



Episode 90: Investment Opportunities in Behavioral Health, With Adam Abramowitz

Episode Summary

The behavioral health sector encompasses segments from substance abuse treatment to autism therapy — a breadth of opportunity that [Adam Abramowitz](#), managing director at Intrepid Investment Bankers, explores with McGuireWoods partner and host [Geoff Cockrell](#). Adam details how reduced stigma and increased reimbursements are driving significant market growth, particularly in underserved rural areas.

While discussing industry evolution, he notes a critical shift from out-of-network to in-network insurance strategies driven by institutional investors. Despite considerable private equity activity, he characterizes the market as being in the “middle innings” of consolidation, with substantial unmet demand creating compelling investment cases for mission-driven providers who can deliver care where access is limited.

Transcript

Voice over (00:00):

This is The Corner series, a McGuire Woods series, exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuire Woods partner Geoff Cockrell as he and specialists share real-world insight to help enhance your knowledge.

Geoff Cockrell (00:20):

Thank you for joining another episode of The Corner Series. I'm your host, Geoff Cockrell, partner at McGuire Woods. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of private equity and healthcare. And we cover lots of different sectors, lots of different topics. Today, I'm thrilled to be joined by Adam Abramowitz. He's a managing director at Intrepid Investment Bankers, a boutique investment banking firm that specializes in healthcare transactions. We're going to talk a bit about different dynamics in behavioral sector, which is a pretty

expansive sector and one of a ton of interest. But before we jump into some questions, Adam, maybe give an introduction of yourself and Intrepid.

Adam Abramowitz (01:00):

Sure. Thanks, Geoff. Great to be here with you and big fan of the podcast here. Love working with you and the McGuire Woods team. So I am one of the co-founders and managing directors here at Intrepid Investment Bankers. My partners and I started Intrepid in 2010. We all had worked together at a prior firm that dates back to the early 1980s called Barrington Associates. I'll spare the long gory details on that situation, but my partners and I left in 2010 to start Intrepid. Me personally, I've been in the M&A advisory business in one shape or another since the late 1990s. Grew up at our predecessor firm and then when the opportunity to come start Intrepid came up, I jumped at it. And today at Intrepid, we focus on M&A advisory, capital raising, we have a growing special situations practice as well, too. And across the firm we have about a hundred bankers and offices across the country, and I lead our firm's healthcare and life sciences practices.

(02:00):

And one of the things that's most fun for me is we have a pretty broad based healthcare practice, maybe similar to you, Geoff, we go where the action is, but there's a few different subverticals where we're spending more and more time, one of which is around the behavioral and mental healthcare space, which is particularly interesting for me.

Geoff Cockrell (02:17):

So behavioral investing, people talk about it like it's one sector, but it's really a bunch of different things that are somewhat related. When you think about behavioral as a broad sector, how do you segment it into different kind of components?

Adam Abramowitz (02:32):

Great question, Geoff. So I think none of this is perfectly set in stone, but at least the way me and my team think about it, I think you have folks in maybe the substance abuse disorder space, SUD, and that can take a few different forms with different types of inpatient treatment or residential treatment or outpatient treatment. And going one step further, you're seeing more and more what's called medication assisted therapies within the substance abuse space. People are realizing that there's other alternatives to just a twelve-step abstinence-based program. So you've got sort of the SUD sub-vertical. Then I think you have more broadly the mental health sub-vertical, and that could be talk therapy or medication management to deal with mental health issues outside of substance abuse, like anxiety or depression is another area. And there's a lot of technology and new innovations coming into that sector as well too with whether it's telehealth models focused on mental health, or a couple years ago I sold a business that offered a service called transcranial magnetic stimulation, which was pretty interesting, focused on mental health.

(03:45):

And then another vertical that we spend time in would be around children on the autism spectrum providing applied behavioral analysis or ABA therapies. And there's been quite a bit of investment in acquisition activity and around the ABA services space. And then finally, which maybe this is a little bit tendential, but providing services into folks in the intellectually and developmentally disabled population, or IDD population sort of also has some touch points in around the behavioral mental health space.

Geoff Cockrell (04:15):

Maybe talking about some of those sub-sectors separately, if you think about the kind of SUD arena, what are some of the drivers/tailwinds in that arena? And then let's talk a little bit about some of the headwinds in that arena.

Adam Abramowitz (04:32):

Sure. So in terms of the drivers, unfortunately, substance abuse continues to be a massive issue across society. It affects people from all walks of life, from the celebrity you see on the front page of the newspaper to those in the underserved communities and everywhere in between. And you need programming to help people across the economy. And I think there's far too few people that have access to... When they have substance abuse issues where they need to get access to care, and some communities it can be hard to get access to a patient bed or a service provider to get you the help that you need. So there's a lot of, I think, unmet demand and growing demand in the space for sure. I think in terms of some of the challenges in the space, insurance companies often can be difficult to work with across healthcare. And I would say SUD is no different. And I think there's always this push and pull in terms of the authorized length of stay that a patient or individual can get access to.

(05:38):

And again, I'm not a clinician, but what I often hear is that the longer the stay or the longer the treatment, the better the outcomes can be. But I think sometimes you're seeing the payers push back on the length of stay, which can be a bit of a challenge. Another interesting trend that we're seeing is while certainly a lot of the industry grew up with residential or inpatient models, I think you're seeing some newer models, whether there may be outpatient models where people will go to day programs, what's called a partial hospitalization program, they're getting a lot more attention these days, or what's called an intensive outpatient program or IOP where people may go after work or after school three to four hours a day. And so I think some of these new innovative models are getting more and more attention.

(06:28):

And then in terms of a broader tailwind as well, Geoff, something I'd highlight would be just the use of medication assisted treatment where I think people are... There's a lot more pharmacological innovations in the marketplace right now and people realizing, "Hey, I'm not sure I need to go on this alone and use an abstinence-based program." And so thinking about, "Hey, can I get some medication assisted therapy to assist in my recovery journey?"

Geoff Cockrell (06:56):

And there's other things that are kind of partial tailwinds, but also can be partial headwinds. One area where we are often asked to look at is in the context of testing and try to evaluate whether or not an individual is compliant with the program. Those testing protocols can come under scrutiny, but can also be a significant area of revenue for a business that once you get to a certain scale, you can kind of internalize some of those testing functions. How do you think about some of those dynamics?

Adam Abramowitz (07:30):

Great. Yeah, look, I think some of the toxicology testing or drug monitoring testing, certainly there's a real important clinical need for it. I think the providers that I work with and speak to tend to have a higher bar in terms of providing those services in-house today. I think just given some of the regulatory landscape that you just mentioned, I mean, you probably might know better than I, but I know there can be some heightened regulatory scrutiny when you bring those capabilities in-house. And so oftentimes, what I'm seeing more and more is people outsourcing that to specialty labs, maybe to not be in the front and center of potentially the regulatory cross-hairs. I'm curious, is that something that you've encountered, Geoff?

Geoff Cockrell (08:12):

It's mixed. If done properly, it can be a real value add to the business, both clinically and the ability to be kind of nimble and do enough testing to be effective, but with lots of similar to other areas. When there's not a natural constraint on the amount of tests that you order, utilization can always be a pressure point that is a focus both of medical necessity and reimbursement/enforcement. So while it can be beneficial and also lucrative to internalize some of those functions, it's definitely an area where you need to take care.

Adam Abramowitz (08:49):

Sure. But one area where we've seen some innovation has been in this area what's called pharmacogenetics, where a testing provider can analyze a patient's DNA and determine how well they might process or metabolize a drug to make sure that they're getting the right drugs. And I think you're seeing some of that happen more here where someone may be taking a mental health therapeutic and realizing it's not getting the desired effect. And so, some of these advanced genetic testing are also seeing some benefits in around this market as well.

Geoff Cockrell (09:19):

Like many sectors, there's an increased focus on looking down the timeline of consolidation and growth with the question being, okay, if this business gets very large, who is the buyer of that? Is it a candidate for an IPO? Because if picture at that stage is murky or not good, that ripples backwards on the consolidation ideas. How do you think of larger upmarket buyers of an SUD type business? Is it better as a standalone? Is it better being bought into a broader organization who are the ultimate large buyers?

Adam Abramowitz (09:58):

One of the dynamics and things that I really like about behavioral health is that you don't necessarily deal with some of the compensation scrape adjustments you have in physician practice deals or percentage of collection adjustments you have that can make it difficult to scale with the business or trade to a much larger buyer where sometimes the physicians can have a lot more power than a large investor or a buyer may want to see, and some of those models can be difficult to take public. But for example, there's a handful of some larger strategic buyers that have been acquisitive, like an Acadia Healthcare that's publicly traded, or a business called Universal Health Services, UHS, that operates mental health facilities and behavioral health facilities across the country. So those are two folks that are out there looking at deals and acquiring deals. And then of course, I don't think any healthcare conversation can be complete without talking about UnitedHealthcare and Optum.

(10:51):

They made a big splash a couple of years ago buying a large business called Refresh Mental Health that was formerly private equity backed. So I think there certainly are some bigger strategic buyers out there. And then, I think there's certainly no shortage of larger private equity sponsors that are attracted to this space and see an opportunity to just help this underserved population where I think there's something like almost half of people that have mental health or SUD issues aren't getting the services that they fully need. And so there's, I think a fairly deep universe of private equity firms that want to invest or back these types of behavioral health companies.

Geoff Cockrell (11:32):

Let's flip to the other end of the spectrum. The original earlier sellers. I know you work with a lot of founder-owned businesses and taking them to market for an institutional sale for the first time. In the SUD arena in particular, the founders can be colorful, whether that is very much a thing, it's I guess a natural idea that many of the founders have themselves suffered with some form of addiction, that's why they got into the business in the first place. You can have other sorts of missional driven sellers, sometimes even a not-for-profit. In this kind of sub sector, how do you think about the original founder sellers?

Adam Abramowitz (12:11):

First off, I love working with founders and family owned companies because I think their passion is in it. To your point, a lot of them are mission-driven, right? And so, you want to make sure that first and foremost, they're hearts in the right place. I think this sector isn't immune from other sectors where people may are just trying to make a play for cash. So first and foremost, you want to... I like the fact sometimes that maybe people are in recovery because it really shows that they're mission driven. What that leads to often from the buyer's perspective is maybe a bit of a heightened bar because these aren't your proverbial typical former private equity folks or MBA types, right? And so, I think the scrutiny for making sure that they have appropriate business practices, the right backend infrastructure and billing and collections and the systems, and then certainly where you all get involved from a regulatory and compliance standpoint to make sure they're doing everything appropriately on that front is really critical.

(13:08):

But we love working with the founders entrepreneurs because their passion is there and often they have unique ideas or approaches to the market to help more patients. So I think what buyers are really looking for is certainly someone that has a strong clinical program where they're getting referrals from other clinicians in the community or other programs in the community, because that can be a really nice stamp of credibility. And then I think going a few steps further, making sure that they have the right back office infrastructure. And sometimes, we might get introduced to a founder entrepreneurial business and it feels like they maybe have a great clinical program, but everything in the back office is done on a shoestring or with duct tape holding everything together. And that's obviously not as desirable from a private equity or strategic investing standpoint because they want to make sure that a business can be scalable.

(14:02):

And I think one of the things we love to do is get to know entrepreneurs as they're building the company. It could be years before they are ready to transact, and that way we can give them some little nuggets of wisdom hopefully along their journey and say, "Hey, you should be thinking about building more of the company infrastructure," or, "What are you doing in terms of your billing and collections internally?" Or, "Do you have the right regulatory framework set up? Are you working with top tier lawyers to make sure that you're doing everything in a compliant manner so that when they are ready to think about taking on an investment partner or selling, they're in a great position to do so?"

Geoff Cockrell (14:42):

Adam, there was a time when more of those businesses were a little bit more sketch, for lack of a better word, with heavy out of network reimbursement, questionable patient procurement practices. I think that the industry is better now. How would you describe some of those evolutions?

Adam Abramowitz (15:02):

Yeah, I think the industry has gone through a lot of changes over the last decade plus where to your point, historically, a lot of these were maybe cash pay businesses. I've had some clients where celebrities and executives would show up in the middle of the night with bags full of cash to get into some of these addiction treatment programs, but the industry has certainly come a long way from there. And then to your point, the industry moved more towards out of network reimbursement. And today, the standard or what investors are looking for is in-network insurance reimbursement or with Medicare or Medicaid programs. And so, if a provider has a heavy mix of out of network reimbursement, that could be a nice business practice for them, but it makes it very hard to transact with an institutional investor if your out of network reimbursement is maybe more than 15, 20, 30% of your revenue because that can lead to some unpredictable reimbursement and how the payers will respond to the bills you're sending them every month.

(16:03):

And so, investors and buyers really want to see that in-network reimbursement with a real strong focus on making sure you're billing appropriately and billing all the appropriate codes and not doing anything sketchy as you might determine.

Geoff Cockrell (16:17):

Maybe shifting to broader mental health businesses, which again can take a lot of different forms, whether that's on one end, psychiatric hospitals, on the other end, you might have just straight talk therapy or even telehealth. How do you think about that segment and what are some of the drivers within it?

Adam Abramowitz (16:36):

Sure. Yeah, look, I mean, mental illness is just getting a lot more awareness. I think especially coming out of COVID, people I think are focusing more and more on their mental health and it's becoming as important as their physical health. And then I think going one step further, the perceived stigma of saying, "Hey, I'm on medication for my mental health issues," or, "I'm going to see a clinician to talk about my mental health issues," with those barriers, I think breaking down, it's just creating a lot more growth and demand for the mental health space. And there's all different levels of care, as you mentioned, Geoff. So we have relationships with companies that operate what I might call ER, emergency room diversion programs where if an individual shows up to an emergency room with mental health issues where they're unstable, but maybe they don't have any physical health issues, we're seeing programs pop up where these individuals can go for 5, 10, 15 days to get stabilized and then go to other levels of care.

(17:35):

We're also seeing on the other end of the spectrum, a lot more outpatient talk therapy or medication management programs pop up where people want to get access to care, but they want it on their own terms. It could be telehealth or maybe I pop in and more of what looks like a retail-based health clinic. So I think you're seeing growth across the spectrum, and it really, I think the industry broadly is trying to meet patients more where they are, whether they're showing up in an ER or they're high functioning and have a job or go to school, but they still need some help, really trying to make sure they find the right solution for the right patient wherever he or she is in their respective journey.

Geoff Cockrell (18:13):

And for a lot of those businesses over the last, let's call it 10 years, there's been increasing reimbursement available, which has driven a lot of activity, whether that is kind of parity requirements that require payers to pay the same for mental health that they do for medical surgical health or just kind of raw dollars becoming available through state programs. There's been a lot more money pointed at some of these problems. That in my mind, created a lot of open green space for people to develop. And of course, people did. Where in that cycle do you think we are? Because at some point, markets can get saturated. What does that look like to your eye?

Adam Abramowitz (18:53):

Yeah, I have to believe we're still in the early to middle innings. I don't feel like this is similar to other sectors of health healthcare where there's been a tremendous amount of consolidation. I think certainly there has been private equity activity and strategic buyer activity, but I was just out at a behavioral health conference a week and a half ago and met a lot of smaller segmented providers

that are looking to scale up and grow. And to one of the points I mentioned earlier, there's such an unmet demand out there, and maybe you and I are in big major cities where it can be easy to get care. If you're in an ex-urb or in a rural area, sometimes it can be very hard to get the care that you need. And so, I got to believe we're in the middle innings of opportunity here for people to scale up and provide more programs on the mental health side to help more patients.

(19:45):

And then also from a investing standpoint, I think private equity firms, they've seen a number of deals already in this space come across their desk, and I think they're probably being more discerning about what they're looking for in terms of where they want to deploy their capital.

Geoff Cockrell (19:59):

It's interesting you mentioned outer suburb and rural challenges of healthcare delivery. It's always interesting being out at JP Morgan when you're talking to folks about what they're looking at, that's interesting. But also hearing some of their kind of broader investment thesis, it's very telling to see how people are thinking, and that is one of the unifying themes that I heard is that regardless of whether you're talking mental health or other sorts of healthcare delivery, if you can find a way to efficiently deliver healthcare into some of those underserved areas, you kind of overcome some of the challenges that private equity investing in healthcare has more generally, meaning are you really advancing the triple aims of improving access, outcomes, and cost? But having a successful strategy in some of those rural markets really does address all those things. And so, there's a ton of focus from almost everyone that I talk to of trying to find ways to deliver care in more difficult to deliver areas. So, that's definitely a unifying theme that we see a lot.

Adam Abramowitz (21:02):

A hundred percent agree. And I think if you can solve that equation where if you can do it in an economically viable manner, it's sort of like if you build it, they will come. Because I've encountered clients where they're building clinics to help children with autism and providing ABA therapy, and some of these families maybe had to drive an hour or two every day to get access to services, but if you can build a clinic or find a way to deliver services in their community, it can certainly be a real home run. And I think maybe less so in the autism services space, but like technology and telehealth, I think it's a great way to do that where maybe someone only has to go visit a provider every so often, and then they can do follow-up visits via telehealth, especially around the mental health space. And I think you're seeing a lot more activity or interest to find models like that.

Geoff Cockrell (21:54):

We've only scratched the surface of different mental health and other behavioral categories, but I think we've run out of time. Let's wrap it there. I really appreciate you spending a little time with me. It's a super interesting topic, and I think it's going to be an active sector for some time to come.

Adam Abramowitz (22:10):

For sure, Geoff. This was a lot of fun and I agree with you and definitely eager to see how the industry continues to grow and evolve, so it's going to be pretty exciting.

Voice over (22:21):

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