Physical Therapy Market Overview

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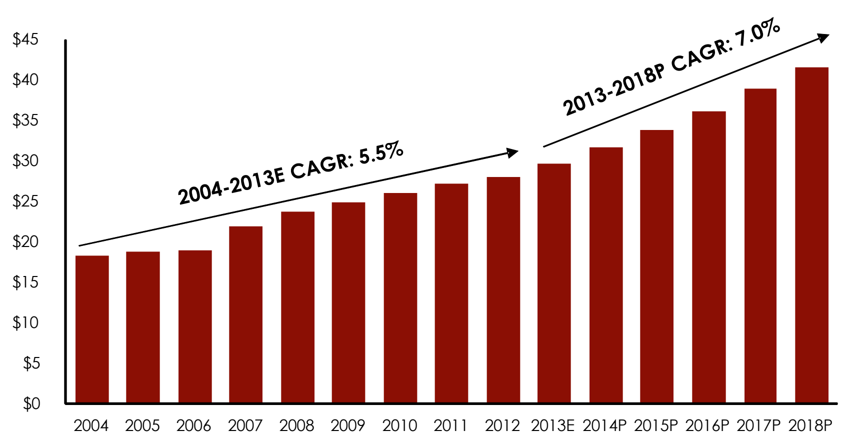
Outpatient Rehabilitation Overview

Outpatient rehabilitation is a $29.6 billion industry that is expected to grow 7% annually through 2018P.

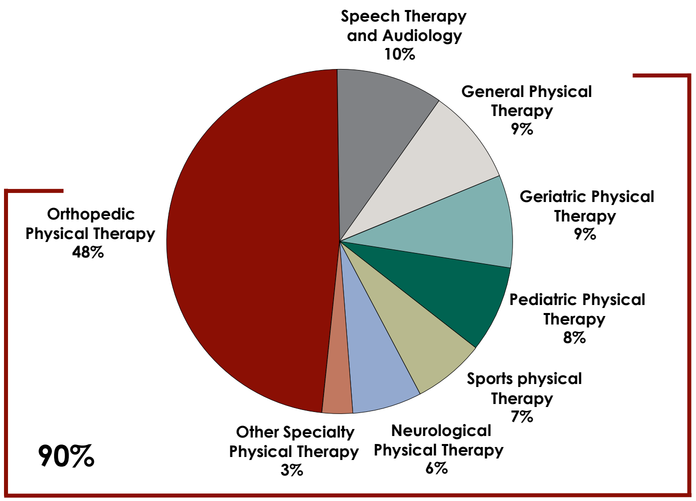
- Physical therapy accounts for an estimated $26.6 billion, or approximately 90%, of all outpatient rehabilitation spending.
  - Highly fragmented with largest 50 competitors comprising less than 25% of the market
- Numerous, positive factors driving long-term growth:
  - Expanding patient population that provides favorable tailwinds:
    - Aging U.S. population
    - Unhealthy youth lifestyle trends
    - Growth in employment
  - Increasing penetration of physical therapy services
  - New government regulations (e.g., the PPACA) increasing patient access to physical therapy
  - Outpatient rehabilitation is significantly less costly than surgery or hospitalization, but with similar clinical effectiveness

U.S. Outpatient Rehabilitation Expenditures

For the Years Ended and Ending December 31, 2004-2018P
($ in billions)



Outpatient Rehabilitation Spending by Segment



Source: IBISWorld.

Physician-Owned Physical Therapy Practices

Physician-owned physical therapy practices ("POPT") comprise an estimated 10-15% of all physical therapy clinics and represent a large, compelling market opportunity.

- POPTs provide an attractive opportunity for physician groups to provide their patients with greater convenience, improved outcomes, and continuity of care by offering therapy in their office setting.
- Most physician practices are ill equipped to oversee the provision of physical therapy services from a clinical perspective or manage the associated administrative functions.

Estimated Physician-Owned Physical Therapy Practices Market Size[(1)]

Orthopedic Market Sizing	
Orthopedic Surgeons in the U.S.	27,157
Less: Surgeons in States with Anti-POPTS Legislation[(2)]	964
Addressable Population	26,193
Percentage of Orthopedic Surgeons in Private Practice	71%
Target Population of Orthopedic Surgeons	18,597
Average Group Size	11
Addressable Market Size - *(# of Private Practice Orthopedic Groups)*	**1,691**

Multi-Specialty Market Sizing	
Multi-Specialty Surgeon Groups in the U.S.	29,965
Less: Practices in States with Anti-POPTS Legislation[(2)]	701
Addressable Population	29,264
Percentage of Multi-Specialty Groups in Private Practice	63%
Addressable Market Size - *(# of Private Practice Multi-Specialty Groups)*	**18,513**
Total Addressable Market - *(# of Groups)*	**20,204**

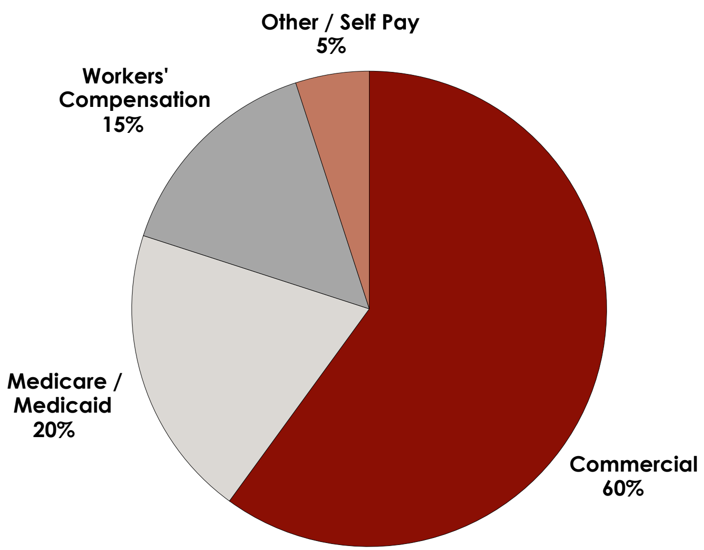
(1) Does not include groups owned by hospitals, neurology groups, or family practice groups.
(2) States with Anti-POPTS Legislation include SC, MO, and DE.

Reimbursement Environment

Outlook for reimbursement has been favorable even during the recent economic recession because of the cost savings and effectiveness of outpatient rehabilitation.

- Commercial payors reimburse at a "usual and customary" rate or a negotiated contractual rate on a per service basis.
- Medicare/Medicaid reimbursement is governed by the Medicare Physician Fee Schedule.
  - The 50% MPPR policy will reduce overall provider payments by approx. 6-7% which will be partially offset by a 4% increase that resulted from CMS' use of new survey data of practice expenses[1]
  - The sequester imposed an across the board 2% payment cut for all Medicare physician providers beginning April 1, 2013, which resulted in approximately a 1.6% additional cut to provider payments
- Workers' compensation features higher reimbursement levels than commercial or governmental payors.

Industry Reimbursement Mix



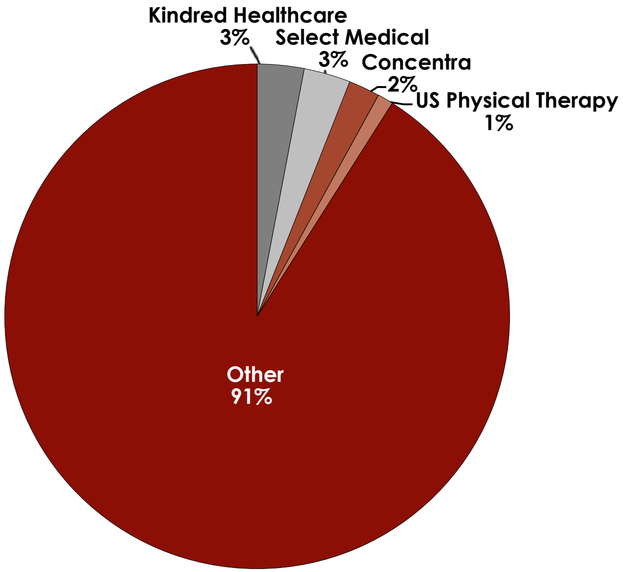
Source: American Physical Therapy Association (APTA).
(1) Based on American Physical Therapy Association (APTA) estimates.

Competitive Landscape

Highly fragmented market primarily comprised of smaller independent providers.

- No single participant capturing more than a 5% market share.
- Smaller, independently owned clinics account for roughly 45% of all physical therapy clinics.
  - Unable to effectively expand outside of their local footprint due to underdeveloped referral sources and infrastructure
  - Established platforms well positioned for growth through de novo expansion and ongoing consolidation

Competitive Landscape



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