

Provident Perspectives: An Update on Investment & Consolidation in Autism Services

Examining recent developments and key trends within the autism services space



Introduction

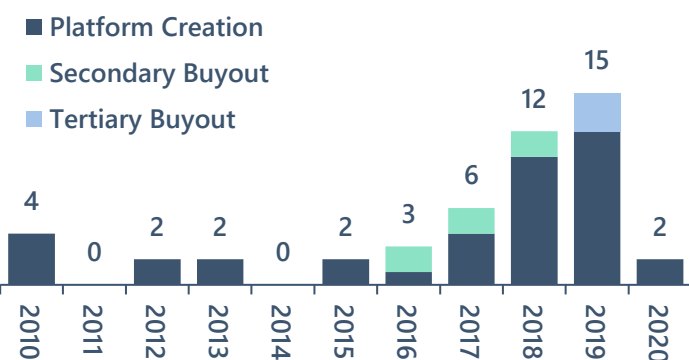
The autism services sector continues to be one of the most active areas for investment within the healthcare services universe, as a combination of attractive macro-level tailwinds and favorable supply/demand dynamics drive consolidation within the sector. So much so, that as of Q3 2021, 50+ private equity firms currently hold or previously held a majority stake in an autism services platform.⁽¹⁾

While the genesis of autism services investment started over ten years ago, over 75% of transaction volume has occurred since the start of 2016, signifying just how fast-moving the space has been.⁽¹⁾ As a result, more than 50% of platforms are now over three years into their initial investment, with over ten organizations on their second or third private equity partner.⁽¹⁾

Given the current transaction landscape and rate at which the sector continues to mature, Provident expects the space to sustain its swift march into the next investment life cycle phase, characterized by an uptick in secondary transactions, where private equity-backed organizations sell to larger funds or strategic acquirers.

In this white paper, we examine the evolution of investment activity within the autism services space as well as go-forward expectations for the sector. We will also cover key topics such as valuation expectations, partnership considerations, and private equity's impact on autism services.

Platform Transaction Timeline⁽¹⁾⁽²⁾



Timeline of Market Activity

Year	Details
2001	• Indiana becomes the 1 st state to mandate ABA coverage ⁽³⁾
2006	• President George W. Bush signs the Combating Autism Act into law
2009	• Nevada becomes the 10 th state to mandate ABA coverage ⁽³⁾
2010	• Great Point Partner's acquisition of Autism Learning Partners forms the 1 st platform ⁽¹⁾
2012	• Michigan becomes the 30 th state to mandate ABA coverage ⁽³⁾
2014	• President Barack Obama signs the Autism Collaboration, Accountability, Research, Education and Support Act into law
2016	• LLR Partner's acquisition of LEARN Behavioral from Milestone Partners represents the 1 st secondary buyout ⁽¹⁾
2017	• Petra Capital Partner's acquisition of ABS Kids forms the 10 th platform ⁽¹⁾
2018	• Parent-reported study estimates 1 in 40 children in the US are diagnosed with ASD ⁽⁴⁾
2019	• Tennessee becomes the 50 th state to mandate ABA coverage ⁽³⁾ • TPG's acquisition of Kadiant forms the 20 th platform ⁽¹⁾
2020	• General Atlantic's acquisition of ACES (Autism) forms the 30 th platform ⁽¹⁾

⁽¹⁾ Transaction statistics based on research completed by Provident; excludes non-publicly available transactions; ⁽²⁾ Secondary and tertiary buyouts include platforms that did not offer ABA therapy at platform creation but did so at the time of sale; ⁽³⁾ Autism Speaks; ⁽⁴⁾ The American Academy of Pediatrics

Surveying the Autism Services Landscape

Autism Services Thesis

Increased Incidence Levels

As of 2018, 1 in 40 children diagnosed with autism, with 1.5 million children on the spectrum ⁽¹⁾

Scarcity of Providers

There are currently less than 30,000 Board Certified Behavior Analysts (BCBAs) in the US⁽³⁾

Expanded Service Coverage

All 50 states require commercial coverage; 200+ million people have insurance coverage for ABA⁽²⁾

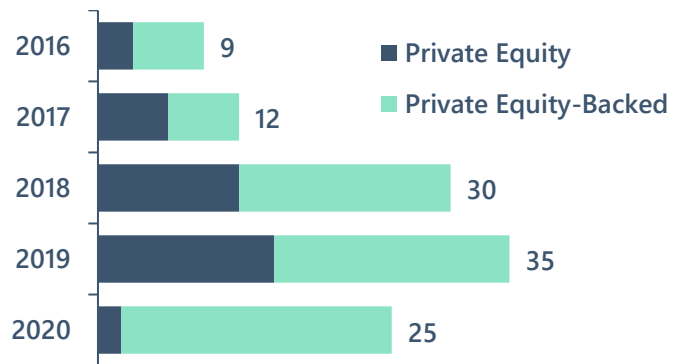
Supply/Demand Imbalance

The number of BCBAs would have to double to meet the current needs of families nationwide⁽³⁾

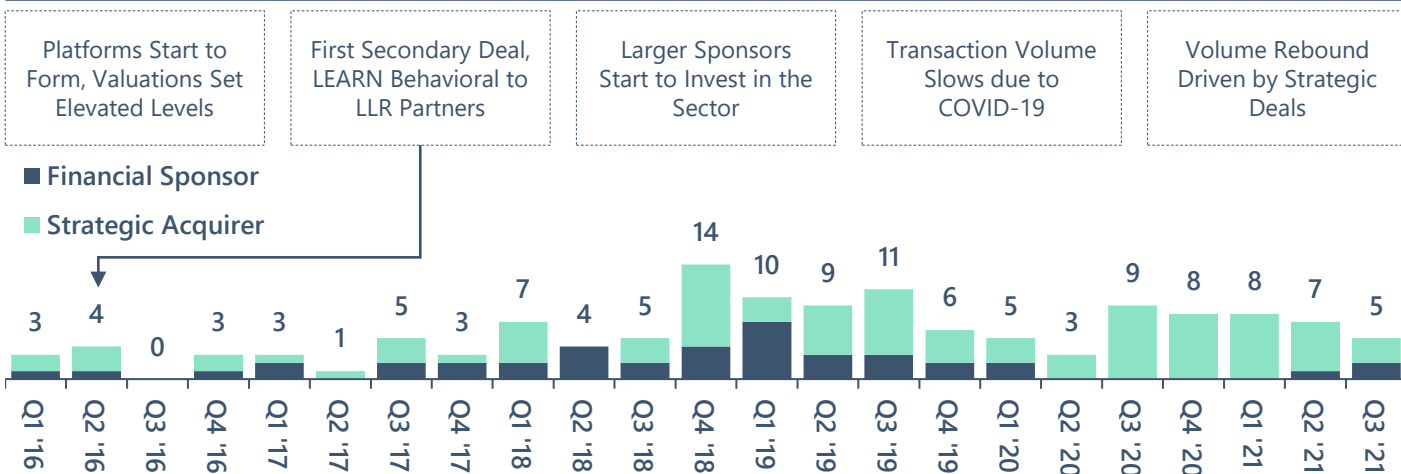
The prevailing thesis in the autism services space, which is centered on favorable supply and demand dynamics, continues to attract investors looking to participate in the fast-growing sector. Outsized demand for services driven by increased incidence levels, expanded coverage, and heightened awareness far outpaces the supply of providers in the space, making for an attractive investment opportunity. With over 40 private equity backed autism services platforms, most deals since the start of 2020 have been strategic in nature as private equity-backed groups compete with one another for acquisitions.⁽⁴⁾ The relative scarcity of new platform formations seems to be a product of a shortage of platform-caliber organizations, and not a result of muted interest, as the space remains highly fragmented and far from saturated in most markets throughout the country.

The demand for transactions, driven by investment appetite paired with a lack of sizable opportunities, has led to rich valuations, as well as seller-friendly deal structures for business owners looking to explore their options in the market.

Private Equity Transactions by Type⁽⁴⁾



Timeline of Transaction Volume in Autism Services⁽⁴⁾



⁽¹⁾ The American Academy of Pediatrics; ⁽²⁾ Autism Speaks; ⁽³⁾ Dr. Steve Woolf, President of Butterfly Effects; ⁽⁴⁾ Transaction statistics based on research completed by Provent; excludes non-publicly available transactions; includes platform investments that did not initially offer ABA Therapy, but do so currently

Moving Toward the Next Phase of its Investment Life Cycle

Private Equity-Backed Platform Coverage⁽¹⁾



Transaction Outlook – Key Themes Provident Expects to Play Out

Consolidation of Consolidators



Florida Autism Center
Start here. Go Anywhere.
a division of 

As the market continues to mature, Provident expects to see a “consolidation of consolidators” theme take shape with larger private equity-backed platforms acquiring groups backed by smaller funds to achieve greater scale and efficiencies.

For example, Blue Sprig Pediatrics acquired Shore Capital Partners-backed Florida Autism Center in 2020 at a \$120 million valuation.⁽²⁾

Secondary Buyouts



With more than half of existing platforms at least three years into their investment period, we expect to see an uptick in secondary transactions as larger sponsors seek to enter the space via acquisition.⁽²⁾

ABRY Partner’s Q2 2021 sale of Lighthouse Autism Center to Cerberus Capital Management is the latest example of nearly a dozen secondary buyouts in the space.⁽²⁾

Integrative Care Models



Behavioral health companies with tangential service lines have been active in the autism sector as well.

Companies with services that span mental health, special education, intellectual and development disability, and speech and language pathology will continue to be active as groups look to build an integrative care model across the continuum of behavioral health services.

⁽¹⁾ Platform map includes platforms that did not initially offer ABA Therapy, but do so currently; ⁽²⁾ Transaction statistics based on research completed by Provident; excludes non-publicly available transactions

Private Equity Investment's Impact on the Autism Space

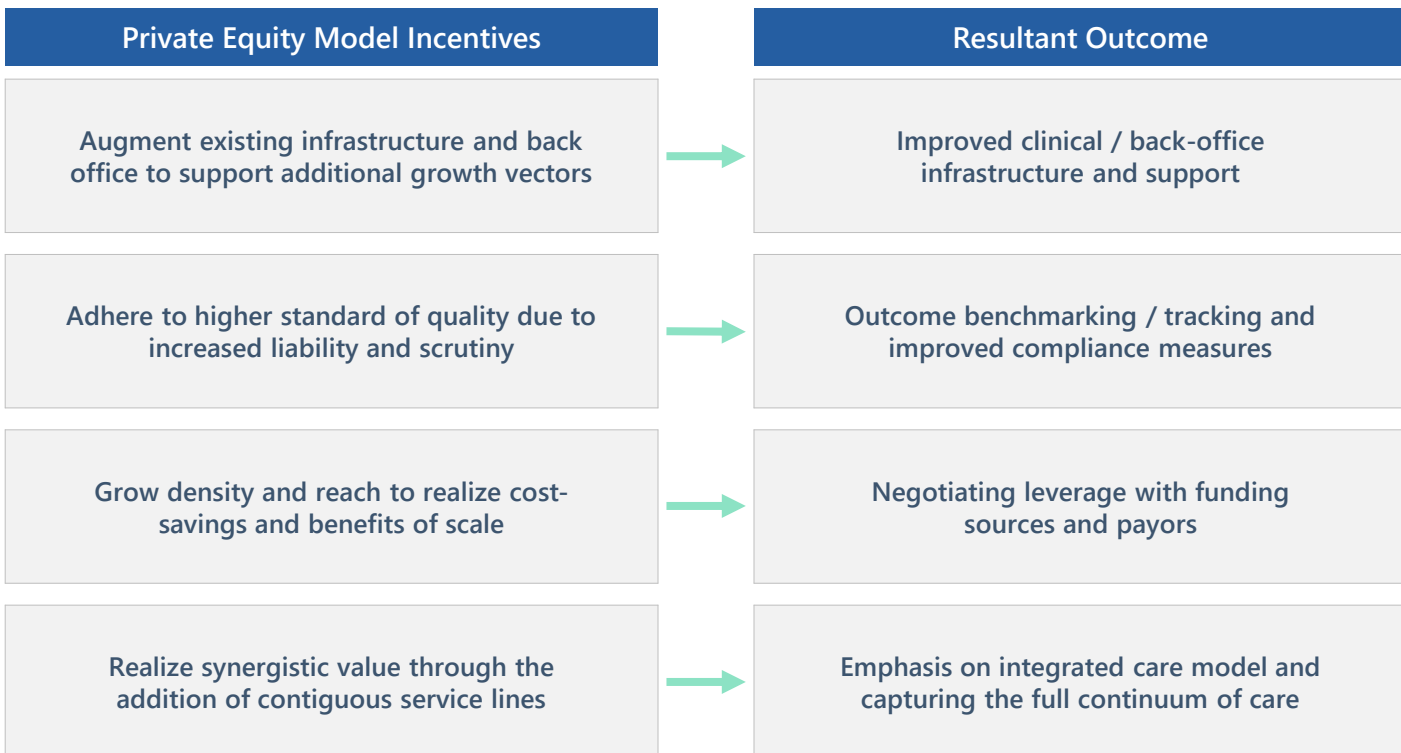
As consolidation continues to play a meaningful role in autism services, there are differing opinions on the go-forward impact of private equity investment. The potential degradation of quality and distinct focus on profit concerns many pundits who are hesitant to partner with private equity affiliated platforms. Conversely, many advocates endorse the professionalization and resources that institutional investment brings to the space. Investment in infrastructure and back-office support, outcome tracking, improved compliance and IT systems, and negotiating leverage with payors are a few of the major benefits that private equity investment raises within the space.

As awareness continues to magnify and capital partners pay closer attention to billing practices, building density and scale will be critical to have a seat at the table with payors and funding sources. One of the most important elements in the treatment of autism and positioning

businesses well with payors, is the ability to benchmark and ultimately track outcomes. Private equity-backed organizations have placed a significant amount of emphasis on tracking outcomes to ultimately gain leverage with payors.

The consolidation of autism services agents also leads to synergistic value on the cost and revenue side of business operations. Aligning with a partner in adjacent services can lead to significant value creation for an autism services business primarily focused on ABA therapy. Hybrid models that aim to cover a wider continuum of behavioral health services continue to become more prevalent, spanning mental health, special education, intellectual and development disability, and speech and language pathology services. Payors and funding sources favorably view the shift towards an integrative care model, as data suggests that its more beneficial to the client.

Private Equity Investment Benefits on the Autism Services Space



Partnership Considerations

There are several partnership options afforded to business owners looking to explore a transaction. With over 40 platforms in the space, not all partnership opportunities are created equal.⁽¹⁾ As such, it is important to vet and perform in-depth reverse diligence on potential partners and their respective models to determine likelihood of go-forward success as well as philosophical and cultural alignment.

	Private Equity Platform	Private Equity-Backed Regional Platform	Private Equity-Backed Add-On
Pros	<ul style="list-style-type: none"> • Capital and resources to accelerate growth trajectory • Opportunity to spearhead and lead growth initiatives • Ability to retain meaningful equity ownership and benefit from value appreciation • Allows for most operational and strategic autonomy to retain key providers and staff • Opportunity to leverage private equity firm for board-level strategic support 	<ul style="list-style-type: none"> • Typically, higher valuations than add-on acquisitions • Ability to share operational and clinical best practices and leverage platforms centralized back-office resources and infrastructure • More strategic and operational autonomy than being a add on acquisition • Potential for board representation and meaningful equity within the platform • Rollover equity is shared across a network of agencies, diversifying risk 	<ul style="list-style-type: none"> • Potential for 100% buyout opportunity and succession plan • Access to experienced management teams • Potential to gain leverage with payors or benefit from improved rates due to economies of scale • Ability to share operational and clinical best practices, and leverage existing back office and management resources
Cons	<ul style="list-style-type: none"> • No synergies factored into initial valuation • Less certainty and heavier lift to close • Best practice sharing not necessarily available at initial phase • Not an option for all groups due to size and infrastructure parameters • More risk than joining an existing platform 	<ul style="list-style-type: none"> • Existing TopCo management team and infrastructure are already in place • Autonomy is typically less than being a private equity platform investment 	<ul style="list-style-type: none"> • Limited opportunity to have board-level representation and voting power • Existing management team and infrastructure is already in place • Lowest strategic and operational autonomy of the three options • Potential clash of organizational cultures within combined entity

⁽¹⁾ Transaction statistics based on research completed by Provident; excludes non-publicly available transactions; includes platforms that did not initially offer ABA Therapy, but do so currently

Provident Case Studies

New England ABA & Comprehensive Autism Center

New England ABA

- Provident was engaged to manage a marketing process on behalf of the owner of New England ABA (“NEA”) to explore partnership opportunities with a select list of strategic and financial prospective partners
- NEA, focused on providing in-home and community-based ABA therapy, had been growing exponentially at the time of engagement and was expecting a similar growth trajectory over the next 12-18 months
- The NEA owner was contemplating a transaction that balanced cultural/philosophical fit while maximizing value, considering the Company’s accelerant growth trajectory
- Provident used variable cost analyses and unit economics to build a comprehensive full-year projection as the basis of the transaction to ensure that NEA received credit for its expected growth



Acquired by



Comprehensive Autism Center

- The management team of Comprehensive Autism Center (“CAC”) engaged Provident to find a partner that could help the business grow its existing footprint and expand into new service lines, while ensuring their mission and culture remained intact post-closing
- Provident managed a highly structured process focused on both financial partners looking for an investment within autism services as well as platforms that had already received funding from private equity investors
- The Speech Pathology Group (SPG), which had recently taken on investment from Ridgemont Equity Partners, emerged as the front runner on the transaction in a highly competitive process
- Synergies between both organizations led to immediate value creation for CAC as they look to grow their footprint in core and adjacent markets



Acquired by



Epic Health Services

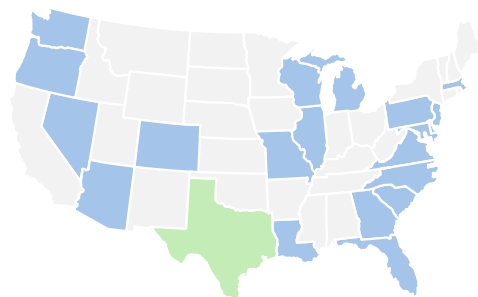


has partnered with



- Single-state provider of pediatric therapy and nurse staffing services with 14 locations across Texas
- Recapitalized by Webster Capital, a healthcare investor that formulated a thesis around home-based care, and rebranded to Epic Health Services (“Epic”)

- Over 6-years, Webster Capital helped Epic diversify into adult home care, private duty care, and autism services, and expanded into 20 additional states, establishing a national leader in pediatric and adult home care
- In 2017, Epic was acquired by Aveanna Healthcare, via its financial sponsors Bain Capital, for \$1 billion



	Pre-Transaction	Post-Transaction
Date	Aug-10	Dec-16
States	1	20

Current Valuation Landscape

While the valuation landscape within the autism services space continues to be quite rich relative to most other sectors in healthcare services, multiples have plateaued and even softened relative to pre-pandemic levels. Valuations are ultimately a function of growth and risk; the more attractive the growth profile of the business, the higher the multiple on earnings that one can expect to garner in a sale. As such, COVID-19 dampened many growth assumptions due to outbreaks, cancellations, and pronounced RBT churn, which has had a significant impact on transaction valuations and EBITDA levels. Still, valuations remain at elevated levels for larger providers that possess the key value drivers outlined below.

Provident Transaction Experience



The Stepping Stones Group, a national provider of behavioral health services, acquired New England ABA. The acquisition represents the Stepping Stones Group's first autism services transaction.



The Speech Pathology Group ("SPG"), acquired Comprehensive Autism Center. The Transaction establishes SPG's autism platform in Southern California.

Key Drivers for Premium Valuations

Proven ability to recruit and retain top-tier talent; culture, training programs, upward mobility, non-clinical support, etc.

Diverse and comprehensive service offering (home, center, and school) and funding sources with strong commercial payor exposure

Strong infrastructure, centralized corporate functions, and robust employee roster

Data-driven management approach with strong reporting capabilities and ability to track outcomes

Growth potential, including demonstrated ability to execute on inorganic and de novo growth

Attractive market with favorable supply and demand dynamics (sizable talent pools and underserved client base)

COVID-19's Impact on Autism Services

- The pandemic accelerated the adoption and utilization of telehealth services, particularly on the supervision front; telehealth for indirect supervision increases caseloads by cutting down on travel times as well as decreasing the amount of funds used for mileage reimbursement, positively impacting earnings
- COVID-19 had a marketable impact on recruiting and retention within the autism services space, consequently affecting most agencies' bottom lines; most business underperformance is due to staffing and supply restraints, not a lack of demand
- Due to increased unemployment benefits and the high touch nature of direct services, RBT churn, already one of the most challenging aspects of running an ABA focused businesses, has increased meaningfully
- Agencies that have been able to retain talent have and will continue to garner the most interest from the buyer community

Private Equity Secondary & Tertiary Transactions

Secondary & Tertiary Platform Buyouts (2001 to Present)⁽¹⁾

Platform	Transaction History
Acorn Health	<ul style="list-style-type: none"> • 2021 – Acquired by Ontario Teachers Pension Plan • 2018 – Acquired by MBF Healthcare Partners
Lighthouse Autism Center	<ul style="list-style-type: none"> • 2021 – Acquired by Cerberus Capital Management • 2018 – Acquired by ABRY Partners
Florida Autism Center	<ul style="list-style-type: none"> • 2020 – Acquired by Blue Sprig Pediatrics, via its financial sponsor Kohlberg Kravis Roberts • 2015 – Acquired by Shore Capital Partners
Invo HealthCare Associates	<ul style="list-style-type: none"> • 2019 – Acquired by Golden Gate Capital • 2016 – Acquired by The Wicks Group of Companies • 2013 – Acquired by Post Capital Partners
LEARN Behavioral	<ul style="list-style-type: none"> • 2019 – Acquired by Gryphon Investors • 2016 – Acquired by LLR Partners • 2010 – Acquired by Milestone Partners
Catapult Learning	<ul style="list-style-type: none"> • 2018 – Acquired by The Vistria Group • 2008 – Acquired by The Carlyle Group
ChanceLight Behavioral Health and Education	<ul style="list-style-type: none"> • 2018 – Acquired by The Halifax Group • 2004 – Acquired by Trimaran Capital Partners
Sequel Youth and Family Services	<ul style="list-style-type: none"> • 2017 – Acquired by Altamont Capital Partners • 2013 – Acquired by Alaris Equity Partners
Autism Learning Partners	<ul style="list-style-type: none"> • 2017 – Acquired by FFL Partners • 2010 – Acquired by Great Point Partners
Epic Health Services	<ul style="list-style-type: none"> • 2017 – Acquired by Aveanna Healthcare, via its financial sponsors Bain Capital • 2010 – Acquired by Webster Equity Partners

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Select Private Equity Transactions

Recent Private Equity Platform Investments (2020 to Present)⁽¹⁾

Date	Acquirer	Target	Transaction Type
Aug-21	Ontario Teachers Pension Plan	Acorn Health	Secondary Buyout
Jul-21	Cerberus Capital Management	Lighthouse Autism Center	Secondary Buyout
Feb-20	Baum Capital Partners	The Place for Children with Autism	Platform Creation
Jan-20	General Atlantic	ACES (Autism)	Platform Creation

Select Private Equity Platform Add-On Acquisitions (2021 YTD)⁽¹⁾

Date	Acquirer	Target	Financial Sponsor
Aug-21	Autism Care Partners	Puddingstone Place	Coppermine Capital
Aug-21	Acorn Health	ABC's of Applied Behavior Analysis	MBF Healthcare Partners
Jul-21	Autism Care Partners	Autism Bridges	Coppermine Capital
Jun-21	Acorn Health	LEAP Behavior Analysis	MBF Healthcare Partners
May-21	Caravel Autism Health	The Center for Autism Treatment	Frazier Healthcare Partners
May-21	Center for Social Dynamics	JF Autism Services	New MainStream Capital
Apr-21	LEARN Behavioral	Priorities ABA	Gryphon Investors
Apr-21	LEARN Behavioral	Chrysalis Academy/Play ABA	Gryphon Investors
Apr-21	Civitas Solutions	Futures Behavior Therapy Clinic	Centerbridge Partners
Mar-21	The Speech Pathology Group	Behavior Therapy Clinic	Ridgemont Equity Partners
Mar-21	Acorn Health	Sandcastle Centers	MBF Healthcare Partners
Mar-21	Stepping Stones Group	EBS Healthcare	Five Arrows Capital Partners
Mar-21	Lighthouse Autism Center	A Step Ahead (Columbus)	ABRY Partners
Feb-21	LEARN Behavioral	Behavior Analysis Center For Autism	Gryphon Investors
Feb-21	Lighthouse Autism Center	Access Behavior Analysis	ABRY Partners
Feb-21	Proud Moments ABA	Bridges, Inc.	Audax Group
Feb-21	ACES (Autism)	CLASS Oklahoma	General Atlantic

Even with dozens of platform formations, the space remains hyper fragmented with outsized demand that continues to support new entrants in the space

Quick Facts

- As of 2020, 50% of the top 23 “mega” ABA therapy providers were owned or backed by private equity firms⁽²⁾
- 50%+ of platforms are at least three years into their hold periods; the average hold period for a platform investment is four to six years⁽¹⁾
- 75%+ of transaction volume has occurred since the start of 2016, primarily driven by strategic add-on acquisitions⁽¹⁾

⁽¹⁾ Transaction statistics based on research completed by Provident; excludes non-publicly available transactions; includes companies that did not initially offer ABA Therapy, but do so currently; ⁽²⁾ Benzinga

Conclusion

As several platforms seek to expand their footprint in a still highly fragmented market, all signs point towards the sector moving into the next phase of its investment cycle characterized by increased secondary transaction deal activity. Trends across the industry itself, such as the projected increase in autism prevalence and the need for qualified personnel, will only work to strengthen M&A activity even further. Provident expects valuations to remain stable going forward, supported by consolidator interest as well as strategic buyers looking to build an integrative care system.

Companies that can demonstrate their value through growth prospects, strong infrastructure, robust expansion into ancillary service lines, and well-trained personnel will be in high demand in the future, from both a client and deal standpoint. Provident therefore expects the market to be favorable to sellers, offering the choice to consider the full scale of options regarding a potential partnership. Through a partnership, autism service providers will continue to make a meaningful impact on the lives of children diagnosed with ASD.

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Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

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