Private equity targeting emerging eating disorder treatment space – industry sources - Analysis
By Deborah Balshem in Ft Lauderdale
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- Affordable Care, Mental Health Parity Acts driving growth
- Behavioral health, addiction players potential strategic buyers
- ERC, Monte Nido, Castlewood, DPM, Emily among potential targets

The rapidly growing eating disorder treatment industry is seeing heightened interest from private equity firms interested in building a dominant national player, according to six industry sources.

Driven by healthy financials and legislative tailwinds, there has been "a huge amount" of consolidation in the space over the last couple of years, said Dan Davidson and McNeill Wester, managing directors at Coker Capital. Though some players have operations from coast-to-coast, "there is no clear front-runner," Wester said.

Most companies with any scale are owned by smaller PE funds and are seen as targets for bigger PE firms upon their exits, as these companies still lack the size to go public, said Greg Wappett, director at Provident Healthcare Partners. In the meantime, current owners are growing their companies both organically and through acquisitions, though targets of any scale have become scarcer, making consolidation more challenging, Wester said. Several sources suggested some of the larger players might combine to gain scale and then sell or go public.

According to the sources, pure-play companies seen as potential targets or merger candidates include Lee Equity Partners-backed **Eating Recovery Center**, Centre Partners-backed **Monte Nido Holdings**, Trinity Hunt Partners-backed **Castlewood Treatment Center**, Webster Capital-backed **Discovery Practice Management** (DPM), TT Capital Partners-backed **Emily Program** and family-owned **The Renfrew Center**. **The Meadows**, an addiction and psychological trauma treatment center owned by American Capital, acquired eating disorder treatment company **Remuda Ranch** in 2013 and is also seen as a potential target, these sources said.

Denver, Colorado-based Eating Recovery Center plans to exit in late 2016, founder and CEO Ken Weiner told this news service last month. The company, one of the largest in the space, operates 15 facilities in six states and is projecting USD 115m this year, according to the report.

St Louis-based Castlewood and Los Alamitos, California-based DPM, which does business as Center for Discovery, have been held by their PE owners the longest, since 2008 and 2011, respectively, several sources noted.

Several PE firms that have interest in the space "missed out or passed the first time around" as targets were too small for them, Wester said. Many are still "reaching down below their typical threshold to gain a foothold in the sector," he added.

The sources said they anticipate that at some point, in addition to PE firms, behavioral health and addiction treatment players will push further into the space. **Acadia Healthcare** (NASDAQ:ACHC), which operates a national network of behavioral health facilities, acquired eating disorder treatment services company **McCallum** in the fall of last year and could continue to seek buys in the space.

Companies such as **Universal Health Services** (NYSE:UHS); **AAC Holdings** (NYSE:AAC), and Nick Pritzker Capital Management-backed **Foundations Recovery Network** may follow suit, the sources said.

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Multiples in the space are averaging 10x-12x EBITDA for companies with EBITDA greater than USD 3m, according to several sources. Typical EBITDA margins can range from 10%-40%, depending on services, with the average EBITDA margin 25%, they said.

Eating disorder treatment services include inpatient, residential, partial hospitalization (PhP), intensive outpatient (IoP), and outpatient. Companies that offer the widest breath of services are seen as especially attractive, according to the sources. Residential and inpatient services have the lowest margins, given their infrastructure and 24-hour care costs, while outpatient services garner the highest profits.

Other factors that come into play when valuing these companies include payor strategy, with some buyers more keen on a commercial insurance model, which has lower margins but is viewed as more sustainable, while others prefer the higher-margin self-pay model, according to Wester. How well a company can measure clinical outcomes is normally also taken into consideration, he added.

The eating disorder treatment industry was estimated at USD 2.7bn in 2013, according to market research firm IBIS World. The National Eating Disorder Association estimates that in the US, 20m women and 10m men suffer from a clinically significant eating disorder at some time in their life, including anorexia nervosa, bulimia nervosa and binge eating disorder.

The increasing availability of treatment options is being driven in part by the Affordable Care Act (ACA) and the updated Mental Health Parity and Addiction Equity Act of 2008 (MHPAEA), the sources noted.

Eating disorders typically present in teen years, and the ACA extends the age that children are able to stay on their parents' coverage from 18 to 26. The MHPAEA requires health insurers to ensure that financial requirements, such as co-pays and deductibles, and treatment limitations applicable to mental health or substance use disorder benefits are no more restrictive than the predominant requirements or limitations applied to substantially all medical/surgical benefits.