

Customer & Market Due Diligence Of Behavioral Health Treatment Services Provider: Establishing Supply/Demand Imbalance And Growth Outlook

The Challenge: Our client, a healthcare-focused PE firm, was under exclusive negotiations to acquire a behavioral health treatment services provider to adolescents and young adults. The client was excited about the target's aggressive plan to grow into the outpatient and short-term residential treatment services markets and was intrigued by the opportunity to serve these underserved markets and by the growing market demand from increased reimbursement of these services. However, our client wanted to know the extent to which a supply/demand imbalance existed in these markets, and how this imbalance might shift in the future. Consequently, our client asked Gotham to conduct a 3-week customer & market due diligence to: (1) establish the adolescent/young adult mental health treatment addressable market size; and (2) validate the target's outpatient and short-term residential program growth opportunities.

Untapped Market Opportunity Assessment: To provide our client actionable insight on this dynamic industry, Gotham undertook a comprehensive, multi-pronged effort:

- Conducted 55 interviews with and 261 surveys of psychiatrists, educational consultants, residential programs, payors, and insurance advocates to gain insight into: referral dynamics and patient flow for different care settings; presence and effectiveness of outpatient clinics and short-term residential treatment programs; supply and demand picture for mental health treatment for adolescents and young adults; and enrollment trends and changes in insurance coverage for outpatient and short-term residential treatment services
- Built a bottom-up demand/supply model to quantify the gap (number of patients treated, spots/beds, and locations) between current and unconstrained demand across afflicted adolescents and young adults based on the: size of the target demographics and percent afflicted with mental health disorders; afflicted population's use of mental health services, continuum of care, and method of payment; and referral dynamics informed by the patient flow through the continuum of care
- Leveraged government and industry data and conducted secondary research to establish insurance dynamics and evolution of government regulations pertaining to behavioral health coverage
- Built a detailed database of residential treatment programs and profiled large and midsized players.

Demand for Mental Health Treatment Among Adolescents and Young Adults Is Growing at a Rapid Rate

17% of adolescents and 15% of young adults face major mental health issues, with the rise in issues due to multiple factors, such as the covid pandemic and growing social media influence. The pandemic caused a 20-30% jump in mental health disorders among adolescents and young adults and has also increased the severity of existing conditions, with its impact expected to be long-lasting. Furthermore, stigmatization around mental health issues has waned over recent years, and diagnosis criteria have become less rigid/more broadly left to physician discretion, leading to afflicted populations receiving care more frequently.

Demand for Outpatient Mental Health Treatment for Adolescents and Young Adults Is 3-5x Greater Than Available Supply

Of the 5 levels of care in the behavioral health continuum – therapy, IOP, PHP, Residential (short- and long-term), and hospital/inpatient – the historical care focus has been on the two ends of the spectrum – either therapy or inpatient care – with less availability of intermedial care options. However, recently, there has been growing recognition that adolescents and young adults require therapy options that are more intensive than 1-hour weekly therapy sessions in order to avoid hospitalization and physical harm, leading to the growth of outpatient mental health treatment (IOP and PHP) and short-term residential programs as intermediate steps. These options are seen as high-quality, cost-effective care methods, boosting their demand faster than supply has been able to catch up. Due to these supply constraints, ~43% of all afflicted adolescents and young adults who seek care are not referred for treatment, highlighting significant opportunity for outpatient treatment growth. If the supply of treatment were in line with the demand for treatment, 49% of adolescent referrals and 41% of young adult referrals would be to outpatient settings of care (IOP or PHP) vs. the current referral rate of only 30%.

Changing Reimbursement Dynamics Further Drive Demand for Mental Health Treatment for Adolescents and Young Adults Regulatory and legislative tailwinds, such as the Mental Health Parity and Addiction Equity Act (2008), have laid the groundwork for increased mental health treatment coverage and will likely continue to support the accessibility of these services. Insurance coverage for mental health treatment for adolescents and young adults has also increased over the past 5 years as a result of the growth of the outpatient model, which is viewed by providers and payors as equally effective to and significantly cheaper than inpatient programs. Because of this, payors have become more willing than ever to enter into single case agreements for step-down treatment options provided by out-of-network clinicians. Enhanced insurance coverage and the rise of lower acuity care settings have increasingly enabled middle class families to pay for mental health services, whereas in the past, affluent families were overwhelmingly the primary demographic seeking treatment due to the high costs of care.

The Outcome: Gotham's robust and fact-based assessment of the adolescent and young adult mental health treatment market allowed our client to gain a clear picture of supply/demand imbalances in outpatient and short-term residential care treatment. With this clarity, our client gained confidence in the target's aggressive growth plan and moved forward to successfully close the deal.

