



Capstone Headwaters

OUTPATIENT PHYSICAL THERAPY Q3 2018

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MARKET OVERVIEW

Outpatient Physical Therapy (OPT) continues to consolidate and remains an attractive sector within the red-hot healthcare space. The industry is worth \$35.0 billion according to IBISWorld, and is benefiting from the aging US population and the shifting delivery model to low-cost, high quality/value-based treatments.¹ Moreover, with projected annual revenues of \$38.2 billion by 2023 and a highly fragmented nature, private equity investors and strategic players remain active acquirers seeking market share and scale.

COMPETITIVE LANDSCAPE

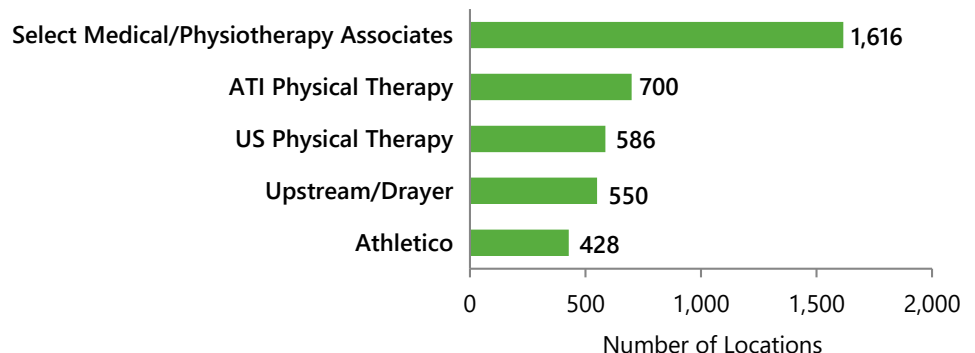
Physical Therapy has been undergoing a consolidation phase for several years with many of the largest players now backed by private equity groups (PEGs) and established through serial acquisitions. While this has resulted in several large nationally recognized brands, the largest player, Select Medical/Physiotherapy Associates, still owns less than 10.0% market share according to US Physical Therapy.² The group of top five players, by number of clinics, has remained unchanged with only Upstream Rehabilitation moving up one spot to number four following its January 2018 acquisition of Drayer Physical Therapy.

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Top 5 OPT Players by Number of Locations



Source: Capital IQ and Capstone Headwaters Research



MERGER AND ACQUISITION ACTIVITY

With three of the top five industry players backed by private equity (ATI, Upstream, and Athletico) and a host of other large regionally based providers such as ProPT, Pivot Physical Therapy, and CORA Health Services to name a few, private equity has and continues to invest heavily in the sector. Additionally, strategics such as Select Medical and Athletico remain opportunistically acquisitive as they look to secure or establish market share and scale. According to USPh, there are approximately 16,000 to 18,000 free-standing clinics nationwide.² While there remain significant opportunities for further consolidation, independent operators must offer compelling propositions and differentiators if they intend to secure premium valuations.

In recent discussions with USPh and Revelstoke Capital Partners (investors in Upstream Rehabilitation/Drayer Physical Therapy), both acknowledged a willingness to pay top dollar and premium EBITDA multiples for the right opportunities. However, a gating decision in any investment thesis is a build vs. buy scenario. The return on investment in de novo (start-up) clinics are compelling. The average investment to open a new clinic ranges between \$100k to \$170k and these clinics typically become profitable within twelve months of opening and achieve payback within two years. While the economics of de novos are certainly attractive, the competitive advantages and established barriers-to-entry of existing operators in any given market cannot be easily built nor replicated. Operators that have an established critical mass, secured strategic partnerships, reputation for clinical excellence, favorable payor mix, and comprehensive data collection and analytics will continue to generate strong strategic interest.

DATA ANALYTICS

The continued shift to value-based care is reinforcing the need for providers to accurately capture and report data on therapy outcomes, costs, utilization, and patient experience. The Medicare Merit-Based Incentive Payment Plan (MIPS) beginning in 2019 will begin to reimburse providers based on certain quality metrics, utilization, and the use of electronic health records. Under MIPS, a provider's performance will be reviewed annually according to established standards and used to determine and/or adjust the reimbursement fee schedule. With roughly 27.0% of industry revenues coming from government payers today amid an aging US population, government programs will continue to be stressed.¹ Providers that are most adept to demonstrate the value of rehab services to their patients and payers are advantageously positioned.

Commenting on data analytics, Nancy Ham CEO of WebPT, a leading provider of comprehensive software solutions for the rehab market, explained:

“Data has gone from a nice-to-have to a necessity for rehab therapists who want to assert their value as the go-to, first-line providers for patients. It’s also essential to surviving and thriving in the era of the patient-consumer. Payers alike are placing greater emphasis on high-quality experiences and clinical outcomes, which means providers must be equipped to measure and supply data that speaks to those points. This is particularly important as payers continue to put more emphasis on the value component in their payment models.”

— Nancy Ham, WebPT CEO

PAYER MIX

Within the ever-changing reimbursement landscape, industry players are increasingly seeking investment opportunities that further diversify their payer mix portfolios. In April 2018, US Physical Therapy made their second investment the Industrial Injury Prevention Services sector, and in September 2017, Athletico acquired The Work Center, a leading provider of industrial rehabilitation services. USPh and Athletico were attracted to these opportunities due largely to favorable amount of workers compensation business, which have relatively higher reimbursement rates.





SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
09/04/18	Four Clinic PT Practice	US Physical Therapy	Operates four physical therapy clinics in Minnesota.	\$11.0	2.6x	-
07/31/18	One on One PT and JAG PT	Pamlico Capital	Operated 38 outpatient PT clinics in New York and New Jersey.	-	-	-
06/28/18	Greater Therapy Centers	Rehab Management	Provides physical therapy services through six clinics in Texas.	-	-	-
06/06/18	PT Solutions	Lindsay Goldberg	Offers physical PT services at more than 140 locations in 12 states.	-	-	-
05/23/18	c.h. Physical Therapy	BenchMark Rehabilitation	Provides physical therapy services through six clinics in Oregon.	-	-	-
05/04/18	Xtreme Physical Therapy	Moreau PT New Orleans East	Operates a physical therapy clinic in New Orleans.	-	-	-
03/16/18	C. Weaver Physical Therapy	AthletiCo	Operates as an outpatient PT center in Central Michigan.	-	-	-
03/07/18	Four PT Center Operators	CORA Health Services	Provides outpatient therapy services through clinics in GA, KY, NC, TN, and VA.	-	-	-
03/07/18	Alliance PT	Agility Health	Provides physical therapy services in the Midwest.	\$45.0	-	-
02/07/18	ELEVATE Physical Therapy	Physical Rehabilitation Network	Offers therapy services in Carrollton, Texas.	-	-	-
02/06/18	Sports Therapy	Oxford PT and Rehabilitation	Operates 22 PT locations and onsite presence to over 80 industrial site locations in OH, KY, and IN.	-	-	-
01/26/18	Franklin Rehabilitation	Alliance Physical Therapy Partners	Provides physical therapy services from two locations in Wisconsin.	-	-	-
01/15/18	Competitive Edge Physical Therapy	Proex Physical Therapy	Operates an outpatient physical therapy clinic in Massachusetts.	-	-	-
01/04/18	Drayer Physical Therapy Institute	Upstream Rehabilitation	Owns and operates outpatient physical therapy clinics in 14 states.	-	-	-
12/13/17	Results Physical Therapy	Back in Motion Physical Therapy	Operates two outpatient physical therapy clinics in central Maine.	-	-	-
11/13/17	Physical Therapy In Motion	Proex Physical Therapy	Provides physical therapy services from two locations on Cape Cod, Massachusetts.	-	-	-
11/01/17	Nine Clinic PT Practice	US Physical Therapy	Operates nine physical therapy clinics in the United States.	\$6.4	0.7x	-
10/13/17	St. Louis Physical Therapy	SSM Physical Therapy	Offers physical therapy services in the St. Louis metro area.	-	-	-
10/4/17	Armada PT Of Albuquerque	Physical Rehabilitation	Owns and operates of four physical therapy centers in New Mexico.	-	-	-
09/22/17	The Work Center	AthletiCo	Offers rehabilitation services through nine clinics in Missouri.	-	-	-
08/25/17	D1 Sports Medicine	EXOS	Provides athletic training and physical therapy services.	-	-	-
08/24/17	Four PT Center Operators	GPB Capital	Owns and operates a total of 11 outpatient PT centers in four states under the four brands.	-	-	-
07/05/17	Nine Clinic PT Practice	U.S. Physical Therapy	Comprises nine clinics that provide physical therapy services in the United States.	\$27.2	3.2x	-



FIRM TRACK RECORD

Capstone Headwaters has successfully advised on a number of transactions related to the sale of Healthcare Services firms. Capstone Headwaters' Health & Medical transactions are shown below. Capstone Headwaters' experience in the sector provides us with insight into the valuable attributes and likely valuation of target companies, the active buyers and the nuances of transactions in the space.

CONFIDENTIAL

is pursuing a corporate sale

MULTI-SITE URGENT CARE PROVIDER

LEADING MULTI-CLINIC PHYSICAL THERAPY PRACTICE

has been acquired by



USPh
US PHYSICAL THERAPY, INC.



Leaders For Today

have been acquired by



AMN[®]
Healthcare



has been acquired by



HOUSATONIC PARTNERS



has partnered with




AIR-CHARGED CATHETERS

has been acquired by



LABORIE
a portfolio company of AUDAX GROUP, INC.



Patient Monitoring Services

has been acquired by



NUVASIVE



has been acquired by



Invo
HealthCare Associates[®]



Educate. Influence. Motivate.

has been acquired by



highroad
CAPITAL PARTNERS



PHYSASSIST
SCRIBES

has been acquired by



TEAMHealth.

AGCU * MET LASER, inc.

has been acquired by



RiversidePartners^{INC.}



WHITEHOUSE
LABORATORIES

has been acquired by



AMRI[®]
Albany Molecular Research Inc.



HealthCare Associates, Inc.
...Helping Kids Be Kids

has been acquired by



POST
CAPITAL



LSP
LUTZ
SURGICAL
PARTNERS

has recapitalized with

A PRIVATE INVESTMENT GROUP



has been acquired by



Abbott
A Promise for Life



has received an investment from an

UNDISCLOSED INVESTOR



CITATIONS

1. IBISWorld, "Physical Therapists in the US April 2018," <https://www.ibisworld.com/industry-trends/market-research-reports/healthcare-social-assistance/ambulatory-health-care-services/physical-therapists.html>, accessed September 5, 2018
2. US Physical Therapy, "Investor Presentation – August 3, 2018," <http://www.usph.com/video/CurrentPresentation.pptx>, accessed September 7, 2018.

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Mark is a Director in the Philadelphia office, supporting the management of the Atlantic Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney’s Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.



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Eric serves as Managing Director and Head of the Atlantic Region for Capstone Headwaters, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone’s Health and Medical practice and has successfully completed over 100 transactions in a wide range of industries including medical device, contract manufacturing, pharmaceutical outsourcing, health care services, and education and training. In 2016, he received the “USA Deal of the Year” at the M&A Atlas Awards for his work on the acquisition of Progressus Therapy, LLC and in 2014 was awarded both “M&A North American Middle Market Deal of the Year” at the M&A Atlas Awards and “Cross Border Deal of the Year” from the M&A Advisor for his work on the sale of T-DOC Company LLC. Eric has executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden, and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.

2017



US MIDDLE MARKET INVESTMENT BANK OF THE YEAR

2017



BOUTIQUE RESTRUCTURING INVESTMENT BANK OF THE YEAR

2016



MIDDLE MARKET INVESTMENT BANK OF THE YEAR

2016



TOP 10 MOST REFERRED INVESTMENT BANKS

EXTENDED HEALTHCARE TEAM



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BUILT FOR THE MIDDLE MARKET



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