Evolving the Behavioral Health Delivery System Through Mergers and Acquisitions

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SEPTEMBER 18, 2025

Colorado Behavioral Healthcare Council

A gentle reminder of what is at stake

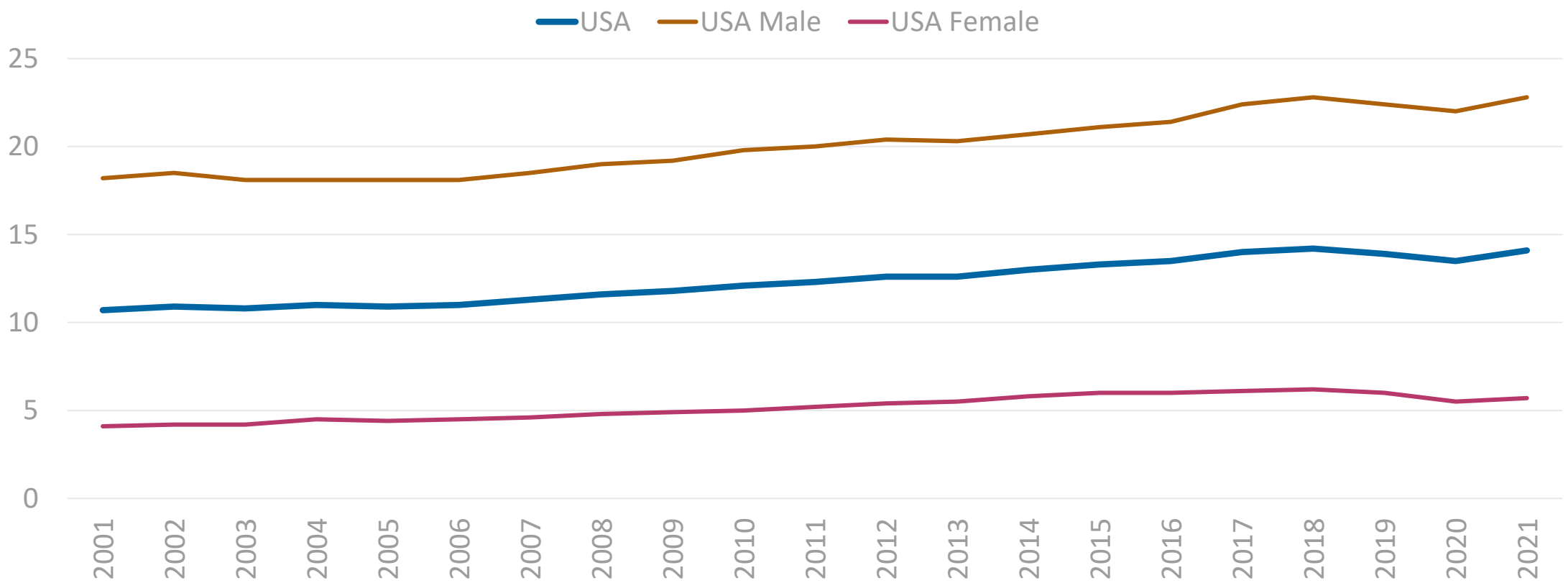
We still have a lot of work to do

People with Serious Mental Illness die 10-25 years younger than the general population.

Source: Plana-Ripoll O, Musliner KL, Dalsgaard S, et al. Nature and prevalence of combinations of mental disorders and their association with excess mortality in a population-based cohort study. World Psychiatry. 2020;19(3):339–49

The suicide rate continues to increase steadily

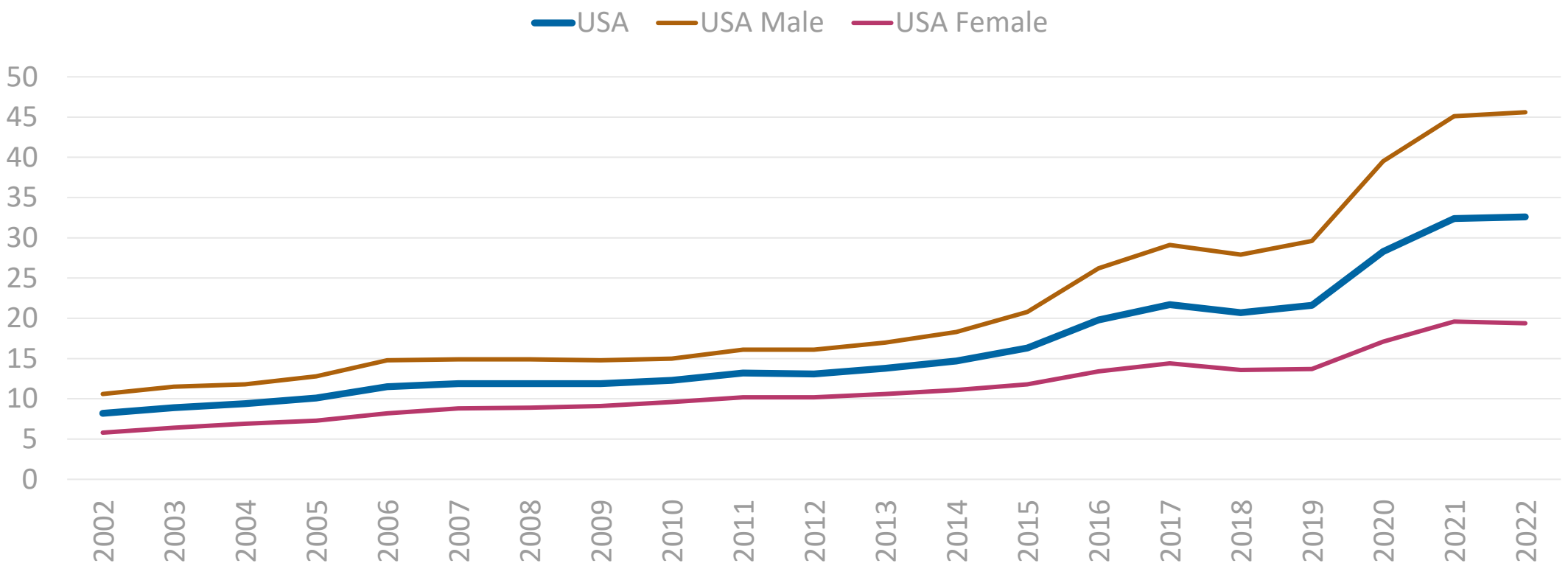
SUICIDE RATE PER 100,000



Source: https://www.cdc.gov/nchs/data/databriefs/db464-tables.pdf#1

Overdose deaths continue to skyrocket

OVERDOSE RATE PER 100,000



Source: https://www.cdc.gov/nchs/data/databriefs/db491-tables.pdf#1

Follow the money

Medicaid Spending on people with mental health conditions is nearly **Four Times** as much as for other enrollees

$13,303

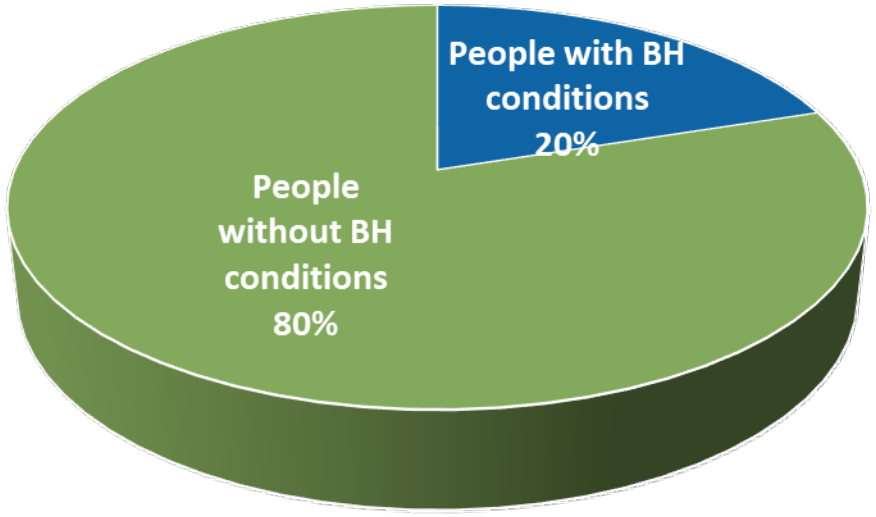
$3,564

With BH conditions

Without BH conditions

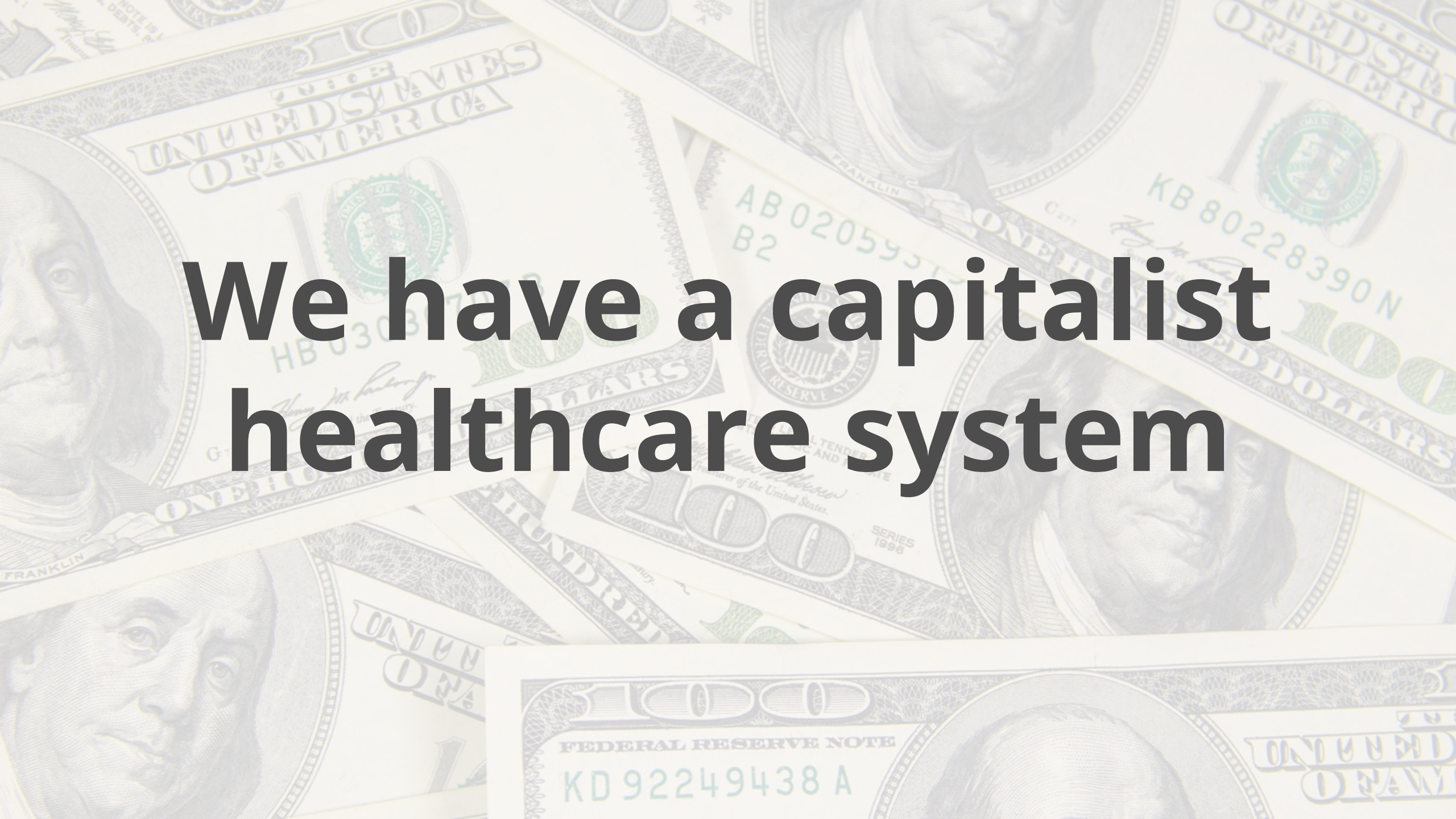
Nearly **half** of Medicaid spending is for enrollees with BH conditions…

…but only 20% of Medicaid enrollees have BH conditions



Source: Medicaid's Role in Behavioral Health, Henry J. Kaiser Family Foundation, May, 2017.

A brief word of preface



We have a capitalist healthcare system

Capitalism comes with rules

IGNORE THESE RULES AT YOUR OWN PERIL

Risk and reward go hand-in-hand

People with capital make the rules

People will do what they are incented to do

Money is an effective incentive

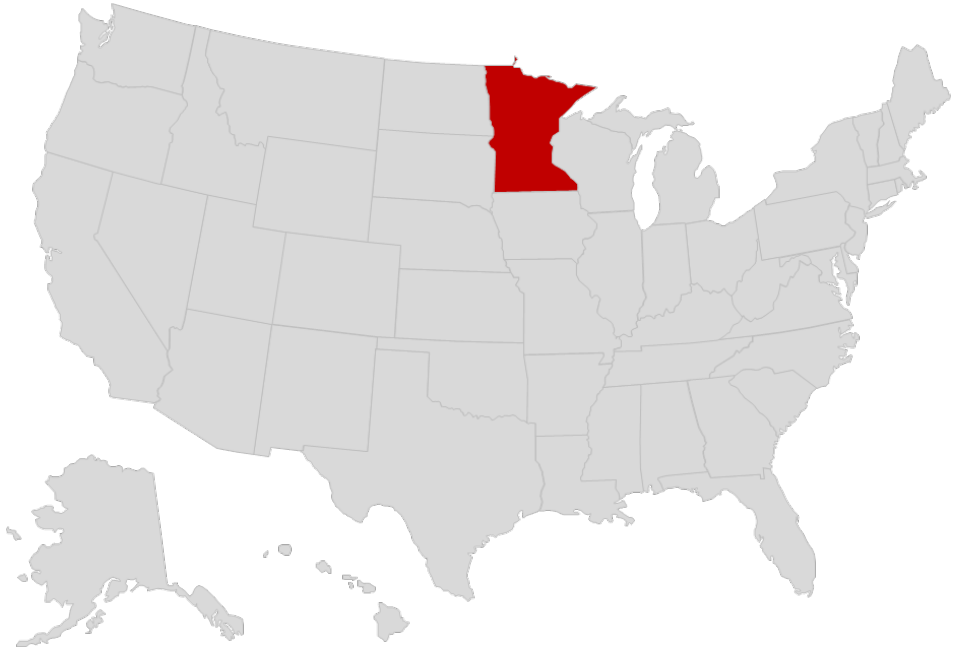
The trends driving consolidation

Value-based payments

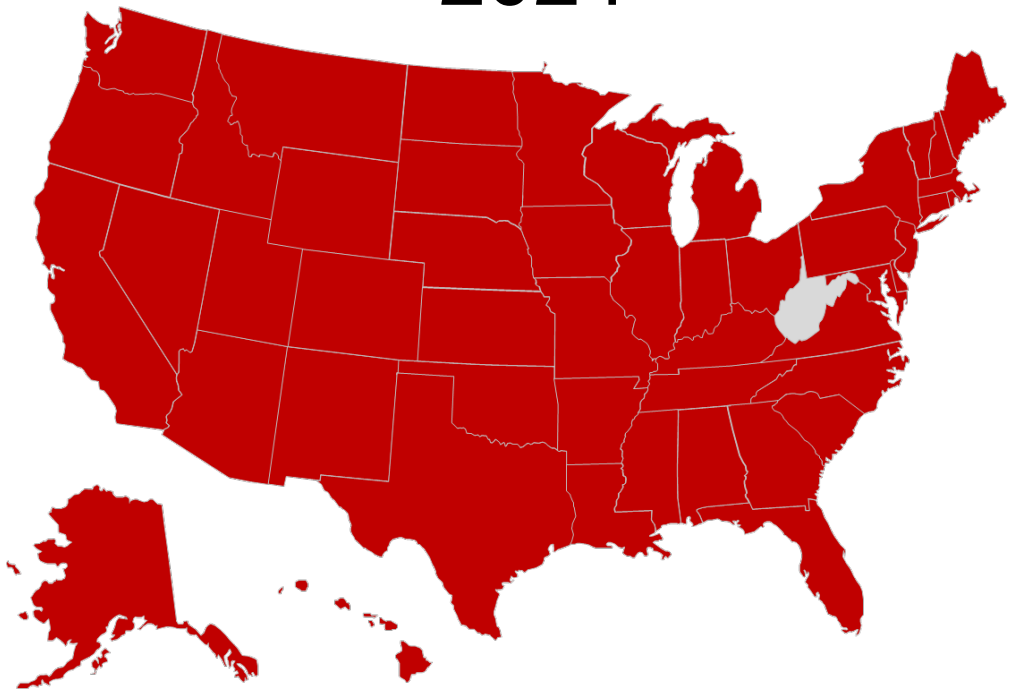
VBP spread over time

NEARLY EVERY STATE MEDICAID SYSTEM HAS ADOPTED A VBP STRATEGY

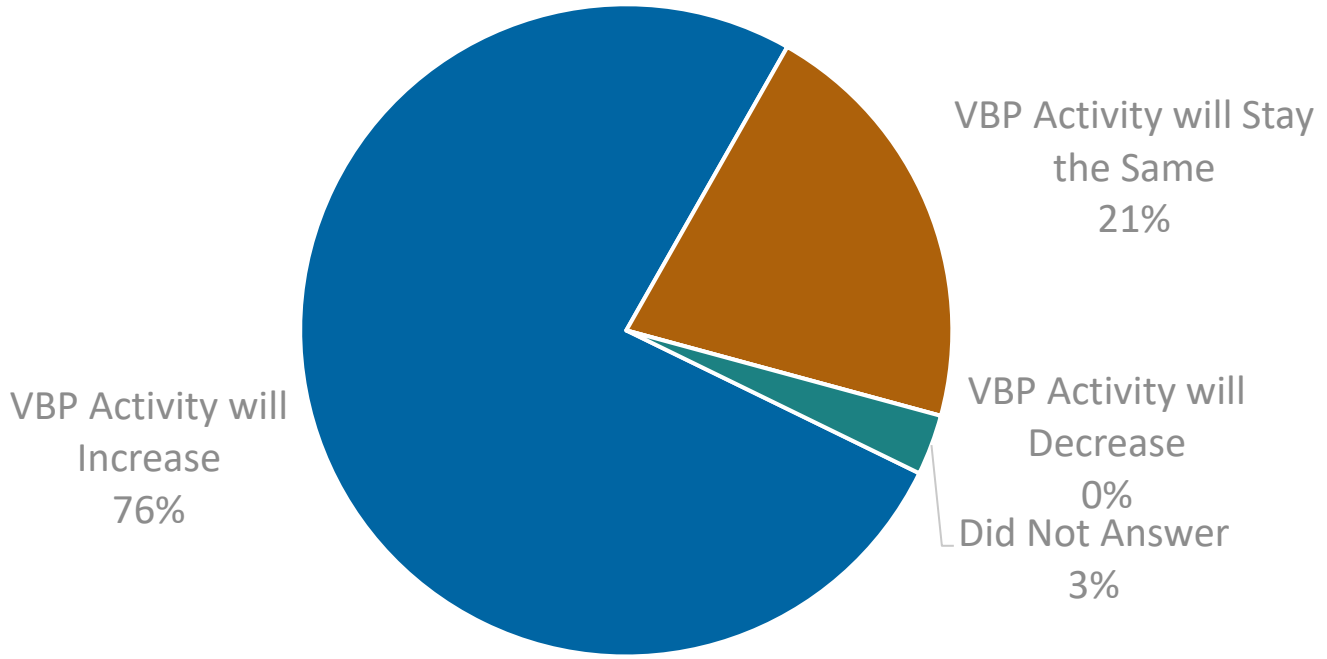
2008



2024

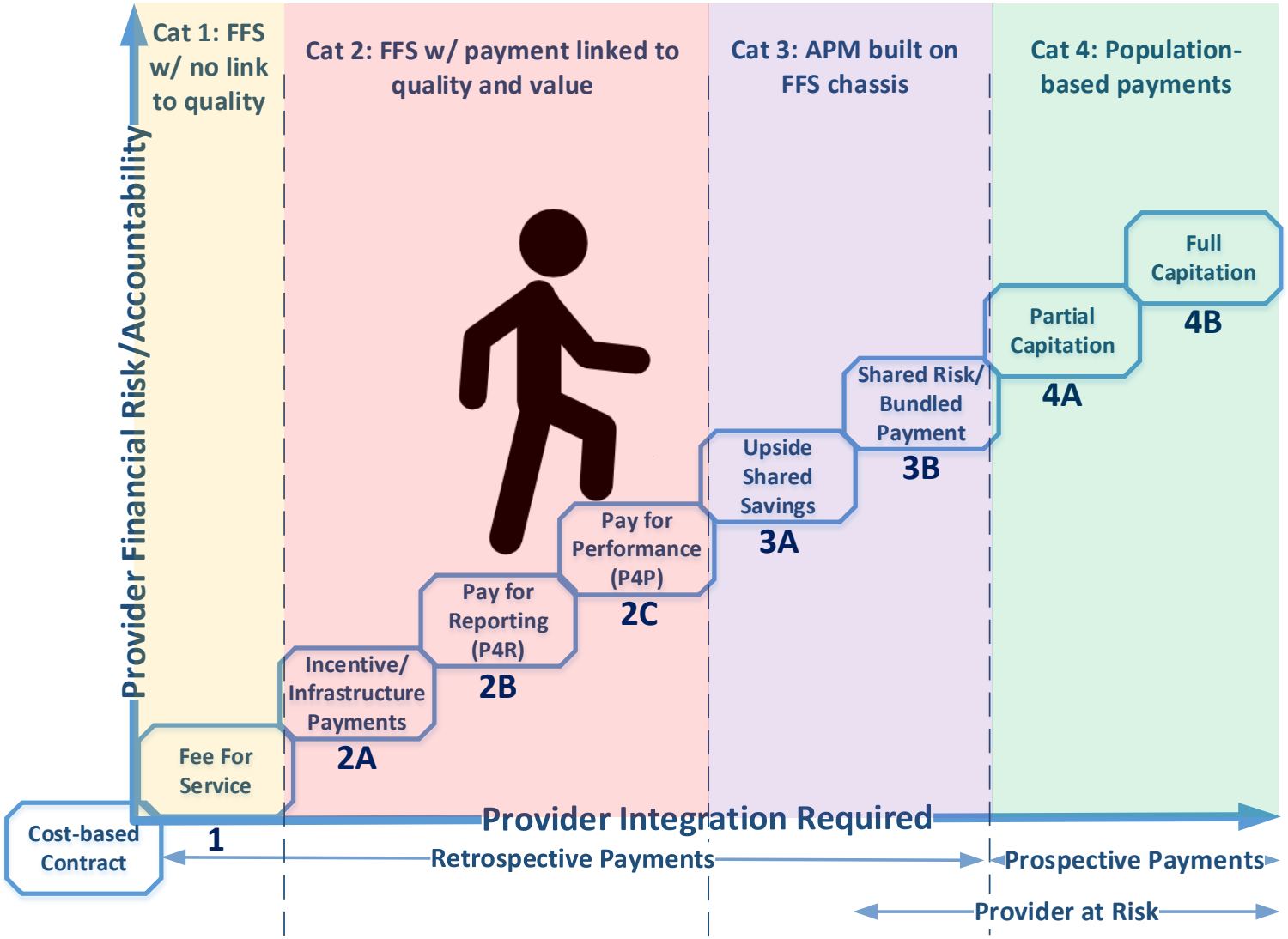


Payors perceive VBP will continue to spread



https://hcp-lan.org/apm-measurement-effort/2024-apm/2024-infographic/

Accountability, integration, and risk go together

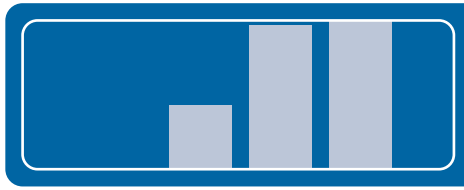


VBP are complicated

THE CHALLENGES ARE VARIED

Service delivery transformation

- Population health management

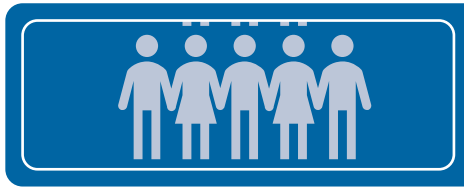


Defining quality

- What are the metrics that capture the impact of BH care?

Infrastructure

- Significantly more complex than historically needed



Size matters

- Leverage and cash reserves are both critical to success

VBP advantage providers with certain characteristics

Size	Sophistication	Data capture and analysis capacity
Risk-readiness	Strong, strategic leadership	Administrative depth

The little guy doesn't usually win

The two biggest problems with VBP for BH providers

Attribution

- Attribution is almost always to the primary care provider, so BH providers are farther down the funds flow

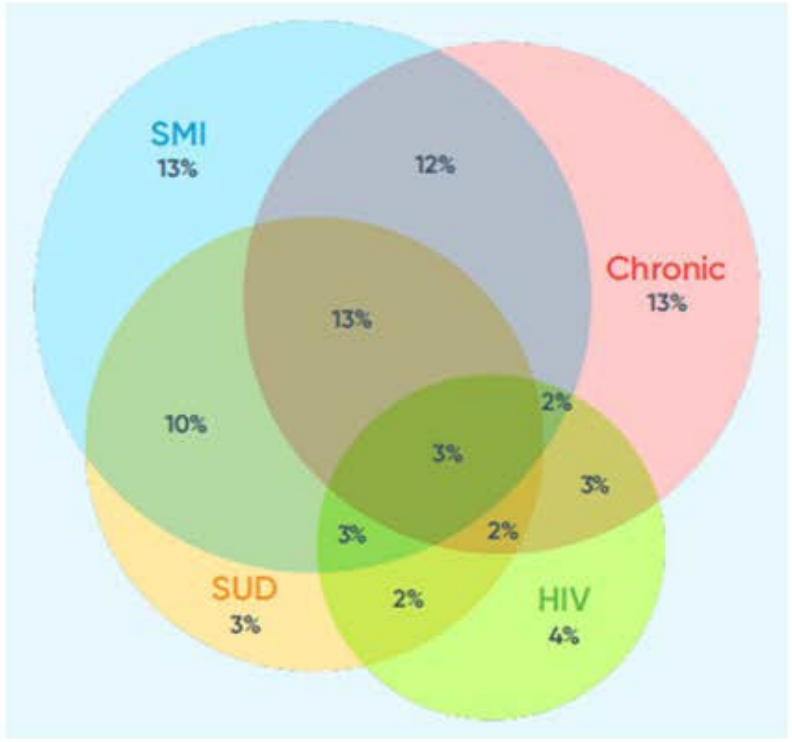
Wrong pocket problem

- Quality BH care increases the demand for BH care while reducing overall healthcare spending

Program integration

Programs have to integrate because the people being served are complex

MRT Supportive Housing Clinical Characteristics



Seriously ill population, high rate of comorbidities:

- 62% have at least one serious mental illness
- 41% have substance use disorder
- 33.5% have "other chronic condition"
- 5% HIV+
- Diagnoses in 3 or more of above categories: 24%

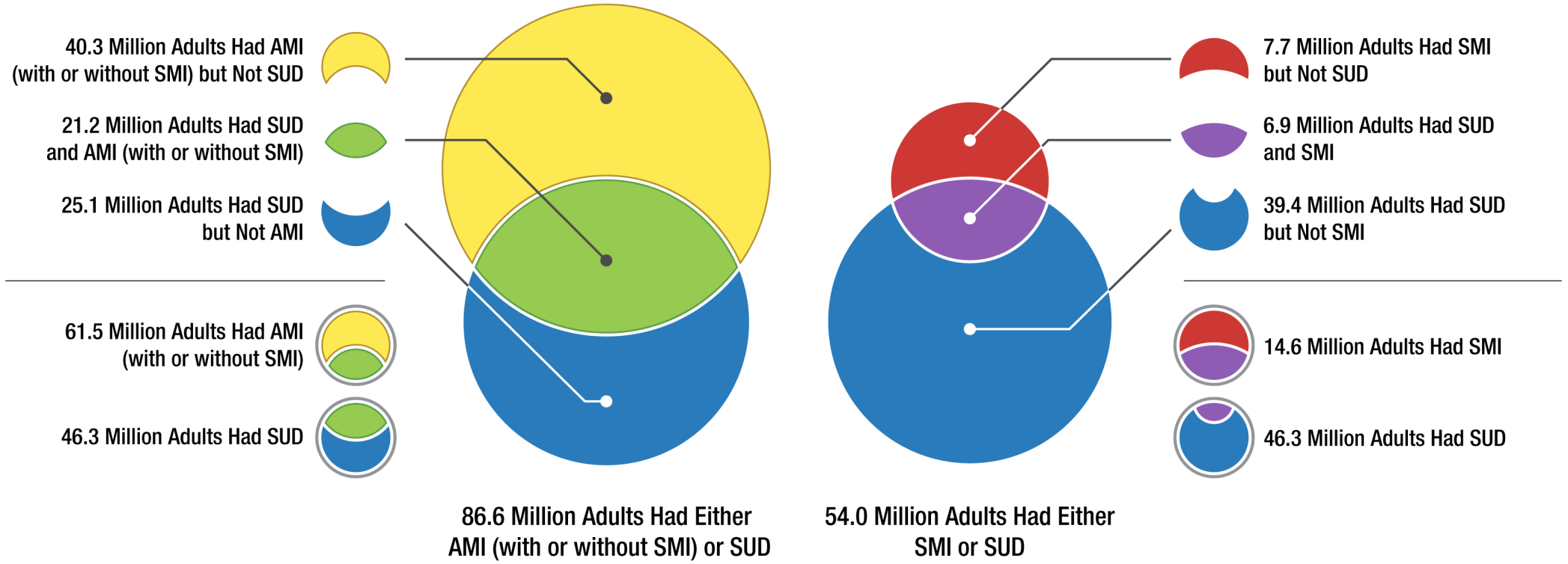
Source: McGinnis et al, "Medicaid Redesign Team Supportive Housing Evaluation: Utilization Report 1," prepared by the SUNY Research Foundation for NYS DOH, June 2020.

"Other chronic condition"=12 other most common chronic conditions: hypertension, asthma, diabetes, osteoarthritis, coronary heart disease, chronic kidney disease, chronic obstructive pulmonary disease, cerebrovascular disease, congestive heart failure, cancer, angina, acute myocardial infarction.

NEW YORK STATE | Department of Health

Necessary integration: MH and SUD systems

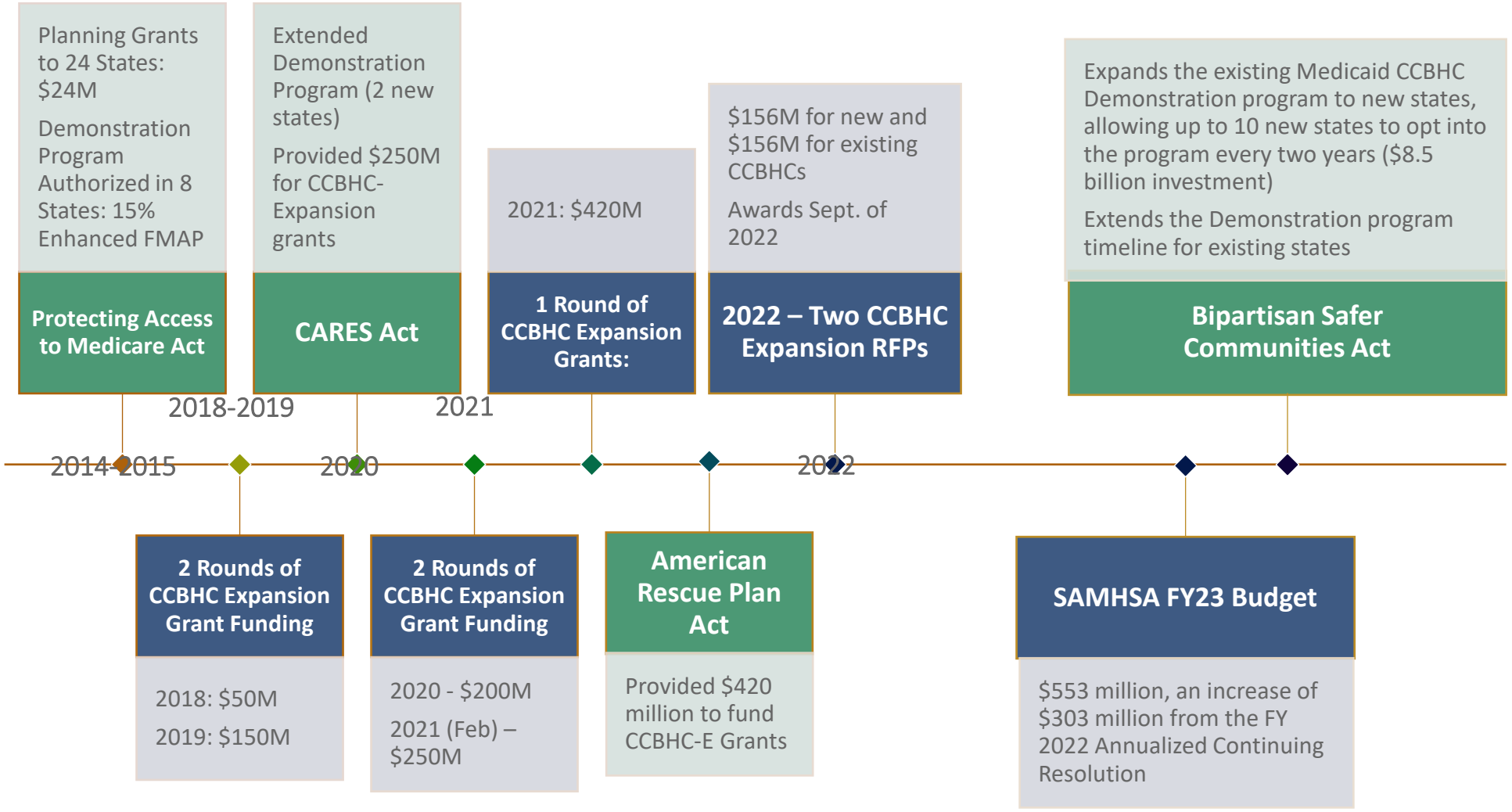
1/3 OF PEOPLE WITH AMI HAVE SUD. 1/2 OF PEOPLE WITH SUD HAVE AMI.



Source: Substance Abuse and Mental Health Services Administration. (2025). 2024 National Survey on Drug Use and Health: Graphics to Support Estimates from the Annual National Report. Rockville, MD: Center for Behavioral Health Statistics and Quality, Substance Abuse and Mental Health Services Administration

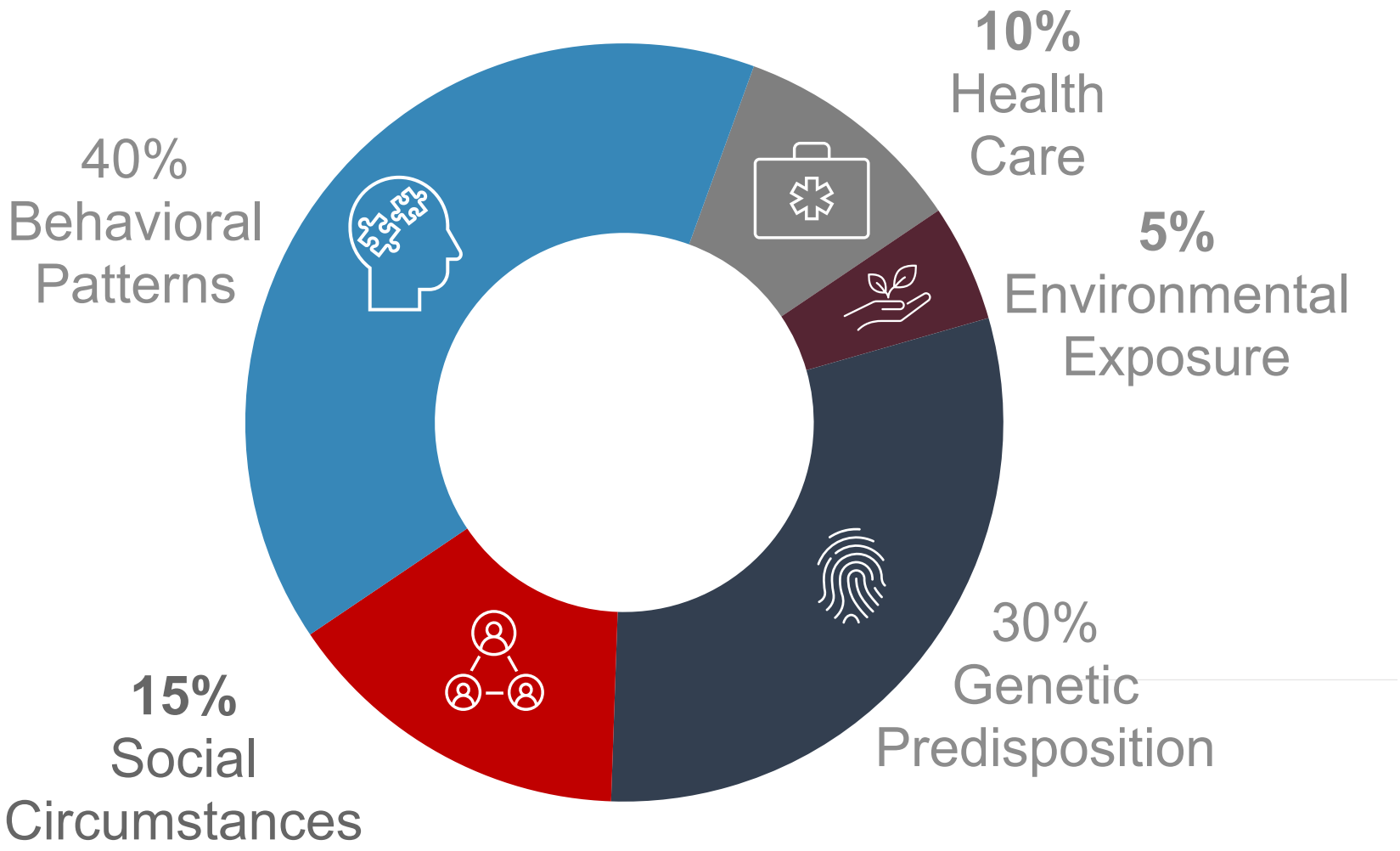
CCBHC growth has been rapid

CCBHCS ARE ALREADY THE LARGEST INVESTMENT IN THIS COUNTRY'S HISTORY IN EXPANDING AND SUSTAINING BH CARE



Necessary integration: Medical and BH systems

2/5 OF HEALTH OUTCOMES ARE DETERMINED BY BEHAVIOR



Source: Schroeder, Steven A. We Can Do Better – Improving the Health of the American People. N Engl J Med 2007;357:1221-8

Necessary integration: Social services and healthcare

INVESTMENTS IN SOCIAL SERVICES YIELD SIGNIFICANT HEALTH BENEFITS

Social service integration:

18% reduction in emergency department visits among members

80% enrollment of members into primary care medical homes

Housing First:

$9,000 per person per year to nearly $30,000 per person per year

Housing and social service integration:

55% decrease in total monthly Medicaid costs for every $1 spent compared to year prior, $2 savings the following year, and $6 savings in subsequent years

Nutritional Assistance:

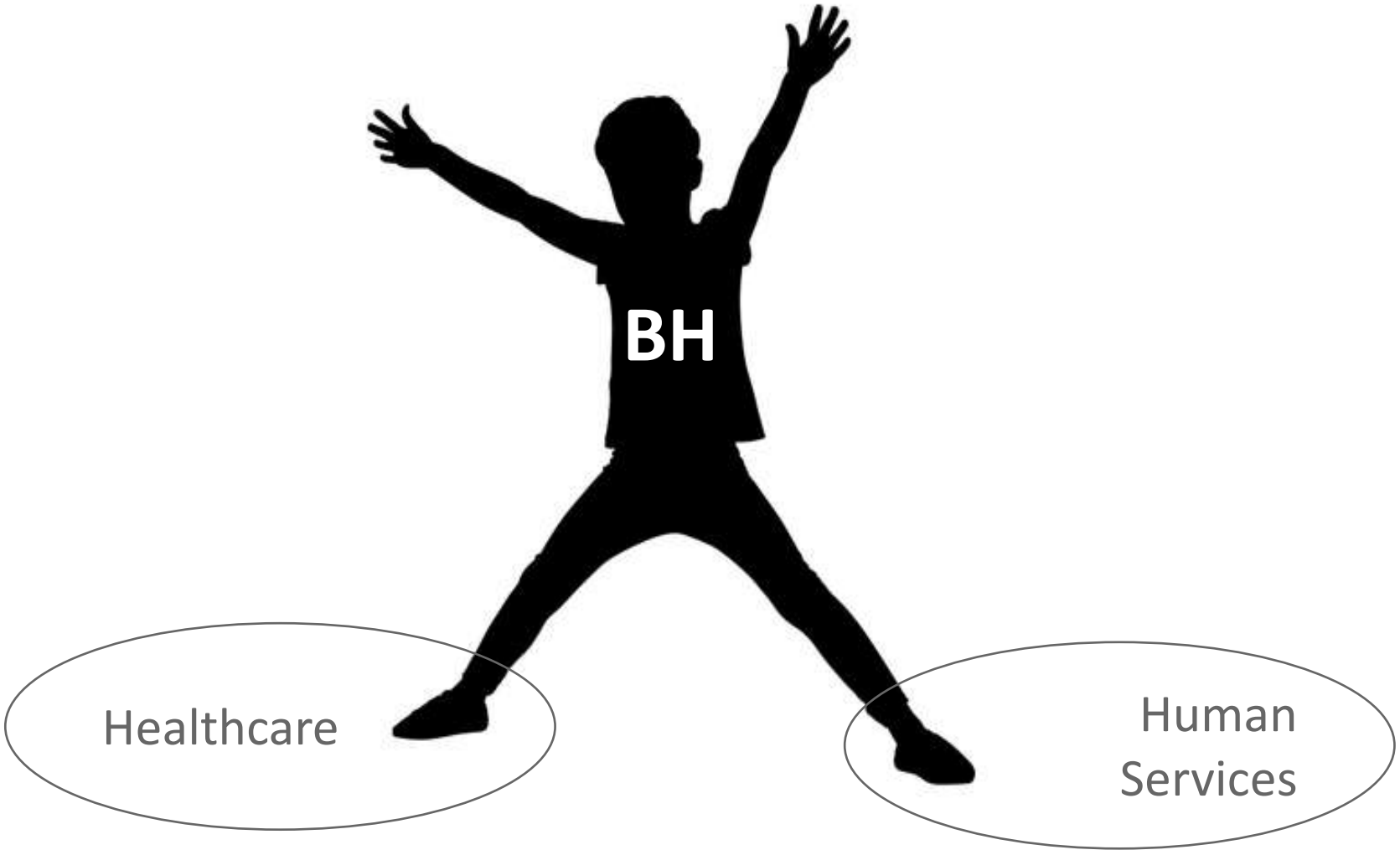
Every $25 increase in home-delivered meals per older adult would be associated with a 1% decline in nursing home admissions

Asthma:

For every $1 invested, $1.33 was saved

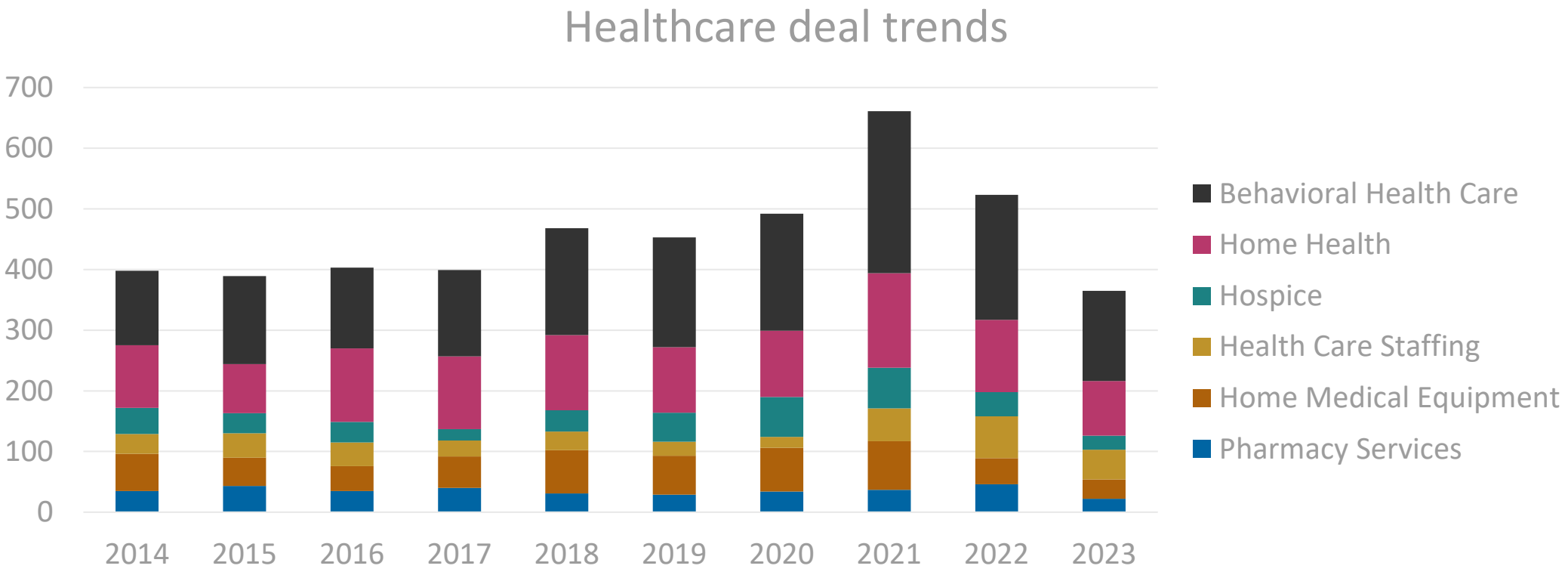
Source: Taylor LA, Coyle CE, Ndumele E, Rogan E, Canavan M, Curry L, Bradley EH. (2015). Leveraging the social determinants of health: what works? Prepared for the Blue Cross Blue Shield of Massachusetts Foundation by the Yale Global Health Leadership Institute.

The role of BH in social services integration



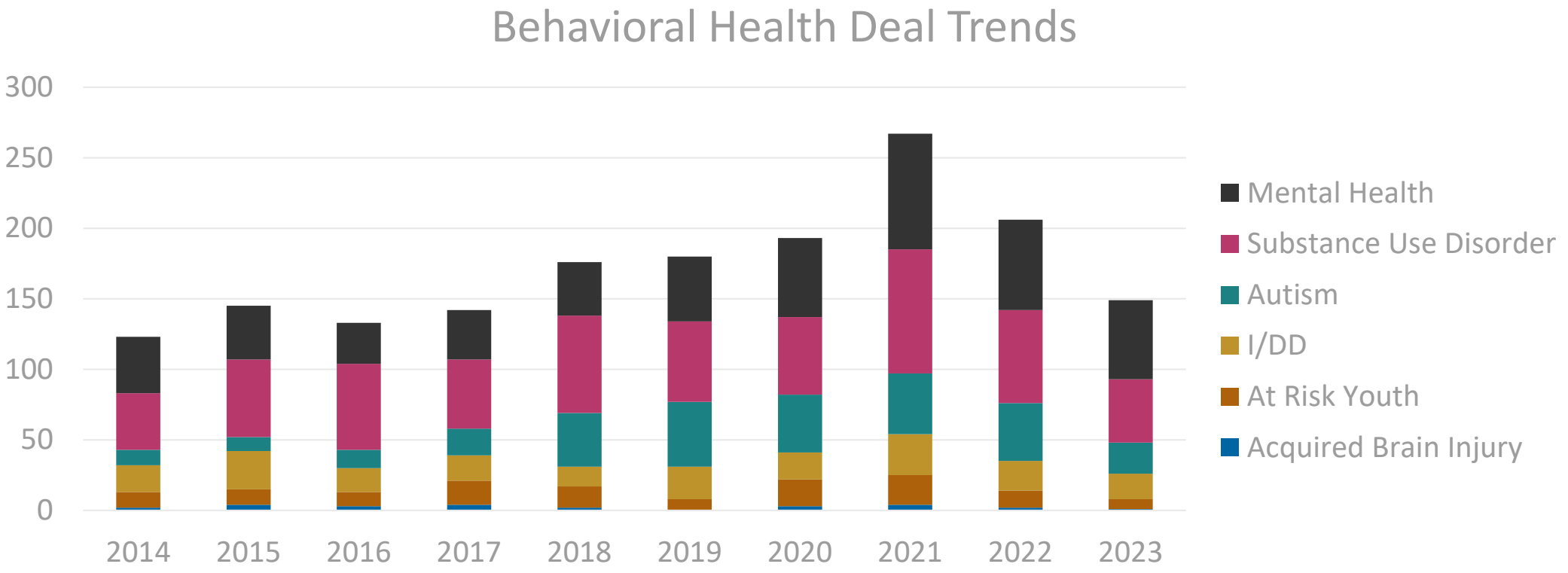
Private equity

The pandemic increased the attention to BH



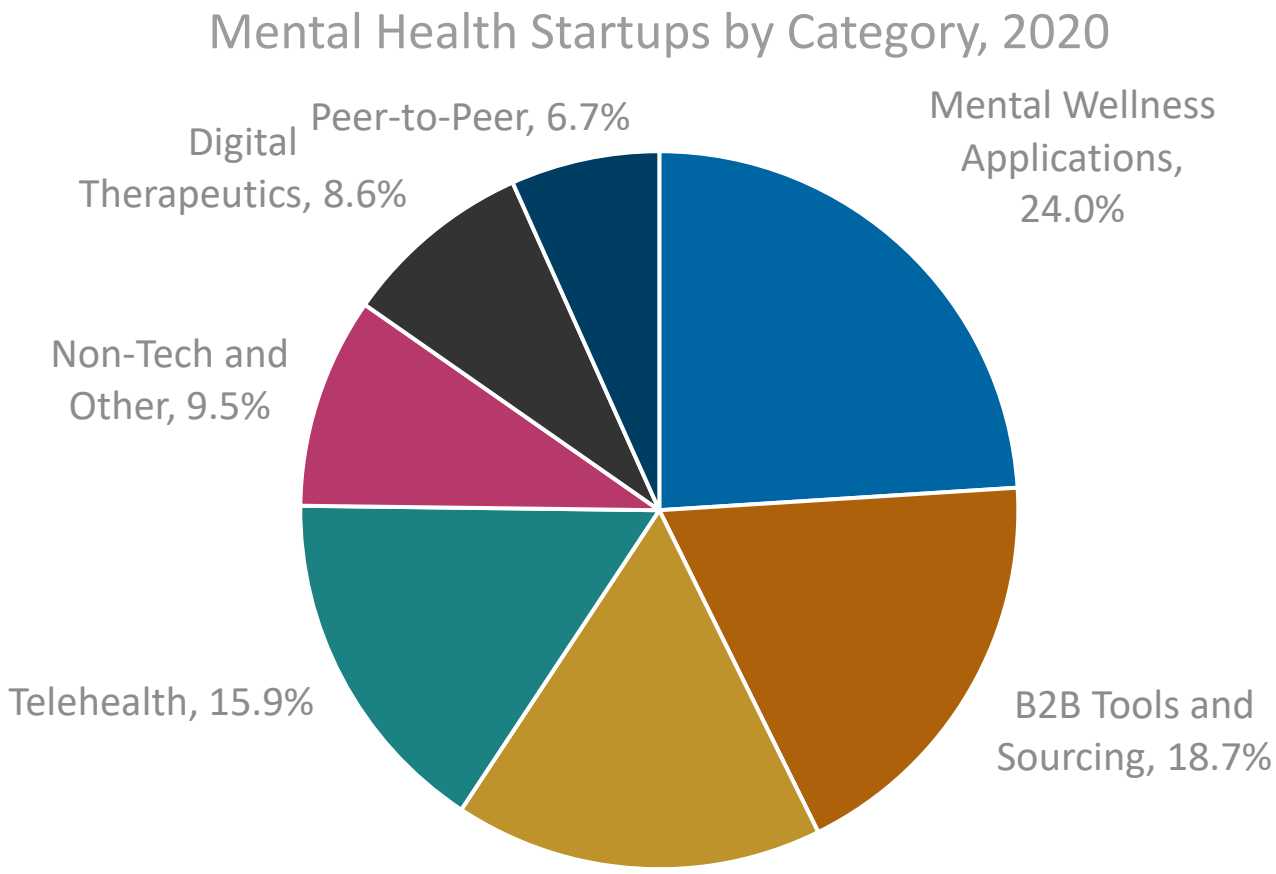
Source: The Braff Group Behavioral Health Mergers and Acquisitions: Year in Review: 2023

MH and SUD are the most common deals



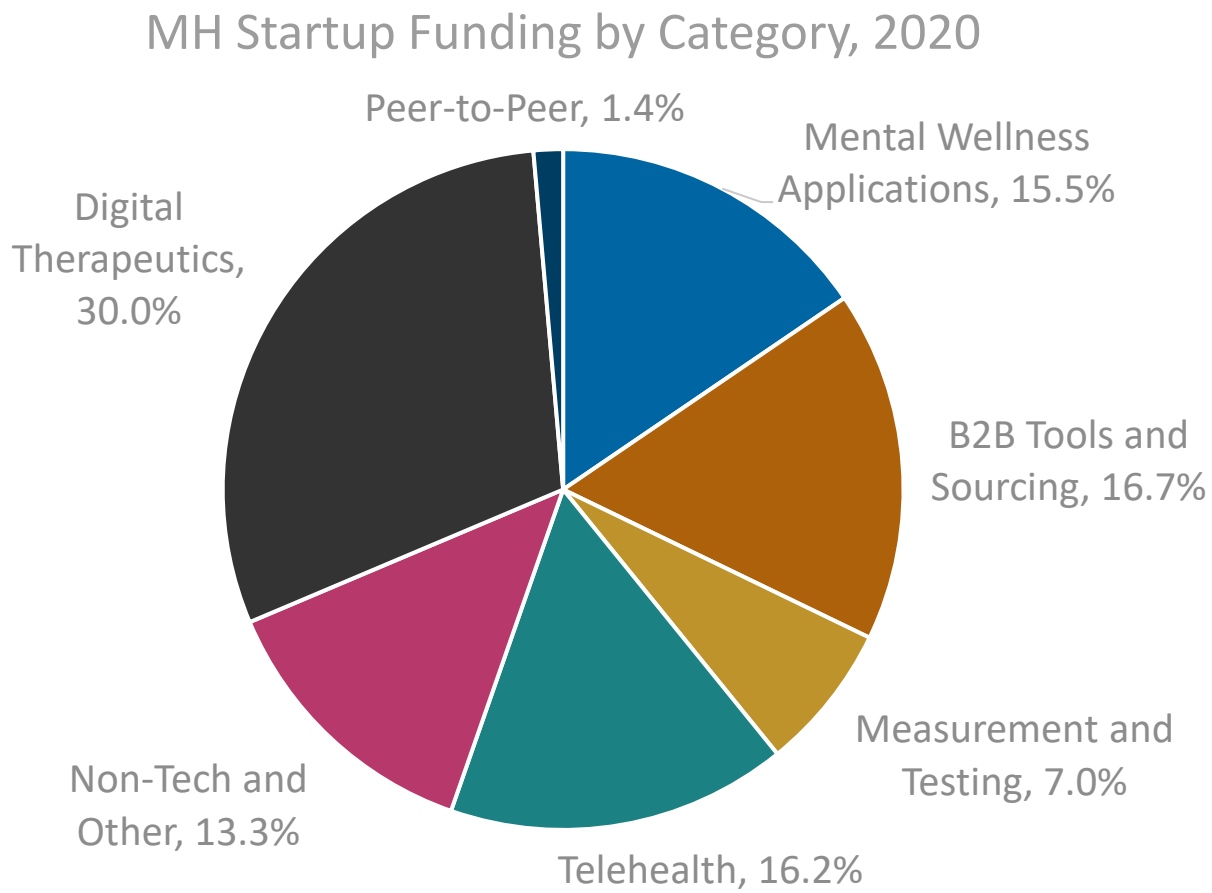
Source: The Braff Group Behavioral Health Mergers and Acquisitions: Year in Review: 2023

There were nearly 1000 MH-related startups in 2020



Source: https://medium.com/what-if-ventures/approaching-1-000-mental-health-startups-in-2020-d344c822f757

Digital therapeutics captured a lot of the funding



Source: https://medium.com/what-if-ventures/approaching-1-000-mental-health-startups-in-2020-d344c822f757

Technology is driving the system forward

THERE ARE OVER 10,000 MENTAL HEALTH APPS IN THE APP STORE[1]

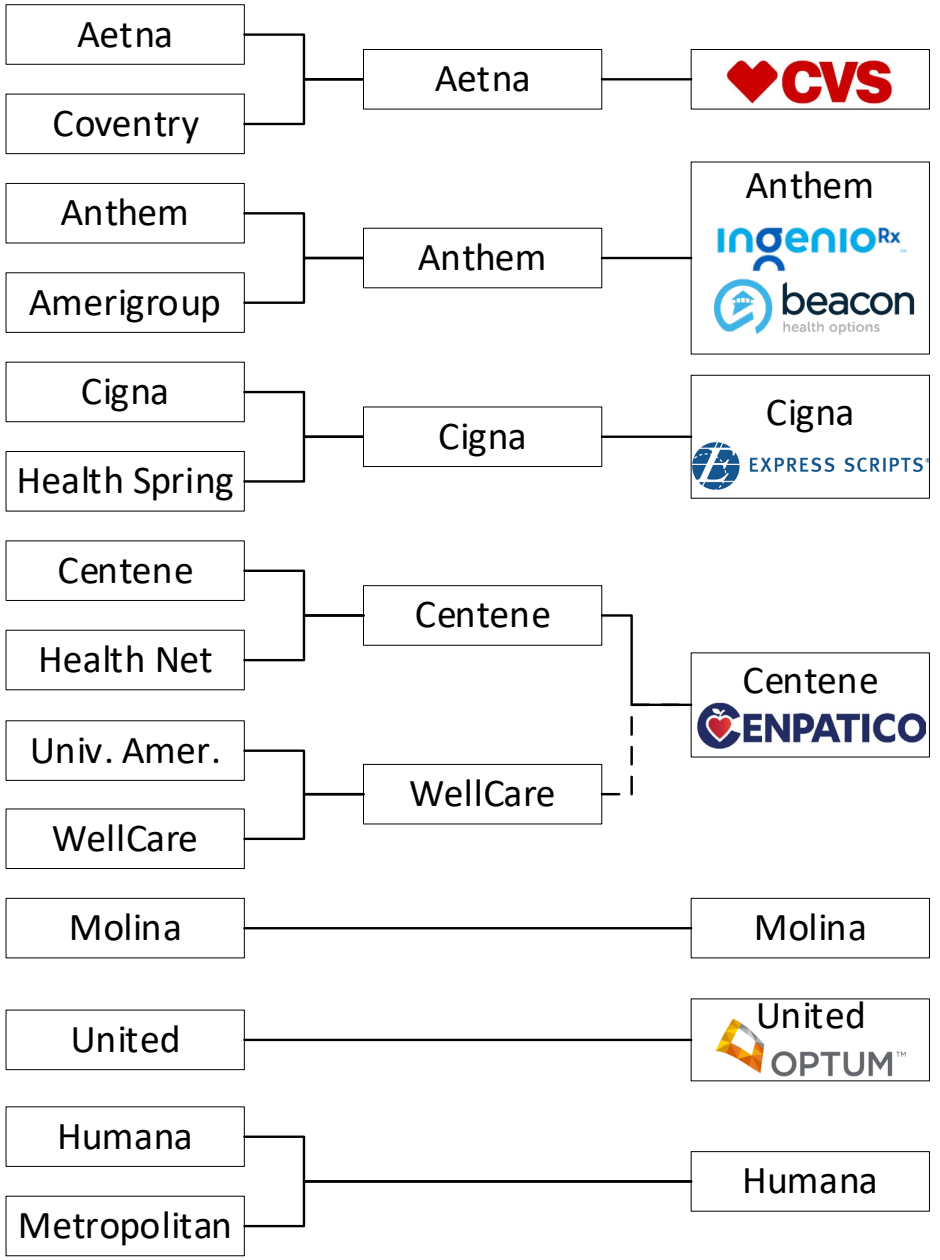
- Digital Therapeutics
  - iCBT platforms
  - In June 2020, the FDA approved the first prescription video game[2]
    - Designed for kids 8-12 with ADHD
  - AI chatbots can help patients practice CBT strategies and manage symptoms between appointments
  - Apps that analyze a patient's voice and speech patterns for warning signs of emotional distress
  - Geofencing
- VR Care
  - Treatments for anxiety, phobias and post-traumatic stress disorder, among other conditions.
  - Practice focusing in a VR classroom or navigating stressful social situations

1: Sorting through the noise of Mental Health Apps, UConn Today, September 27, 2022

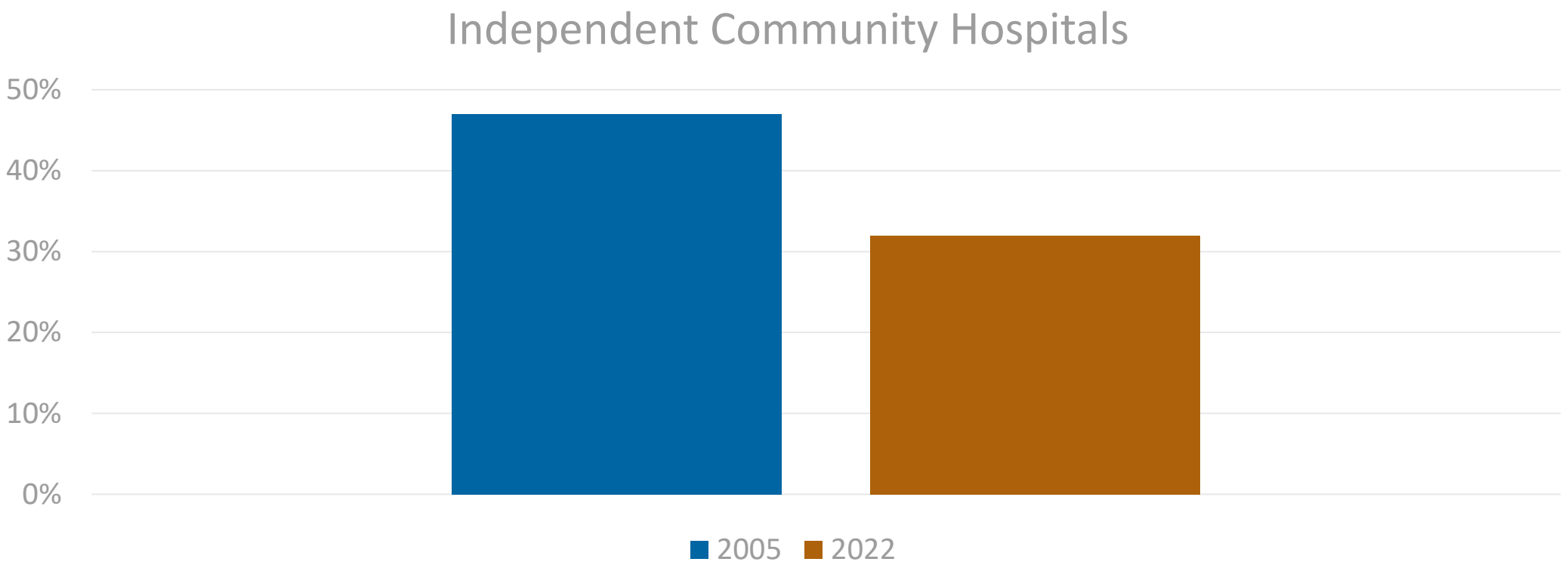
2: 'Five Tech Innovations that Changed Mental Health in 2020' Forbes (2020)

Industry consolidation

Managed care consolidation



Health systems are buying hospitals

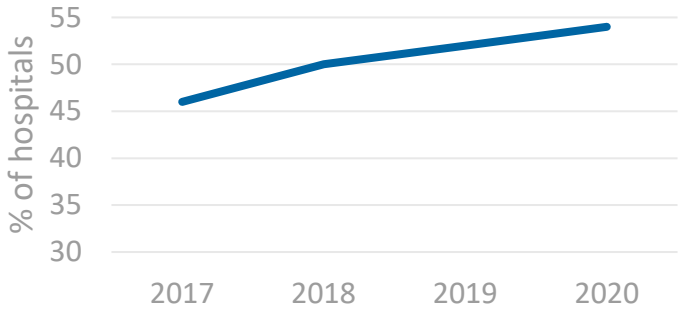


Hospitals are increasing their BH capacity

MORE THAN HALF OF REPORTING U.S. HOSPITALS HAVE INTEGRATED BEHAVIORAL HEALTH CARE WITH BOTH ACUTE CARE AND EMERGENCY CARE

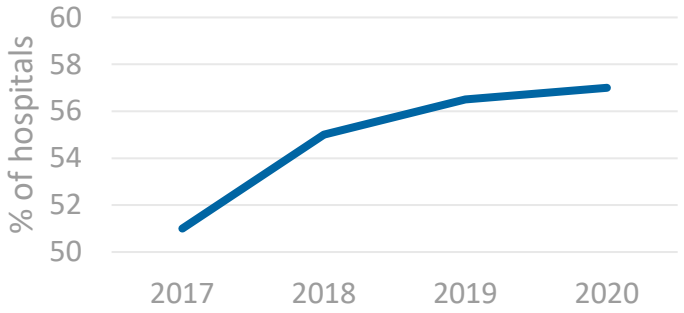
Acute Inpatient Care

integrated with behavioral health



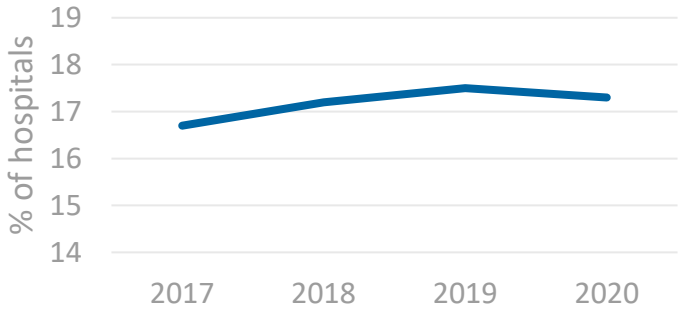
Emergency Services

integrated with behavioral health



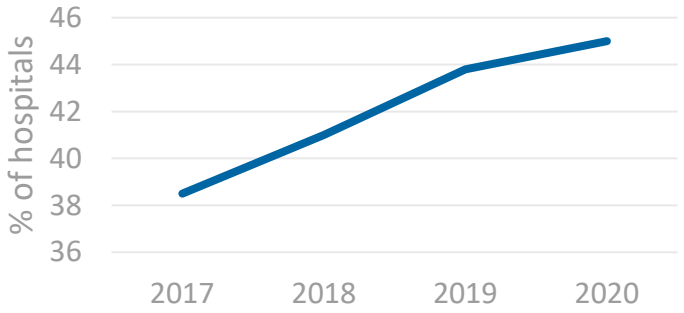
Extended Care

integrated with behavioral health



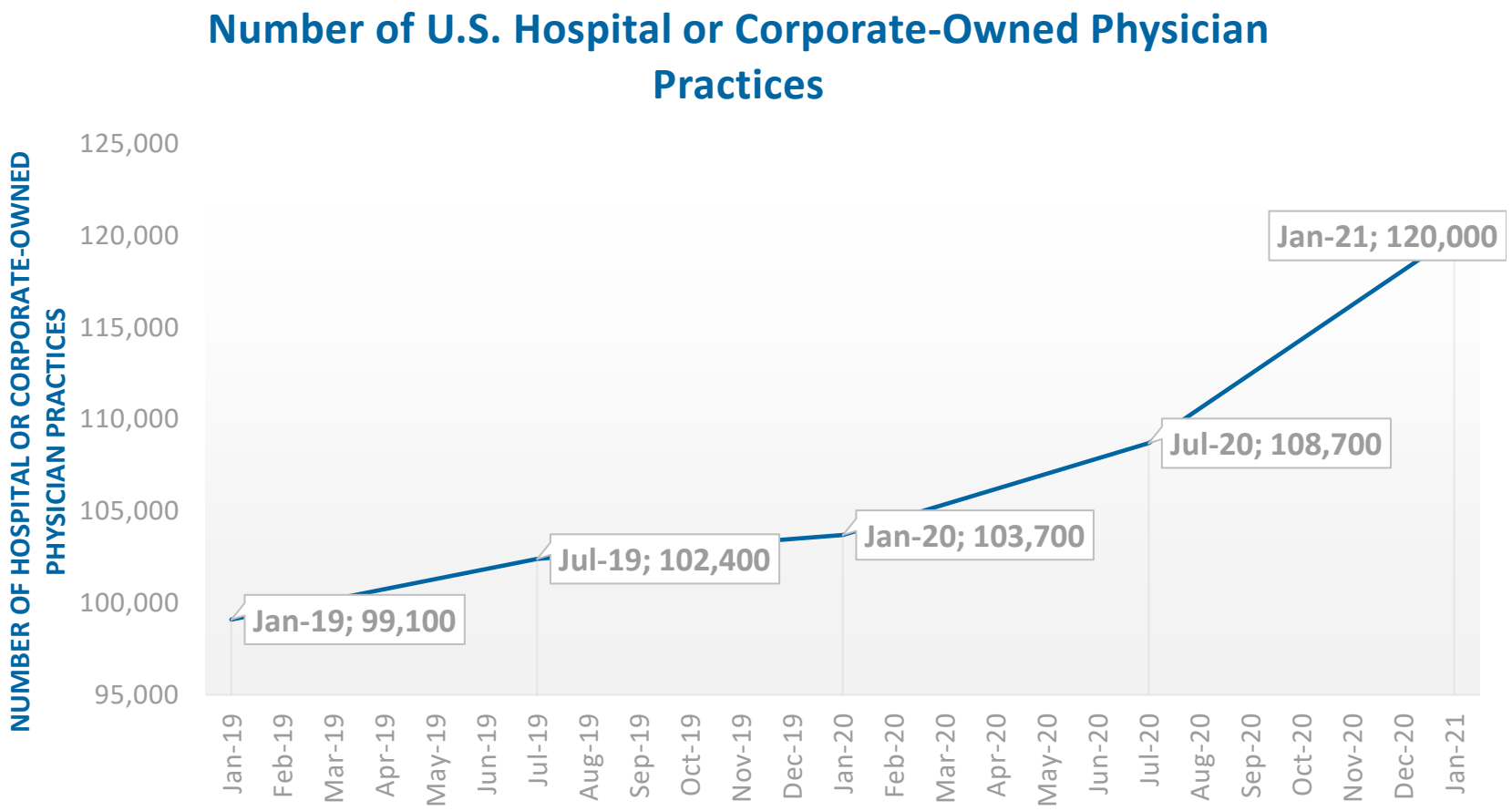
Primary Care Services

integrated with behavioral health



Source: AHA Annual Survey Database, FY2017-FY2020

Hospitals are buying physician practices

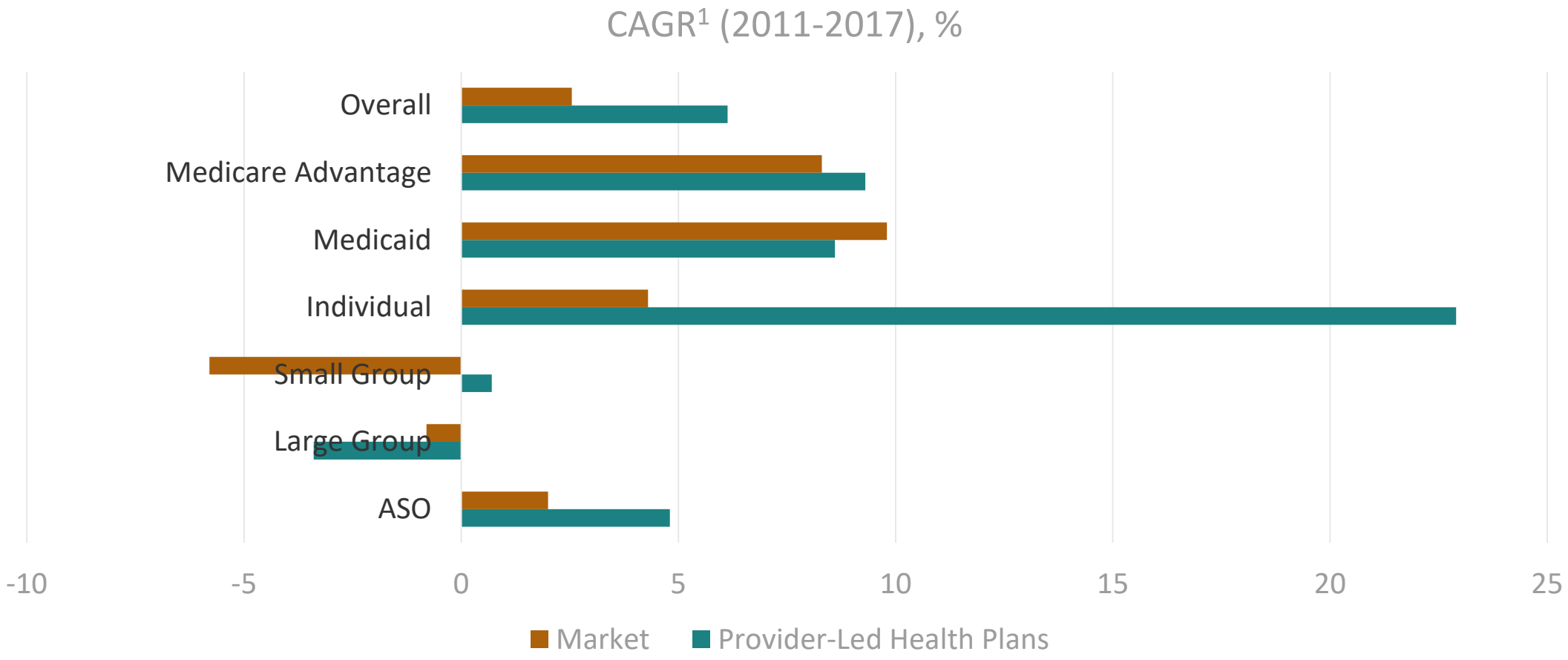


+ Hospitals and corporate entities acquired 20,900 physician practices in 2019 and 2020
+ During this period, the overall number of physician practices owned by hospitals or corporate entities **grew by 21%**

Source: Physician's Advocacy Institute: 'COVID-19's Impact On Acquisitions of Physician Practices and Physician Employment 2019-2020,' June 2021.

Provider-led health plans are growing fast

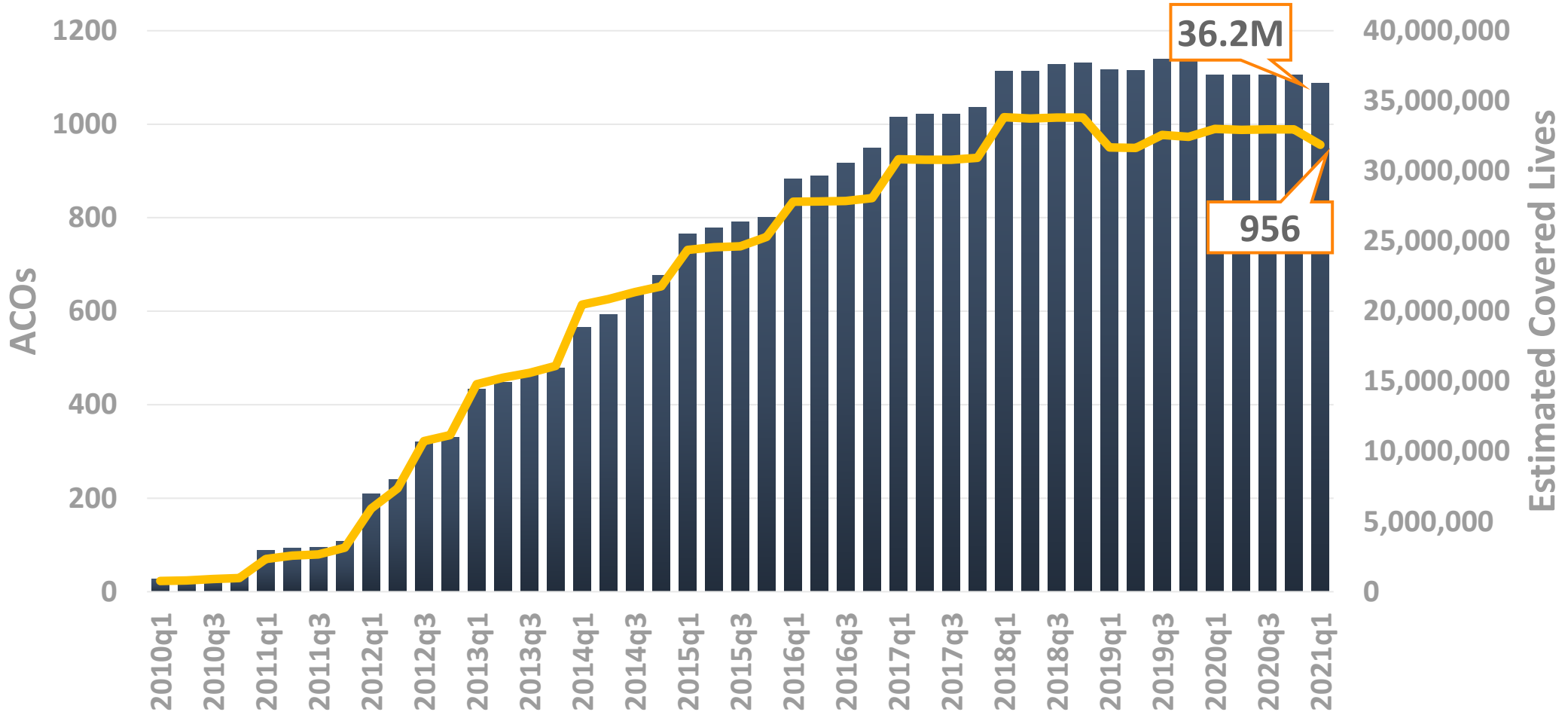
FASTER THAN ANY OTHER CARRIER TYPES



1: Excluding Kaiser Permanente

Source: McKinsey and Company: 'How should provider-led health plans evolve?' 2019.

ACOs have continued to grow



Source: Milliman Torch Insight, 2021

H.R. 1

Congressional Budget Office Estimates

The Congressional Budget Office (CBO) has provided several estimates of the cost and coverage affects of the healthcare coverage and tax provisions in multiple versions of the reconciliation legislation

Reduce **federal** healthcare spending by about $1.15 trillion over the next 10 years

Increase deficits by $3.4 trillion, compared to laws previously in place

Increase by 10 million the number of people without health insurance in 2034

Key Takeaway: Eligibility and enrollment changes will impact access

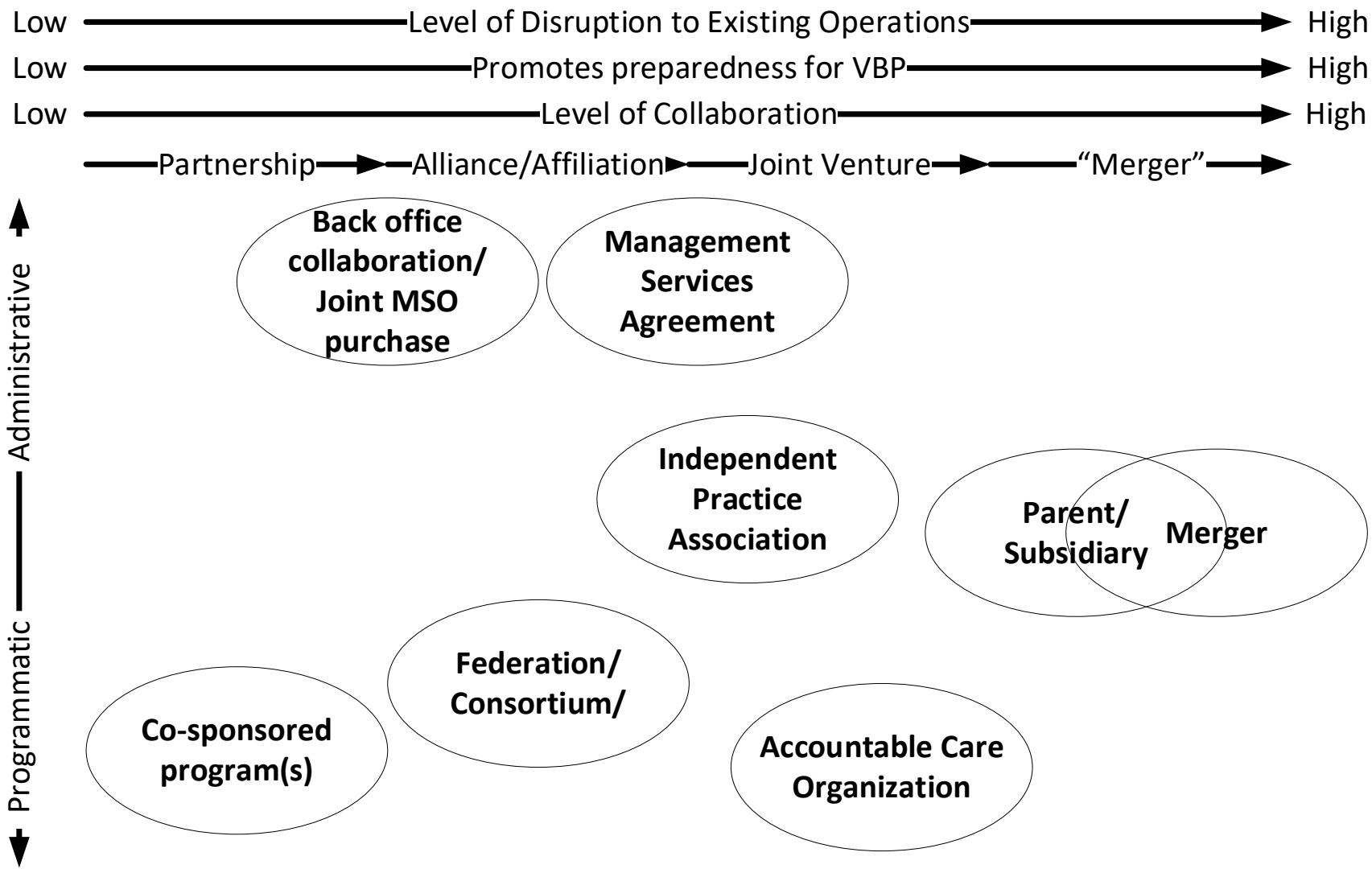
- **New administrative requirements for eligibility** across all publicly financed healthcare coverage programs and SNAP will affect program enrollment numbers and provider market share.
- **Federal work requirements in Medicaid** place new obligations on certain individuals seeking coverage and require additional state resources to design, implement, and oversee this requirement. Community engagement and work requirements are slated for start-up Dec 31, 2026, but states may begin sooner or seek “good faith waivers” to extend this implementation date.
- **Delayed implementation of previously finalized regulations** will reduce opportunities to streamline Medicaid enrollment processes for beneficiaries.

Key Takeaway: Providers should plan for financial, policy, and operational impacts

- **Medicaid financial pressures** due to lower federal funding will stress state budgets and prompt strategic assessments and structural and organizational reforms to sustain healthcare programs and services.
- **States will need to find efficiencies and savings:** e.g., limit enrollment for optional programs, reduce payments to providers and other contracted entities, change benefit packages or some combination of these.
- **Plan for increases in uncompensated care,** which could create additional financial pressures across regional, state, and local healthcare systems and communities.

Partnership options

Strategic partnership options



Build services to fill gaps

Pros	Cons
Complete control over the entirety of the service continuum	High percentage of the program portfolio is prototypes
No need to spend the time, money, and energy with mergers and/or IPA affiliations	Reliant on the development of new services, and funding for them. Made more challenging by the need to win procurements for services with which you don't have a history
Able to offer a purchaser a comprehensive, integrated service	Development time could be substantial
	No administrative efficiencies
	No opportunity for collective bargaining with purchasers

Co-locate programs

Pros	Cons
Minimal compromise is needed	Challenges sharing data
Enables each agency to maintain its own identity, Board, fundraising base, etc.	Very difficult to operate in a manner consistent with clinical best practices
Limits expenses associated with more robust partnership options	No negotiating leverage with payors
Modest enhancements to the continuum of care available for clients	Does not generate any efficiencies or economies of scale

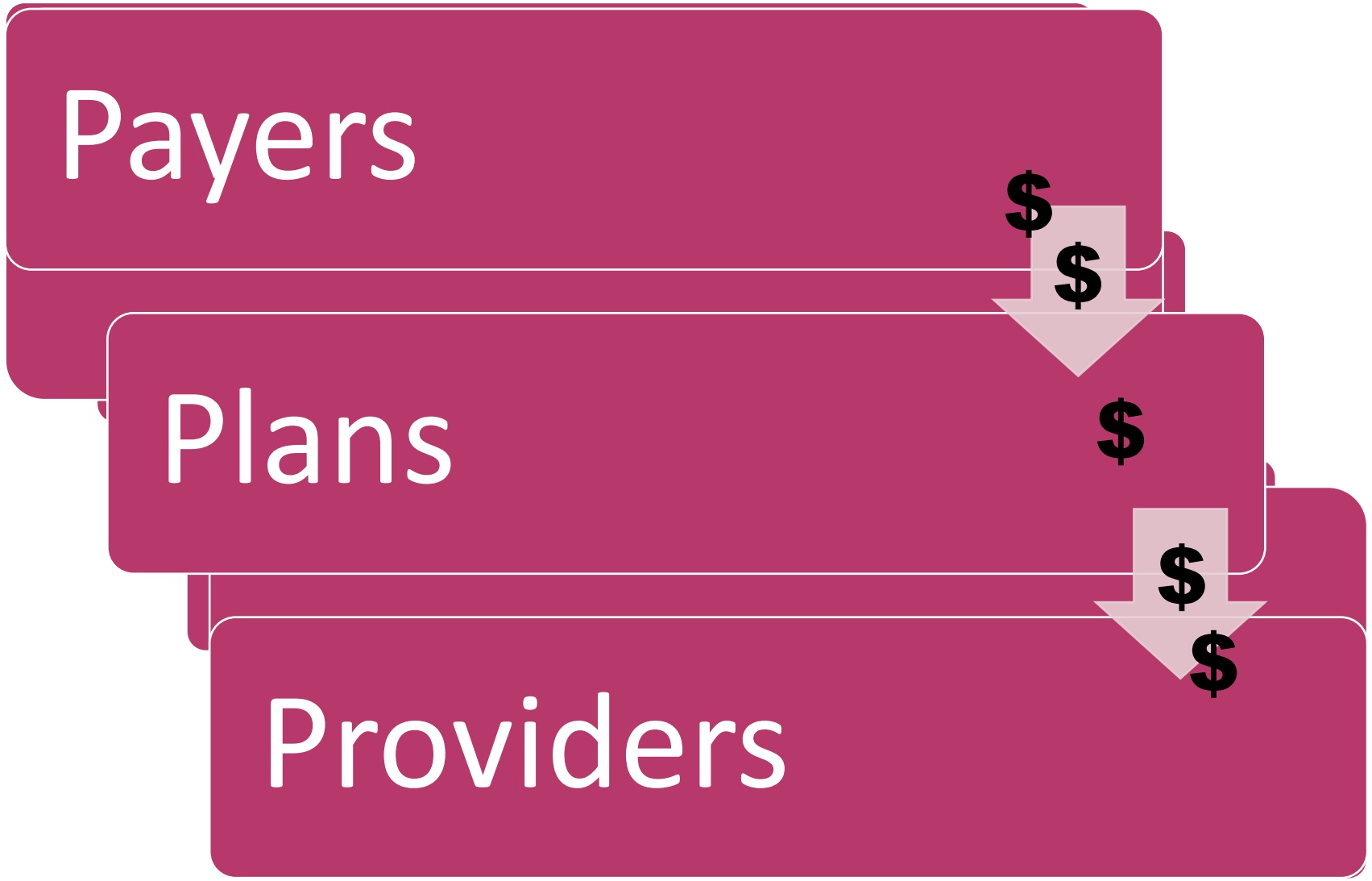
Consolidate back office

Pros	Cons
Minimal compromise is needed	Challenges sharing sensitive information
Enables each agency to maintain its own identity, Board, fundraising base, etc.	Unlikely to improve program quality
Limits expenses associated with more robust partnership options	No negotiating leverage with payors
Efficiencies and economies of scale	No enhancement to the continuum of care available for clients

Join/form an IPA

Pros	Cons
Requires less time, expense and burden than merging	Requires significant time, expense and effort
Enables each agency to maintain its own identity, Board, fundraising base, etc.	Does not generate the same kind of economies of scale and efficiencies as a merger
Clinical integration leads to better outcomes for consumers	Governance can be challenging and time consuming
Enables collective bargaining with purchasers	In order to provide comprehensive and integrated services, other providers would need to be brought in, especially primary care
If coupled with an MSO, there can be administrative efficiencies generated	IPA members are liable for the quality of care provided by other members of the IPA, which can be problematic

IPAs add another middle layer



Merge/affiliate

Pros	Cons
Enhancement of the service continuum for your clients	Mergers are costly, time consuming, emotionally challenging and difficult
Access to potentially significant economies of scale for infrastructure	Loss of control
Straightforward decision-making and governance process	Loss of organizational identity
Creates negotiating leverage	May generate acrimony among some staff because of a feeling of having been ‘acquired’
Potential ability to deliver on Total Cost of Care contracts in a VBP environment	Potential inconsistency of mission

Merger options: Into a larger BH agency

Pros	Cons
Consistency of mission	Mergers are costly, time consuming, emotionally challenging and difficult
Enhancement of the service continuum for your clients	Loss of control
Access to a much larger and mature infrastructure	Loss of organizational identity
Straightforward decision-making and governance process	May generate acrimony among your staff because of a feeling of having been ‘acquired’
Programmatic economies of scale	
Obviates any need for potential additional mergers	
Creates negotiating leverage	

Merger options: With a similarly sized BH agency

Pros	Cons
Consistency of mission and culture	Mergers are costly, time consuming, emotionally challenging and difficult
Programmatic economies of scale	No significant enhancement to the existing continuum of care for your clients
Less likely to generate acrimony among the staff because no agency has been 'acquired'	
Straightforward decision-making and governance process	
Doubles the resources available for infrastructure	

Merger options: With a healthcare organization

Pros	Cons
Substantial enhancement of the service continuum for your clients	Mergers are costly, time consuming, emotionally challenging and difficult
Access to a much larger and mature infrastructure	Loss of control
Straightforward decision-making and governance process	Loss of organizational identity
Obviates any need for potential additional mergers	May generate acrimony among your staff because of a feeling of having been ‘acquired’
Creates negotiating leverage	Inconsistency of mission
Potential access to attribution in a VBP environment	No significant programmatic economies of scale

Three types of ‘mergers’

Corporate Merger
Complete merger into a single corporate entity. One agency would cease to exist; the other would be the surviving entity

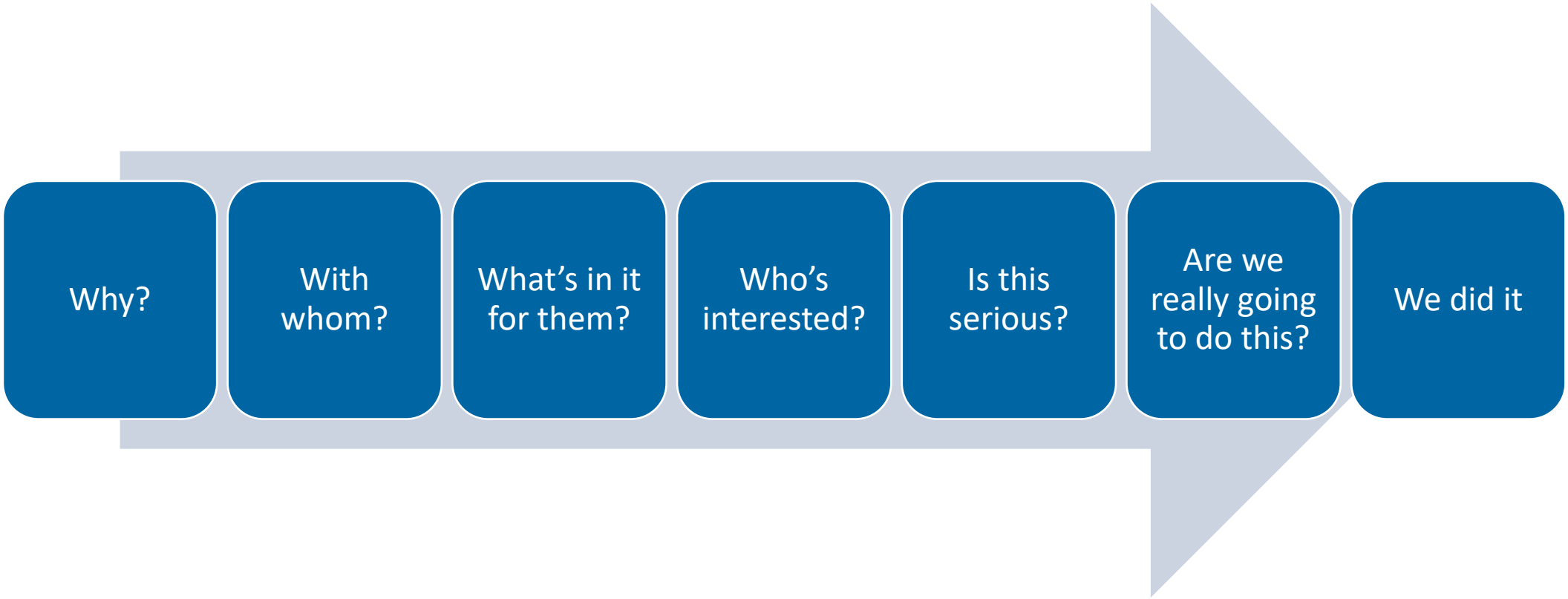
Acquisition by Asset Purchase
One agency sells all or most of its assets to the other.

Acquisition as Parent/Subsidiary
One agency becomes a subsidiary of the other. Both organizations maintain Boards of Directors

- Mirror Boards
- Independent Boards

The affiliation process

Overview of the affiliation process



Ask why

- What are we looking for that we don't have?
- What capabilities do we need in a partner?
- What are the gaps in our service continuum we're trying to fill?
- Will a merger lead us to greater impact and/or better organizational stability?
- Is a merger consistent with our long-term strategic direction and goals?

Think about with whom

BEFORE REACHING OUT TO POTENTIAL PARTNERS, DECIDE WHAT YOU'RE LOOKING FOR

- Horizontal or vertical integration?
- Service package
- What size makes sense?
- What geography do we want?
- Prepare questions for your potential partners
  - What do we want to know about their infrastructure?
  - What do we need to know about their program quality?
  - What do we need to know about their financial health?
- Be prepared to answer all those questions about yourself

Hone your pitch

ARTICULATE THE VALUE OF PARTNERSHIP WITH YOUR AGENCY

What do we have to offer prospective partners?

What data can we use to demonstrate our capabilities and our quality?

What weaknesses do they have that we can help them mitigate?

What problems do we have that we want to hang a lantern on because they'll discover them during due diligence anyway?

Choose wisely

Focus on the criteria you developed	People and personalities matter	Do they want what we want?
• Which interested agency fits our strategic criteria most closely?	• Your leadership (both professional and volunteer) should 'click' with their leadership	• Are they interested in a relationship like the one we want? • Is there a deal to be made?

Now the rubber hits the road

- Sign a non-binding Merger Exploration Agreement
  - Non-disclosure agreement
  - Clear statement of purpose
  - Promise of good-faith efforts
  - Statement of exclusivity
  - Agreement on how jointly incurred expenses will be shared
- Once the NDA is in place, share detailed information (warts and all)
  - Financial details
  - Quality data
  - HR data
  - Details re systems and infrastructure
  - Information about Board makeup and membership requirements
  - Visit each other's programs and administrative sites
- Establish an affiliation work group

The workgroup process

AN ITERATIVE PROCESS WITH INCREASING LEVELS OF DETAIL

- Start with why and what
  - Goals
  - Corporate structure
  - Branding
  - Board structure
  - Executive team
  - Target dates for future steps
  - New Org's mission, vision, values
- Then turn to how
  - Bring in more people to the process

Major areas in which you will need decisions

- Human Resources
  - Organizational leadership
  - Staff benefits and seniority - unions
  - Corporate cultural differences
- Program
  - Program integrations
  - Program maintenance
  - Program operations
- Governance
  - Board membership
  - Donor restricted funds
- Branding
- Infrastructure
  - Information technology systems, corporate headquarters, key vendors
- Communication plan
- Timeline

Once the letter of intent is signed

- Outreach to necessary regulators
- Outreach to any joint funders to ensure maintenance of support
- Due diligence process
  - VERY different from a corporate due diligence process
    - Not about valuation, about making sure there are no surprises
  - Property managers visit each other's sites
  - Review recent payor, regulatory, accreditation and audit findings
- Develop a post-merger calendar
- Counsel prepares the final merger agreement and the necessary Board resolutions

You will need these six documents

- **Merger Exploration Agreement:** Initial non-binding agreement to exclusively pursue merger conversations
- **Non-Disclosure Agreement:** Legally binding agreement not to share information learned during the merger exploration process
  - Often part of the Merger Exploration Agreement
- **Term sheet:** Captures the decisions made by the Workgroup (and in some instances, the rationale behind them)
- **Letter of Intent:** Basic business terms, a planned closing date, conditions that need to be met in the due diligence process, and a termination clause
- **Merger Agreement:** Legally binding agreement to merge. Crafted by Counsel and authorized by specific resolutions passed by both Boards of Directors
- **Board Resolutions:** Resolutions passed contemporaneously (or as close to it as possible) by both Boards authorizing the CEOs to sign the Merger Agreement

Once the agreement is signed the real work begins

- Regulatory approvals
- Communications cascade
- Organizational integration
  - Culture
  - Programs
  - Infrastructure

In conclusion

Immense pressure to be bigger

Budgetary Sword of Damocles

No right answer

No easy answer

Contact me.

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