

A Behavioral Health Whitepaper

More Than a Transaction

**Navigating the Sale of Your
Behavioral Health Organization:**

A guide for mid-sized healthcare owners



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About the Author – Tim Plachta

Before I joined Merritt Healthcare Advisors, I co-owned and operated ABA Connect, a Texas-based pediatric therapy company serving the Austin and Houston MSAs. During our time as owners, my partner and I navigated the operational realities of rapid sector expansion, ever-increasing competition, and investor consolidation of small- to medium-sized practices. Ultimately, in November of 2022, we were acquired by a Miami-based private equity firm.

As you may have already experienced, I know what it feels like to start getting calls from investor groups. And having now been on both the buy-side and sell-side of behavioral health transactions, I have experienced what it takes to prepare a company for acquisition, to sit across the table from sophisticated investors, and to sign documents that will forever change your life.

That experience is why I wrote this whitepaper, and I hope it serves you well when your moment comes.

The Stakes Are High

The decision to sell your practice is one of the most consequential financial and personal decisions you will ever make.

At some point, almost every behavioral health practice owner starts asking the same question: Is it time to sell my company? Maybe you've been approached by a few investors or watched a competitor get acquired and wondered what their deal looked like.

Whatever brought you to this question, the gap between a good outcome and a great one often comes down to how well-prepared you are when you get to the table.

The behavioral health sector is experiencing a level of M&A activity that is, by any measure, extraordinary. Private equity groups, large strategic platforms, and health systems are all competing aggressively for well-run organizations, particularly those with multiple locations. Valuations have climbed. Deal volume has surged. And owners who might never have considered a sale are now fielding unsolicited calls from buyers on a regular basis.

This is good news. But it also creates a dangerous illusion: that selling is simple, that high interest and

competition among buyers protects you, and that the number on the term sheet is the number that matters most.

This whitepaper covers the landscape of today's behavioral health M&A market, what drives value, how deals are structured, where risks hide, and what separates a truly successful exit from one that looks good on paper but feels very different two years later.

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It's also written from a perspective that is uncommon in investment banking: the perspective of someone who has owned, operated, and sold a healthcare practice, and who now advises owners on how to do the same. That experience shapes everything in the pages that follow.

Who's Buying and Why

Not all buyers are the same. The differences in how they approach you aren't just stylistic, they reflect fundamentally different motivations, strategies, and what your life will look like after the deal closes.

Private Equity: The Dominant Force

PE firms typically enter a sector by acquiring a larger "platform" company, then grow it through a series of smaller "tuck-in" acquisitions and new sites built from scratch (called "de novos"). As a platform, you become the foundation of their investment thesis. You will likely retain more operational autonomy, your leadership team will be central to the growth strategy, and the deal structure will often include meaningful rollover equity and stock options.

As a tuck-in, you are being absorbed into the larger, already operational organization. That is not necessarily bad, but the dynamics around leadership, culture, and your day-to-day role post-close can look very different.

PE firms typically operate on a three-to-seven-year investment horizon, after which they will sell the platform again, often to a larger PE firm or a strategic buyer.

Strategic Buyers: A Different Kind of Partner

Strategic buyers, including larger behavioral health platforms, health systems, and national provider organizations, are acquiring for different reasons. They are not working toward a fund exit. They are building market share, expanding their geographic footprint, adding service lines, and achieving operational scale.

This can be a smoother cultural transition for some owners, particularly those who prioritize mission alignment and long-term stability over strict financial upside. But it can also mean less autonomy post-close, faster integration timelines, and less flexibility in deal structure. Strategic buyers tend to offer more cash at closing but are less likely to offer the kind of equity upside that a PE-backed deal can provide.

What Buyers Are Really Looking For

Regardless of buyer type, most acquirers are evaluating the same core aspects of your company: the quality and stability of your clinical team, the predictability of your revenue, your compliance posture, your payer relationships, and your ability to scale.

One of the most common value-reducers in a behavioral health transaction is over-dependence on the founder. If your organization's referral relationships, clinical culture, or operational continuity are heavily tied to you personally, buyers will price that risk into their valuations. Building systems, leadership depth, and documented processes before going to market is not just good management, it is good preparation for acquisition.

Knowing who is in the room and what they want changes how you present your organization, how you evaluate offers, and ultimately what kind of partner you choose. It is not just about getting the best price. It is about getting the best long-term outcome.

What Determines Value

Valuation in behavioral health M&A is not a fixed formula. Understanding the key drivers, and where you have room to improve before going to market, can meaningfully change the outcome.

How EBITDA Works and Why Your Number May Surprise You

Most behavioral health transactions are valued as a multiple of EBITDA, which stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. In simple terms, it is a proxy for the cash-generating power of your business, stripped of non-operating factors.

When determining EBITDA, buyers will normalize your financials by identifying addbacks: one-time expenses, owner compensation above or below market rate, non-recurring costs, and other items that inflate expenses but do not reflect the true ongoing earnings power of the business.

Importantly, what owners consider “profit” is rarely the number that gets used to determine your value, and a skilled advisor will ensure every legitimate addback is captured and properly supported.

Key Value Drivers in Behavioral Health

Beyond EBITDA, buyers are evaluating a set of qualitative and operational factors that can move your valuation up or down significantly:

- Payer mix: A diversified mix of commercial insurance, Medicare, and Medicaid is generally viewed more favorably than heavy concentration in any single payer.

Commercial-heavy practices tend to attract higher multiples.

- Clinician retention and contract structure: Your clinical staff might be your most valuable asset. High turnover, heavy contractor dependence, or lack of employment agreements introduce risk that buyers will price in.
- Utilization and capacity: Are your clinicians running full schedules? Is there demonstrable runway to add providers or open additional locations? Buyers are purchasing what the business can become, not just what it is today.
- Compliance programs: Billing practices, documentation standards, licensing, and credentialing are all heavily scrutinized. A clean compliance record is a meaningful value-add, as unresolved issues can kill a deal.
- Revenue concentration: If a significant portion of your revenue runs through a single referral source or payer, buyers will view that as concentration risk. Diversification strengthens your position.

The Preparation Opportunity

Understanding these drivers before you go to market gives you something valuable: time to adjust. At Merritt, we often begin working with clients two to three years before a transaction, helping them address the factors that matter most before buyers ever see them.

Deal Structure: Where Fortunes Are Made

The amount you ultimately earn can be dramatically more, or dramatically less, than the headline figure in an offer.

Cash at Close, Rollover Equity, and Earnouts

Most behavioral health transactions involve a combination of three components. Cash at close is exactly what it sounds like: money you receive on the day the transaction closes. This is the safest and most certain component of your proceeds, and often the most negotiable.

Rollover equity refers to a portion of your proceeds being reinvested into the combined entity post-close. Rather than receiving all cash, you retain an ownership stake, typically 10 to 30 percent, in the new platform going forward. Evaluating rollover equity requires understanding not just the current valuation, but the structure of the preferred equity stack, the waterfall, and what triggers a future payout. This is where sophisticated advice is critical.

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Earnouts are contingent payments tied to future performance, typically revenue or EBITDA targets hit in the one to three years following close. What looks like a generous earnout on paper can prove

very difficult to achieve if the buyer controls integration decisions, staffing, and operational investments that directly affect the metrics you are being measured on. Negotiating strong earnout protections is an area where experienced representation pays for itself many times over.

Non-Competes, Employment Agreements, and Your Team

Almost every behavioral health transaction will include some form of non-compete agreement for the selling owner. The scope and duration are negotiable and have real implications for your professional future.

Employment agreements are equally important. Many owners significantly underestimate how much their day-to-day experience post-close will be shaped by what is and is not in their employment agreement: compensation, role definition, reporting structure, decision-making authority, and the conditions under which they can leave their position.

Finally, do not overlook your team. Key employee retention provisions, stay bonuses, and management carve-outs for your leadership staff are all things that can and should be negotiated as part of the transaction. The people who built your organization with you deserve to share in the outcome.

The Due Diligence Gauntlet

Due diligence is the period where deals most commonly fall apart, or where valuation adjustments get introduced. Understanding what buyers are looking for, and preparing for it before you enter the process, is one of the most valuable things you can do.

What Buyers Focus on in Behavioral Health

In behavioral health specifically, several areas receive particularly close scrutiny:

- Billing and revenue cycle compliance: Your billing practices, documentation quality, and the accuracy of your revenue cycle processes will be examined carefully. Even if inconsistencies are unintentional, these can create significant liability exposure that affects deal terms.
- Provider contracts and credentialing: Gaps in credentialing or issues with payer enrollment can directly affect post-close revenue and will be flagged immediately.
- Licensing and accreditation: Buyers want to confirm these are current, transferable, and free of any outstanding violations or investigations.
- HR and employment matters: Employment agreements, compensation structures, benefit obligations, and any history of employee claims or regulatory actions will all be reviewed. Surprises here are common and can be deal-altering.
- Financial quality of earnings: Buyers will typically commission a Quality of Earnings analysis, an independent examination of the sustainability and accuracy of your reported EBITDA.

The Value of Sell-Side Readiness

The most effective thing you can do to protect your deal and your valuation is to conduct a sell-side readiness assessment before you go to market. This is a proactive due diligence review conducted on your behalf, designed to identify issues before a buyer does.

If a buyer discovers a billing irregularity during diligence, they could use it as leverage: to reduce the price, to introduce a holdback, or to walk away entirely. If you discover it first, you can correct it, document it, and present it transparently, which is a very different conversation.

At Merritt, sell-side readiness is a core part of how we prepare clients for market. We work with you and your team to systematically review the areas buyers scrutinize most, including billing compliance, credentialing, contracts, and financials, so that by the time a buyer's diligence team arrives, there are no surprises on your side of the table.

Choosing the Right Partner, Not Just the Right Offer

The owners who feel best about their transactions five years later are not always the ones who simply took the highest bid. They are the ones who evaluated the full picture and chose accordingly.

Questions Every Buyer Should Answer

Before selecting a buyer, you owe it to yourself to understand exactly what life looks like on the other side of closing day. Some of the most important questions to ask:

- What does your portfolio company integration process look like, and how long does it typically take?
- What changes are you planning to make to clinical operations, staffing, and culture in the first twelve months?
- Can you connect me with other practice owners you have acquired? What has their experience been post-close?
- What is your investment thesis for this sector and specifically for my organization?
- How do you handle clinical autonomy? Who ultimately makes decisions about care delivery standards and treatment protocols?

A buyer who gives thoughtful, specific, evidence-based answers to these questions is a very different partner than one who speaks in generalities or deflects.

Your Patients, Your Team, Your Legacy

For most behavioral health practice owners, the decision to sell is never purely financial. You built this organization around a mission: to improve lives, to serve a community, to create a place where patients can thrive.

The right buyer will have a credible answer to what happens to your patients and your team. They will be able to point to continuity of care commitments, staff retention track records, and a cultural philosophy that aligns with yours. The difference is not always visible in the term sheet, but it is visible if you know where to look and what to ask.

That search is also why breadth of relationships matters. At Merritt, we maintain an active network of over 2,000 investors — which means your organization is being evaluated by the full universe of potential partners, not just the ones who happened to call you first. Finding the right cultural and strategic fit requires real options, and real options require real reach.

Why Your Advisor Matters as Much as Anything Else

The investment banker or M&A advisor you choose will influence nearly every outcome that matters: how many buyers are in the room, how competitive the process is, and whether issues during diligence become manageable bumps or deal-killers.

Good M&A Advice vs. Great M&A Advice

The baseline expectation for any competent M&A advisor is straightforward: run a disciplined process, identify and approach the right buyers, manage the data room, quarterback the diligence process, and negotiate effectively. These are table stakes.

What separates truly exceptional advice is something harder to replicate: a deep understanding of your business from the inside. An advisor who has built, operated, and sold a healthcare practice sees it through the lens of what it takes to run one. That operational fluency changes the quality of every conversation. It means your advisor can anticipate the questions buyers will ask before they ask them, and knows whether a concern raised during diligence is legitimate or manufactured.

What to Look for When Selecting an Advisor

When evaluating M&A advisors for a behavioral health transaction, consider the following:

- Sector experience: Have they closed transactions in behavioral healthcare

specifically, and do they have established relationships with the most active buyers in the space?

- Transaction track record: Can they point to specific, recent transactions at the size and complexity of your organization?
- Operator experience: Do members of their advisory team have firsthand experience running healthcare practices? This is rare, but can be the difference between a team who understands your world and one who is learning it on your time.
- Team continuity: Will the senior person who pitches you continue to be involved throughout the process?
- Alignment of incentives: A structure that rewards completing any transaction is different from one aligned with maximizing your specific outcome.

Be cautious of advisors who promise a specific valuation before doing meaningful work to understand your business. And be cautious of anyone who minimizes the complexity of what you are undertaking.

The Exit You Deserve

You have spent years building something that matters. That deserves a thoughtful exit, not a rushed or uninformed one.

The themes of this whitepaper come down to two key principles: preparation and partnership. Preparation is understanding the market, knowing your value drivers, getting your house in order before you go to market, and approaching diligence from a position of strength. Partnership is choosing buyers and advisors who see your organization the way you see it, not just as an asset to be acquired, but as something that took years to build and deserves to be treated accordingly.

There is no single right answer to the question of when and how to sell. The right answer depends on your financial goals, your personal timeline, your vision for what the organization becomes after the sale, and what you want your legacy to look like. Those are deeply personal questions, and they deserve a deeply personal conversation.

“Preparation is understanding the market, knowing your value drivers, getting your house in order before you go to market, and approaching diligence from a position of strength.”

If you are a behavioral health practice owner who is beginning to explore what a sale would look like, we would welcome that conversation. Not a pitch. Not a presentation. A real conversation, one that starts with your situation, your goals, and what a truly successful outcome looks like for you.

Because in our experience, the most successful transactions do not begin with a term sheet. They begin with a candid, informed discussion between people who understand the stakes and who are committed to getting it right.

Why Merritt

Merritt Healthcare Advisors is an investment banking firm focused exclusively on healthcare. We have guided clients through more than \$6 billion in completed transactions, working with practice owners, physicians, and healthcare entrepreneurs across the country.

What sets us apart is not just our transaction volume, but the depth of experience our team brings to every engagement. Our principals have built, operated, and sold healthcare organizations themselves. That background means we understand your business from the inside, not just the spreadsheet.

When you work with Merritt, you get senior-level involvement throughout the process, access to an active network of over 2,000 investors and strategic buyers, and an advisor whose incentives are aligned with one outcome: the best possible result for you.

If you are ready to start that conversation, we are ready to have it.

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