

## Exit Preparation/Positioning Of Physical Therapy Services Provider: Establishing Geographic Expansion Opportunities And Identifying Acquisition Targets

**The Challenge:** Our client, a middle-market PE firm, was preparing for the sale of one of its portfolio companies, an operator of outpatient physical therapy centers for orthopedic and sports therapy patients in the New York metropolitan area. As part of the due diligence prior to our client's initial investment, Gotham had provided a geographic expansion assessment of the New York metropolitan area, which our client leveraged in rapidly scaling the business from 10 to over 100 locations in just 4 years. Our client wanted to demonstrate to potential buyers the company's opportunity to further expand into additional metropolitan areas – Boston, Providence, Philadelphia, and Washington, D.C. Accordingly, our client asked Gotham to conduct an assessment of each of these 4 metropolitan areas in order to build a geographic expansion roadmap that: (1) establishes the attractiveness of each market and potential expansion opportunity; (2) provides a comprehensive view of competitive landscape; and (3) identifies and profiles potential acquisition candidates.

**Bottom-up Local Market Expansion Roadmap Build:** To provide a comprehensive assessment of each of the 4 metropolitan area markets, Gotham undertook a rigorous research-based approach:

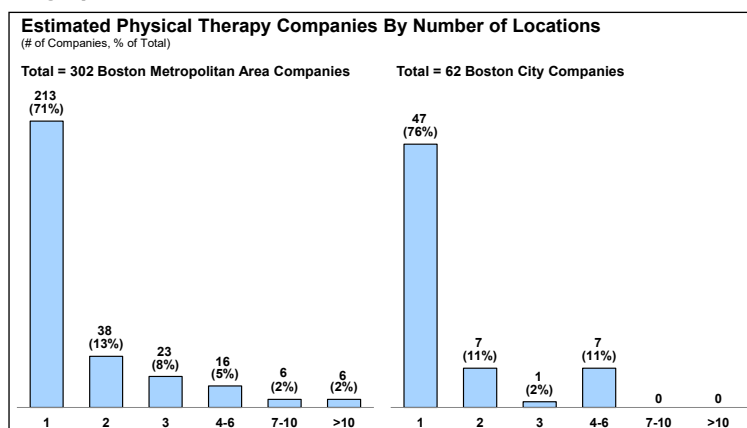
- Built a zip code-level fact base on each metropolitan area, including population, age and income demographics, insurance coverage, and additional facts
- Mapped and defined geographic clusters within city centers and surrounding suburbs based on physical geography, population density, demographics, residential areas, places of work, and commuter patterns
- Created a comprehensive, bottom-up competitive view of physical therapy companies and their locations within each metropolitan area, classifying each by number of locations and number of licensed physical therapists
- Developed detailed profiles for multi-location physical therapy companies that could be potential acquisition targets, including a map of locations, a list of services/specializations, and relevant affiliations/joint ventures
- Built a geographic expansion market assessment of each metropolitan area to indicate the level of attractiveness of each expansion geography.

### Geographic Cluster Attractiveness Depends Upon Demographic Profile And Commuter Patterns

Based on zip code and county-level analysis of demographics (e.g., median age, household income, insurance coverage), certain geographic clusters are more attractive than others. Wealthier areas tend to have higher demand for physical therapy as private health insurance plans typically reimburse physical therapy services at a higher rate, making clusters with predominantly privately covered patients ideal expansion locations. Another factor that makes a geographic cluster attractive is its proximity to people's homes, commuter train stations, highway entry/exit ramps, shopping plazas, and places of work. The recurring nature of physical therapy visits often requires people to interrupt their daily activities to go to an appointment, so people prefer locations that are convenient for them based on their daily routine and commute.

### Presence of Physical Therapy Locations Varies by Geographic Cluster

Physical therapy locations tend to be clustered in attractive geographic locations, wealthier residential areas, business and shopping districts, and stops in between. Players range widely in terms of size and presence – from single-location companies to multi-location companies. Multi-location players include those with local, regional, or national presence, and many of the larger local players are affiliated with hospitals or health systems. Regardless of size and presence, most physical therapy centers treat a broad range of patients and conditions. There are, however, players who specialize in specific types of physical therapy (e.g., sports, orthopedic, aquatic, neurological, vestibular, pediatric, hand), and there are also providers who specialize based on payment mechanism (e.g., Medicaid, workers compensation).



### Several Multi-location Acquisition Targets Are Providing Coverage in the Attractive Geographic Clusters

Gotham found that all 4 metropolitan areas we assessed have several large multi-location players with presence in attractive geographic clusters, offering potential acquisition targets for our client's portfolio company to quickly gain a significant presence in an expansion metropolitan area. Gotham's short list and profile of potential acquisition targets provided a starting point for the portfolio company to enter and establish sizable presence in new metropolitan areas. While multi-location targets don't typically provide full geographic coverage, the widespread presence of 1-2 such players and Gotham's bottom-up build of all physical therapy locations provided a road map for filling gaps in coverage in attractive geographic clusters, enabling a focus on the most promising acquisition candidates and demonstrating to potential buyers the significant growth opportunity available to our client's portfolio company.

**The Outcome:** Gotham's bottom-up geographic expansion assessment provided a clear roadmap for our client's portfolio company's expansion into attractive geographic clusters, with a strong view of the local competitive landscape and acquisition targets across each expansion metropolitan area. This roadmap enabled our PE client to position the sale to potential buyers as a portfolio company with a significant opportunity to replicate its growth in new metropolitan areas – and, thus, exit at an attractive valuation.