

REHABCARE GROUP INC

Form 425

March 16, 2011

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Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

March 16, 2011

Filed pursuant to Rule 425 under the Securities Act of 1933 and deemed filed

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pursuant to Rule 14a-12 under the Securities Exchange Act of 1934

Filing Person: Kindred Healthcare, Inc.

Commission File No.: 001-14057

Subject Company: RehabCare Group, Inc.

Commission File No.: 001-14655

Forward-Looking Statements
Additional Information About this Transaction
In
connection
with
the
pending

transaction

with

RehabCare

Group,

Inc.

(RehabCare),

Kindred

Healthcare,

Inc.

(Kindred)

will

file

with

the

Securities

and

Exchange

Commission (the SEC) a Registration Statement on Form S-4 that will include a joint proxy statement of Kindred and Reha

Kindred.

Kindred

and

RehabCare

will

mail

the

definitive

proxy

statement/prospectus

to

their

respective

stockholders.

WE

URGE

INVESTORS

AND

SECURITY

HOLDERS

TO

READ

THE

JOINT

PROXY

STATEMENT/PROSPECTUS

REGARDING

THE

PENDING

TRANSACTION

WHEN

IT

BECOMES
AVAILABLE
BECAUSE

IT
WILL
CONTAIN IMPORTANT INFORMATION.

You may obtain a free copy of the joint proxy statement/prospectus (when available) and other related documents filed by

Kindred

and

RehabCare

with

the

SEC

at

the

SEC's

website

at

.

The

joint

proxy

statement/prospectus

(when

available)

and

the

other

documents

filed

by

Kindred

and

RehabCare

with

the

SEC

may

also

be

obtained

for

free

by

accessing

Kindred's website

at

www.kindredhealthcare.com

and

clicking

on
the
Investors
link
and
then
clicking
on
the
link
for
SEC
Filings
or
by
accessing
RehabCare's
website
at
www.rehabcare.com

and
clicking
on
the
Investor
Information
link
and
then
clicking
on
the link for SEC Filings .

Participants in this Transaction

Kindred, RehabCare and their respective directors, executive officers and certain other members of management and employees are soliciting the support of Kindred's and RehabCare's respective stockholders in favor of the pending transaction. Information regarding the persons who may, under the rules of the SEC, be solicited in connection with the pending transaction will be set forth in the joint proxy statement/prospectus to be filed with the SEC. Information about Kindred's executive officers and directors in Kindred's definitive proxy statement filed with the SEC on August 11, 2009 and RehabCare's executive officers and directors in its definitive proxy statement filed with the SEC on March 23, 2010. You can contact Kindred or RehabCare, respectively, using the contact information above.

Forward-Looking Statements

Information set forth in this presentation contains forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those stated in the forward-looking information. There is no assurance that the forward-looking information is accurate, and there is no guarantee of its accuracy.

future
performance
and
that
actual
results
could
differ
materially
from
those
contained

in
the
forward-looking

information. Such forward-looking statements include, but are not limited to, statements about the benefits of the business combination of

RehabCare,
including
future
financial
and
operating
results,
the
combined
company's
plans,
objectives,
expectations
and
intentions
and
other
statements
that
are
not

historical facts.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: (a) the timing and receipt of regulatory approvals and the satisfaction of the closing conditions to the acquisition of RehabCare by Kindred, including approvals from the shareholders of the respective companies, and Kindred's ability to complete the required financing as contemplated by the financial statements; (b) the ability to integrate the operations of the acquired hospitals and rehabilitation services operations and realize the anticipated revenues, economies of scale and productivity gains in connection with the RehabCare acquisition and any other acquisitions that may be undertaken during 2011; (c) the impact of unanticipated issues, expenses and liabilities associated with those acquisitions and the risk that RehabCare fails to meet its obligations; (d) the potential for diversion of management time and resources in seeking to complete the RehabCare acquisition and integrate it with Kindred's operations; (e) the impact of Kindred's significantly increased levels of indebtedness as a result of the RehabCare acquisition; and (f) the impact of operating flexibility and ability to fund ongoing operations with additional borrowings, particularly in light of the current market conditions and the potential for

for
dilution

to
Kindred
stockholders
as
a
result
of
the
RehabCare
acquisition;
and
(g)
the
ability
of
the
Company
to
operate
pursuant
to
the
terms
of its debt
obligations, including Kindred's obligations under financings undertaken to complete the RehabCare acquisition, and the ability to complete the acquisition, including the ability to complete the lease agreements with Ventas, Inc. (NYSE:VTR). Additional factors that may affect future results are contained in Kindred's Form 10-K for the year ended December 31, 2017, which are available at the SEC's EDGAR website at www.sec.gov.

Many of these factors are beyond the control of Kindred or RehabCare. Kindred and

RehabCare

disclaim

any

obligation to update and revise statements contained in these materials based on new information or otherwise.

2

www.sec.gov

www.sec.gov

3
696
(3)
sites of service,
315
facilities
in

40

states

56,800

(3)

dedicated

employees,

making Kindred

a top-200 private

employer in

the U.S.

(4)

33,800

(3)

patients and

residents

per day

\$4.4 billion

(2)

consolidated

revenues

Largest Diversified Post-Acute

Provider in the United States

(1)

(1) Ranking based on revenues.

(2) Revenues for the year ended December 31, 2010.

(3) As of December 31, 2010.

(4) Ranking provided by TMP, Inc.

4
4
\$2.0 billion revenues
(1)
HOSPITAL
Long-term Acute Care Hospitals

Largest operator in U.S.

(2)

89 hospitals with
6,887 licensed beds

(3)

\$2.2 billion revenues

(1)

Third largest nursing
center operator in U.S.

(2)

226 nursing centers with
27,442 licensed beds

(3)

7 assisted living facilities with 463
licensed beds

(3)

NURSING CENTER

Nursing and Rehabilitation Centers

\$505 million revenues

(1)

Second largest contract therapy
company in U.S.

(2)

381 external locations served
through 5,900 therapists and
10,600 total employees

(3)

REHABILITATION

Peoplefirst

Rehabilitation

Services

(1)

Revenues for the year ended December 31, 2010 (divisional revenues before intercompany eliminations).

(2)

Ranking based on revenues.

(3)

As of December 31, 2010.

Kindred's Market Leading Businesses

5

Provide superior clinical outcomes and quality care with an approach which is patient-centered, disciplined and transparent
Lower cost by reducing lengths of stay in acute care hospitals and transition patients home at the highest possible level of function
Reduce rehospitalization through our integrated and interdisciplinary care management teams and protocols

Kindred's Value Proposition and
Our **Continued Care** Campaign

7

Investment Rationale

Each year, nearly 9 million people

23,000 a day

are discharged from

short-term acute care hospitals that require some form of post-acute care

As the largest diversified post-acute provider, Kindred is uniquely positioned

to grow and succeed in what will be an increasingly integrated healthcare delivery system

Kindred has a track record of providing quality, cost-effective care, operational excellence and consistent levels of free cash flows

Our platform and infrastructure, together with our successful organic development and opportunistic M&A strategy, offer the potential for creating significant value for shareholders

8
Kindred Update

9
Kindred Update
Kindred
Healthcare,
Inc.
(Kindred)
and

RehabCare
Group,
Inc.
(RehabCare)

have
announced a transaction whereby Kindred will acquire RehabCare for ~\$35/share
Both Companies reported strong Q4 and 2010 clinical and financial results and share a
high
degree
of
confidence
and
visibility
in
their
business
plans
and
estimates
for
2011

The combined Company will have an industry leading position in attractive post-acute
business segments and growing local markets

Kindred
will
be
well
positioned
for
future
growth
in
a
changing
healthcare
landscape
with

the expansion of the combined service offerings

The transaction substantially enhances Kindred's growth and margin profile

The proposed transaction is highly accretive to Kindred's earnings and cash flows and
generates
strong
operating
cash
flows
providing
the
ability
to
quickly

delever
and
finance
future growth

10
Both Kindred and RehabCare beat 4Q and 2010 analyst estimates
Summary of Q4 and 2010 Results
Kindred
RehabCare
1)
I/B/E/S consensus as of 2/7/2011.

2)
Reflects income from continuing operations.

3)
Actual revenues exclude Miami IRF.

4)
Includes discontinued operations.

(\$MM, except EPS Data)

(\$MM, except EPS Data)

Q4 2010

2010

Consensus

(1)

Actual

% Surprise

Consensus

(1)

Actual

% Surprise

Revenues

1,121.0

1,135.5

1.3%

4,345.0

4,359.7

0.3%

EBITDA

61.0

66.8

9.5%

211.0

217.3

3.0%

EBIT

30.0

35.4

18.0%

90.0

95.7

6.3%

Net Income

(2)

16.0

19.8

23.8%

52.0

56.1

7.9%

EPS

(2)

\$0.41

\$0.50
22.0%
\$1.33
\$1.42
6.8%
Q4 2010
2010
Consensus
(1)
Actual
% Surprise
Consensus
(1)
Actual
% Surprise
Revenues
(3)
343.0
339.3
-1.1%
1,347.2
1,329.4
-1.3%
EBITDA
41.5
44.1
6.3%
163.5
164.1
0.4%
EBIT
34.1
36.1
5.9%
133.4
133.6
0.1%
Net Income
(4)
14.9
17.1
14.8%
60.6
62.5
3.1%
EPS
(4)
\$0.60
\$0.69
15.0%

\$2.45

\$2.53

3.3%

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Transaction Overview

12
~\$35
/
share
total
(\$26
/

share
in
cash;
~\$9

/
share
in
Kindred
stock)

(1)
\$1.3 billion total consideration, including assumption of net debt

Transaction Overview

Consideration

Accretion

Synergies

Kindred and RehabCare have announced a transaction whereby Kindred
will acquire RehabCare for ~\$35/share

Transaction

Substantially accretive to Kindred's earnings and operating cash flows

\$40 million in identified annual cost and operating synergies

Full run-rate achieved within two years (\$25MM achieved first year)

Excluding one time costs

Committed financing from J.P. Morgan, Morgan Stanley and Citi

Financing

Expected Close

On or about June 30, 2011

1)

Based on a fixed exchange ratio.

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Transaction Overview
J.P.
Morgan,
Morgan
Stanley
and

Citi
have
committed
\$1.85Bn
in
debt
financing
Key Capital Considerations

Ability

to
delever
quickly

(Pro
forma
adjusted
leverage

flat
to
current

Kindred
standalone)

Maintain strong balance sheet, liquidity and financial flexibility (approximately \$250MM undrawn revolver capacity at close)

Sources and Uses

(1)
(\$MM)

Sources
% of Total

\$600MM ABL Revolving Credit Facility

\$350
19%

Term Loan B

700
38%

Senior Unsecured Notes

550
30%

Equity Consideration

(3)
228
13%

Total Sources

1,828
100%

Uses

% of Total

Purchase RehabCare Equity (~\$35/share)

885
48%

Retire RehabCare Debt

399
22%
Retire Kindred Debt
367
20%
Other
177
10%
Total Uses
1,828
100%
Pro-Forma Capitalization
(1)
(\$MM)
2011E
(2)
New Borrowings
1,600
Total Debt
1,600
Revenue
EBITDA
(4)
Rent Expense
EBITDAR
(4)
Total Debt / EBITDA
Adjusted Debt
(5)
/ EBITDAR
6,200
6,200
470
487
422
422
892
909
3.4x
3.3x
4.6x
4.5x
5,846
445
414
859
3.6x
4.8x
1,600
1,600

2010PF

(2)

1)

Sources and Uses is as of 12/31/10. Pro-Forma Capitalization is based on borrowings expected at closing. Figures may not add.

2)

2010PF figures reflect full year run rate of 2010 Kindred acquisitions (\$157MM in revenue, \$44MM in EBITDAR, \$7MM in net income). 2011 figures reflect full year run rate of 2011 Kindred acquisitions. 2011 figures do not include the results of discontinued operations (inpatient rehabilitation facility in Miami). 2011 figures display 12 months of operations from the transaction closed on 1/1/11.

3)

Based on a fixed exchange ratio.

4)

2010PF and 2011E includes \$25MM of run rate synergies.

5)

Calculated with 6.0x cap rate.

14
Agency Ratings
Corporate Family
Term Loan B
Moody's
Investors
Service

(1)
B1
Ba3
Standard and
Poor's

(2)
B+
B+
(1)
Release dated March 14, 2011

(2)
Release dated March 11, 2011

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Kindred and RehabCare will be the Premier Rehabilitation and
Post-Acute Provider in the United States

Metrics

Kindred

Kindred + RehabCare

Focus

SNF, LTAC and Contract Rehab
SNF, LTAC and Contract Rehab
Scale
(1)

States

Facilities

Beds

2010 Revenue (Pro Forma)

2010 EBITDA (Pro Forma)

40
322
34,792
\$4,517MM
(2)
\$254MM
(2)

RehabCare

Contract Rehab and LTAC

42
34
1,788
\$1,349MM
\$166MM
46
356
36,580
\$5,866MM
(2)

\$445MM

(2)(3)

Payor Mix (09)

Business

Mix:

EBITDA

(10)

(2)

29%

13%

58%

Contract Rehab

SNF

LTAC

40%

24%

36%

Medicaid
Medicare
Commercial
LTAC
SRS
52%
27%
21%
LTAC
SRS
HRS
69%
29%
Medicaid
2%
Medicare
Commercial
45%
35%
3%
17%
LTAC
SNF
HRS
Contract Rehab
11%
8%
62%
19%
LTAC
SNF
HRS
Contract Rehab
51%
20%
29%
Commercial
Medicaid
Medicare
Business
Mix:
Revenue
(10)
(2)(4)
39%
48%
13%
HRS
47%
42%

11%

Contract Rehab

SNF

LTAC

(1)

RehabCare states include LTAC and IRF locations. Beds include LTACs and freestanding IRFs. Kindred facilities include own

(2)

Includes the full year benefit of all of the acquisitions Kindred has closed in 2010 (\$157MM Revenue and \$37MM EBITDA b
rounding.

(3)

Includes \$25MM of run rate synergies.

(4)

Revenue excludes the effect of Kindred intercompany eliminations. EBITDA includes intercompany eliminations in Kindred s

16
Kindred and RehabCare Combined Presence
Kindred Hospitals
Kindred Nursing and Rehabilitation Centers
RehabCare Hospitals
Acute Rehabilitation Units
Existing Cluster Market

Potential New Cluster Market

Transaction enhances Kindred s Cluster Market Strategy

17

Leading Position in Attractive Growing Businesses

(1) Includes 1,112 facilities from RehabCare and 696 facilities from Kindred.

Multiple earnings streams, multiple avenues for growth

PF Kindred

116

3

5
94
8
8
7
5
2
0
20
40
60
80
100
120
140
13
10
97
121
Freestanding
Hospital Based
207
324
277
227
226
223
0
50
100
150
200
250
300
350
Number of Facilities
315
300
200
108
1,808
1,000
900
471
450
342
471
700
700
1,493

0
500
1,000
1,500
2,000
Third Party
Affiliated

(1)
12
6
15
18
19
111
118
0
20
40
60
80
100
120
140

Number of Facilities

- #1 Operator of Hospital Based and Freestanding IRFs
- #4 Operator of Skilled Nursing and Rehab Centers
- #1 Contract Rehab Manager
- #1 Operator of Long-Term Acute Care Hospitals

18
Strategic Rationale

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Rapidly Changing Post-Acute Market

Multiple Patient Discharge Destinations

SOURCE: RTI, 2009: Examining Post-Acute Care Relationships in an Integrated Hospital System

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Positioned to Take Advantage of
Changing Healthcare Landscape

Continue [The](#)

Care

Uniquely Positioned For Bundled Or Episodic Payment Environment

SKILLED
NURSING
FACILITIES
HOSPICE
HOME
HEALTH
CARE
OUTPATIENT
REHAB
ASSISTED
LIVING
ACUTE CARE
HOSPITALS
TRANS
TRANS
CARE
CARE
ICU
ICU
IN-PATIENT
REHAB
LTACs
FREESTANDING/ HIH
Patient Illness Severity
SAU
SAU
TCC
&
TCU
ADULT DAY
CARE

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Transaction Enhances Financial Profile

(1) Standalone Kindred growth analysis compares 2011 guidance issued on 12/15/10 relative to 2010 standalone performance

Pro

forma

Kindred

growth

analysis
compares
pro
forma
2011
guidance
relative
to
2010
pro
forma
results,
in
each
case
assuming
the
RehabCare
acquisition
occurred
on
the
first
day
of
each
respective
year
and
includes
first
year
run
rate
synergies
in
both
2010
and
2011
figures.
2011
margin
figures
per
guidance
midpoint
and
compares
standalone

2011
guidance
issued
on
12/15/10
relative
to
pro
forma
2011
guidance.
2011
pro
forma
guidance
reflects
the
combined
business
as
if
the
transaction
closed
on
1/1/11
and
includes
first
year
run
rate
synergies.
EBITDAR Growth
(1)
2010
2011
3.5
5.1
2.0
4.0
6.0
Standalone Kindred
Pro Forma Kindred
(%)
EBITDA Growth
(1)
2010
2011
6.1

7.9
3.0
5.0
7.0
9.0
Standalone Kindred
Pro Forma Kindred
(%)
EBITDA Margin
(1)
2011
5.6
7.7
0.0
2.0
4.0
6.0
8.0
Standalone Kindred
Pro Forma Kindred
(%)
Net Income Margin
(1)
2011
1.3
1.7
0.0
0.6
1.2
1.8
Standalone Kindred
Pro Forma Kindred
(%)
Enhances Kindred's growth and operating margin profiles

22

Transaction Reduces Rent and
Fixed Charge Burden

Declining Rent Burden

Enhanced Margin Profile

RehabCare operates a less capital-intensive business model, driving
higher pro forma returns on assets

(1)
Midpoint of guidance issued 12/15/10.

(2)
Midpoint of pro forma guidance which reflects combined business as if the transaction closed 1/1/11.

2011 Operating Leverage
(\$MM)
Kindred

(1)
Pro Forma

(2)
Revenue
\$4,800
\$6,200
EBITDAR
640
899
% Margin
13.3%
14.5%
Rent
370
423
% Margin
7.7%
6.8%
EBITDA
270
476
% Margin
5.6%
7.7%
D&A
140
185
% Margin
2.9%
3.0%
EBIT
130
291
% Margin
2.7%
4.7%

23
Growing Portfolio of Owned Real Estate
16
Facilities
43
Facilities
0

10
20
30
40
50

2006

Current Kindred

Kindred has been focused on adding high
quality real estate to balance sheet

Acquisitions

Development
of
state-of-the-art
LTACHs
and TCCs

Exercise of in-the-money purchase
options

Own 16 hospitals; 25 nursing centers and 2
assisted living facilities

Combined company has total PP&E book
value of approximately \$1billion

Kindred expects pro forma stabilized
EBITDA

(1)
of approximately \$100 million
from owned real estate

(1) Only includes Kindred facilities

24
Transaction Provides
Significant EPS and Cash Flow Accretion
Low End of
Guidance
Pro-Forma
Impact

Mid Point

High End of

Guidance

2011 EPS Impact

\$

%

\$0.50

\$0.52

\$0.55

34%

34%

34%

2011 EPS Guidance

Prev

(1)

New

(2)

\$1.45

\$1.53

\$1.60

\$1.95

\$2.05

\$2.15

(1)

Previous guidance shown is Kindred standalone guidance issued on 12/15/10.

(2)

2011 guidance reflects the combined business as if the transaction closed on 1/1/11.

25
2011 Kindred Guidance
Stand Alone
(2)
Pro Forma
(3)
(\$MM)

Low
High
Low
High
Revenue
4,800
4,800
6,200
6,200
EBITDA
265
275
470
487
(-) Interest
26
26
118
118
(-) Taxes
40
44
66
73
Cash Flow
199
205
286
296
Cash Flow Margin
4.1%
4.3%
4.6%
4.8%
Strong Free Cash Flows and Ability to Delever
3.5
4.3
4.2
3.9
4.4
0.0
2.0
4.0
6.0
2006
2007
2008
2009
2010
Stand Alone Kindred

(x)

Historical

Adjusted

Debt

/

EBITDAR

(1)

(1)

Calculated with 6.0x cap rate.

(2)

Per guidance midpoint, issued 12/15/2010.

(3)

2011 guidance reflects the combined business as if the transaction closed on 1/1/2011.

Cash Flow Profile

Kindred has operated comfortably with a levered balance sheet

Routine CapEx declines as a % of revenue, improving free cash flow profile

26
26
Strategic and Financial Rationale
Unparalleled combined service offering
No.
1
IRFs,

LTACs
and
SNF
Rehab
management
contracts;

No.
4
standalone
SNFs
Expands
relationships
with
acute
care
networks
through
RehabCare s
IRFs
and
JV
relationships

Long-term growth prospects supported by strong demographic trends

Leading position in
attractive growing
markets

Well Diversified

Product Offering

Experienced

Management Team

Well positioned to take advantage of the changing healthcare landscape

Strong service offering in post-acute continuum strengthens cluster strategy

Increases facility diversification, potentially creating future cluster locations

Solidifies Kindred's leadership in improving patient care while
decreasing healthcare spending

Average

industry

tenor

of

the

management

team

of

16

years

in

the

industry

and

10

years
at
Kindred
Successfully grown revenue and EBITDA by 88% and 235% respectively since 2000
Recognized as the leading post-acute management team in the market
Pro Forma Kindred will be the post-acute leader with an enhanced financial profile
Focus on adding high quality real estate to the balance sheet
Acquisitions,
development
of
state-of-the-art
LTACHs
and
Transitional
Care
Centers
(TCCs)
Book value of PP&E is approximately \$1 billion
Significant cash flow generated by assets that are unencumbered by leases
Strong Asset Base
Strong FCF & Ability
to Delever
Strong
free
cash
flow
and
ability
to
delever
Company is expected to delever on an adjusted basis to current levels by the end of 2011
Proven
ability
to
successfully
operate
and
grow
free
cash
flow
in
a
highly
regulated
environment
Superior cash management through lean working capital

Kindred Has a History of Successfully
Integrating Acquisitions

2002
2003
2005
2006
2007

2008

2009

2010

February 2006:

Commonwealth Communities
Holdings (6 Hospitals, 11 NCs
and 4 ALFs)

November 2010:

Five LTACHs
from Vista
Healthcare

2004

July 2007: (Spin-off)

Kindred and AmerisourceBergen
combine their institutional pharmacy
businesses to form Pharmerica Corp.

27

April 2002:

Specialty Healthcare
Services (6 hospitals)

March 2005:

Pharmacy
Partners (2
pharmacies)

April 2005:

Skilled Care (2
pharmacies)

November 2005:

RXPPTS, Inc.
(1 Pharmacy)

August 2007:

The Greens Post-
Acute
Rehabilitation
Center

Fountains On the
Greens (Assisted
Living Facility)

October 2007:

Professional
Therapy Solutions

April 2010:

Stratford
Commons (NC
and ALF)

September 2010:

3 Texas NCs

November 2010:

Signature Health
Services

November 2004:
First Stop of Iowa
(1 pharmacy)
August 2006:
EconoMed
(1 Pharmacy)
ValueScript
(1 Pharmacy)
PharmaStat
(1 Pharmacy)
July 2009:
Acclaim
Hospice

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Track record for operational success based on commitment to quality, service excellence and a disciplined approach to the business

Experienced management team, robust technology platform, processes and systems, and a demonstrated ability to adapt to change

Growing businesses through disciplined organic development and acquisition strategies

Strong cash flows with financial flexibility to finance acquisitions and development activities

Well positioned to succeed in changing post-acute landscape

Investment Considerations

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Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

March 16, 2011

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Kindred Q4 10 Highlights

Fourth quarter consolidated revenues grew 6% to \$1.1 billion

Diluted EPS of \$0.50 grew 19% from Q4 09

Full year operating cash flows exceed \$200 million for second consecutive year

Routine and development capital expenditures were fully funded through internal resources in both years

Hospitals report growth from last year's Q4

Recent acquisitions drove hospital revenues up 5% to \$508 million

Operating income grew 3% to \$96 million

Nursing and rehabilitation centers successfully transitioned to new Medicare payment system in Q4

Revenue growth of 4% driven by increased acuity and clinical services and 4% growth in admissions

Division reports solid 13% growth in operating income

Peoplefirst

Rehabilitation adds to customer base and adjusts to new Medicare rules in fourth quarter

Revenue growth of 21% primarily driven by new customers

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RehabCare Q4 10 Highlights

Excluding transaction related expenses in Q4 09, diluted EPS increased 86% year over year to \$0.69

Hospital division improved EBITDA margin to 15.2% in the fourth quarter from 12.9% in the third quarter

Impacted by regulatory changes, Skilled Nursing Rehabilitation Services

division reported 5.8% operating earnings margin in the quarter,
consistent with expectations

Hospital Rehabilitation Services division delivered near record operating
earnings margin of 20.6%

Cash flow from operations of \$104 million in 2010 allowed the Company
to pay down debt by \$66 million and lower debt to EBITDA ratio to 2.4

Business Segment Buildup

(1)

Segment figures do not sum to totals due to eliminations / corporate expenses. RehabCare figures do not include discontinued operations from the acquisitions Kindred has closed in 2010 (\$157MM Revenue and \$37MM EBITDA benefit)

RehabCare acquisition significantly enhances scale in both the Skilled Nursing and Hospital Rehab businesses and adds to Kindred's LTAC business

Hospitals

Rehabilitation Services
 Nursing Centers
 Total
 (1)
 Nursing Center
 Based
 Hospital Based
 Total
 2010 Pro forma
 \$MM
 Revenue
 (1)
 Kindred Healthcare
 435
 84
 519
 2,093
 2,212
 4,517
 RehabCare
 516
 180
 696
 653
 0
 1,349
 Total
 951
 264
 1,215
 2,746
 2,212
 5,866
 EBITDAR
 (1)
 Kindred Healthcare
 24
 16
 40
 336
 242
 618
 RehabCare
 45
 35
 80
 136
 0
 216
 Total

69
51
120
472
242
834
% Margin
7.3%
19.3%
9.9%
17.2%
10.9%
14.2%
EBITDA
(1)
Kindred Healthcare
18
16
34
176
44
254
RehabCare
45
35
80
86
0
166
Total
63
51
114
262
44
420
% Margin
6.6%
19.3%
9.4%
9.5%
2.0%
7.2%
(+) Synergies
25
Pro Forma EBITDA
445
33

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Reconciliation of
Non-GAAP Measures
Year ended December 31,
Operating income (loss):
2006
2007

2008
 2009
 Hospital division
 Nursing center division
 Rehabilitation division
 Pharmacy division
 Corporate:
 Overhead
 Insurance subsidiary
 Operating income
 Rent
 Depreciation and amortization
 Interest, net
 Income before income taxes
 Income taxes
 Income from cont. ops.
 \$364
 305
 51
 -
 (135)
 (6)
 (141)
 579
 (348)
 (126)
 (3)
 102
 39
 \$63
 \$ Millions
 2010
 Fourth
 Quarter
 2009
 \$93
 77
 11
 -
 (33)
 (2)
 (35)
 146
 (88)
 (32)
 -
 26
 9
 \$17
 \$96

87
9
-
(33)
(1)
(34)
158
(90)
(32)
(3)
33
13
\$20
Fourth
Quarter
2010
\$383
239
30
49
(157)
(7)
(164)
537
(289)
(115)
1
134
53
\$81
\$365
295
34
18
(168)
(7)
(175)
537
(338)
(118)
(1)
80
37
\$43
\$346
322
38
-
(133)
(7)

(140)
566
(339)
(120)
(8)
99
39
\$60
\$357
303
52
-
(134)
(3)
(137)
575
(357)
(122)
(6)
90
34
\$56

35

Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

March 16, 2011