

A holistic approach to physical therapy in the US

A case study in delivering better, cheaper, and less invasive healthcare

Overview

Affordable, effective healthcare is a global investment theme. As populations age and treatments improve, private and publicly funded systems must adapt to changing demands and cost pressures. Within healthcare, occupational and physical therapy (PT) taps into the transformative trends driving consumerization, increased efficiency, and digitization, whilst also solving life-changing social needs.

Partners Group portfolio company Confluent Health (Confluent) is one of the largest occupational and PT provider platforms in the US. Founded in 2014, it has established a strong PT business model that differs in scope and breadth from its competitors. Confluent has grown rapidly, building a significant network of clinics operated by over 1,400 physical-health practitioners. As a platform provider, it offers a suite of back-office functions and centralized services, but has also diversified its revenue streams into PT educational services, occupational health & safety solutions, and innovative, patient-first digital offerings.

A thematic approach

In line with our thematic investing approach, we had been tracking the PT market for several years prior to our investment in Confluent. Specialty provider sub-sectors within healthcare, such as PT, were experiencing above-average growth; however, we wanted to explore the theme in depth before finding suitable investment targets.

We spent two years analyzing the market and set up a team of in-house and external experts to develop our investment thesis. Drawing on our proprietary database of over 36,000 private markets assets,

Confluent Health

Industry vertical: Healthcare

Location: HQ in Louisville, Kentucky, serving the US and Canada

Investment year: 2019

For more information: www.goconfluent.com

and with strong industry contacts, the team visited nine of the top ten PT platforms in the US and their management teams.

These visits reinforced our conviction that PT had many attractive characteristics. It is a highly effective, lower cost alternative in a market where back surgery easily costs USD 50,000 or more. Effective therapy is also a social issue: PT can reach underserved communities. It also offers a solution to the opioid crisis in the US, a situation driven by over-prescription of pharmaceuticals for chronic pain relief which has led to millions of patients developing long-term, life-altering addictions.

Unique characteristics

Clinicians are the core of any healthcare business and we were drawn to Confluent for its overarching focus on physical therapists. Under the leadership of CEO Dr. Larry Benz, Confluent has never had a one-size-fits-all approach and continues to allow clinicians to retain equity in the businesses and brands they have built. Clinicians want to feel autonomous with regards to patient care and clinical decision-making, while benefiting from the support >



33 Confluent family partner brands



516 Outpatient physical therapy clinics in 28 US states



1,428 Total therapists



12 Commercial educational partnerships, covering 1,313 clinics



11 University partners with 18 locations

> the central services team at Confluent provides.

Following our investment, we immersed ourselves in the partnership and established our entrepreneurial governance model. Given our extensive thematic work prior to our investment, we were able to appoint high-quality Operating Directors to the Confluent board early on. As a Board, we sought to 'listen and learn' through initiatives such as visits to Confluent's local markets to meet key leaders and the establishment of Advisory Boards at Confluent's different divisions to develop a deeper understanding of their business models. A member of our Investment Team even took on a temporary executive operating role within one of the divisions to assist in creating and executing on its strategic vision.

With strong governance in place, we were well equipped to execute our value creation plan together with Confluent's management team. The plan aims to grow volumes and manage Confluent's brands and margins more effectively. We are also focusing on growing Confluent's scale through a combination of platform and tuck-in acquisitions, as well as developing new locations in established regions.

Targeting underserved local markets and partnering with established practices has worked well for Confluent and we have continued to build and enhance the infrastructure to support this growth. For example, a key value creation initiative we introduced involved setting up a dedicated real estate team that works in concert with regional clinicians and operators. The team uses data tools to better target new locations, practitioners, and practices that are ripe for expansion. This has added an additional layer of sophistication, efficiency, and speed to Confluent's approach to new openings.

We have also established a business development team to identify and acquire practice owners looking for partners. As such, Confluent has added more than 300 locations through acquisitions and quadrupled the number of new openings each year since our investment.

The next generation

The US PT industry suffers from a 20% shortfall of new graduates. Another area of our value creation plan has therefore been partnering with universities to develop a talent pipeline by offering white-labeled, two-year hybrid training programs through Confluent's education services division, Evidence in Motion. Thanks to these programs, clinicians can take their training to the next level through residencies, fellowships, and certifications that provide high-quality, post-professional education.

Today, Evidence in Motion trains clinicians within the Confluent family and across other platforms, as

well as independent clinicians who want to boost their specialization in areas such as pediatrics, women's health, and sports health. It is also developing a telehealth certification program. Investing in training pays dividends: retention is higher, the workforce earns more, and patients get better care.

Confluent takes a similar strategic approach to its occupational health services for corporate clients. Confluent's Fit for Work subsidiary tailors occupational health services for clients of all sizes, including some of the largest supermarket chains in the US. It trains employees to work without risk of injury, which reduces accident rates. Workers that do suffer injury can get referred to a Confluent PT clinic.

In addition, Confluent operates PTPN, a specialty network of rehabilitation therapists in private practice. The network provides members with several key benefits, including improved payor contracting and network management that directs patients to the highest quality care.

Digital and cost-effective

When it comes to digitization and consumerization, Confluent is ahead of its peers. Some may think that digital-only is the way forward, with apps, videos and online programs replacing in-person intervention. We are not convinced. Several conditions cannot be treated properly without in-person PT. Online-only patients often do their exercises incorrectly and give up when their pain is not relieved.

An omnichannel approach is more sustainable and delivers stronger outcomes for all, particularly patients, who take on lower costs and experience better pain management. Confluent is in various

“Clinical research shows that, in many cases, physical therapy allows patients to avoid surgery, is less risky and offers higher quality outcomes, as well as being a lower cost burden on the broader healthcare system.”

Piotr Biezychudek

Member of Management, Private Equity
Health & Life, Partners Group



300+ locations added



Enterprise value +177%



EBITDA +165% ⁽¹⁾

(1) From the investment close in June 2019 to December 2021. Source: Partners Group.

stages of developing a digital front door, online chat and scheduling capabilities, and virtual therapy.

Confluent has also invested in BehaVR, a digital therapeutics company which uses virtual reality and evidence-based understandings of chronic pain to help pain sufferers disassociate their brains from pain. Wearable, web-connected devices used under the direction of therapists may be another promising area of investment for the company.

Building on success

The entrepreneurial governance and diverse, innovative PT platform we have worked with Dr. Larry Benz and Confluent's management team to establish is already delivering strong returns. EBITDA was just under USD 40 million at the time of our investment in 2019 and has recently risen to over USD 100 million. This investment has also reinforced our conviction in our thematic investing approach. Today, nearly 80% of our investments follow a thematic approach, based on careful analysis of transformative trends, before individual assets are assessed.

“Confluent is an innovator and first-mover in the hybrid model for musculoskeletal care. It will help lead the next generation of physical therapy care.”

Bill Winkenwerder

Lead Operating Director, Confluent Health



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Source: Partners Group, June 2022.

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