# Coker Capital's Healthcare Services Newsletter – Update on the Outpatient Rehabilitation Sector

In this issue of the Coker Capital Healthcare Services Newsletter, we provide an overview of the outpatient rehabilitation sector.

## Introduction

Outpatient rehabilitation continues to represent one of the most attractive segments of the healthcare services market. As the healthcare sector moves toward value-based reimbursement and the post-acute segment adapts to the increasing cost pressures and reporting requirements related to this shift, outpatient rehabilitation is well positioned to capitalize due to its ability to deliver lower-cost, integrated solutions for patients across the care continuum.

According to Medpac, outpatient rehabilitation services can be segmented into three distinct categories: (i) physical therapy (PT), (ii) occupational therapy (OT), and (iii) speech-language pathology (SLP). Each of these services focuses on improving and restoring functions lost after an illness or injury, helping patients maintain their current condition, and / or preventing or slowing further deterioration of a condition.

The outpatient rehabilitation sub-sector is a component of the broader rehabilitation sector that includes services delivered in institutional settings, such as skilled nursing facilities (SNF), inpatient rehabilitation facilities (IRF), and long-term acute care hospitals (LTACH), as well as home based settings and outpatient clinics. While estimates of market size and segmentation vary, most analysts estimate that rehabilitation services is a $35-$40 billion market, with outpatient clinics accounting for approximately $30 billion of market size.

Several of the largest and most widely followed rehabilitation providers are public companies that focus primarily on delivering services in institutional settings such as Select Medical (NYSE: SEM), Kindred Healthcare (1) (NYSE: KND), Encompass Health (NYSE: EHC), and Genesis Healthcare (NYSE: GEN). These companies generally treat high-acuity patients within inpatient settings such as SNFs, IRFs, and LTACHs, as well as deliver outpatient services. Moreover, many general acute-care hospitals have responded to government pressure to lower readmission rates by expanding the role of physical therapy to provide more effective discharge planning solutions to patients transitioning to institutional or home-based care settings.

The stand-alone outpatient rehabilitation sub-sector is a part of the broader rehabilitation market and is highly fragmented with approximately 20,000 clinics nationwide. Most clinics in the sub-sector focus on the delivery of physical therapy services, though many offer occupational therapy and other integrated services as well. The largest 20 competitors comprise roughly 25% of the market with no single company accounting for more than 5% of total industry revenue. Independent operators with one to four clinics account for the majority of this market's revenue. The most common conditions treated with outpatient rehabilitation are lower back pain, spine, shoulder and rotator-cuff injuries, knee disorders, as well as sprains and strains of various types. Analysts expect the overall rehabilitation services sector to grow at 2-3% in the coming years, while the outpatient rehabilitation segment of this market is expected to grow at 5-7% over the same period.

Two of the largest outpatient rehabilitation competitors are publicly traded companies. SEM and U.S. Physical Therapy (NYSE: USPH) have over 1,600 and 580 locations, respectively. While USPH focuses exclusively on the stand-alone outpatient rehabilitation market, SEM is a more diversified healthcare services provider with additional business segments, including (LTACHs) (approximately 40% of revenue), occupational health (approximately 23% of revenue), and IRFs (approximately 14% of revenue). The remaining large platforms are all private equity backed consolidators including ATI Physical Therapy (acquired by Advent in 2016) with over 700 locations, Upstream Rehabilitation (acquired by Revelstoke in 2015) with over 560 locations, and AthletiCo (acquired by BDT Capital Partners in 2016) with over 400 locations.

In this version of the Coker Capital Newsletter, we will focus primarily on the market for stand-alone outpatient rehabilitation / physical therapy clinics, while highlighting several leading platforms that have built innovative, diversified rehabilitation solutions from an outpatient clinic foundation. While there has been a steady level of M&A activity in recent years, we believe that this sub-sector is still in the early stages of consolidation and will continue to be highly active in the coming years due to its unique importance within the evolving healthcare delivery continuum, high level of fragmentation, strong growth prospects, and the existence of a large number of well capitalized consolidators whose business models are predicated on acquisition driven growth.

(1) Kindred Healthcare was acquired on July 2, 2018 and is no longer publicly traded

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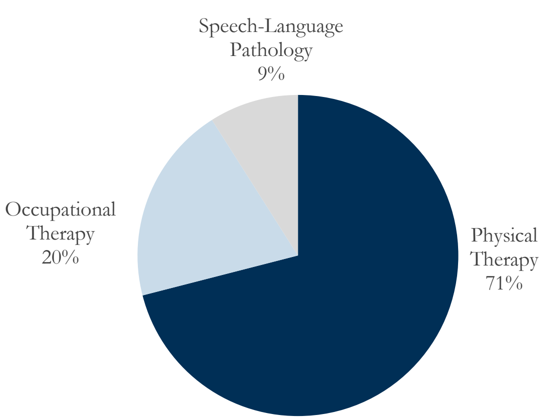
## Outpatient Rehabilitation Services Overview

Outpatient rehabilitation services can be segmented into three distinct categories: (i) physical therapy, (ii) occupational therapy, and (iii) speech-language pathology. Each of these services focuses on improving and restoring functions lost after an illness or injury, helping patients maintain their current condition, and / or preventing or slowing further deterioration of a condition.

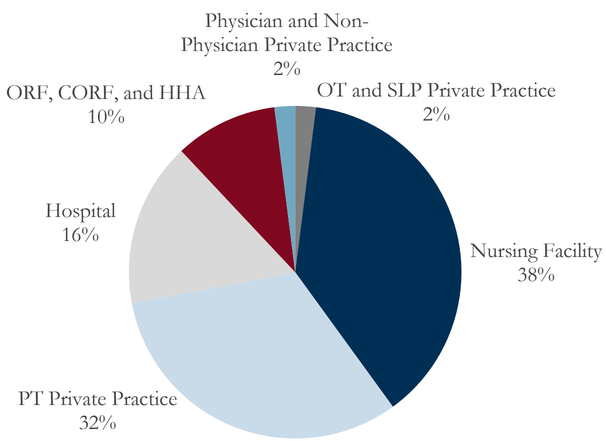
- **Physical therapy (PT)** services include therapeutic exercise, manual therapy, patient education, and other interventions to improve strength and mobility, restore and maintain function, and increase independence. Examples of outcomes include improved ability to stand, lift, carry, and walk independently.
- **Occupational therapy (OT)** services aim to improve or maintain a patient's ability to perform activities of daily living, such as bathing, dressing, and managing medications. Therapies may focus on motor skills, lifting, bending, feeding, and time management.
- **Speech–language pathology (SLP)** services include guided drills and training to help patients restore and maintain the ability to communicate, swallow, and speak. For example, a patient who has had a stroke may receive SLP services to recover the ability to speak.

According to Medpac, PT services account for 71% of all Medicare spending on rehabilitation services, while OT and SLP services account for 20% and 9%, respectively. Each of these services can be furnished in a range of care locations including institutional settings, hospital outpatient departments, physician offices, outpatient rehabilitation clinics, and schools, as well as by therapists in private practice and home health agencies. Medpac's most recent data suggests that services delivered in a nursing facility account for 38% of Medicare spending on outpatient rehabilitation, services provided by physical therapists in private practice account for 32%, and hospital outpatient departments account for 16%.

### Medicare Therapy Spending by Service




### Medicare Therapy Spending by Location




Source: *Outpatient Therapy Services Payment System* report, October 2016

## Outpatient Rehabilitation / Physical Therapy Market Overview

Physical therapy (PT) represents a specific service within the broader outpatient rehabilitation market. While there are many different types of physical therapy, many industry analysts separate outpatient PT services into segments that include Orthopedics (50% of the market), Geriatrics (9%), Speech and Audiology (8%), Neurology (8%), General PT (8%), Sports PT (7%), Pediatrics (7%), and Other Specialty PT (2%).

The physical therapy market is highly fragmented with the top 20 players representing approximately 25% of the overall market with independent operators with one to four clinics comprising the majority of the market. Two of the largest competitors are public companies – Select Medical (SEM) and U.S. Physical Therapy (USPH), while the remaining platforms comprising the top 13 are private equity backed consolidators.

| # | Company | Ownership | Investment Date | States | Clinics |
|---|---|---|---|---|---|
| 1 | Select Medical | Public | N/A | 37 | 1,600+ |
| 2 | ATI Physical Therapy | Advent International | 2016 | 25 | 700+ |
| 3 | U.S. Physical Therapy | Public | N/A | 42 | 580+ |
| 4 | Upstream Rehabilitation | Revelstoke Capital | 2015 | 27 | 560+ |
| 5 | AthletiCo Physical Therapy | BDT Capital Partners | 2016 | 11 | 400+ |
| 6 | Pivot Physical Therapy | InTandem / CI Capital Partners | 2013 | 6 | 270+ |
| 7 | Alliance Physical Therapy[(1)] | GPB Partners | 2017 | 27 | 155+ |
| 8 | Cora Physical Therapy | Gryphon Investors | 2016 | 7 | 150+ |
| 9 | Results Physiotherapy | Sterling Partners | 2014 | 9 | 140+ |
| 10 | PT Solutions | Lindsey Goldberg | 2018 | 12 | 120+ |
| 11 | Physical Rehabilitation Network | Silver Oaks Capital | 2012 | 9 | 115+ |
| 12 | Ivy Rehab Network | Waud Capital | 2016 | 10 | 110+ |
| 13 | Professional Physical Therapy (ProPT) | Thomas H. Lee | 2016 | 5 | 100+ |

(1): Alliance Physical Therapy operates 155+ locations across 27 states including 14 states with freestanding outpatient rehabilitation clinics. Contracted therapy for hospitals, work-fit, and outsourced services for long term care providers comprise the services delivered in sites across the remaining geographies.

Source: Company websites, equity research, public filings

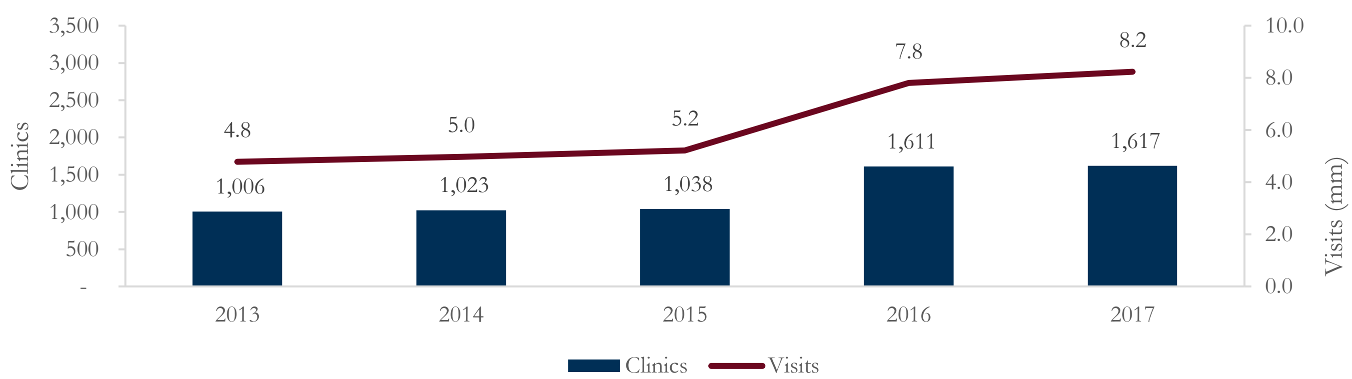
**Select Medical – A Closer Look**

Select Medical is a leading provider of post-acute care in the United States inclusive of the largest network of long-term acute care hospitals (99 LTACHs across 27 states), outpatient rehabilitation clinics (1,617 clinics across 37 states and D.C.), and occupational medicine centers (531 across 41 states). Additionally, SEM's inpatient rehabilitation network is the second largest in the United States (24 hospitals in 10 states).

Since its inception in 1997, SEM has completed nine significant acquisitions totaling $2.6 billion, which include the $400+ million acquisition of Physiotherapy Associates (at the time, the country's second largest outpatient rehabilitation company) and $1.1 billion paid to acquire Concentra from Humana in 2015. Several of the most notable outpatient rehabilitation transactions include:

- **Physiotherapy Associates (2016) –** Acquired in March 2016 for $400 million. This increased SEM's outpatient rehab footprint by more than a third (to over 1,600) and expanded the company's footprint into new geographies. This acquisition added about 570 clinics focused on general orthopedics, spinal care, and neurological rehabilitation, as well as orthotics and prosthetics services.
- **HealthSouth's Outpatient Rehab Division (2007) –** Acquired in January 2007 for $245 million. This acquisition consisted of 570 clinics across 35 states (18 of which were new to SEM), more than doubling SEM's facility count.
- **Contract Therapy (2016 sale) –** In March 2016, SEM sold its contract therapy businesses to an affiliate of Encore Rehabilitation Services for $65 million in cash plus a $7.5 million earn out provision contingent on meeting specific revenue targets.

## Select Medical Clinic Metrics




| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Clinic Net Revenue | $497 | $513 | $538 | $797 | $831 |
| Net Revenue / Visit | $101 | $101 | $101 | $100 | $101 |

Source: Public filings, equity research, company website

Select Medical's outpatient rehabilitation clinics are typically located in medical complexes or retail locations and focus on providing a full range of rehabilitation services inclusive of physical, occupational, and speech programs. The company also provides specialized programs such as functional programs for work related injuries, hand therapy, post-concussion rehabilitation, and athletic training services. Typical patient conditions range from musculoskeletal impairments that restrict the ability to perform normal activities of daily living to sports injuries, work related injuries, post-operative orthopedic, and other medical conditions. Outpatient rehabilitation patients are generally referred by a physician, employer, or health insurer. In this segment, approximately 85% of net operating revenues come from commercial payors, including healthcare insurers, managed care and workers' compensation programs, contract management services, and private pay sources with the balance of reimbursement deriving from Medicare and other government sponsored programs.

**U.S. Physical Therapy – A Closer Look**

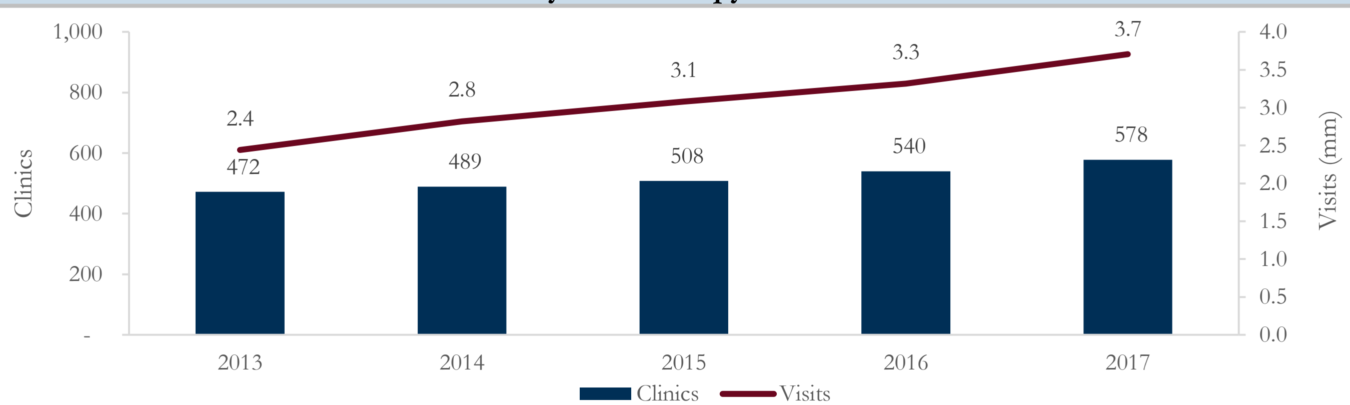
While there are a range of business models for platforms competing in the outpatient physical therapy market, the one pure-play public company, USPH, provides insight into its business through public filings.

USPH is the third largest owner and operator of outpatient rehabilitation clinics with 580 outpatient and occupational therapy clinics across 42 states (no presence in Colorado, Hawaii, Kentucky, Montana, New Mexico, New York, Rhode Island, and West Virginia). The company's clinics provide rehabilitation services, primarily physical therapy and hand therapy, for orthopedic-related disorders, sports-related injuries, preventative care, rehabilitation of injured workers, and neurological-related injuries. The patient's treatment plan often includes home exercise programs that complement the treatment plan developed with a therapist in the clinical setting. Patient leads are usually generated from a range of sources including local primary care and specialty physicians (e.g. orthopedics) as well as discharge planners from hospitals, SNFs, and related acute and post-acute institutional settings. Reimbursement for services can include commercial payors, workers' compensation programs, government sponsored programs (i.e., Medicare and Medicaid), and self-pay.

A typical USPH clinic occupies 1,600-3,000 square feet in a high-traffic office building or shopping center. Minimum staffing requirements at a clinic include a licensed PT therapist and an office manager, while growth in patient volume drives the need for additional staff, such as occupational therapists, therapy assistants, aides, exercise physiologists, athletic trainers, and office personnel. Patients are usually treated for approximately one hour per day, two to three times a week, typically for two to six weeks.

The financial profile of this business model is driven by two primary costs: salaries and real estate. For the most recent year of 2017, *Salaries and related costs* and *Rent, supplies, contract labor and other* comprised 60.9% and 21.1%, respectively, of net patient revenue, for a total of 82.0% of the company's cost structure. The high capital requirements to open a clinic (in the form of leases and equipment), coupled with a staffing model that limits the number of patients that can be seen by a therapist at any given time, creates a dynamic whereby managing the patient volume to maximize profitability is a critical component of success. Specifically, at some point, an incremental patient will not have as high of a contribution margin if that extra visit necessitates the need to add additional staff. While each PT company and clinic will have a slightly different way of analyzing this dynamic, USPH's daily patient volume appears to be around 25 for its typical clinic. USPH's recent 10-K highlights the company's three-year trend of average visits per day per clinic trending just above 25 while the net patient revenue per visit is consistently around $105.

**U.S. Physical Therapy Clinic Metrics**




| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Clinic Net Revenue | $258 | $299 | $324 | $349 | $389 |
| Net Revenue / Visit | $106 | $106 | $105 | $105 | $105 |

Source: Public filings, equity research, company website

USPH's growth strategy primarily consists of acquiring practices and structuring them as partnerships. The company has completed approximately 30 acquisitions since 2005 ranging in size from 3 to 52 clinics. In general, most acquisitions / partnerships maintain their local, existing brand, and management team, while USPH provides centralized support services, including billing and collection, procurement, and management services. Under this model, USPH receives a management fee equal to 10% of the target's revenue before distributions, paid monthly, to the existing partners of the practice. USPH also employs a de novo model that opens over 20 facilities annually that operate as satellites of existing practices and create a localized network of referrals aided by a direct sales team that assists in the development of relationships between the clinics and the local healthcare ecosystem.

While USPH does not disclose the profitability of its targets, the company does disclose target revenue, number of clinics, and clinic visits for the majority of its acquisitions, providing insight into its acquisition program. From 2007-2017, USPH acquired nearly 250 clinics and approximately $175 million in revenue at an average revenue multiple of 1.7x. Across these acquisitions, the average revenue per clinic and revenue per visit was approximately $721,000 and $104, respectively, and the average visits per day was 27.1.

## U.S. Physical Therapy Acquisition Summary

| Year | Enterprise Value | Clinics | Revenue | Visits | Revenue Per Clinic | Revenue Per Visit | Multiple | Visits Per Clinic | Visits per Day |
|---|---|---|---|---|---|---|---|---|---|
| **2017** | $46.5 | 30 | $18.8 | 225,000 | $627 | $83.56 | 2.5x | 7,500 | 29 |
| **2016** | $44.1 | 20 | $19.0 | 155,000 | $950 | $122.58 | 2.3x | 7,750 | 30 |
| **2015** | $33.8 | 21 | $21.5 | 194,000 | $1,024 | $110.82 | 1.6x | 9,238 | 36 |
| **2014** | $16.9 | 16 | $13.6 | 135,500 | $850 | $100.37 | 1.2x | 8,469 | 33 |
| **2013** | $48.7 | 42 | $29.9 | 245,000 | $712 | $122.04 | 1.6x | 5,833 | 23 |
| **2012** | $9.1 | 7 | $5.0 | 45,000 | $714 | $111.11 | 1.8x | 6,429 | 25 |
| **2011** | $16.5 | 20 | $13.0 | 116,000 | $650 | $112.07 | 1.3x | 5,800 | 23 |
| **2010** | $25.9 | 25 | $20.7 | 213,000 | $828 | $97.18 | 1.3x | 8,520 | 33 |
| **2008** | $22.3 | 13 | $8.6 | 95,000 | $662 | $90.53 | 2.6x | 7,308 | 29 |
| **2007** | $33.5 | 51 | $26.5 | 268,000 | $520 | $98.88 | 1.3x | 5,255 | 21 |
| | | | | | | | | | |
| **Total 2007-2017** | **$297.3** | **245** | **$176.6** | **1,691,500** | **$721** | **$104.40** | **1.7x** | **6,904** | **27** |

Source: Public filings, equity research, company website

**Other Large Outpatient Rehabilitation / Physical Therapy Companies**

The remaining companies comprising the top 13 outpatient rehabilitation clinic owner and operators are all private equity backed consolidators.

**ATI Physical Therapy**

Founded in 1996, Willowbrook, Illinois based ATI Physical Therapy is the second largest owner and operator of outpatient rehabilitation clinics with over 700 clinics across 25 states. The company specializes in research-based physical therapy, workers' compensation rehabilitation, employer worksite solutions, and sports medicine. ATI has raised several rounds of private equity starting in 2010 when GTCR acquired a majority stake and grew the footprint from 86 clinics to 188 before selling to KRG Capital Partners in 2012. In 2016, KRG sold its stake to Advent International after growing the company to over 500 clinics across 19 states.

**Upstream Rehabilitation**

Founded in 2004, Birmingham, AL based Upstream Rehabilitation is the fourth largest owner of outpatient rehabilitation clinics after the January 2018 merger with Drayer Physical Therapy Institute. Prior to this merger, Upstream had nearly 300 clinics in 15 states and over 100 managed clinics across 20 states. Revelstoke Capital Partners acquired a majority stake in Upstream in 2015 for $346 million from the company's original investor, Charterhouse Group. Founded in Maryland in 2002, Drayer grew to 40 clinics before being acquired in 2008 by private equity firm Linden Capital and doubled its clinic count through 2012 when it was acquired by GS Capital Partners. At the time of the Upstream acquisition, Drayer had over 150 clinics across 14 states. The combination of Upstream and Drayer encompasses a footprint of more than 560 owned and managed clinics across 27 states.

**AthletiCo Physical Therapy**

Founded in 1991, Oak Brook, IL based AthletiCo is the fifth largest owner and operator of outpatient rehabilitation clinics with over 400 clinics across 11 states. The company was acquired by Harvest Partners for approximately $400 million in 2014 and had 80 clinics across three states at that time. Harvest sold the company to BDT Capital Partners in 2016 when the business had over 350 clinics across nine states. In addition to physical therapy, AthletiCo also provides athletic training, occupational therapy, workers' compensation issues, specialty programs, and fitness services to high schools, colleges, and professional sports teams.

**Pivot Physical Therapy**
Founded in 2001, Towson, MD based Pivot Physical Therapy is the sixth largest owner and operator of outpatient rehabilitation clinics with over 270 clinics across six Mid-Atlantic states and D.C. (Delaware, Maryland, North Carolina, Pennsylvania, Virginia, and West Virginia). The company provides physical therapy, aquatic therapy, and sports medicine services. The company also has an extensive sports medicine network (Pivot Sports Medicine), providing athletic training and other sports medicine related services to over 50 scholastic athletic departments. In 2013, Pivot partnered with private equity firms InTandem Capital Partners and CI Capital Partners to extend its acquisition strategy.

**Alliance Physical Therapy**
Founded in 2017, Grand Rapids, MI based Alliance PT is the seventh largest owner and operator of outpatient rehabilitation clinics with over 155 physical therapy locations in 27 states. In February 2018, Alliance acquired the domestic operations of Agility Health for a total transaction value of $45 million. Agility's United States division operates outpatient and on-site physical therapy clinics and also provides contract rehabilitation services to hospitals, inpatient rehabilitation units, long-term care facilities, and industrial worksites. After the Agility acquisition, the combined company owns and operates 73 outpatient clinics across 14 states and also provides contract therapy for hospitals, work-fit, and outsourced services for long term care providers.

**CORA Physical Therapy**
Founded in 1997, Lima, OH based CORA is the eighth largest owner and operator of outpatient rehabilitation clinics with more than 150 clinics across seven states (Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia). The company offers a range of treatment including outpatient physical therapy, general rehabilitation, workers' compensation therapy, sports and auto injury rehabilitation, and rehabilitation for seniors. Gryphon Investors acquired a majority stake in CORA in 2016.

**Results Physiotherapy**
Founded in 1996, Nashville, TN based Results is the ninth largest owner and operator of outpatient rehabilitation clinics with over 140 locations across nine states. The company was acquired in 2014 by Sterling Partners and treats more than 100 musculoskeletal conditions, as well as providing all common postsurgical rehabilitation services.

**PT Solutions**
Founded in 2003, Kennesaw, GA based PT Solutions is the tenth largest owner and operator of outpatient rehabilitation clinics with over 120 treatment locations across 12 states (Alabama, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Missouri, North Carolina, South Carolina, Tennessee, and Virginia) including metropolitan areas like Atlanta, Chicago, New Orleans, and Tampa. The company operates a model that partners with hospitals through either an in-hospital management agreement, through the development of satellite clinics, and / or with a joint venture agreement. The company received an investment from New Harbor Capital in 2013 and was acquired by Lindsey Goldberg in 2018.

**Physical Rehabilitation Network (PRN)**
Founded in 1991, Carlsbad, CA based PRN is the eleventh largest owner and operator of outpatient rehabilitation clinics with over 115 PT clinics across nine states (California, Colorado, Idaho, Minnesota, North Dakota, New Mexico, Nevada, Texas, and Washington). PRN PT clinics provide a variety of outpatient rehabilitation services, including physical therapy, occupational therapy, hand therapy, and other ancillary services. The company received an investment from Silver Oaks Capital in 2012 and has competed six acquisitions inclusive of 37 clinics since that time.

**Ivy Rehab Network**
Founded in 2003, White Plains, NY based Ivy Rehab is the twelfth largest owner and operator of outpatient rehabilitation clinics with over 110 clinics in the Northeast (Connecticut, New Jersey, New York, and Pennsylvania), the Midwest (Illinois, Indiana, Michigan), and the Southeast (North Carolina, South Carolina, and Virginia). The company received an investment from Waud Capital Partners in 2016 and has completed 16 add-on acquisitions since that time.

**Professional Physical Therapy (ProPT)**
Founded in 1998, Uniondale, NY based ProPT is the thirteenth largest owner and operator of outpatient rehabilitation clinics with over 100 outpatient physical and hand therapy centers across five states (New York, New Jersey, Connecticut, Massachusetts, and New Hampshire). The company's outpatient physical therapy centers provide treatment to patients suffering from musculoskeletal impairments associated with orthopedic and sports injuries among other medical conditions. Professional Physical Therapy also operates a 20,000 square foot sports performance training facility in Garden City, NY, as well as four fitness centers in Stamford, Wilton, Southport, CT, and Copiague, NY. In 2011, ProPT partnered with Great Point Partners when the business had 10 locations in New York and embarked on a growth plan that included 21 tuck-in acquisitions and 16 de novo units before selling to Thomas H. Lee Partners in 2016.

**Other Outpatient Rehabilitation Competitors**

The well capitalized consolidators listed above comprise approximately 5,000 of the approximately 20,000 clinics nationally, or approximately 25%. Beyond that, the market remains highly fragmented with approximately 100 companies with 10+ clinics and thousands of small companies nationally that comprise the remaining clinics. Several of the smaller, more local and regionally focused outpatient rehabilitation companies that have received investment from the private equity community in recent years include:

| Company | Ownership | Investment Date | States | Clinics |
|---|---|---|---|---|
| Excel Orthopedic Rehabilitation | Caymus Equity | 2016 | 1 | 14 |
| 360 PT Management | Celerity Partners | 2015 | 1 | 12 |
| MOTION PT Holdings | Pharos Capital Group | 2014 | 3 | 36 |
| Phoenix Rehabilitation and Health Services | 3 Rivers Capital | 2013 | 4 | 60 |

Finally, in addition to Select Medical, several large and diversified healthcare services companies deliver rehabilitation services across the post-acute continuum inclusive of institutional and outpatient settings.

- **Kindred Healthcare's (KND)** rehabilitation services are provided primarily on an inpatient basis. The company operates over 100 acute rehabilitation units certified as inpatient rehabilitation facilities (IRFs), and provides services to hospitals (including 119 long-term acute care hospitals), long-term care facilities (including five subacute or skilled nursing units) and over 130 outpatient clinics in 46 states.
- **Encompass Health (EHC)** provides post-acute healthcare services, including facility-based and home-based, through a network of over 120 IRFs and 180 home health and hospice locations. The company's total revenue last year was $3.7 billion, including $3.0 billion of rehabilitation services, though only $115 million of services were provided on an outpatient basis.
- **Genesis Healthcare, Inc. (GEN)** operates over 470 skilled nursing facilities (SNFs) and 26 assisted living facilities. While approximately 83% of the company's $5.7 billion of total revenue in 2016 was attributable to skilled nursing facilities, its physical therapy business amounts to about $1.0 billion. This includes approximately a third for GEN itself (eliminated in consolidation) with the remainder provided to third parties. Nearly all of GEN's rehabilitation services are provided on an inpatient basis, although it does provide some services to the home health care market.

Many of these companies operate diversified business models focused on delivering a range of services to patients across the post-acute care continuum. For example, while SEM is not involved in the delivery of home health services, Encompass is executing a strategy of integrating inpatient rehabilitation facilities with home health. Additionally, Kindred owns nursing facilities that manage sub-acute rehabilitation patients. Some analysts believe that diversified models with the ability to deliver clinical care in lower-cost settings, such as home health and outpatient rehabilitation, will be an increasingly important component of the care model for businesses looking to position themselves for success in the rapidly changing healthcare paradigm. We expect that this theme will continue to drive acquisition activity across the post-acute landscape for consolidators looking to build scale and diversify.

## Outpatient Rehabilitation Valuation Considerations

While there have been a large number of M&A transactions in the outpatient rehabilitation sector in recent years, many of these deals are private and do not disclose valuation metrics. Several industry analysts have cited an increase in Firm Value / EBITDA multiples over time starting with 7-8x for deals completed from 2005-2010 to 8-9x from 2011-2013 to 10-11x from 2014-2015 to 11-12x+ from 2016 to current. USPH's trading multiple is another valuation metric for outpatient rehabilitation companies given its pure play focus and currently trades at a multiple of 22.3x Firm Value / 2018E EBITDA, a significant premium to its public peers. As there are no other public pure play outpatient rehabilitation competitors, we created two categories of public peers to compare to USPH.

(1) **Physician Services** – This comp set encompasses physician driven companies focused on the delivery of care both within the hospital and across alternate site settings and includes Envision Healthcare, Mednax, and Surgery Partners. These companies represent comparable businesses given their generally low capital intensive requirements, focus on multi-site location development, and reliance on successful deployment of human capital (i.e. physicians, nurses, and physical therapists) to drive growth.

(2) **Rehabilitation –** This comp set includes a range of public companies focused on the delivery of rehabilitation services across both institutional and outpatient settings and includes Encompass, Kindred, Genesis, and Select Medical. While these companies all deliver rehabilitation services, their overall focus is primarily on patients in institutional settings (i.e., SNFs, IRFs, and LTACHs) and their business models have meaningful differences in patient acuity, reimbursement profile, and capital expenditure requirements, thus limiting their comparability to outpatient rehabilitation providers.

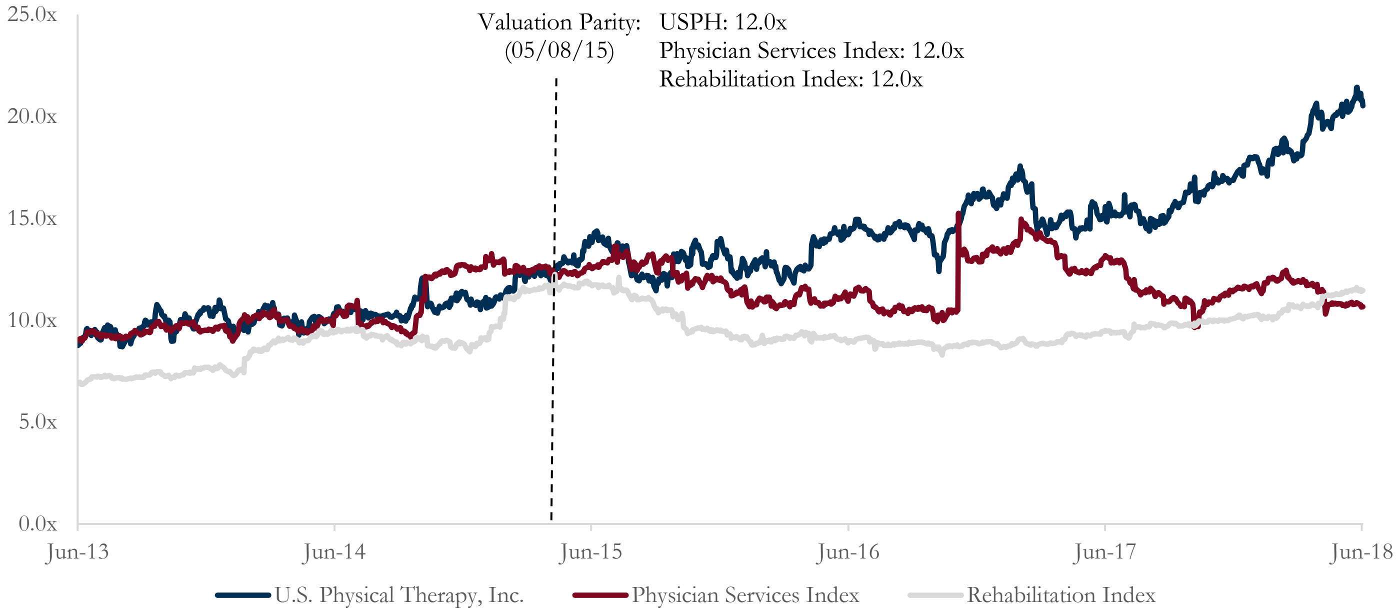
| *($ in millions)* | Market Data | | | | | Trading Multiples EV (P) / 2018 | |
|---|---|---|---|---|---|---|---|
| Company | Price as of: 06/29/18 | Market Cap | Enterprise Value | 2018P Revenue | 2018P EBITDA | Revenue | EBITDA |
| **U.S. Physical Therapy** | **$96.00** | **$1,216.3** | **$1,354.2** | **$442.1** | **$60.4** | **3.1x** | **22.4x** |
| **Physician Services** | | | | | | | |
| Envision Healthcare | 44.01 | 5,320.3 | 9,998.4 | 8,460.7 | 974.4 | 1.2x | 10.3x |
| Mednax | 43.28 | 4,044.9 | 5,959.5 | 3,711.9 | 610.1 | 1.6x | 9.8x |
| Surgery Partners | 14.90 | 728.8 | 4,241.0 | 1,763.9 | 246.4 | 2.4x | 17.2x |
| *Weighted Average* | | | | | | 1.4x | 10.6x |
| *Median* | | | | | | 1.6x | 10.3x |
| **Rehabilitation** | | | | | | | |
| Encompass Health | 67.72 | 6,692.1 | 9,625.2 | 4,198.3 | 858.3 | 2.3x | 11.2x |
| Select Medical | 18.15 | 2,433.2 | 6,555.8 | 5,119.8 | 652.2 | 1.3x | 10.1x |
| Genesis Healthcare | 2.29 | 228.4 | 4,544.6 | 5,117.1 | 592.9 | 0.9x | 7.7x |
| Kindred Healthcare(1) | 9.00 | 821.3 | 4,322.6 | 6,127.0 | 494.7 | 0.7x | 8.7x |
| *Weighted Average* | | | | | | 1.9x | 10.7x |
| *Median* | | | | | | 1.1x | 9.4x |

Source: Capital IQ
(1) Kindred Healthcare was acquired on July 2, 2018 and is no longer publicly traded

USPH currently trades at a meaningful premium to both of these peer comp sets. When compared to the specialties and end markets that are the focus of the **Physician Services** comps, outpatient rehabilitation is generally a more fragmented end market with more consolidation opportunities for platforms across the size continuum. This segment is also generally less capital intensive with a more benign reimbursement profile. Finally, several of the public physician services businesses have recently experienced company specific challenges that have impacted valuations driven by acquisition integration challenges, litigation, business model changes, and shareholder agitation.

When compared to the **Rehabilitation** comps, outpatient rehabilitation is expected to grow at a much faster pace than the broader rehabilitation services segment as outpatient services are more cost effective and clinically appropriate than inpatient procedures for many common maladies. Additionally, the outpatient segment of rehabilitation is more fragmented with more opportunities for consolidation than many inpatient segments. USPH and most outpatient rehabilitation platforms also have more favorable payor mixes than more diversified rehabilitation companies – higher levels of commercial and managed care pay and higher reimbursement drive better margins for these companies. Finally, the SNF, IRF, and LTACH segments have experienced a more challenging reimbursement environment in recent years, impacting profitability and ultimately, valuation.

## Overview of Historical EV / LTM EBITDA Premium for USPH Versus Peer Indices




| Average EV/LTM EBITDA for: | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| U.S. Physical Therapy | 9.6x | 10.3x | 12.5x | 13.8x | 15.6x | 19.0x |
| Physician Services Index | 9.5x | 10.3x | 12.5x | 11.1x | 12.3x | 11.5x |
| Rehabilitation Index | 7.3x | 8.8x | 10.7x | 9.0x | 9.4x | 10.7x |

Source: Capital IQ

## Conclusion

The outpatient rehabilitation industry represents an attractive value proposition for the United States healthcare system and remains highly fragmented, presenting consolidation opportunities not only for a large number of well capitalized public and private equity backed companies, but also for new investors looking to invest in and grow platforms. As healthcare continues to rapidly evolve and innovate, outpatient rehabilitation is well-positioned to deepen its value proposition across healthcare due to its ability to deliver leading outcomes at lower costs and drive greater patient engagement in areas like health / disease / care management, complimentary home based exercise solutions, and discharge planning support. With patients, providers, and payors continuing to challenge old ways of delivering care and developing new, innovative solutions, outpatient rehabilitation will be well positioned to expand its role across the care continuum.

## Overview of Leading Outpatient Rehabilitation Companies Geographic Footprint

| *State* | USPH | SEM | ATI | Upstream(1) | Alliance(2) | PT Solutions | Athletico | IVY | Results | PRN | Cora | Pivot | ProPT | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | ✓ | ✓ | ✓ | ✓ | | ✓ | | | ✓ | | | | | 6 |
| Alaska | ✓ | ✓ | ✓ | | | | | | | | | | | 3 |
| Arizona | ✓ | ✓ | ✓ | | ✓ | | ✓ | | | | | | | 5 |
| Arkansas | ✓ | ✓ | | | | | | | | | | | | 2 |
| California | ✓ | ✓ | ✓ | | ✓ | | | | | ✓ | | | | 5 |
| Colorado | | ✓ | | ✓ | | | | | | ✓ | | | | 3 |
| Connecticut | ✓ | ✓ | | | | | | ✓ | | | | | ✓ | 4 |
| Delaware | ✓ | ✓ | ✓ | ✓ | | | | | | | | ✓ | | 5 |
| Florida | ✓ | ✓ | | | | ✓ | | | | | ✓ | | | 4 |
| Georgia | ✓ | ✓ | ✓ | ✓ | | ✓ | | | ✓ | | ✓ | | | 7 |
| Hawaii | | | | | | | | | | | | | | 0 |
| Idaho | ✓ | | | | | | | | | ✓ | | | | 2 |
| Illinois | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | | | | | | 6 |
| Indiana | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | | | | | 7 |
| Iowa | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | | | | | 5 |
| Kansas | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | | | | 6 |
| Kentucky | | ✓ | | ✓ | | ✓ | | | ✓ | | ✓ | | | 5 |
| Louisiana | ✓ | ✓ | | ✓ | ✓ | ✓ | | | | | | | | 5 |
| Maine | ✓ | ✓ | | | ✓ | | | | | | | | | 3 |
| Maryland | ✓ | ✓ | ✓ | ✓ | | | | | | | | ✓ | | 5 |
| Massachusetts | ✓ | ✓ | ✓ | | | | | | | | | | ✓ | 4 |
| Michigan | ✓ | ✓ | ✓ | | ✓ | | ✓ | ✓ | | | | | | 6 |
| Minnesota | ✓ | ✓ | | | | | | | | ✓ | | | | 3 |
| Mississippi | ✓ | ✓ | | ✓ | | | | | ✓ | | | | | 4 |
| Missouri | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | | | 7 |
| Montana | | | | | | | | | | | | | | 0 |
| Nebraska | ✓ | ✓ | ✓ | | | | ✓ | | | | | | | 4 |
| Nevada | ✓ | ✓ | ✓ | | | | | | | ✓ | | | | 4 |
| New Hampshire | ✓ | | | | | | | | | | | | ✓ | 2 |
| New Jersey | ✓ | ✓ | | ✓ | ✓ | | | ✓ | | | | | ✓ | 6 |
| New Mexico | | ✓ | ✓ | | ✓ | | | | | ✓ | | | | 4 |
| New York | | | | | | | | ✓ | | | | | ✓ | 2 |
| North Carolina | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | | ✓ | ✓ | | 10 |
| North Dakota | ✓ | | | | | | | | | ✓ | | | | 2 |
| Ohio | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | | | | | 5 |
| Oklahoma | ✓ | ✓ | | ✓ | | | | | | | | | | 3 |
| Oregon | ✓ | | ✓ | ✓ | | | | | | | | | | 3 |
| Pennsylvania | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | | ✓ | | 7 |
| Rhode Island | | | | | | | | | | | | | | 0 |
| South Carolina | ✓ | ✓ | ✓ | ✓ | | ✓ | | ✓ | ✓ | | ✓ | | | 8 |
| South Dakota | ✓ | | | | | | ✓ | | | | | | | 2 |
| Tennessee | ✓ | ✓ | ✓ | ✓ | | ✓ | | | ✓ | | ✓ | | | 7 |
| Texas | ✓ | ✓ | ✓ | ✓ | ✓ | | | | ✓ | ✓ | | | | 7 |
| Utah | ✓ | | | | | | | | | | | | | 1 |
| Vermont | ✓ | | | | | | | | | | | | | 1 |
| Virginia | ✓ | ✓ | | ✓ | | ✓ | | ✓ | | | ✓ | ✓ | | 7 |
| Washington | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | ✓ | | | | 6 |
| West Virginia | | | | | | | | | | | | ✓ | | 1 |
| Wisconsin | ✓ | ✓ | ✓ | | ✓ | | ✓ | | | | | | | 5 |
| Wyoming | ✓ | | | | | | | | | | | | | 1 |
| **Total** | 42 | 37 | 25 | 23 | 14 | 12 | 11 | 10 | 9 | 9 | 7 | 6 | 5 | |

(1): Press release states that Upstream operates across 27 states pro forma for Drayer acquisitions
(2): Alliance Physical Therapy operates over 150 locations across 27 states including 14 states with freestanding outpatient rehabilitation clinics. Contracted therapy for hospitals, work-fit, and outsourced services for long term care providers comprise the remaining geographies.

Source: Company websites, equity research, public filings

# Overview of Healthcare Services Sub-Sectors and Companies

**Acute-Care Hospitals (6)**

| Company | Ticker |
|---|---|
| Community Health | CYH |
| HCA | HCA |
| Lifepoint Health | LPNT |
| Quorum Health | QHC |
| Tenet Healthcare | THC |
| Universal Health Services | UHS |

**Assisted Living and Long-Term Care (7)**

| Company | Ticker |
|---|---|
| Brookdale Senior Living | BKD |
| Capital Senior Living | CSU |
| Ensign Group | ENSG |
| Five Star Quality Care | FVE |
| Kindred Healthcare | KND |
| Genesis Healthcare | GEN |
| National Healthcare Group | NHC |

**Behavioral Health (5)**

| Company | Ticker |
|---|---|
| Acadia | ACHC |
| American Addiction Centers | AAC |
| Civitas Solutions | CIVI |
| Providence Service Corp | PRSC |
| Universal Health Services | UHS |

**Clinical Laboratories (5)**

| Company | Ticker |
|---|---|
| LabCorp | LH |
| NeoGenomics | NEO |
| Psychemedics | PMD |
| Quest Diagnostics | DGX |
| Sonic Healthcare | SHL |

**Contract Research Organizations (6)**

| Company | Ticker |
|---|---|
| Charles River Labs | CRL |
| Icon | ICLR |
| IQVIA Holdings | IQV |
| MedPace | MEDP |
| PRA Health | PRAH |
| Syneos | SYNH |

**Distribution and Supplies (6)**

| Company | Ticker |
|---|---|
| AmerisourceBergen | ABC |
| Cardinal Health | CAH |
| HenrySchein | HSIC |
| McKesson | MCK |
| Owens and Minor | OMI |
| Patterson Companies | PDCO |

**HCIT (22)**

| Company | Ticker |
|---|---|
| Provider Focused HCIT (13) | |
| Allscripts Healthcare | MDRX |
| Athenahealth | ATHN |
| Cerner | CERN |
| CPSI | CPSI |
| Evolent Health | EVH |
| Healthstream | HSTM |
| iRhythm | IRTC |
| Omnicell | OMCL |
| Premier | PINC |
| Quality Systems | QSII |
| Teladoc | TDOC |
| Vocera | VCRA |
| R1 RCM | RCM |
| Payor Focused HCIT (7) | |
| Benefit Focus | BNFT |
| Castlight Health | CSLT |
| Cotiviti | COTV |
| eHealth | EHTH |
| Healthequity | HQY |
| HMS Holdings | HMSY |
| Inovalon Holdings | INOV |
| Other HCIT (2) | |
| Medidata | MDSO |
| Veeva Systems | VEEV |

**Hospice and Home Care (4)**

| Company | Ticker |
|---|---|
| Addus Home Care | ADUS |
| Amedisys | AMED |
| Chemed | CHE |
| LHC Group | LHCG |

**Other Outsourced Services (4)**

| Company | Ticker |
|---|---|
| Corvel | CRVL |
| Healthcare Services Group | HCSG |
| Magellan Health | MGLN |
| Tivity Health | TVTY |

**Payors (9)**

| Company | Ticker |
|---|---|
| Government Payors (4) | |
| Centene | CNC |
| Magellan Health | MGLN |
| Molina | MOH |
| Wellcare | WCG |
| Commercial Payors (5) | |
| Aetna | AET |
| Anthem | ANTM |
| Cigna | CI |
| Humana | HUM |
| United Healthcare | UNH |

**Physician Services / Alternatie Site (8)**

| Company | Ticker |
|---|---|
| American Renal Associates | ARA |
| DaVita Healthcare | DVA |
| Envision Healthcare | EVHC |
| Fresenius | FMS |
| Mednax | MD |
| Nobilis | HLTH |
| RadNet | RDNT |
| Surgery Partners | SGRY |

**Rehabilitation (3)**

| Company | Ticker |
|---|---|
| Encompass Health | EHC |
| Select Medical | SEM |
| US Physical Therapy | USPH |

**Specialty Pharmacy Services (5)**

| Company | Ticker |
|---|---|
| BioScrip | BIOS |
| CVS Health | CVS |
| Diplomat Pharmacy | DPLO |
| Express Scripts | ESRX |
| Walgreens Boots Alliance | WBA |

**Staffing (3)**

| Company | Ticker |
|---|---|
| AMN Health Services | AMN |
| Cross Country Healthcare | CCRN |
| On Assignment | ASGN |



Coker CAPITAL ADVISORS

| *($ in millions)* | PUBLICLY-TRADED HEALTHCARE COMPANIES | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Market Data | | | | Financial Information | | | | Trading Multiples | |
| | Price as of: | % 52wk | Market | Enterprise | Cash and Cash | Total | 2018P | 2018P | EV (P) / 2018 | |
| Company | 06/29/18 | High | Cap | Value | Equivalents | Debt | Revenue | EBITDA | Revenue | EBITDA |
| **Provider Services** | | | | | | | | | | |
| **Acute-Care Hospitals** | | | | | | | | | | |
| HCA | $102.60 | 94% | $35,838.1 | $69,809.1 | $1,086.0 | $33,291.0 | $45,759.3 | $8,613.4 | 1.5x | 8.1x |
| Tenet Healthcare | 33.57 | 86% | 3,425.8 | 19,963.8 | 974.0 | 14,889.0 | 18,128.3 | 2,604.5 | 1.1x | 7.7x |
| UHS | 111.44 | 87% | 10,520.8 | 14,437.5 | 73.1 | 3,921.3 | 10,914.6 | 1,772.6 | 1.3x | 8.1x |
| Community Health | 3.32 | 33% | 374.6 | 14,443.6 | 424.0 | 13,896.0 | 13,721.2 | 1,570.4 | 1.1x | 9.2x |
| Lifepoint Health | 48.80 | 72% | 1,892.4 | 4,842.2 | 140.1 | 2,917.2 | 6,406.4 | 743.1 | 0.8x | 6.5x |
| Quorum Health | 5.00 | 50% | 150.3 | 1,365.1 | 32.5 | 1,231.1 | 1,945.9 | 149.1 | 0.7x | 9.2x |
| *Weighted Average* | | | | | | | | | 1.4x | 8.0x |
| *Median* | | | | | | | | | 1.1x | 8.1x |
| **Assisted Living and Long-Term Care** | | | | | | | | | | |
| Brookdale Senior Living | 9.09 | 61% | 1,705.0 | 6,329.9 | 335.4 | 5,135.4 | 4,587.4 | 558.1 | 1.4x | 11.3x |
| Kindred Healthcare | 9.00 | 76% | 821.3 | 4,322.6 | 108.8 | 3,421.6 | 6,127.0 | 494.7 | 0.7x | 8.7x |
| Ensign Group | 35.82 | 89% | 1,867.3 | 2,117.1 | 35.1 | 290.5 | 2,007.6 | 193.3 | 1.1x | 11.0x |
| Capital Senior Living | 10.67 | 64% | 332.2 | 1,326.0 | 9.9 | 1,003.7 | 474.7 | 102.5 | 2.8x | 12.9x |
| Genesis Healthcare | 2.29 | 80% | 228.4 | 4,544.6 | 57.7 | 5,032.1 | 5,117.1 | 592.9 | 0.9x | 7.7x |
| National Healthcare Group | 70.38 | 96% | 1,071.2 | 1,019.1 | 55.0 | 125.8 | N/A | N/A | N/A | N/A |
| Five Star Quality Care | 1.50 | 83% | 75.8 | 37.7 | 31.2 | 8.1 | 1,382.8 | N/A | N/A | N/A |
| *Weighted Average* | | | | | | | | | 1.0x | 8.7x |
| *Median* | | | | | | | | | 1.1x | 11.0x |
| **Behavioral Health** | | | | | | | | | | |
| Universal Health Services | 111.44 | 87% | 10,520.8 | 14,437.5 | 73.1 | 3,921.3 | 10,914.6 | 1,772.6 | 1.3x | 8.1x |
| Acadia | 40.91 | 75% | 3,609.7 | 6,818.5 | 57.8 | 3,241.9 | 3,063.6 | 641.0 | 2.2x | 10.6x |
| Civitas Solutions | 16.40 | 82% | 601.4 | 1,312.0 | 0.0 | 712.6 | 1,611.4 | 171.2 | 0.8x | 7.7x |
| Providence Service Corp | 78.55 | 99% | 1,014.7 | 1,006.4 | 86.2 | 2.4 | 1,642.6 | 77.6 | 0.6x | 13.0x |
| American Addiction Centers | 9.37 | 72% | 230.5 | 527.8 | 14.3 | 328.4 | 336.5 | 70.5 | 1.6x | 7.5x |
| *Weighted Average* | | | | | | | | | 1.5x | 9.0x |
| *Median* | | | | | | | | | 1.3x | 8.1x |
| **Hospice and Home Care** | | | | | | | | | | |
| Chemed | 321.81 | 96% | 5,128.9 | 5,257.7 | 13.7 | 142.5 | 1,762.1 | 295.8 | 3.0x | 17.8x |
| Amedisys | 85.46 | 96% | 2,911.1 | 2,878.5 | 120.0 | 86.2 | 1,635.0 | 163.0 | 1.8x | 17.7x |
| LHC Group | 85.59 | 98% | 2,810.2 | 3,004.5 | 9.3 | 125.2 | 1,843.7 | 168.7 | 1.6x | 17.8x |
| Addus Home Care | 57.25 | 93% | 661.1 | 639.9 | 63.4 | 42.2 | 518.2 | 43.7 | 1.2x | 14.6x |
| *Weighted Average* | | | | | | | | | 2.2x | 17.6x |
| *Median* | | | | | | | | | 1.7x | 17.7x |
| **Physician Services / Alternate Site** | | | | | | | | | | |
| Fresenius | 50.35 | 87% | 26,434.8 | 34,288.2 | 846.4 | 7,720.9 | 20,702.9 | 3,886.1 | 1.7x | 8.8x |
| Davita | 69.44 | 86% | 12,117.3 | 22,453.7 | 358.9 | 9,464.0 | 11,568.0 | 2,138.8 | 1.9x | 10.5x |
| Envision Healthcare | 44.01 | 70% | 5,320.3 | 9,998.4 | 767.4 | 4,621.2 | 8,460.7 | 974.4 | 1.2x | 10.3x |
| Mednax | 43.28 | 69% | 4,044.9 | 5,959.5 | 40.9 | 1,966.4 | 3,711.9 | 610.1 | 1.6x | 9.8x |
| Surgery Partners | 14.90 | 63% | 728.8 | 4,241.0 | 112.8 | 2,302.5 | 1,763.9 | 246.4 | 2.4x | 17.2x |
| American Renal Associates | 15.77 | 66% | 511.5 | 1,319.9 | 64.3 | 557.9 | 823.5 | 114.3 | 1.6x | 11.6x |
| RadNet | 15.00 | 97% | 723.6 | 1,329.3 | 35.0 | 604.0 | 956.0 | 143.0 | 1.4x | 9.3x |
| Nobilis | 1.20 | 62% | 93.8 | 271.3 | 23.2 | 140.4 | 348.8 | 58.6 | 0.8x | 4.6x |
| *Weighted Average* | | | | | | | | | 1.7x | 9.6x |
| *Median* | | | | | | | | | 1.6x | 10.0x |
| **Rehabilitation** | | | | | | | | | | |
| Encompass Health | 67.72 | 97% | 6,692.1 | 9,625.2 | 86.4 | 2,577.1 | 4,198.3 | 858.3 | 2.3x | 11.2x |
| Select Medical | 18.15 | 92% | 2,433.2 | 6,555.8 | 119.7 | 3,522.1 | 5,119.8 | 652.2 | 1.3x | 10.1x |
| U.S. Physical Therapy | 96.00 | 94% | 1,216.3 | 1,354.2 | 19.8 | 48.1 | 442.1 | 60.4 | 3.1x | 22.4x |
| *Weighted Average* | | | | | | | | | 2.1x | 12.3x |
| *Median* | | | | | | | | | 2.3x | 11.2x |

*Source CapitalIQ*

| ($ in millions) | Market Data | | | | Financial Information | | | | Trading Multiples | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | EV (P) / 2018 | |
| Company | Price as of: 06/29/18 | % 52wk High | Market Cap | Enterprise Value | Cash and Cash Equivalents | Total Debt | 2018P Revenue | 2018P EBITDA | Revenue | EBITDA |
| **Information Technology and Solutions** | | | | | | | | | | |
| **Provider Focus HCIT** | | | | | | | | | | |
| Cerner | 59.79 | 81% | 19,839.2 | 19,363.4 | 413.4 | 445.6 | 5,385.0 | 1,629.3 | 3.6x | 11.9x |
| Athenahealth | 159.14 | 97% | 6,430.8 | 6,558.0 | 142.0 | 269.2 | 1,351.3 | 378.1 | 4.9x | 17.3x |
| Teladoc | 58.05 | 91% | 3,696.6 | 3,787.3 | 65.2 | 210.4 | 397.8 | 10.0 | 9.5x | NM |
| Allscripts Healthcare | 12.00 | 74% | 2,135.4 | 4,211.9 | 135.0 | 1,729.3 | 2,174.1 | 433.4 | 1.9x | 9.7x |
| Premier | 36.38 | 98% | 1,913.1 | 1,970.9 | 149.4 | 207.2 | 1,672.0 | 550.0 | 1.2x | 3.6x |
| Omnicell | 52.45 | 95% | 2,039.1 | 2,203.6 | 43.8 | 208.2 | 791.5 | 123.4 | 2.8x | 17.9x |
| iRhythm | 81.13 | 96% | 1,914.7 | 1,858.0 | 16.5 | 34.0 | 133.0 | NM | NM | NM |
| Evolent Health | 21.05 | 78% | 1,622.2 | 1,555.3 | 200.3 | 121.6 | 578.4 | 21.3 | 2.7x | NM |
| Quality Systems | 19.50 | 95% | 1,245.1 | 1,253.2 | 28.8 | 37.0 | 533.4 | 80.5 | 2.3x | 15.6x |
| Healthstream | 27.31 | 94% | 882.2 | 686.8 | 156.0 | 0.0 | 228.7 | 38.8 | 3.0x | 17.7x |
| R1 RCM | 8.68 | 92% | 931.0 | 957.3 | 167.6 | 0.0 | 861.9 | 53.4 | 1.1x | 17.9x |
| Vocera | 29.89 | 93% | 889.4 | 808.5 | 28.9 | 0.9 | 180.2 | 17.4 | 4.5x | 46.6x |
| CPSI | 32.90 | 96% | 444.4 | 584.7 | 1.7 | 142.1 | 291.1 | 52.6 | 2.0x | 11.1x |
| *Weighted Average* | | | | | | | | | 3.8x | 11.6x |
| *Median* | | | | | | | | | 2.7x | 16.5x |
| **Payor Focus HCIT** | | | | | | | | | | |
| Healthequity | 75.10 | 92% | 4,659.7 | 4,389.8 | 228.9 | 0.0 | 282.6 | 110.1 | NM | 39.9x |
| Cotiviti | 44.13 | 96% | 4,113.8 | 4,689.6 | 189.3 | 765.1 | 750.2 | 302.4 | 6.3x | 15.5x |
| Inovalon Holdings | 9.93 | 56% | 1,511.3 | 1,302.9 | 410.0 | 241.9 | 569.0 | 163.2 | 2.3x | 8.0x |
| HMS Holdings | 21.62 | 92% | 1,799.1 | 1,955.2 | 83.9 | 240.0 | 573.0 | 135.6 | 3.4x | 14.4x |
| Benefit Focus | 33.60 | 91% | 1,067.2 | 1,135.1 | 54.8 | 122.7 | 254.8 | 9.1 | 4.5x | NM |
| Castlight Health | 4.25 | 89% | 578.3 | 509.2 | 48.2 | 5.6 | 153.6 | -13.4 | 3.3x | NM |
| eHealth | 22.10 | 77% | 419.7 | 385.0 | 34.7 | 0.0 | 222.3 | 24.1 | 1.7x | 16.0x |
| *Weighted Average* | | | | | | | | | 3.0x | 20.8x |
| *Median* | | | | | | | | | 3.4x | 15.5x |
| **Other HCIT** | | | | | | | | | | |
| Veeva Systems | 76.86 | 90% | 11,024.7 | 10,106.4 | 460.2 | 0.0 | 829.1 | 277.0 | 12.2x | 36.5x |
| Medidata | 80.56 | 94% | 4,769.0 | 4,625.4 | 226.6 | 379.8 | 639.9 | 152.3 | 7.2x | 30.4x |
| *Weighted Average* | | | | | | | | | 10.7x | 34.6x |
| *Median* | | | | | | | | | 9.7x | 33.4x |

*Source CapitalIQ*

| ($ in millions) | Market Data | | | | Financial Information | | | | Trading Multiples | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | EV (P) / 2018 | |
| Company | Price as of: 06/29/18 | % 52wk High | Market Cap | Enterprise Value | Cash and Cash Equivalents | Total Debt | 2018P Revenue | 2018P EBITDA | Revenue | EBITDA |
| **Clinical and Patient Support Services** | | | | | | | | | | |
| **Clinical Laboratories** | | | | | | | | | | |
| LabCorp | $179.53 | 94% | $18,365.9 | $24,801.3 | $361.8 | $6,777.0 | $11,479.3 | $2,150.7 | 2.2x | 11.5x |
| Quest Diagnostics | 109.94 | 94% | 14,931.7 | 18,893.7 | 124.0 | 3,973.0 | 7,724.0 | 1,586.3 | 2.4x | 11.9x |
| Sonic Healthcare | 24.53 | 97% | 10,417.9 | 13,032.6 | 328.7 | 2,843.3 | 5,646.6 | 989.3 | 2.3x | 13.2x |
| NeoGenomics | 13.11 | 92% | 1,056.9 | 1,178.2 | 15.2 | 101.0 | 265.5 | 40.9 | 4.4x | 28.8x |
| Psychemedics | 19.24 | 69% | 105.7 | 100.5 | 8.3 | 3.1 | N/A | N/A | N/A | N/A |
| *Weighted Average* | | | | | | | | | 2.3x | 12.4x |
| *Median* | | | | | | | | | 2.4x | 12.5x |
| **Contract Research Organizations** | | | | | | | | | | |
| IQVIA Holdings | 99.82 | 90% | 20,195.0 | 29,898.0 | 960.0 | 10,453.0 | 10,228.9 | 2,191.8 | 2.9x | 13.6x |
| PRA Health | 93.36 | 96% | 5,982.2 | 7,196.7 | 129.9 | 1,338.9 | 2,928.3 | 446.5 | 2.5x | 16.1x |
| Icon | 132.53 | 96% | 7,129.3 | 7,124.7 | 272.0 | 349.0 | 2,573.5 | 453.8 | 2.8x | 15.7x |
| Syneos Health | 46.90 | 78% | 4,820.4 | 7,604.8 | 186.7 | 2,971.1 | 4,469.9 | 590.4 | 1.7x | 12.9x |
| Charles River Labs | 112.26 | 94% | 5,378.6 | 6,341.1 | 187.8 | 1,132.7 | 2,212.0 | 526.1 | 2.9x | 12.1x |
| MedPace | 43.00 | 94% | 1,527.6 | 1,729.0 | 22.2 | 223.7 | 429.6 | 108.6 | 4.0x | 15.9x |
| *Weighted Average* | | | | | | | | | 2.7x | 14.1x |
| *Median* | | | | | | | | | 2.8x | 14.7x |
| **Staffing** | | | | | | | | | | |
| On Assignment | 78.19 | 91% | 4,089.7 | 4,577.7 | 77.9 | 565.9 | 3,305.0 | 388.6 | 1.4x | 11.8x |
| AMN Health Services | 58.60 | 86% | 2,804.3 | 3,069.8 | 54.5 | 320.0 | 2,166.0 | 277.9 | 1.4x | 11.0x |
| Cross Country Healthcare | 11.25 | 77% | 409.5 | 475.4 | 32.6 | 97.9 | 868.4 | 44.9 | 0.5x | 10.6x |
| *Weighted Average* | | | | | | | | | 1.4x | 11.4x |
| *Median* | | | | | | | | | 1.4x | 11.0x |
| **Managed Care** | | | | | | | | | | |
| **Government Payors** | | | | | | | | | | |
| Wellcare | 246.24 | 99% | 11,020.4 | 7,379.3 | 4,824.1 | 1,183.0 | 18,639.3 | 876.1 | 0.4x | 8.4x |
| Centene | 123.21 | 98% | 25,280.2 | 24,993.2 | 5,668.0 | 5,296.0 | 59,435.5 | 2,446.1 | 0.4x | 10.2x |
| Molina | 97.94 | 95% | 6,041.4 | 4,394.4 | 3,729.0 | 2,082.0 | 18,730.0 | 740.4 | 0.2x | 5.9x |
| Magellan Health | 95.95 | 85% | 2,322.2 | 2,832.0 | 223.8 | 798.2 | 7,602.1 | 371.7 | 0.4x | 7.6x |
| *Weighted Average* | | | | | | | | | 0.4x | 9.1x |
| *Median* | | | | | | | | | 0.4x | 8.0x |
| **Commercial Payors** | | | | | | | | | | |
| United Healthcare | 245.34 | 96% | 235,767.1 | 257,482.1 | 18,243.0 | 35,585.0 | 225,579.5 | 19,707.0 | 1.1x | 13.1x |
| Anthem | 238.03 | 89% | 60,745.1 | 76,612.2 | 4,630.6 | 20,497.7 | 91,279.6 | 6,943.0 | 0.8x | 11.0x |
| Aetna | 183.50 | 94% | 60,022.9 | 61,573.9 | 7,875.0 | 9,159.0 | 61,516.6 | 6,031.0 | 1.0x | 10.2x |
| Cigna | 169.95 | 75% | 41,343.4 | 43,922.4 | 2,771.0 | 5,301.0 | 44,883.8 | 5,044.6 | 1.0x | 8.7x |
| Humana | 297.63 | 96% | 40,978.3 | 37,417.3 | 8,855.0 | 5,294.0 | 56,223.0 | 3,431.2 | 0.7x | 10.9x |
| *Weighted Average* | | | | | | | | | 1.0x | 11.8x |
| *Median* | | | | | | | | | 1.0x | 10.9x |
| **Other Outsourced Services** | | | | | | | | | | |
| Magellan Healthcare | 95.95 | 85% | 2,322.2 | 2,832.0 | 223.8 | 798.2 | 7,602.1 | 371.7 | 0.4x | 7.6x |
| Healthcare Services Group | 43.19 | 77% | 3,183.6 | 3,124.8 | 10.5 | 26.0 | 2,061.2 | 152.6 | 1.5x | 20.5x |
| Tivity Health | 35.20 | 73% | 1,403.6 | 1,512.7 | 38.8 | 147.8 | 614.0 | 141.0 | 2.5x | 10.7x |
| Corvel | 54.00 | 88% | 1,022.7 | 966.9 | 55.8 | 0.0 | 0.0 | 0.0 | N/A | N/A |
| *Weighted Average* | | | | | | | | | 1.2x | 12.3x |
| *Median* | | | | | | | | | 1.5x | 10.7x |
| **Specialty Pharmacy Services** | | | | | | | | | | |
| CVS Health | 64.35 | 77% | 65,421.2 | 88,377.2 | 42,023.0 | 65,094.0 | 188,818.0 | 12,512.2 | 0.5x | 7.1x |
| Walgreens Boots Alliance | 60.02 | 72% | 59,559.6 | 73,520.6 | 1,818.0 | 15,045.0 | 134,514.6 | 9,098.6 | 0.5x | 8.1x |
| Express Scripts | 77.21 | 91% | 43,370.5 | 56,044.6 | 2,317.6 | 14,986.1 | 101,140.7 | 7,680.2 | 0.6x | 7.3x |
| Diplomat Pharmacy | 25.56 | 89% | 1,892.7 | 2,483.1 | 6.0 | 596.4 | 5,684.2 | 167.1 | 0.4x | 14.9x |
| BioScrip | 2.93 | 86% | 374.9 | 910.7 | 30.4 | 481.4 | 694.1 | 55.1 | 1.3x | 16.5x |
| *Weighted Average* | | | | | | | | | 0.5x | 7.6x |
| *Median* | | | | | | | | | 0.5x | 8.1x |
| **Distribution and Supplies** | | | | | | | | | | |
| McKesson | 133.40 | 75% | 26,916.9 | 34,065.9 | 2,672.0 | 8,109.0 | 213,696.6 | 4,351.3 | 0.2x | 7.8x |
| Cardinal Health | 48.83 | 62% | 15,170.8 | 22,586.8 | 2,175.0 | 9,578.0 | 138,584.9 | 2,880.0 | 0.2x | 7.8x |
| AmerisourceBergen | 85.27 | 80% | 18,742.7 | 21,720.3 | 2,091.4 | 4,892.9 | 171,636.8 | 2,311.9 | 0.1x | 9.4x |
| HenrySchein | 72.64 | 78% | 11,188.4 | 13,737.9 | 99.2 | 1,968.8 | 13,381.2 | 1,126.0 | 1.0x | 12.2x |
| Patterson | 22.67 | 47% | 2,095.6 | 3,048.9 | 63.0 | 1,016.2 | 5,535.1 | 284.4 | 0.6x | 10.7x |
| Owens and Minor | 16.71 | 51% | 1,032.5 | 1,842.0 | 87.6 | 897.1 | 10,003.7 | 295.2 | 0.2x | 6.2x |
| *Weighted Average* | | | | | | | | | 0.3x | 8.9x |
| *Median* | | | | | | | | | 0.2x | 8.6x |
| *Overall Weighted Average* | | | | | | | | | 2.2x | 12.7x |
| *Overall Median* | | | | | | | | | 1.4x | 10.9x |

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Coker CAPITAL ADVISORS

## About Coker Capital Advisors

Coker Capital Advisors is a healthcare-focused mergers and acquisitions advisory firm. With offices in Atlanta, Charlotte, and New York, we provide mergers and acquisitions advisory services to middle market healthcare companies. Our team combines investment banking, private equity, legal, and management consulting experience within the healthcare industry. Our senior professionals average more than a decade of healthcare transaction experience and have completed over 225 transactions across a wide range of healthcare subsectors with an aggregate transaction value in excess of $65 billion.

## About Fifth Third Securities

Fifth Third Securities provides value-added advice and solutions aimed to support the growth, profitability, and capital needs of corporate clients. Fifth Third Securities' services include investment banking, bond capital markets, equity capital markets, and fixed income sales and trading. The group has offices in Atlanta, Charlotte, Cincinnati, Chicago, Cleveland, Nashville, New York, Dallas and Memphis, and provides services across a variety of industries/verticals spanning Large Corporate, Mid Corporate, Consumer & Retail, Diversified Industrials, Energy, Gaming, Lodging, & Leisure, Healthcare, Real Estate, and Technology, Media and Telecom.

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