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New Vista Behavioral Health actively seeks treatment center buys in California and beyond, CEO says

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New Vista Behavioral Health, a PE-backed addiction and mental health provider, is actively engaged in an expansion strategy that targets new treatment facilities in California and other states, according to CEO and founder Stephen Odom.

Costa Mesa, California-based New Vista, which caters to a mix of entertainment and sports celebrities to middle income clients, is looking to expand beyond its four treatment centers in southern California. It is also looking to broaden its range of offerings in addiction services and mental health treatment amid a tightening reimbursement environment, said Odom.

"California will be the base for us to do things in other states," Odom said in an interview, citing Arizona, New York, Texas and Colorado as possible venues for expansion. "We are both strategic and opportunistic" in the approach to M&A, but focused mainly on larger treatment facilities.

New Vista was formed in 2016 by Odom, a three decade-long industry veteran, with backing from majority owner New State Capital Partners, based in New York. It currently generates between USD 25m and USD 30m in revenue and is profitable, said Odom, declining to be more specific. It employs about 150 people and serves some 2,500 patients a year, with about 85% covered by insurance plans and the rest paying cash, said Odom.

New Vista's expansion plans in addiction and mental health services come amid a surge in demand for substance abuse treatment, particularly with the opioid abuse crisis. Historical industry growth rates that drew a surge in private equity investment in recent years, however, has slowed as HMOs and insurance providers tightened reimbursement, said Odom.

"All the PE guys are nervous. They are not seeing the reimbursements that they expected," said Odom. "Managed care has cracked down on payments."

He said that while previously, providers could get 75% of their charges reimbursed by payers, now they are getting 30%, leading to industry cost-cutting and demands for scale and a broader range of services.

As a result, New Vista is looking at expanding to facilities and centers that can treat anywhere from 30 to 75 patients at a time, both in residential and outpatient venues, in a move to yield economies of scale.

"Growth is going to be in high capacity, in-network substance treatment and mental health facilities," said Odom. "We're focused on finding locations that can house a lot of people."

Historically, the substance abuse treatment industry comprised thousands of smaller mom-and-pop residential treatment centers, along with large consolidators like **Acadia Healthcare** [NASDAQ:ACHC], **Universal Health Services** [NYSE:UHS], **AAC Holdings** [NYSE:AAC] and others.

Growth was fueled by federal laws including the Mental Health and Parity Act of 2008, which mandated mental health coverage on par with physical health, and the Affordable Care Act of 2010, which more broadly covered younger people.

But a flood of reimbursement demands and industry billing scandals in recent years prompted stricter reimbursements by payers. "They started doing claw backs and suing people," leaving a lot of players "panicking," said Odom.

Now many smaller residential centers are struggling and looking to sell to larger players. “We get five or six calls a week from people wanting to get bought,” said Odom. “We turn most of them down.”

Its most recent acquisition was that of Avalon Malibu, a mental health and substance abuse center, in March 2017 for an undisclosed price. The purchase added to existing facilities including Simple Recovery, Avalon Integrative Wellness and Center for Professional Recovery.

Odom said New Vista is not currently exploring exit plans, but said in coming years he and New State would likely look to sell to a larger private equity firm that “could take us to the next level” or to a strategic like Acadia. “We’re all about building the business,” he said.

He said the company would “definitely” look at merging with a similar-sized PE-backed operator if an appropriate proposal came up, but said “nothing is on the table right now.”

“What we are looking for is synergies,” he said. “We need to grow, because we’re exposed to a contraction of reimbursement. Staying small is not an option.”

The company currently does not engage an investment bank but works with its private equity backers for investment plans, said Odom. **Morgan Lewis** provided legal advice for New Vista in the purchase of Avalon Malibu.

by Dane Hamilton