anxiety and body image, raised \$17 million in a Series A funding round led by the University of Pittsburgh Medical Center's venture arm, according to *TechCrunch*.

Thanks to the growing use of electronic health records (EHR) among mental and behavioral health providers, as well as a plethora of cognitive therapy-related smartphone apps, the behavioral health software market is expected to reach \$1.5 billion by 2019, up from \$0.75 billion in 2014, according to market research firm MarketsandMarkets.

EHR software helps integrate medical and physical health records, enabling physicians to provide more holistic care. Web-based and smartphone apps can broaden the availability of mental health and addiction care, particularly in underserved areas and among people with limited health care coverage, as well as provide ongoing support for patients at the tail end of recovery. Demand for apps is high, and several tools have demonstrated positive outcomes in clinical trials, although many lack scientific evidence of their efficacy, according to the *Journal of Medical Internet Research*. There are at least 800 smartphone apps

## FUTURE PERSPECTIVES: HEALTHCARE INVESTING OUTLOOK

Overall healthcare services deal volume slipped slightly in Q1 2016, signaling that investors may be feeling fatigued after a record-setting 2015, and a slowdown in deal activity may be on the way, according to *Health Care M&A News*. However, M&A activity in the behavioral health sector remains steady. The first quarter of 2016 saw eight behavioral health deals, compared to the same amount in Q1 2015, highlighting the continued importance of the sector. Additionally, *Behavioral Healthcare* reports that due to the increasing significance of mental health and substance abuse treatment services, providers will look to M&A to build either greater scale or niche services to remain competitive. And as a result, they may focus on strategic investments in technology. Still, regulatory uncertainties are on the horizon for substance abuse and addiction treatment centers, as state regulators and insurance companies quickly adapt to the sector's rapid growth in significance, *Behavioral Healthcare* goes on to report. Investors will look to those companies that are already operating well within regulation and compliance.



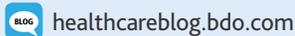
oriented around mental health and cognitive behavior, but quality varies greatly, and all tools struggle to achieve long-term engagement, something that is crucial to long-term success, according to the *International New York Times*.

Investing in behavioral health-related technology can add value to a PE firm's healthcare portfolio. But for those tools to be successful, acquirers should make sure they have a proven track record and form a part of a holistic treatment offering aimed at enhancing traditional professional care.

Sources: Behavioral Healthcare, Duff & Phelps, Healthcare Dive, Healthcare IT News, Healthcare M&A News, MarketsandMarkets, Medical News Today, New York Times, NPR, TechCrunch, The Wall Street Journal.

## People who know Healthcare, know BDO.

[www.bdo.com/healthcare](http://www.bdo.com/healthcare)



Accountants | Consultants | Doctors

### Healthcare Industry Contacts:

**CHRISTOPHER J. ORELLA**  
New York  
212-885-8310 / [corella@bdo.com](mailto:corella@bdo.com)

**STEVEN SHILL**  
Orange County  
714-668-7370 / [sshill@bdo.com](mailto:sshill@bdo.com)

**PATRICK PILCH**  
New York  
212-885-8006 / [ppilch@bdo.com](mailto:ppilch@bdo.com)

### Private Equity Industry Contacts:

**KAREN BAUM**  
Dallas  
214-969-7007 / [kbaum@bdo.com](mailto:kbaum@bdo.com)

**FRED CAMPOS**  
Miami  
305-420-8044 / [fcampos@bdo.com](mailto:fcampos@bdo.com)

**LENNY DACANAY**  
Chicago  
312-730-1305 / [ldacanay@bdo.com](mailto:ldacanay@bdo.com)

**JERRY DENTINGER**  
Chicago  
312-239-9191 / [jdentinger@bdo.com](mailto:jdentinger@bdo.com)

**LEE DURAN**  
San Diego  
858-431-3410 / [lduran@bdo.com](mailto:lduran@bdo.com)

**ERIC FAHR**  
Washington, D.C.  
703-770-6328 / [efahr@bdo.com](mailto:efahr@bdo.com)

**JOE GORDIAN**  
Dallas  
214-969-7007 / [jgordian@bdo.com](mailto:jgordian@bdo.com)

**RYAN GUTHRIE**  
Costa Mesa  
714-668-7385 / [rguthrie@bdo.com](mailto:rguthrie@bdo.com)

**SCOTT HENDON**  
Dallas  
214-665-0750 / [shendon@bdo.com](mailto:shendon@bdo.com)

**TUAN HOANG**  
Los Angeles  
310-557-8233 / [tmhoang@bdo.com](mailto:tmhoang@bdo.com)

**KEVIN KADEN**  
New York  
212-885-8000 / [kkaden@bdo.com](mailto:kkaden@bdo.com)

**TODD KINNEY**  
New York  
212-885-7485 / [tkinney@bdo.com](mailto:tkinney@bdo.com)

**MATT SEGAL**  
Chicago  
312-616-4630 / [msegal@bdo.com](mailto:msegal@bdo.com)

**DAN SHEA**  
Los Angeles  
310-557-8205 / [dshea@bdocap.com](mailto:dshea@bdocap.com)

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,408 offices in 154 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: [www.bdo.com](http://www.bdo.com).

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.