Incremental Insights into the Autism Treatment Space

Key Take-Aways from the Behavioral Health Business (BHB) INVEST Conference

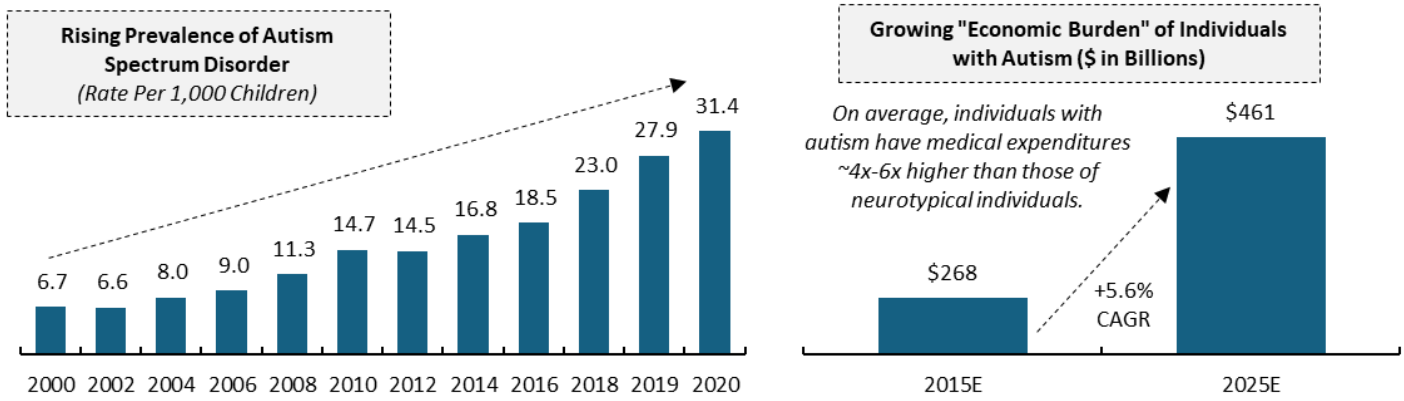
Last week, **the Bourne Partners team attended the BHB INVEST Conference in Dallas, Texas to gain some updated visibility on the autism space** from provider executives and private equity investors. Our view continues to be that investment in the autism space will benefit from favorable supply/demand dynamics, and we continue to anticipate considerable consolidation in the coming years as providers look to offer "whole-person" care for individuals with autism. Also, providers are looking to improve operating margins through greater economies of scale by either increasing their physical footprint or by expanding into different sites of care, i.e. the clinic, home or school. Greater economies of scale allows for better distribution of scarce labor resources and costly investments in information technology.

Finally, **the timing of this year's BHB INVEST conference is notable as it coincides with the renewal of the Autism Collaboration, Accountability, Research, Education and Support Act (the *Autism CARES Act*).** Last month, the House of Representatives passed an updated version of the *Autism CARES Act*, and we expect passage of a Senate version of the bill in the coming weeks. We see the renewal and passage of the *Autism CARES Act* as providing significant financial visibility to the autism treatment space. This, in turn, could potentially attract more capital investment for providers.

1) Brief Background on the Autism Treatment Space

Autism spectrum disorder is a condition related to brain development that impacts how a person perceives and socializes with others, causing problems in social interactions and communications. Of note, autism is known as a "spectrum" disorder because there are wide variations in the type and severity of symptoms. Although autism is a lifelong disorder, treatments and services can improve an individual's symptoms and ability to function.

Figure 1: Rising Prevalence and Costs of Autism Spectrum Disorder



Source: Centers for Disease Control and Prevention; Fortune Business Insights; JAMA Network; the Substance Abuse and Mental Health Services Administration, and Bourne Partners

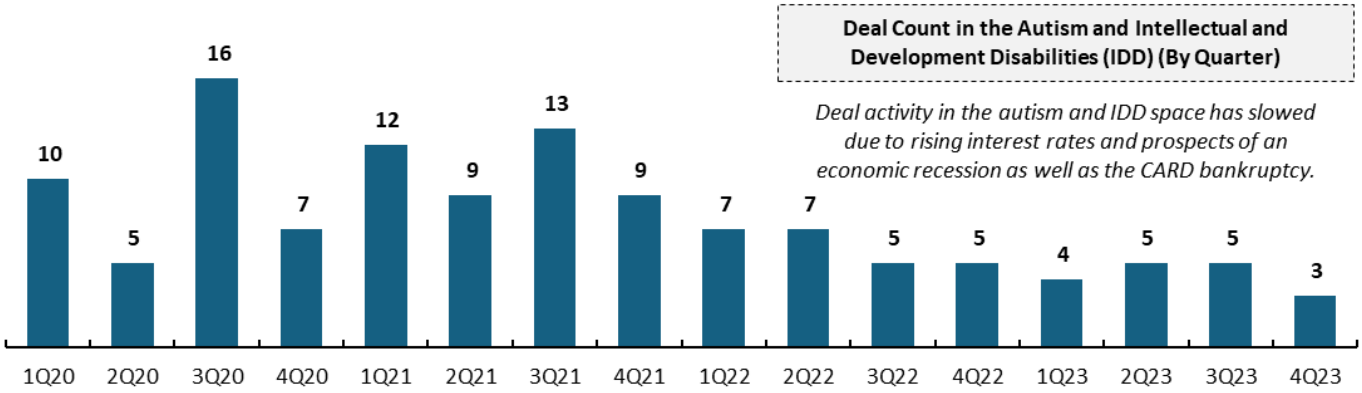
We see autism as a large market in the United States, approaching $30 billion in size and growing in the ~mid-single digits, by our estimates. Notably, the prevalence of autism spectrum disorder diagnoses has doubled over the past ten years. Today, one in thirty-six children in the United States have been diagnosed with autism, and there are 5.4 million

adults who are autistic. However, despite its size, it is, in many ways, still a highly underdeveloped space with tremendous variability in treatments and a highly fragmented provider ecosystem with no one provider representing more than 4% market share. (Most providers have annual revenues of less than $5 million).

2) Key Take-Aways on the Autism Space (BHB INVEST Conference)

Last week, **we attended the Behavioral Health Business (BHB) INVEST Conference to gain some updated visibility on the autism space** from provider executives and private equity investors. Our view continues to be that the autism space will benefit from favorable supply/demand dynamics, and we continue to expect considerable consolidation in the coming years. We hear more and more providers are looking for ways to re-structure/organize their delivery models to be able to offer "whole-person" care for individuals with autism. In many cases, this will involve mergers and acquisitions. Also, financially, expanding operations across service lines can result in improved operating margins through economies of scale. This allows for better distribution of scarce labor resources and information technologies. Finally, larger providers are better positioned to incrementally engage in value (outcomes) based contracting with payers, which is another theme we are hearing more and more about in the space.

Figure 2: Deal Flow in the Autism Treatment Space Has Slowed in Recent Years, But This May Change



Source: Mertz Taggart, "Q4 2023 Behavioral Health M&A Report" and Bourne Partners

Specifically, **we would highlight THREE (3) interrelated themes at the BHB INVEST Conference** -- i) a focus on "whole person" care models that integrate autism with other physical and mental health conditions; ii) the adoption of information technology and artificial intelligence software tools, and iii) an emerging interest in new value-based reimbursement models.

i) Whole-Person Care. Perhaps the key theme of our discussions at the BHB INVEST Conference was the need for "whole person" or integrated care. There has been a long-standing view that autism needs to be treated as "something different" from the rest of the behavioral health space (and healthcare in general). In fact, many behavioral health programs explicitly do not accept individuals with autism because of the view that these individuals are somehow different types of patients. This results in families and payers having to navigate a dis-coordinated set of service providers. For payers, this leads to higher costs and lower quality of care. For families, this often results in one parent having to take care of a child as a full-time job. This pressure on family structure can further negatively impact social determinants of health, which can have additional downstream implications for payers, patients, and families.

We think that there is an emerging new consensus that this legacy view of autism needs to change. Autism often occurs in conjunction with a variety of other behavioral health conditions, e.g., obsessive compulsive disorder (OCD), avoidant-

restrictive food intake disorder (ARFID), and school-refusal. Thus, to provide better care for individuals with autism (and support for their families), an increasing number of providers are integrating autism with more traditional mental and physical health programs as well as nutritional support services, applied behavioral analysis (ABA), and physical, speech and occupational therapy. Conversely, providers are also beginning to use ABA therapy, traditionally reserved for treating autism, for other conditions (such as OCD), further expanding their addressable end market. Moreover, on top of providing better care, many providers we spoke with commented that diversifying their services led to better and more predictable financial results as well. Finally, larger/diversified providers are often able to better negotiate contracts with payers and attract employees with in-house career opportunities.

ii) Information Technology Adoption. As is the case for virtually every other part of healthcare services that we cover, advances in information technology (IT) and artificial intelligence (AI) are another major theme that came up in many of our conversations. IT/AI adoption is a key foundational element for providing more coordinated ("whole person") care (discussed above) by enhancing provider-to-provider and patient-to-provider communications, accelerating diagnoses, and enabling telehealth/remote monitoring. Many services, such as physical/occupational therapy, cannot be fully done digitally. However, in many cases, evaluations, cognitive testing, and speech therapy testing can often be done online. Also, for value-based reimbursement (discussed below), information technology is essential for tracking and reporting outcomes as well as for optimizing/individualizing treatment programs.

Finally, IT/AI adoption is viewed as a tool to address labor productivity (shortages). Shortages in labor are not unique for autism care; however, we do think many providers of autism are uniquely disadvantaged in the labor markets given that they are often working-off of lower-paying Medicaid and government reimbursement. This makes it difficult for them to compete for professional labor. Most employees in the autism space are 'mission-driven' (i.e., the desire to make a difference). However, they prefer to work for organizations that can provide the best support to achieve their missions. We think that providers who can offer embedded AI-productivity tools (e.g., scheduling, decision-support, etc) will be better positioned to attract and retain the 'mission-driven' staff that they need. Finally, from a recruiting aspect, several companies discussed the benefits of staying engaged with prospective employees using AI tools.

iii) Value Based Reimbursement. We heard much more dialogue around value-based reimbursement in the autism space than we had before. The autism space is ripe for value-based care, in our view. Payers are seeing troubling spending trends due to rising prevalence of autism diagnoses, and the total spend per autistic individual is quite high since autism tends to include a number of co-occurring mental and physical health conditions. At the same time, providers are challenged with low operating margins since much of the reimbursement for autism comes from Medicaid and other government payment sources (as well as philanthropy). Providers who can develop and demonstrate more efficient and effective treatment models (e.g., "whole-person" care -- see above) can avoid the pressures of fee-for-service reimbursement by being willing to take-on two-sided risk around outcomes.

The primary challenge to value-based reimbursement is access to good data. Historically, providers in the autism space have tended to not be open to sharing data. However, there is hope that the recent advances in IT and AI (discussed above) can help integrate and track outcomes data to payers. Also, there are industry efforts to develop good benchmark data as well, including the *National Autism Data Registry* (NADR). Finally, in our opinion, it is important to consider social outcome validity measures as well, e.g., school/teacher and parent satisfaction rates with a child's progress.

3) Keeping a Close Eye on the Pending *Autism Cares Act*

We are watching the ongoing progress of the Autism Collaboration, Accountability, Research, Education and Support Act (or the *Autism CARES Act*) of 2024 as it proceeds to the Senate. Renewal of the *Autism CARES Act* should provide significant visibility to the autism treatment space and potentially attract more investment dollars. The House of Representatives passed an updated version of the new *Autism CARES Act* on September 18 with wide bipartisan support (402 to 13). However, the Senate was unable to schedule a vote on its own version of the *Autism CARES Act* due to election related timing issues, so the expiration of the *Autism CARES Act* was temporarily extended from September 30 to December 20 to give the Senate time to formerly vote on its own version of the bill. Generally, we see the House and Senate versions being very similar in funding and scope. Assuming the Senate passes its version, a bicameral conference committee will then adjudicate the two versions of the bill for a final vote in both the House and Senate. Refer to House and Senate versions of the *Autism CARES Act*.

Specifically, **the House Autism Care Act authorizes $2.1 billion of funding for five years (through 2029)** for a wide variety of autism programs across the National Institutes of Health (the NIH), the Centers for Disease Control and Prevention (the CDC), and the Health Resources and Services Administration (the HRSA). This is a healthy increase from the prior *Autism CARES Act* (passed in 2019) which had authorized $1.8 billion of spending through 2024. The Senate version proposes a slightly smaller increase in funding to $1.95 billion. Nonetheless, we see either version of the bill as a 'win' for the space given sizable cuts facing other similar programs, such as the BRAIN Initiative. To date, the *Autism CARES Act* has now funded over $5.2 billion in autism research and support services since its original passage in 2006.

On top of increased funding, **the proposed *Autism CARES Act* includes expanded language that addresses concerns that certain areas of autism research have been underrepresented.** For instance, both the House and Senate versions of the bill require federally funded research to reflect the "full range" of cognitive, communicative, behavioral and adaptive functioning needs of those with autism. This includes individuals with "profound autism" (i.e., individuals with an IQ of less than 50 and/or who are minimally verbal) -- as well as individuals with co-occurring conditions that require additional services. To-date, only 2%-6% of participants in federal autism research have included people with "profound autism" -- while the CDC estimates that 27% of people who have autism have "profound autism." In the past, autistic people who have intellectual disability or significant support needs have been excluded from research. Another significant addition to both versions of the *Autism CARES Act* of 2024 is the requirement for the NIH develop an annual budget plan to ensure that future federal autism research is aligned with the needs of autism providers. Finally, both bills increase the number of NIH Centers of Excellence and require the HHS to publish reports to Congress on the mental health of autistic people and on strategies to expand the workforce of developmental/behavioral pediatricians.

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