

## Customer & Market Due Diligence Of Outpatient Physical Therapy Provider: Assessing Growth Potential In Highly Fragmented, Referral-Driven Market

**The Challenge:** Our client, a middle-market healthcare-focused PE firm, was looking to acquire a regional outpatient physical therapy provider. The target had managed an impressive ~12% 5-year CAGR organically, employing a strategy of partnering with high-end fitness centers and pioneering a reverse referral strategy, referring patients to physicians to cultivate critical physician relationships. Our client was concerned about the target's ability to maintain its growth trajectory moving forward, given the fragmented nature of the market/many small local players. To provide clarity on the target's reputation among its referral base, future growth opportunities, and competitive positioning, Gotham conducted a 2-week customer & market due diligence.

**Referral-Driven Healthcare Market Assessment:** To create a robust fact base within the short timeframe of this due diligence, Gotham: (1) conducted 170 interviews of medical professionals (physicians, physician assistants, and hospital administrators); (2) leveraged its network of experts in the healthcare field (e.g., the head of orthopedic surgery in a leading national hospital); (3) conducted secondary research, including analyzing government data on procedures/injuries (NHDS, NHSA, CDC, CMS); and (4) built a detailed market size/growth model for the physical therapy market in target's current metropolitan area and other metropolitan areas (MSAs) with similar socioeconomic characteristics.

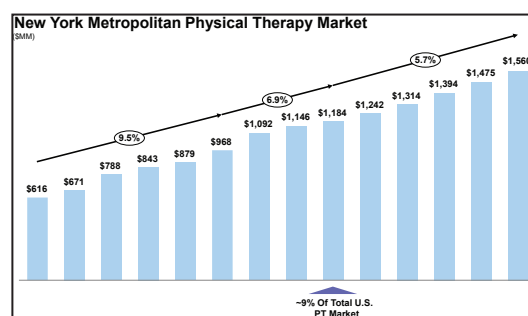
### Target Has Strong Brand Recognition With Physicians' Offices In Its Current Market And Was The Most Referenced "Go To" Provider

Gotham's numerous interviews with healthcare workers and physicians/physician assistants indicated the target was far and away the most referenced "Go To" provider – mentioned 3X more frequently than the next mentioned provider. Among the notable reasons cited were: (1) management's experience and leadership in the physical therapy field; (2) target's strategic location in high-end fitness centers lending access to best equipment available to optimize recovery process; and (3) target's strong relationship with physicians.

### Target Competes In A Large Metropolitan Market With An Attractive Growth Rate (5.7% 5-year CAGR)

To estimate target's current local market size and projected growth, Gotham:

1. **Performed deep-dive analysis of the market drivers/trends**, identifying population age, rate of obesity, advances in surgery techniques, and rising importance of pre-surgery and post-surgery physical therapy as key drivers of demand.
2. **Built a "bottom-up" market size/growth model for the physical therapy market**, utilizing population projections, occupational and U.S. surgery data, and segmenting the national market by age group, state, county, and metropolitan statistical areas. Gotham then triangulated appropriate levels for surgery-related and non-surgery-related growth using data from medial professional and management interviews.
3. **Established 5.7% 5-year CAGR in target's current metropolitan area** driven by a disproportionately high growth in its elderly population vs. other age groups.



### Within Its Current Market Region, Target Has Greatest Expansion Opportunity In Suburban Areas

Gotham segmented target's local market into 8 urban and 7 suburban regions, first analyzing each region's attractiveness based on its population density, average income, age, and insurance coverage level – key drivers of demand for target's value proposition of partnering with high-end fitness centers. We then identified and mapped over 2,000 competing physical therapy centers in these urban and suburban regions, and assessed their service offerings vs. the target's service offerings. While the central metropolitan region offers the highest population density and income levels, the presence of 2 multi-location players in this region limits the opportunity for target's further expansion. Gotham found the greatest opportunity for the target in outer suburban regions with high income and less competition.

### Target Could Also Expand To Other MSAs With Socioeconomic Characteristics Similar To Its Current Regional Market

To assess target's potential for more widespread geographical expansion, Gotham identified other attractive metropolitan areas based on demographic and economic factors and other market trends. Gotham found that increasing ambulatory orthopedic surgery and out-of-pocket spending for physical therapy suggest growth opportunity in other affluent metropolitan areas beyond target's current market. Gotham identified 7 other MSAs with similar economic/demographic characteristics, and built a market model for each MSA.

**The Outcome:** Our PE client was able to move forward with the transaction with confidence as a result of Gotham's due diligence findings, which validated the target's competitive positioning and growth potential in this highly-fragmented and referral-driven healthcare market.