

A Market in Transition: Autism Therapy Provider M&A

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The autism therapy provider market has faced challenges in recent years relating to economic factors and staffing difficulties contributing to a general slow-down in dealmaking. However, it may be starting to emerge from that more difficult period. Moving into 2024, we first take a brief look back at the recent past of M&A activity for autism therapy providers and then engage in a brief exploration of the factors that may be leading toward more M&A and investment activity ahead.

Challenges in Investing in the Autism Therapy Industry: A Brief Look Back

Applied Behavioral Analysis (“ABA”) is the leading treatment for the one in thirty-six children who are diagnosed with autism based on the most recent 2020 data.¹ Unfortunately, the waiting lists for treatment can be months long in some areas of the country. Higher rates of autism diagnosis and corresponding demand attracted significant institutional investment to autism therapy providers and ABA clinics in prior years.² However, in 2023, the autism therapy industry faced a number of headwinds, which slowed market activity from its peaks prior to 2020. Common challenges cited by industry executives include low reimbursement rates and labor force issues which stretched margins and stressed a delivery system already in high demand.³

Although these challenges are also navigated by other health care providers, in ABA they are exacerbated by the labor-intensive and continuous nature of ABA treatment. Typically, Board Certified Behavioral Analysts (“BCBAs”) will develop individual treatment plans and supervise their implementation by frontline therapists who are commonly referred to as Registered Behavioral Technicians (“RBTs”). An RBT will commonly work face-to-face with a child for up to 25 to 40 hours per week (depending on medical need) either at a care center, in the child’s home, in school or in the community.

Demand for ABA services is seemingly infinite but, funding is not. There several efforts are underway between payors and providers to create value-based payment mechanisms focused on outcomes, but the dominant form of ABA reimbursement continues to be the time-based CPT codes between 97151 to 97158.⁴

These challenges provided context for the bankruptcy of the Centers for Autism and Related

Disorders (“CARD”) – one of the largest ABA providers in the country. CARD was a portfolio company of Blackstone and at its peak operated in 24 states and had 221 locations. CARD began showing signs of distress in 2022 when it made the decision to shut down its operations in 10 states.⁵ In July 2023, CARD was sold out of bankruptcy back to a group led by its founder, citing challenges servicing its debt taken on to pursue its aggressive growth plan. CARD’s bankruptcy underscored the operational difficulties facing many autism therapy providers and serves as a word of potential caution for private equity investors pursuing a strategy of highly leveraged growth with an end goal of securing more favorable reimbursement.

In the wake of CARD, there continues to be significant interest by institutional investors in autism therapy providers. High quality assets are still in demand, as demonstrated by two transactions in Q4 2023. One example was KKR portfolio company BlueSprig’s purchase of Trumpet Behavioral Health in October 2023. Although terms of the transaction were not disclosed the purchase brought an additional 37 locations in seven states under BlueSprig’s national platform and was an exit transaction for Windrose Health Investors which had purchased Trumpet in 2017. Similarly, Cortica, an “all-in-one” provider of ABA and other therapy services to autistic and neurodivergent children received an additional \$40 million investment led by CVS Health Ventures in October 2023, which is intended to fund increases in Cortica’s office count and additional technology development.⁶

Potentially Changing Tides in 2024

Moving forward into 2024 we see several trends developing which may influence the industry and dealmaking within the industry more broadly. **These include the following:**

- **Diversity in Business Models and Services Lines.** The autism therapy industry continues to have a diverse array of treatment models, which vary based on setting, clinical philosophy, needs of the child, geography and funding sources. One factor in investment decisions and business strategies will be how the clinical philosophy of a particular provider aligns with a potential target. While some market participants pursue multidisciplinary models, which include speech language pathology, occupational therapy, and other ancillary services (even including dentistry), others focus on an ABA only service model. Similar distinctions exist among providers based on the setting of care as ABA services are often provided in school, in centers, in the home or via telehealth. As operators scale and become increasingly skilled at providing care through certain modalities, distinctions will continue to emerge among providers and there will be no standard “blueprint” for delivering autism therapy services. One such example will be in value based care, and how groups like Cortica will develop strategies to share financial risk and provide holistic treatment to their clients.⁷
- **De Novo versus Acquisitive Growth.** Seller expectations for high valuations driven by the pre-2020 deal boom and higher interest rates have led some groups to give more consideration to de novo versus acquisitive growth. Although strategic transactions may make sense in certain circumstances, some CEOs and executives have publicly commented organic growth should be expected as the norm for their practices moving forward. Notwithstanding, the misalignment present in the market in 2023 among buyers and sellers in terms of what buyers were willing to pay under certain conditions and the expectations of sellers based on past years may be evening out as we move forward in 2024.⁸ Better diversified autism providers, sustained demand for services and the large number of autism platform deals which occurred in 2018 and 2019 which may be looking for an exit transaction could lead to some degree of uptick in autism sector transactions further into 2024 and beyond. Despite these market conditions interest rates and increasing government scrutiny will continue to play a large role in shaping dealmaking moving forward.⁹

- **Increasing Regulatory Scrutiny.** The growth of the autism therapy sector, increasing role of institutional investment, and the increasing amount of commercial and government payor funds to autism therapy providers, has led to additional regulatory scrutiny of the sector at both the federal and state level. This includes the issuance of investigatory requests and some enforcement actions with public settlements. In 2023, two public settlements were reached with autism therapy providers in Indiana and Massachusetts. First, the U.S. Attorney's Office for the Southern District of Indiana reached a \$2,000,000 civil settlement relating to the TRICARE program with Applied Behavior Center for Autism, which was based on the alleged submission of up coded claims and billing for furnishing multiple services concurrently to the same client.¹⁰ Similarly, the Massachusetts Attorney General settled with two autism therapy providers relating to allegations of making false claims to MassHealth managed care entities.¹¹ For the reasons stated above we expect that this type of scrutiny and these kinds of enforcement actions will become more common in 2024 and beyond. However, as this area continues to become a larger and more mature sector, autism therapy industry participants can both improve their operations and reduce risk of liability by taking proactive steps and investing in robust compliance plans, policies and protocols, implementing those plans, and engaging in continued monitoring of their revenue cycle management processes, among other things.

Conclusion

The autism therapy provider sector has faced some challenges in more recent years but may be in the midst of a transitional phase now. If that transitional phase is successful it could combine with potentially better economic conditions on the horizon, better aligned perspectives and expectations among potential sellers and buyers/investors and some pent-up appetite for sale of autism platform investments to provide a more favorable deal making environment. The need for greater access to quality autism provider services is clear and is not projected to change in the foreseeable future. Greater investment into this sector going forward, through merger and acquisition activity or otherwise would likely help increase patient access and benefit the larger community.

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3 Linton Ritchie, Jr. Autism Centers Say They Are In A Staffing Crisis. (September 2, 2022) available at <https://www.mprnews.org/story/2022/09/02/autism-centers-say-they-are-in-a-staffing-crisis>

4 American Medical Association, Current Procedural Terminology (2023) (describing adaptive behavioral services).

5 Laura Lovett, Large Autism Provider CARD Shuts Down Operations in 10 States, Behavioral Health B

6 Chris Larsen, CVS Ventures Leads \$40M Series D Extension for All-in-One Autism Therapy Provider Cortica, Behavioral Health Business (October 3, 2023) available at

<https://bhbusiness.com/2023/10/03/cvs-health-venture-leads-40m-series-d-extension-for-all-in-one-autism-therapy-providercortica/>

7 Morgan Gonzales, 'It's A Question of Diversification': ABA Providers May Need to Become More Risk-Averse, Behavioral Health Business (October 11, 2023) available at https://bhbusiness.com/2023/10/11/its-a-question-of-diversification-aba-providers-may-need-to-become-more-riskaverse/?euid=cc6a82f91c&utm_source=bhb-newsletter&utm_medium=email&utm_campaign=9bbf6268ac&mc_cid=9bbf6268ac&mc_eid=cc6a82f91

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9 Id.

10 United States Attorney's Office for the Southern District of Indiana, U.S. Attorney's Office Recovers \$2 Million from Autism Therapy Provider for Alleged False Healthcare Claims in District's Largest TRICARE Settlement (February 10, 2023) available at <https://www.justice.gov/usao-sdin/pr/usattorneys-office-recovers-2-million-autism-therapy-provider-alleged-false>

11 Massachusetts Office of the Attorney General, AG Campbell Announces More than \$2.5 Million in Fraud Settlements with Two Autism Services Providers (October 17, 2023), available at <https://www.mass.gov/news/ag-campbell-announces-more-than-25-million-in-fraud-settlements-withtwo-autism-services-providers>

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