

Market Update

The end of 2014 was highlighted by multiple landmark transactions in the outpatient physical therapy sector. The fourth quarter featured three transactions that represented over 334 clinics acquired across the U.S., including the acquisition of Apple Physical Therapy (24 locations), the recapitalization of Results Physiotherapy (60+ locations), and the acquisition of Accelerated Rehabilitation Centers (~250 locations). Although tuck-in acquisitions of 1 to 15 clinic chains have been common in the outpatient industry, deals of the aforementioned magnitude are a rarity given the limited number of providers with over 20 locations. The timing of these sizeable transactions occurring in the same quarter is indicative of current market valuations, which have continued at aggressive levels ranging in the high single to low double digits as a multiple of EBITDA. Valuations at this level will continue to induce providers with size and scale to pursue market opportunities, as strategic companies and private equity investors are aggressively seeking acquisitions.

In the most notable transaction of the quarter, Athletico Physical Therapy, a portfolio company of Harvest Partners, acquired Accelerated Rehabilitation Centers for an estimated \$450 million. The deal combines two Midwest competitors, creating one of the largest outpatient physical therapy providers in the country with over 330 locations in eight states. In years past, the most common exit for private equity-backed groups was a subsequent recapitalization with a different fund, but this transaction represents the largest strategic acquisition to date, with OMERS Private Equity selling its position in Accelerated to a strategic buyer. Although integration and rebranding of the two entities will be a difficult task, the combined organization will be poised for subsequent expansion into new markets.

Other noteworthy strategic transactions included ATI Physical Therapy's expansion into Washington through the acquisition of Apple Physical Therapy, while Pivot Physical Therapy completed its first notable add-on transaction, with its partner InTandem Capital, of ActivCare PT, a 10 clinic provider based in North Carolina. Additionally, Results Physiotherapy was recapitalized by Sterling Partners, creating yet another formidable consolidator in the market. Moving into 2015, the physical therapy market has become one of the most attractive sectors in healthcare services for investors.

| Month | Acquirer | Target Company | Details |
|---------------|-----------------------------------|------------------------------------|--|
| November 2014 | Saint Joseph Mercy Health Systems | Probility Physical Therapy | Michigan-based Saint Joseph Mercy Health Systems (SJMHS) acquired Probility Physical Therapy, a 6 location physical therapy provider. Terms of the transaction were not disclosed. |
| November 2014 | Athletico Physical Therapy | Accelerated Rehabilitation Centers | Athletico Physical Therapy, a portfolio company of Harvest Partners, acquired Accelerated Rehabilitation Centers. The new company will now operate with 336 locations in eight states, mostly in the Midwest. |
| November 2014 | ATI Physical Therapy | Spinal & Orthopedic Rehabilitation | ATI Physical Therapy further expanded its presence in Michigan through the acquisition of Spinal & Orthopedic Rehabilitation, a four location provider in the Detroit metro area, for an undisclosed amount. |
| October 2014 | ATI Physical Therapy | Apple Physical Therapy | ATI announced the acquisition of Apple Physical Therapy, a 24 clinic provider based in Washington. The transaction will expand ATI's presence into its 12 th state. Terms of the deal were not disclosed. |
| October 2014 | Pivot Physical Therapy | ActivCare Physical Therapy | Pivot Physical Therapy acquired Raleigh-based ActivCare, a 10 location provider. With the deal, Pivot Physical Therapy now operates with 70 clinics in six states. Terms of the deal were not disclosed. |
| October 2014 | Sterling Partners | Results Physiotherapy | Results Physiotherapy has undergone a recapitalization led by Sterling Partners for an undisclosed amount. Results Physiotherapy operates in more than 60 locations throughout six states in the eastern U.S. |