TRIPLETREE INDUSTRY PERSPECTIVE

A HEALTH CHECK ON THE AUTISM SECTOR

Moving past the recent operational hiccups that were exacerbated by COVID-19 and labor market dynamics, the autism and Applied Behavior Analysis (ABA) sector is one of the most attractive sectors within the healthcare services industry today. Demand is accelerating and there is an insufficient supply of providers. Funding and support from federal and state-level programs is strong. Innovation is flourishing to support outcomes measurement and standardization. And unlike many other healthcare services sectors, reimbursement is increasing. The outlook for the autism sector is strong and TripleTree anticipates continued interest and investment across the sector in the coming years.

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TripleTree is part of the Capital One family of companies and is a trusted partner for mergers and acquisitions, recapitalizations, growth capital and strategic advisory services.

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INTRODUCTION

In an era marked by new opportunities and challenges across the healthcare system, the behavioral health market is experiencing a dynamic transformation, propelling it into uncharted territories of innovation and investment that will shape the future of care delivery. As these changes unfold, we see the autism, or the Applied Behavior Analysis (ABA), sector as a leading opportunity for investors to participate in growth and transformation. To win in this increasingly complex sector of healthcare, investors will need to be grounded in the forces shaping the next wave of opportunity.

It's no secret that the broader behavioral health segment has received attention resulting from increased recognition of its impact on overall health and well-being. As a component of the broader ecosystem, the autism sector has also undergone tremendous disruption and innovation in the last decade, fueled by an influx of investment into new technologies, services, and therapies.

More recently, the autism sector has seen continued evolution as leading companies emerge, others fade into the background, and the overall industry focuses on creating clinical and measurement standards. Fueling this continued evolution are the strategic bets from investors, payers, and providers (and the vendors that serve them), seeking to scale proven capabilities across a patient base with strong demand and growing need (See Figure 1).

FIGURE 1: NOTABLE M&A ACTIVITY IN THE AUTISM SECTOR

DATE	INVESTOR	TARGET
OCT-23	CVS Health Ventures; Optum Ventures	Cortica
OCT-23	BlueSprig; KKR	Trumpet Behavioral Health *; WindRose Health Investors
SEP-22	Charlesbank	Action Behavior Centers *
MAY-22	Enhanced Healthcare Partners	Alora Behavioral Health
FEB-22	HEP Health Enterprise Partners	Proven Behavior Solutions
JAN-22	Ally Pediatric Therapy	SBJ Capital
JAN-22	LGP	The Stepping Stones Group * Transforming Lives Together
AUG-21	Ontario Teachers' Pension Plan	Acorn Health *

DATE	INVESTOR	TARGET
JUN-21	cerberus	Lighthouse Autism Center *
MAY-20	Lorient Capital	Behavior Frontiers
JAN-20	General Atlantic	ACES
DEC-19	NMS Capital	CSD Center for Social Dynamics
DEC-19	THL Thomas H. Lee Partners	centria Healthcare *
JUL-19	Havencrest	APARA Autism Center
MAY-19	Norwest Venture Partners	Kyo
MAR-19	Arsenal Capital Partners	hopebridge Autism Therapy Centers

* Denotes a transaction whereby a private equity owner successfully exited (or partially exited) its investment in the target

☐ TripleTree Advisory Transaction

CONTINUED ON NEXT PAGE

Source: TripleTree Analysis

FIGURE 1: NOTABLE M&A ACTIVITY IN THE AUTISM SECTOR

DATE	INVESTOR	TARGET
MAR-19	Gryphon Investors	LEARN Behavioral *
MAR-19	Audax Group	Proud Moments ABA
MAR-19	SPG Therapy & Education	Ridgemont Equity Partners
MAR-19	Imperial Capital	Cultivate Behavioral Health & Education
OCT-18	NexPhase Capital	Action Behavior Centers
OCT-18	abry partners	Lighthouse Autism Center

DATE	INVESTOR	TARGET
AUG-18	Frazier Healthcare Partners	Caravel Autism Health
JAN-18	KKR	BlueSprig
DEC-17	Five Arrows Principal Investments	The Stepping Stones Group Transforming Lives Together
AUG-17	petra Capital Partners	ABS Kids Reaching Milestones. Realizing Potential.
JUN-17	Shore Capital Partners	behavioral innovations
MAY-17	WindRose Health Investors	Trumpet Behavioral Health *

* Denotes a transaction whereby a private equity owner successfully exited (or partially exited) its investment in the target

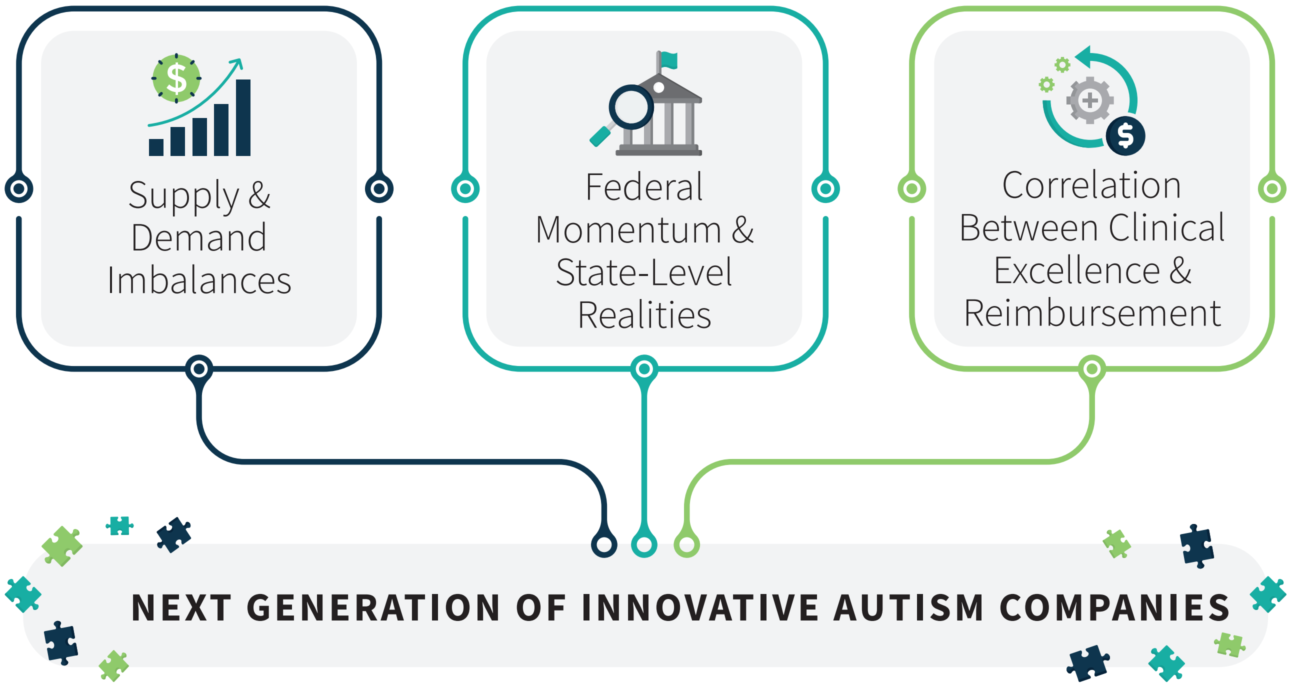
☐ TripleTree Advisory Transaction

Source: TripleTree Analysis

Autism Spectrum Disorder Overview

Autism Spectrum Disorder (ASD), or autism, is characterized by a range of behaviors and challenges, including difficulties with social interaction, verbal and non-verbal communication, and repetitive or restrictive patterns of behavior, producing a wide range of strengths and challenges. Behavioral conditions have been associated with physical health problems. The interconnectedness of behavioral and physical health is also seen in autism care, specifically concerning early intensive behavioral intervention ("EIBI") treatment and other early interventions. Autism can be diagnosed as early as 24 months of age when the brain has more neuroplasticity and is more responsive to treatments, leading to improved quality of life, physical skills, and social skills.

FIGURE 2: FORCES SHAPING INNOVATION AND INVESTMENT IN AUTISM



After monitoring and participating in the autism sector for almost a decade, sharing our perspectives at conferences, publishing whitepapers, and advising high-profile M&A transactions, TripleTree wanted to take stock and provide a contemporary point of view on the forces shaping the next round of innovation and investment in this sector, in particular (See Figure 2):

- **Force 1:** Supply and demand imbalance
- **Force 2:** Federal momentum calibrated by state-level realities
- **Force 3:** Correlation between clinical excellence and reimbursement

These three forces provide the backdrop for continued innovation, market interest, and investment while highlighting the complexities of serving the autism market, balancing the continued tailwinds and addressing the nuances and requirements of this evolving science and sector.

> **“To win in this increasingly complex sector of healthcare, investors will need to be grounded in the forces shaping the next wave of opportunity.”**

SUPPLY & DEMAND IMBALANCE

The healthcare industry is becoming acutely aware of the growing behavioral health crisis affecting a significant portion of the population. As the impact of this crisis has reverberated across the country, providers and payers are assessing the impact on patients, parents, caregivers, and communities and developing strategies to respond.

While there is growing recognition, and belief in the importance, of behavioral health as a component of broader health and wellness, we believe we are only seeing the ‘tip of the iceberg’ when it comes to understanding these problems and finding solutions (See Figure 3). The statistics portray an alarming imbalance that will continue to drive demand for new services, and tax an already stressed provider ecosystem.

- The demand for behavioral health services has increased by [25%](#) after the COVID-19 pandemic, while the supply of therapist and support staff has not kept up. This imbalance has led to increased workload and stress for employees working in this field, and delayed access to quality care for individuals in need.
- The behavioral health crisis uniquely affects nearly every demographic and geography, from under-diagnosed youth conditions to seniors. Almost [36%](#) of individuals report feeling lonely, an issue that has garnered increased attention as a leading indicator for behavioral conditions.
- The senior age group, in particular, has seen a steady increase in loneliness, anxiety, and depression. This was due to their increased need to isolate themselves from others during the pandemic because they were more susceptible to the effects of COVID-19 as a population.
- The number of adolescents facing behavioral issues is growing. According to the Centers for Disease Control and Prevention (CDC), one in five children has some form of mental, emotional, or behavioral disorder.

Consistent with the broader focus, understanding, and growth across behavioral health, the treatment of individuals with ASD, a distinct behavioral health condition, has also seen continued growth. Today, one in 36 children have some form of autism, much higher than the one in 44 statistics from 2021, and the one in 110 statistics from 2006.

FIGURE 3: BEHAVIORAL HEALTH MARKET OVERVIEW

MENTAL HEALTH DISORDERS

~$200B

Productivity loss due to serious mental illness in the U.S.

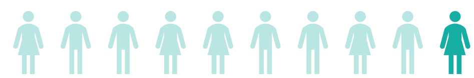
SUBSTANCE ABUSE DISORDERS

~21M

Americans have at least one addiction

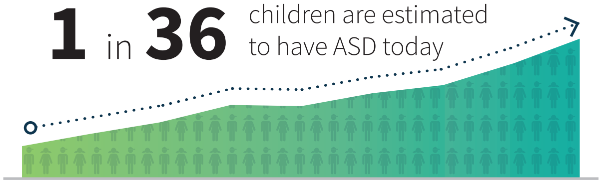
10%

Receive treatment for addiction



AUTISM

1 in 36 children are estimated to have ASD today



INTELLECTUAL & DEVELOPMENTAL DISABILITIES

1 in 6 children are estimated to have a developmental disability

MENTAL HEALTH DISORDERS

97% of individuals hospitalized for eating disorder had one or more co-occurring mental health condition

Sources: McKinsey & Company; U.S. Surgeon General; Autism Speaks; Centers for Disease Control and Prevention; National Eating Disorders Association

In large part, this growth is driven by increased awareness, decreased stigma, and advancements in the identification of ASD. The leading methodology for treating those with autism is ABA therapy, which requires highly individualized attention and sessions among patients, trained clinical staff, and therapists.

Like other parts of healthcare experiencing labor shortages, the autism sector is no different. According to the Behavior Analyst Certification Board® (BACB), over the past 12 years, demand for behavior analysts holding certification in the United States has increased by over **5,800%**.

Unfortunately, this increased demand is not being met by a sufficient flow of new autism therapists. The recruitment and retention of therapists can be challenging, and the sourcing of new therapist talent is difficult with only a limited number of higher education institutions offering degrees that support BCBA designations. This combination of forces shines a light on the critical role of employee retention going forward.

Countering this focus on employee retention is the harsh reality of employee burnout in the ABA job market, with approximately 72% of the employees in the field experiencing medium to high levels of employee burnout. The intense nature of the work and personalized approach of ABA, which requires considerable time and resources to help one patient, is one contributing factor. Many clinicians also cite the voluminous work, high-stress levels, and challenging patient behavior as additional reasons for employee burnout.

To address the high burnout rate and improve employee retention, employers are implementing strategies and techniques to improve work/life balance, create a more positive work environment, and relieve job stress. In fact, **81%** of employers have identified burnout as a top workforce challenge. Unfortunately, employers only have so much control over burnout – as any remediation tactic ultimately requires the engagement and participation by the employee.

Collectively, the combination of labor shortages, insufficient higher education, and employee burnout highlight the critical role of workforce management in this next phase of investment and growth across the autism sector.

> **“The statistics portray an alarming imbalance that will continue to drive demand for new services, and tax an already stressed provider ecosystem.”**

Therapist Turnover

Turnover at the therapist level is one of the most persistent and impactful problems facing current ABA providers. Behavioral therapists (BTs) are typically paid hourly and often are applying for therapist positions early in their career. Operators often compete for hourly talent with other healthcare positions (home health aides, CNAs, etc.), as well as other hourly based positions across various industries like retail, manufacturing, and service/hospitality. Given the patient and volume-driven nature of ABA therapy, it is not uncommon for BTs to have inconsistent and variable hours. Combined with an often stressful and intensive work environment, BT rolls have consistently high churn rates, with some providers nearing 100% churn over a given 12-month period. Elevated turnover has been exacerbated over the past 18 months as inflationary pressures have buoyed up wages across industries while simultaneously putting pressure on operating margins.

Top operators in the space understand that dedicated, stable therapist teams are crucial to ongoing success for the business across operational categories including hour fulfillment, clinical excellence, and client satisfaction. Successful platforms have made meaningful investments in human capital management focusing on key areas such as:

- **Streamlined Recruiting:** Partnering with feeder universities to attract senior BT talent, and local schools and community resources to fulfill hourly staffing needs.
- **Accelerated and More Productive Onboarding:** Targeted strategies to accelerate the timeline from initial hiring date to deployment into the filed for clinical billing in addition to mitigating the clinician fall-out during training.
- **Consistent Experience:** Providing guarantees for minimum hours, accessible scheduling and load management systems to monitor staff caseloads and availability.
- **Career Growth:** Many entry BTs are using the role as a foothold into the healthcare industry and have interest in continuing their education or working into operational roles. Providing access and support for career advancement can have a massive impact on staff retention.
- **Comprehensive Benefits Package:** Because providers are competing across industries for many BT and operational positions, its crucial to provide a competitive benefits package alongside wage compensation.

With labor rates showing signs of stabilizing across healthcare, ABA platforms that have made investments across human capital management will be well positioned to compete and retain talent. As platforms start to achieve scale, employing thousands of BTs and hundreds of BCBAs and specialists, decreasing turnover by even a few percentage points can have a meaningful impact on operating margins and financial performance.

With the tremendous demand for ABA therapists and finite resources in this space, there is an opportunity to innovate this therapy through new techniques, technology, and business models. This innovation can help alleviate the supply and demand imbalance, provide higher-quality care to patients needing therapy, and enhance the work effort for employees already working in the autism sector. As business models continue to evolve, they also will need to stay in sync with changing legal and regulatory changes that impact both care delivery and reimbursement.

FEDERAL MOMENTUM CALIBRATED BY STATE-LEVEL REALITIES

A combination of forces, including federal legislation and national advocacy has focused market attention on autism and fueled investment in companies providing technologies, services, and therapies across the sector (See Figure 4).

As noted previously, the macro forces advancing behavioral health combined with federal legislation around autism have shaped how states are prioritizing the treatment of citizens with ASD – resulting in a complex backdrop that has shaped recent market moves and will inform future M&A and investment activity.

For nearly two decades there has been bi-partisan support to advance the treatment of autism. Since the signing of the **Combating Autism Act in 2006** under the Bush Administration, there has been considerable momentum and support for autism in the executive branch at the federal level. The Act opened the door for autism care by federally authorizing research under various avenues and increasing awareness and knowledge about autism.

The Obama Administration reaffirmed and reauthorized the 2006 Act under **The Autism Cares Act of 2014**. This legislation emphasized breaking down barriers for youth and young adults when transitioning from school-based to adult-based services.

The autism sector has benefited from more recent federal legislation. As of **2019**, an insurance requirement applies in various capacities across all 50 states, providing tailwinds for improving care for those with autism. Moreover, the **Autism Cares Act of 2019**, during the Trump Administration, increased spending on autism efforts, reauthorized and expanded the Interagency Autism Coordinating Committee (IACC), and focused on services for the entire lifespan of people with ASD. The Biden administration has supported behavioral health initiatives with its **2022 Bipartisan Safer Communities Act**. This bill granted hundreds of millions of dollars to school behavioral health programs for children and families. This bipartisan support and continuing legislation over the past decade demonstrates strong momentum at the federal level for those

FIGURE 4: SUMMARY OF AUTISM RELATED LEGISLATION UNDER THE LAST FOUR ADMINISTRATIONS

2006
Combating Autism Act

- ✓ Authorized research under entire scope of autism
- ✓ Authorized regional centers for excellence for ASD research and epidemiology
- ✓ Authorized increased activities regarding awareness
- ✓ Enhanced information sharing with Interagency Autism Coordinating Committee (IACC)

2014
Autism Cares Act

- ✓ Reauthorized 2006 act
- ✓ Increased understanding of barriers faced by youth when transitioning from school-based services to adulthood
- ✓ IACC not to include individuals with autism, parents or guardians, advocates and researchers

2019
Autism Cares Act

- ✓ Reauthorized 2014 act
- ✓ Increased spending on research and other efforts through 2024
- ✓ New provisions to focus on the entire lifespan of autism
- ✓ Expanded IACC to include more stakeholders

2022
Bipartisan Safer Communities Act

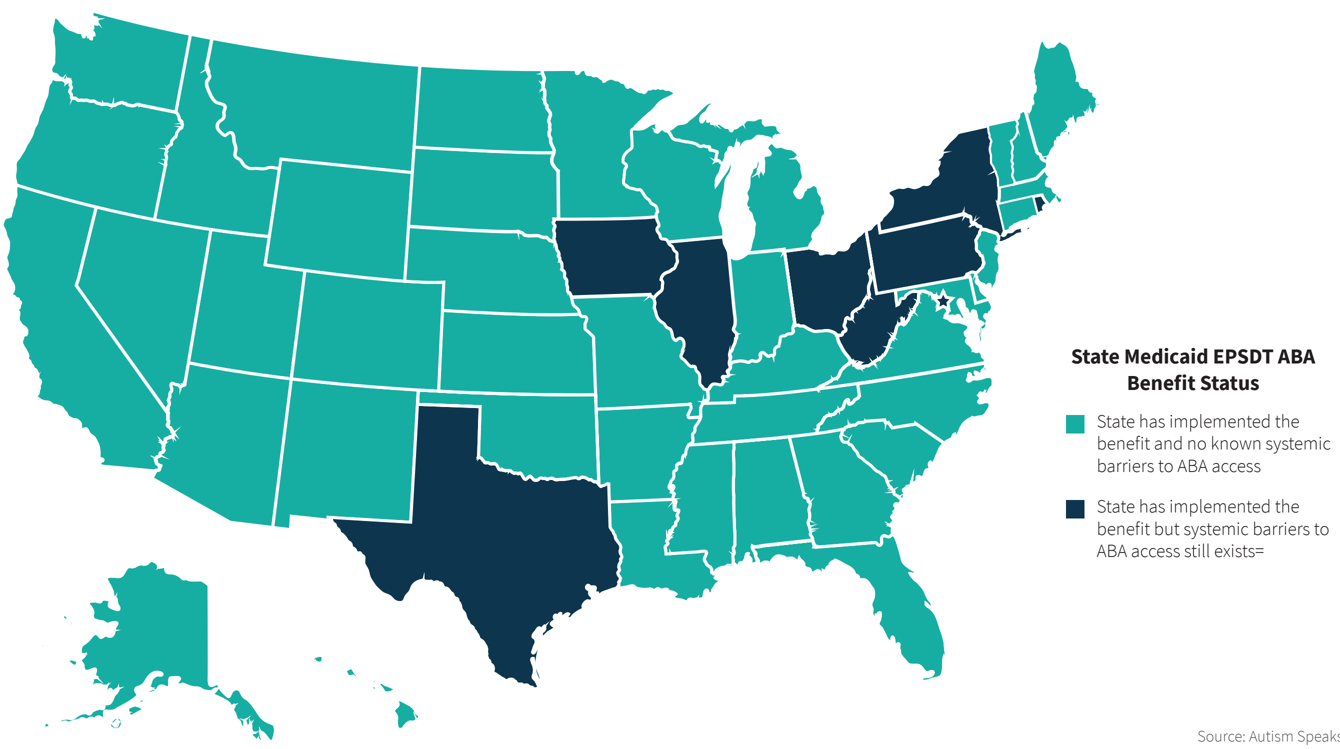
- ✓ Focused on school based mental health services and those for children and families
- ✓ Funding to schools for hiring mental health counselors and establishes pipeline with universities to hire talent related to behavioral health

with autism. Along with presidents and lawmakers, it is important to note that many advocacy groups have also played a critical role in raising awareness, advancing legislation, and providing resources.

- **Autism Speaks**, a prominent advocacy organization, sponsors autism research and conducts awareness and outreach activities for families, governments, and the public. This nonprofit has championed an increase of $3 billion in federal funding for autism research since 2008 and conducted public service campaigns that have increased autism awareness by 50 percent.
- **The Autism Society of America** shares similar goals and accomplishments in supporting autism care and raising awareness. These advocacy groups are crucial to centralizing care, organizing around care models, and setting up a national framework and standards for behavioral health.

In parallel with federal tailwinds and national advocacy, states are beginning to focus on autism with a patchwork of state-level requirements emerging. While national-led initiatives like the Early and Periodic Screening, Diagnostic, and Treatment program (EPSDT) have been around for decades, the federal government only recently

FIGURE 5: AUTISM COVERAGE UNDER MEDICAID EPSDT



Source: Autism Speaks

clarified to state agencies that all medically necessary services for autism must be included. Even with these mandates, barriers still exist for access to care (see figure 5). Key barriers include states that introduce non-quantitative treatment limits, cannot provide timely and efficient access to care, or limit the scope of treatment by age, income levels, or acuity.

Additionally, state-level mandates inform how benefit plans are designed and what autism services and therapies are required, and likely reimbursed. For example, Colorado requires all health plans to provide coverage for a child's assessment, diagnosis, and treatment for ASD. However, in New Mexico, coverage is only limited to well-baby and well-child screening for diagnosis and treatment of ASD. While this is just one example of the state-by-state coverage requirements, these types of variations can create confusion for payers, providers, and patients alike – in addition to shaping how companies in the autism sector build and scale their companies and practices going forward.

> **"In parallel with federal tailwinds and national advocacy, states are beginning to focus on autism with a patchwork of state-level requirements emerging."**

National Platform Case Study:
Centers for Autism and Related Disorders (CARD)

The company Centers for Autism and Related Disorders (CARD) was founded by Doreen Granpeesheh in 1990. Under Granpeesheh's leadership, CARD grew to ~180 centers in 2018 before being acquired by Blackstone (NYSE: BX) later that year, with the goal of propelling CARD's growth (and continuing the trend of private equity activity in the autism sector). Blackstone grew the company to over 250 centers before labor dynamics, macroeconomic conditions, and operational infrastructure issues started to impact the business.

CARD's rapid expansion caused a massive need for BTs across the country at a time when unemployment was low and inflation was rising, especially during and after the COVID-19 pandemic, making it difficult to attract and maintain talent. Compounding the issue was insufficient operational infrastructure, leading to endemic struggles with patient management resulting in appointment cancellations, unpredictable scheduling, insufficient hours for the BTs, and lost revenue from the missed sessions. Furthermore, reimbursement rates did not keep pace with the operational cost inflation, and CARD did not have the population density of regional market concentration to command more competitive rates, compressing profit margins.

While the traditional playbook for scaling a healthcare services business was deployed, where size brings scale and the ability to leverage centralized costs, CARD's operational infrastructure was ill-equipped to support the business' rapid expansion. This case study highlights the contrast between autism platforms that have focused on aggressive national growth and more local or "superregional" providers. As we reflect on what's next for the sector, we're excited by the prospects for these more local and super-regional solutions, as their more focused geographic footprint gives them stronger command over both the supply of talent in their areas as well as the provider and insurance relationships needed to drive patient referrals.

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THE DELICATE BALANCE BETWEEN CLINICAL EXCELLENCE & REIMBURSEMENT

Across behavioral health, and crucial to the advancement of ABA therapy, is the growing need to define clinical excellence through patient outcomes. The pursuit of standardized reporting, diagnostic tools, and streamlined processes shines a light on the industry's aspirations for enhancing the patient care experience, while proving to payers and families that ABA therapy should be the market standard for care.

Outcomes measurement has been a historically challenging concept across behavioral conditions, and particularly for individuals with autism. While autism diagnoses are formed from standardized assessments, there are a series of critical steps and decisions that affect care plans and development goals. Even before therapy begins, there can be a wide range of factors that impact future development, from the age of diagnosis to the often months-long lag between treatment authorization and access to the requisite care. Furthermore, constraints on access to care can be an impediment to timely and consistent treatment. Additionally, care plans can vary substantially on a case-by-case basis and take a variety of forms. To start, there is a wide variety of acuity levels across the autism spectrum, which can be difficult to define and often requires discussion with providers and insurance around the requisite amount of authorized treatment. Once a care plan is created, there are various care modalities including in-home, center-based, school-based, that impact both the type of therapy that can be delivered (e.g., socialization techniques that are more difficult to bring in-home), and the frequency of care. Alongside ABA therapy, individuals may also receive care plans for speech, occupational, or physical therapy to augment their behavioral sessions. Each individual on the autism spectrum requires a unique and individualized care program, adding layers of nuance and complexities to creating comprehensive standards and benchmarks for providers to follow.

While the industry is still in the early innings of outcomes management, the growing attention from all stakeholders is driving operational investments forward. Providers (helped by private equity infused capital) have continued to invest in technologies and operational efficiencies to support outcomes measurement and management. The integration of technology into the continuum of care is central to achieving more data-driven and impactful insights. To create accurate benchmarks, both providers and operators need to be able to collect, synthesize, and interpret a time series of data sets across their populations. While many clinic-based programs have integrated operational KPIs and benchmarking around areas like attendance, authorization fulfillment, and program completion rates, the industry is just scratching the surface of clinical outcomes management and reporting. Across behavioral health verticals there is excitement around the enhancements that newer technologies, such as generative AI, that can help deepen our ability to analyze outcomes data and create industry standards for clinical excellence.

FIGURE 6: AUTISM PATIENT EXPERIENCE & OUTCOMES

Developing sophisticated benchmarks for autism therapy, will require alignment from all stakeholders including BTs, diagnosticians, and the medical research community, and will require buy-in from parents, caregivers, payers, and healthcare administrators. While the common goal for developing standards for clinical excellence based on the quality of care delivered is generally accepted, the reality is that when benchmarks are created there will always be pushback from industry players that fall in the bottom buckets. Grounding research in a diverse set of both quantitative and qualitative data will be key in projecting credibility to the markets and the broader autism community. Ultimately, the shift towards outcome-based care will play a critical role in advancing the relationship between ABA providers and payers. Historically, the tension between ABA providers and healthcare insurance payers primarily stems from disputes over reimbursement rates, coverage criteria, and administrative complexities (See Figure 6).

ABA providers often contend that insurance companies offer inadequate reimbursement rates for their services. As noted previously, ABA therapy requires specialized training, materials, and skilled professionals, and providers may argue that reimbursement rates don't accurately reflect those expenses. Furthermore, disagreements arise over coverage criteria, as insurance payers might have strict requirements for diagnosing and treating autism, potentially limiting the number of sessions or types of therapy covered. Providers often believe these restrictions hinder their ability to provide the most effective and individualized treatment plans for their clients. Compounding the care delivery tensions, administrative hurdles, such as obtaining pre-authorization, submitting claims, and navigating complex billing processes, can also create friction between ABA providers and insurance payers. The administrative burden can slow down the delivery of care and place additional stress on providers' resources. Overall, the tension revolves around finding a balance between providing comprehensive and effective ABA therapy while dealing with insurance companies' regulations and reimbursement practices.

From the insurance perspective, payers, tasked with ensuring the financial stability of their health plans and providing equitable coverage, face complex challenges in determining appropriate reimbursement rates. Payers' primary concern lies in effective cost management and maintaining consistency across their policies. Alongside the necessity of curating a base of accessible providers for therapy services, payers also need to balance the needs of their members while controlling premiums to prevent dissatisfaction and potential attrition in their customer base. Adjusting reimbursement rates can directly impact premiums, potentially leading to varying costs for policyholders, a scenario payers aim to avoid. When making determinations on coverage and creating networks, evidence-based practice serves as a cornerstone for payers' decisions. Payers are responsible for allocating resources judiciously, and they require assurance that the therapies they cover yield meaningful outcomes for individuals. A robust body of data-driven evidence can influence payers to consider adjusting reimbursement rates in recognition of therapies that deliver substantial improvements in quality of life.

Given these realties, it's critically important for providers to demonstrate the efficacy of ABA therapy. The advancement of outcomes-based reporting can help drive the alignment of providers and payers together. Through the increased investment in clinical research and technology that has come alongside the groundswell of support for behavioral health, providers and therapists can create data-backed, clinically relevant standards that form the basis for benchmarks, aligning payers and providers, and therefore expanding access to quality autism care. As the care gap closes, the opportunity for outcomes-based reimbursement will increase and set the stage for value-based care contracts and alternative payment models. As mentioned earlier, individuals with autism often receive a wide variety of treatments across occupational therapy, physical therapy, speech therapy, and medication plans alongside their behavioral treatments. This complex array of support and resources provides an opportunity for bundled payments structures incentivizing care teams to work collaboratively to improve treatment outcomes for their patients.

While the industry has begun to experiment with value-based care (VBC) contracts in autism, there is skepticism that we are too early on the curve of outcomes tracking and benchmark for payers and providers to get comfortable with the risk appetite associated with VBC programs. As macro healthcare themes around enhancing care quality and cost containment converge with the behavioral health market's advancements in technology and outcomes management, the opportunity for innovation and platform differentiation will grow.

> **"While the industry is still in the early innings of outcome management, the growing attention from all stakeholders is driving operational investments forward"**

TRIPLETREE'S PERSPECTIVE

Similar to other nascent and rapidly growing industries, the ABA marketplace has certainly experienced its own growing pains. Following the initial wave of investment into this space, there has been market rationalization in balancing the attractive growth tailwinds, while understanding the practical realities of running profitable, labor intensive, specialized healthcare services businesses. The initial "cohort" of investments in the late 2010s was reflective of investors underwriting an emerging macro trend of increasing diagnosis and market awareness, however private equity investments were made across a variety of untested models - at nearly any price for fear of missing out on the new market opportunity. A handful of these early autism and ABA companies have struggled to scale profitably as they grew beyond their infrastructure and did not have the technology or operational grounding to adequately support their staff and clients.

This second "cohort" of autism and ABA businesses weathered the unexpected COVID-19 storm while investing in key areas to drive sustained growth and scale, creating a set of core strengths for winning platforms:

- Experienced management teams with multi-site and/or home and community-based healthcare experience
- Methodical growth strategies in markets with attractive characteristics
- Density-first approach focused on becoming a local and regional leader in core markets
- Intensive focus on operational excellence (e.g. clinician utilization, recruiting, scheduling, intake, etc.)
- Standardized clinical best-practices with robust reporting and outcomes capabilities
- Strong, bilateral payer relationships to support reimbursement and new payment models
- Excellence in Human Capital Management to accelerate hiring while improving retention
- Calculated investments in the necessary technology and infrastructure to support scalable growth

We are at a unique moment in time. 2023 has been a critical execution year for ABA providers and those that learned from the challenges of the past have experienced strong growth and profitability, while delivering better outcomes to clients and payers. The headlines are simple and compelling:

- ABA Therapy is a large and rapidly growing industry – this is a $75 billion industry growing 6% per year
- Labor markets are improving – healthcare labor inflation has dropped by half year over year (7.4% in June 2022 to 3.7% as of July 2023)
- Reimbursement is increasing – TripleTree has spoken to several providers who have received meaningful rate increases (e.g., in the range of ~5.0-20.0%) from payers large and small (both commercial and Medicaid) while also striking national contracts in a number of cases

FIGURE 7: FORCES SHAPING FUTURE SUCCESS IN THE AUTISM SECTOR

TripleTree is extremely bullish about the future of the autism sector, and ABA therapy providers and supporting technology vendors. With an appreciation for the market activity over the last decade and a full understanding of the forces shaping what's next (supply and demand imbalance, federal momentum calibrated by state-level realities, and the correlation between clinical excellence and reimbursement), we anticipate continued interest and investment in the sector (See Figure 7). The market need is exceptionally strong, the development of new treatments and technology is accelerating, and the entire healthcare landscape is paying attention. The ABA future is very bright, and we look forward to a very active 2024 and beyond!

> **"The market need is exceptionally strong, the development of new treatments and technology is accelerating, and the entire healthcare landscape is paying attention. The ABA future is very bright..."**

ENDNOTES

1. Centers for Disease Control and Prevention: Improving Children's Behavioral Health

2. Harvard Graduate School of Education: Loneliness in America: How the Pandemic Has Deepened an Epidemic of Loneliness and What We Can Do About It

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12. Center for Autism & Related Disorders: CARD® Founder

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