PHYSICAL THERAPY MARKET OVERVIEW

February 2014
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 ("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)

<table>
<thead>
<tr>
<th>Orthopedic Market Sizing</th>
<th>Multi-Specialty Market Sizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orthopedic Surgeons in the U.S.</td>
<td>27,157</td>
</tr>
<tr>
<td>Less: Surgeons in States with Anti-POPTS Legislation(2)</td>
<td>964</td>
</tr>
<tr>
<td>Addressable Population</td>
<td>26,193</td>
</tr>
<tr>
<td>Percentage of Orthopedic Surgeons in Private Practice</td>
<td>71%</td>
</tr>
<tr>
<td>Target Population of Orthopedic Surgeons</td>
<td>18,597</td>
</tr>
<tr>
<td>Average Group Size</td>
<td>11</td>
</tr>
<tr>
<td><strong>Addressable Market Size -</strong> (# of Private Practice Orthopedic Groups)</td>
<td><strong>1,691</strong></td>
</tr>
<tr>
<td><strong>Addressable Market Size -</strong> (# of Private Practice Multi-Specialty Groups)</td>
<td><strong>18,513</strong></td>
</tr>
<tr>
<td><strong>Total Addressable Market -</strong> (# of Groups)</td>
<td><strong>20,204</strong></td>
</tr>
</tbody>
</table>

(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.
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

<table>
<thead>
<tr>
<th>Source: American Physical Therapy Association (APTA).</th>
</tr>
</thead>
<tbody>
<tr>
<td>[1] Based on American Physical Therapy Association (APTA) estimates.</td>
</tr>
</tbody>
</table>
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
Harris Williams & Co. (www.harriswilliams.com) is a preeminent middle market investment bank focused on the advisory needs of clients worldwide. The firm has deep industry knowledge, global transaction expertise, and an unwavering commitment to excellence. Harris Williams & Co. provides sell-side and acquisition advisory, restructuring advisory, board advisory, private placements, and capital markets advisory services.

Investment banking services are provided by Harris Williams LLC, a registered broker-dealer and member of FINRA and SIPC, and Harris Williams & Co. Ltd, which is authorised and regulated by the Financial Conduct Authority. Harris Williams & Co. is a trade name under which Harris Williams LLC and Harris Williams & Co. Ltd conduct business.

This report may contain references to registered trademarks, service marks and copyrights owned by third-party information providers. None of the third-party information providers is endorsing the offering of, and shall not in any way be deemed an issuer or underwriter of, the securities, financial instruments or other investments discussed in this report, and shall not have any liability or responsibility for any statements made in the report or for any financial statements, financial projections or other financial information contained or attached as an exhibit to the report. For more information about the materials provided by such third parties, please contact us at +1 (804) 648-0072.

The information and views contained in this report were prepared by Harris Williams & Co. (“Harris Williams”). It is not a research report, as such term is defined by applicable law and regulations, and is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. The information contained herein is believed by Harris Williams to be reliable but Harris Williams makes no representation as to the accuracy or completeness of such information. Harris Williams and/or its affiliates may be market makers or specialists in, act as advisers or lenders to, have positions in and effect transactions in securities of companies mentioned herein and also may provide, may have provided, or may seek to provide investment banking services for those companies. In addition, Harris Williams and/or its affiliates or their respective officers, directors and employees may hold long or short positions in the securities, options thereon or other related financial products of companies discussed herein. Opinions, estimates and projections in this report constitute Harris Williams’ judgment and are subject to change without notice. The financial instruments discussed in this report may not be suitable for all investors, and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Also, past performance is not necessarily indicative of future results. No part of this material may be copied or duplicated in any form or by any means, or redistributed, without Harris Williams’ prior written consent.