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Behavioral Health Special Report: The SUD Capital Reckoning

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Investment Thesis

In 2026, two of the largest private-equity-backed addiction treatment platforms in the United States, BayMark Health Services and Discovery Behavioral Health, lost control of their own companies to creditors within roughly five months of each other. Both were built during the 2015-2023 wave of debt-funded roll-up consolidation in substance use disorder (SUD) treatment. Both are now being restructured by the lenders who financed that growth. A third platform, Summit BHC, avoided losing control only by restructuring roughly $790 million of debt out of court in September 2025. Eight months later, S&P cut its outlook on the company to negative anyway.

These are not two isolated credit events. Together they mark the market repricing an entire investment thesis. The 2015-2023 SUD roll-up model was built on an assumption that no longer holds: that Medicaid reimbursement was stable, growth-at-scale was the primary value driver, and regulatory and compliance risk was a background cost of doing business rather than a determinant of enterprise value. 2026 has disproven all three assumptions simultaneously.

Our thesis: capital is concentrating within behavioral health rather than exiting it, rewarding a narrower and more disciplined set of SUD platforms while continuing to flow to adjacent subsectors. Going forward, capital will concentrate in platforms and financing structures that can pass what we call the **Three-Layer Stress Test**:

1. **Capital structure discipline**: leverage levels sized to survive a reimbursement shock rather than to require growth to service the debt.

2. **Reimbursement resilience**: diversified payer mix and a defensible position under a Medicaid system that is actively tightening at both the federal and state level.

3. **Compliance rigor**: documented billing, licensure, and clinical-outcomes infrastructure that can withstand the current wave of federal fraud and billing scrutiny.

Platforms and sponsors that can demonstrate all three will find capital more available in a market that has become genuinely selective for the first time since the sector's 2021 dealmaking peak. Platforms and sponsors that cannot will keep handing the keys to their creditors.

Why Now?

Case One: BayMark Health Services

BayMark is the largest medication-assisted treatment (MAT) provider in North America, operating 287 opioid treatment programs (OTPs) and related sites across the U.S. and Canada. Webster Equity Partners built the platform in 2015 by merging BAART Programs and MedMark Services, then grew it through a long string of bolt-on acquisitions of regional addiction treatment providers over the following decade, the classic roll-up playbook.

By 2025, that growth had left BayMark carrying roughly $1 billion in debt. Reporting through 2026 (Bloomberg, April 24; Behavioral Health Business, throughout the year, corroborated by a second independent capture of BHB's reporting via PitchBook, received 2026-08-03) tracked an extended restructuring negotiation between Webster Equity and the company's lenders. The resolution, per a public regulatory filing submitted by BayMark general counsel and chief compliance officer Susan Meyecord: BayMark's first-lien creditors (named in Bloomberg's reporting as SLR Investment Corp., Ares Management Corp., and Oaktree Capital Management) take control of the company's equity in a debt-for-equity swap, cutting total debt from roughly $1 billion to roughly $600 million, alongside $26 million in new financing. The filing states the purpose is "to ensure continuation of service" and targets a September 21, 2026 effective date.

The filing is explicit about the alternative to closing: "In the event BayMark is unable to successfully consummate the material change, it may need to file petitions for chapter 11 bankruptcy protection at some point in Q3 2026 to receive liquidity or risk the creditors exercising remedies under the existing debt agreements due to BayMark's current inability to service its debt." BayMark declined BHB's requests for comment on this and other articles.

As of this writing the restructuring has not closed; this is a live, unresolved situation. Until it resolves, by this deal or by bankruptcy, BayMark remains a portfolio company of Webster Equity Partners.

Case Two: Discovery Behavioral Health

Discovery's path to creditor control ran on a similar timeline through a different mechanism. Capital One and HPS Investment Partners, Discovery's senior lenders, found the company in default on $280 million of debt after Discovery changed how it reported its debt-to-earnings ratio. Discovery filed emergency motions in New York state court on December 15, 2025 to block a lender takeover, then withdrew that challenge six days later. HPS Investment Partners took majority ownership on June 2, 2026, and installed a new CEO and board.

Two different lender groups, two different technical paths (an out-of-court debt-for-equity exchange at BayMark, a contested-then-conceded takeover at Discovery), the same underlying outcome: the equity sponsor that built the platform on debt no longer controls it.

Case Three: Summit BHC

Summit BHC, a Franklin, Tennessee-based operator of psychiatric hospitals and addiction treatment facilities, shows the same underlying stress through a third mechanism: a completed restructuring that didn't end the pressure. In September 2025, Summit completed an out-of-court distressed exchange, restructuring roughly $790 million of debt and raising about $125 million in new debt financing; total debt obligations now stand at roughly $1.1 billion, essentially the same magnitude as BayMark's pre-restructuring load. S&P Global Ratings assigned Summit a CCC+ rating with a positive outlook at the time of the September 2025 exchange; by May 2026, S&P had cut that outlook to negative. The company had already disclosed cash flow deficits of $30 million to $40 million as far back as May 2025, and SUD treatment, roughly 40% of Summit's 2025 revenue, is the specific segment cited as the source of continued underperformance amid broader reimbursement uncertainty. Summit is now closing facilities as part of what the company describes as "rationalization and operational restructuring," and carries a debt facility maturing in November 2026 that will be the next test of whether the September 2025 exchange bought lasting room or just deferred the reckoning.

Patient Square Capital, which acquired Summit for over $1 billion from FFL Partners and Lee Equity Partners in 2021, has not lost equity control, per available reporting. The difference from BayMark and Discovery is one of degree: Summit avoided a control change, but a negative rating outlook eight months after a distressed exchange is the market saying the underlying stress remains unresolved. And the concentration of Summit's disclosed underperformance in its SUD book, inside a company that otherwise operates a more diversified behavioral health platform (psychiatric hospitals alongside SUD treatment), is the sharpest evidence yet for the Three-Layer Stress Test's reimbursement-resilience layer specifically: even a more diversified operator is being penalized for its SUD exposure.

The Deal Data Confirms the Pattern

SUD M&A volume has fallen every single year since a 2021 peak of 50 deals, the record for the specialty: 45 in 2022, 24 in 2023, 19 in 2024, and 18 in 2025 (Behavioral Health Business, "The SUD M&A Cliff," January 2026). That is a 64% decline in deal count from peak to trough over four years, with no sign of a floor yet.

The comparison that matters most: behavioral health capital is rotating across subsectors. IDD (intellectual and developmental disabilities services), a different behavioral health subsector, set its own new record of 31 deals in 2025, one better than its prior 2021 high. Sponsors and lenders are reallocating away from SUD specifically, within the same broader sector, toward subsegments they judge to carry less reimbursement and compliance risk.

The Reimbursement Environment Is Tightening at the Same Time

The credit events above are not happening in a vacuum. Three separate federal and state reimbursement developments are compounding the pressure on SUD operators in 2026:

Medicaid provider tax and state-directed payments. CMS published a proposed rule on July 23, 2026 implementing Section 71115 of the Working Families Tax Cut Act, which rewrites the indirect hold-harmless threshold governing state provider taxes, the primary mechanism nearly every state uses to draw down federal Medicaid matching dollars and fund higher base payment rates. States can keep existing provider taxes grandfathered at up to 6% of net patient revenue only if those taxes were in place by July 4, 2025; no new provider taxes or increases are permitted after that date, and Medicaid expansion states must step the ceiling down to a 3.5% floor starting October 1, 2027. CMS projects this cuts federal Medicaid spending by roughly $246 billion from 2026 through 2035. A companion rule capping Medicaid state-directed payments at 100% to 110% of Medicare rates closed its comment period July 21, drawing formal objections from the AHA, the Federation of American Hospitals, and America's Essential Hospitals. Both levers are among the primary tools states use to push Medicaid reimbursement rates for behavioral health and SUD services toward something closer to actual cost of care, and both are being narrowed simultaneously.

Medicaid work requirements under the One Big Beautiful Bill Act (OBBBA). Starting in 2026, with state implementation required by January 1, 2027, most Medicaid beneficiaries must log at least 80 hours per month of "community engagement" (employment, education, or volunteer activity) to maintain eligibility. The law does carve out an exemption from the requirement itself for individuals with a documented SUD or disabling mental health condition, and behavioral health services are exempted from OBBBA's new cost-sharing increases. But the exemption does not protect the coverage those individuals otherwise depend on: the Congressional Budget Office estimates 11.8 million people will lose Medicaid coverage nationally by 2034 as the broader work-requirement and eligibility-verification provisions take effect. Medicaid finances roughly 25% of all SUD treatment spending nationally and covers a comparable share of adults with serious mental illness. A beneficiary who loses Medicaid eligibility for a co-occurring reason (failing to document work-requirement compliance, more frequent eligibility redeterminations, paperwork gaps) still loses access to SUD treatment coverage even though the treatment itself was nominally protected. Providers should expect coverage churn and bad debt exposure to rise independent of the treatment-specific carve-out.

Methadone and OTP regulatory flux. SAMHSA's revised 42 CFR Part 8 rule, effective April 2024 with an October 2024 compliance date, eased some restrictions on mobile medication units and allowed Block Grant funds to be used to purchase them, a genuine access improvement. But methadone dispensing outside a registered OTP setting remains tightly restricted by law, and the pandemic-era telehealth flexibilities that let many patients access MAT remotely have been extended only on a temporary basis, most recently through the Fourth Temporary Extension published December 31, 2025, running January 1 through December 31, 2026. Operators built around telehealth-enabled MAT access are underwriting a regulatory cliff at the end of this year with no permanent replacement yet finalized. Trade coverage (Behavioral Health Business, "Methadone Was Locked to OTPs. Loosening That Rule Is Dividing Providers") frames this as a live, unresolved fight within the industry itself.

Layer these three developments over the credit stress at BayMark and Discovery and the picture is coherent: SUD platforms are simultaneously absorbing a balance sheet reckoning, a Medicaid reimbursement squeeze, and a still-unsettled regulatory environment for their core treatment modality. Any one of these would pressure valuations. Together, they explain why deal volume has fallen every year for four straight years running.

Where To Play?

The bifurcation in the market is not subtle, and it is not new information to operators inside the industry. Trade coverage from BHB's own SUD Business Summit (referenced in the July 31, 2026 BHB newsletter) reports operators converging on a consistent definition of what an attractive addiction treatment investment looks like now: compliance infrastructure, documented care quality, real in-network payer contracts, and tight operating costs, over flashy growth metrics or geographic footprint expansion for its own sake. That is a direct repudiation of the acquisition-velocity thesis that built BayMark and Discovery.

A useful proof point on the "healthy" side of the bifurcation: Spero Health's 2026 acquisition of CleanSlate Centers, a 70-plus-site MAT provider serving over 35,000 patients that was headed toward shutdown before the deal. Spero, a fellow office-based opioid treatment operator with real payer relationships, absorbed the platform and kept the patient population in care. The deal illustrates where the real constraint on SUD treatment sits (see *2026-07-27-healthcare-2* for the full writeup): reimbursement durability and balance sheet capacity to weather it, well ahead of patient demand. Scaled operators with documented outcomes and real payer contracts can still transact, including as rescuers of distressed peers. Thinly capitalized, growth-first operators cannot.

For lenders and sponsors evaluating new SUD opportunities in this environment, the practical filter now includes questions that a 2021-era underwriting model would not have asked with the same weight:

- **Payer concentration.** What share of revenue depends on a single state's Medicaid supplemental payment program, and has that state's provider tax or state-directed payment mechanism been evaluated against the CMS rules above?

- **Leverage relative to reimbursement volatility**, not just relative to trailing EBITDA. BayMark and Discovery were both financeable at their leverage levels under a reimbursement environment that no longer exists.

- **Billing and licensure documentation maturity.** Federal fraud and billing investigations across the behavioral health sector have made this a diligence-gating item, not a closing condition to paper over.

- **Telehealth/MOUD access dependency**, given the temporary nature of the current federal flexibility through only the end of 2026.

- **Real estate and collateral quality** as a genuine second source of repayment, given how quickly cash-flow-based underwriting has been invalidated twice in one year across two of the sector's largest platforms.

Return Levers & Risk

Return levers. Scarcity value is real and growing: four consecutive years of declining deal volume means fewer credible platforms are being built or maintained, which should support pricing power for the operators who survive this cycle with clean balance sheets and clean compliance records. Distressed-asset consolidation at reset valuations, the Spero/CleanSlate pattern, is likely to recur as more thinly capitalized operators reach the same point CleanSlate did. Lenders and sponsors who build underwriting discipline now, rather than after the next credit event, are positioned to be the counterparty of choice for the operators who need financing partners that understand this specific risk profile.

Risk. The reimbursement and regulatory environment described above is still moving. The Medicaid provider tax rule's comment period runs through September 21, 2026; the final rule could tighten or soften before implementation. State-level Medicaid work-requirement implementation is required by January 1, 2027, but is still subject to further federal rulemaking and state-by-state variation, and the CBO's 11.8 million coverage-loss estimate is a national projection that will land unevenly across individual states and providers. The telehealth MOUD flexibility extension expires December 31, 2026, with no permanent rule yet finalized behind it.

The BayMark restructuring itself remains unresolved: if the September 21 target is missed and the out-of-court deal collapses, a Chapter 11 filing in Q3 2026 would be a second major public bankruptcy-adjacent event in the sector this year, with knock-on effects on how lenders price every other SUD credit in the market. A third date worth tracking on the same calendar: Summit BHC's debt facility matures in November 2026, roughly six weeks after BayMark's target close, and will be the first real test of whether Summit's September 2025 exchange actually resolved its stress or only deferred it.

Conclusion

The SUD sector is being re-underwritten around risks that the 2015-2023 boom priced too cheaply: reimbursement concentration, leverage relative to that concentration, and compliance and regulatory exposure that federal enforcement activity has made materially more consequential than it was five years ago. BayMark, Discovery Behavioral Health, and Summit BHC are the clearest evidence yet that the old model has run its course: one lost control outright, one avoided it only through a contested court fight, and one restructured out of court and still couldn't shake a negative rating outlook eight months later. The operators, sponsors, and lenders who internalize the Three-Layer Stress Test now, rather than after their own credit event, will be the ones who transact profitably in what is left of this market.

Lawrence Evans works across Behavioral Health, Chronic Care Management, and the debt and equity capital markets that finance them. This is exactly the underwriting conversation we have with operators, sponsors, and lenders navigating the current environment.

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