

Q1-2016 Rehabilitation Update



Market Overview

The first quarter of 2016 within the outpatient and contract therapy sectors ended with a few notable transactions in the month of March. In a deal estimated to be valued at \$1.9 billion, KRG Capital Partners sold its position in ATI Physical Therapy to Advent International, a global private equity firm with approximately \$30 billion in assets under management. This is the second exit from ATI for KRG after its initial investment in 2005 and sale to GTCR in 2010. In this most recent investment, KRG reacquired a majority position in 2012 and continued on an aggressive growth strategy of de novo locations coupled with a number sizeable acquisitions in new geographies. ATI has doubled its number of locations since 2012 and now has approximately 500 clinics in 19 states. Provident expects ATI will look at an IPO in the next few years.

In another notable outpatient transaction, Physiotherapy Associates, the troubled provider that filed for Chapter 11 bankruptcy in 2013, was acquired by Select Medical Corporation for \$400 million in cash. Following debt restructuring in 2015, Physiotherapy reemerged with an add-on acquisition strategy in Q3 2015, but the business has struggled to recover from accounting irregularities discovered following a 2012 transaction that has resulted in ongoing litigation between a company trust and the former private equity owners. The acquisition of Physiotherapy by Select solidifies its position as the largest operator of outpatient physical therapy clinics in the U.S. By also divesting its contract therapy division to Encore Rehabilitation Services, Select's focus moving forward will be on its LTACHs, inpatient, and outpatient rehabilitation facilities following the integration of Physiotherapy.

The pace of deal flow is expected to continue for the foreseeable future within the industry with the probability that one or two additional private equity-backed groups pursues a secondary transaction in 2016 given the highly attractive market valuations.

SELECT TRANSACTIONS

Month	Acquirer	Target Company	Details
March 2016	Encore Rehabilitation Services	Contract Therapy Division of Select Medical Corporation	An affiliate of Encore Rehabilitation Services, a portfolio company of Revelstoke Capital Partners, acquired the contract therapy business of Select Medical Corporation. The purchase price was \$65.0 million in cash plus an earn-out of up to \$7.5 million based on attaining revenue thresholds from 2016 to 2018.
March 2016	Advent International	ATI Physical Therapy	Advent International announced the recapitalization of ATI Physical Therapy in a transaction that is expected to close in Q2 2016. ATI operates with over 500 clinics in 19 states. Official terms of the transaction were not disclosed.
March 2016	MOTION PT Group	Community Physical Therapy	MOTION PT Group acquired Community Physical Therapy, a family-owned provider with three locations in New York City. MOTION PT, formed in 2015, is a portfolio company of Pharos Capital Group. Terms of the transaction were not disclosed.
March 2016	Select Medical Corporation	Physiotherapy Associates	Select Medical Corporation ((NYSE: SEM)) completed its acquisition of Physiotherapy Associates for \$400 million in cash. Physiotherapy operates with over 500 physical therapy clinics staffed by 2000 clinicians across 29 states. With the deal, Select owns over 1,500 outpatient clinics.
March 2016	U.S. Physical Therapy	Undisclosed	U.S. Physical Therapy (NYSE: USPH) acquired a 55% interest in an eight location physical therapy practice for a purchase price of \$13.7 million. The practice operates with \$9.0 million in revenue and 65,000 patient visits per year.
March 2016	Professional Physical Therapy	Wilutis Hand Therapy and Advanced Hand Therapy	Professional Physical Therapy announced the acquisition of two hand therapy clinics, Wilutis Hand Therapy and Advanced Hand Therapy. The deals add six locations on Long Island, bringing the total Professional facilities to 67 throughout New York, New Jersey, and Connecticut. Financial terms of the deals were not disclosed.
January 2016	U.S. Physical Therapy	Undisclosed	U.S. Physical Therapy acquired 59% of a \$4.0 million annual revenue practice for a purchase price of \$4.97 million. The target company has four locations and 34,000 patient visits per year.