

REHABCARE GROUP INC

Form 425

May 12, 2011

1

Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

May 12, 2011

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

Edgar Filing: REHABCARE GROUP INC - Form 425

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

2
Forward-Looking Statements
Additional
Information
About
this
Transaction

In connection with the pending transaction with RehabCare Group, Inc. (RehabCare), Kindred Healthcare, Inc. (Kindred) has filed with the Securities and Exchange Commission (the SEC) a Registration Statement on Form S-4 (commission file number 333-173050) that includes a joint proxy statement/prospectus

to
their
respective
stockholders

on
or
about
April
28,
2011.

WE
URGE
INVESTORS
AND
SECURITY
HOLDERS
TO
READ
THE
JOINT
PROXY
STATEMENT/PROSPECTUS
REGARDING
THE
PENDING
TRANSACTION
BECAUSE
IT
CONTAINS
IMPORTANT
INFORMATION.

You may obtain a free proxy statement/prospectus and the other documents filed by Kindred and RehabCare with the SEC may also be obtained for free 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, and their respective stockholders in favor of the pending transaction. You can find information about Kindred's executive officers and directors in its amended Form 10-K and statement/prospectus. You can find information about RehabCare's executive officers and directors in its amended Form 10-K. You can obtain a free copy of these documents from 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

any

forward-looking

information

is

not

a

guarantee

of

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

Kindred and

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:

• Regulatory approvals and the satisfaction of the closing conditions to the acquisition of RehabCare by Kindred, including approvals from

the stockholders of the respective companies, and Kindred's ability to complete the required financing as contemplated by the financing agreement;

• Our 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;

• Our potential for unanticipated issues, expenses and liabilities associated with those acquisitions and the risk that RehabCare fails to meet its obligations to

targets; (c) the potential for diversion of management time and resources in seeking to complete the RehabCare acquisition and failure to retain key employees of RehabCare; (e) the impact of Kindred's significantly increased levels of indebtedness as a result of Kindred's funding costs, operating flexibility and ability to fund ongoing operations with additional borrowings, particularly in volatile markets;

(f) the potential for dilution to Kindred stockholders as a result of the RehabCare acquisition;

(g) the ability of

Kindred to operate pursuant to the terms of its debt obligations, including Kindred's obligations under financings undertaken to complete the RehabCare acquisition, and the master lease agreements with Ventas, Inc. (NYSE:VTR). Additional factors that may affect future results are contained in Kindred's obligation to update and revise statements contained in these materials based on new information or otherwise.

which are available at the SEC's web site at

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

copy of the joint proxy statement/prospectus and other related documents filed by

Kindred
and
RehabCare
with
the
SEC
at
the
SEC's
website
at
The joint
www.sec.gov.
www.sec.gov.

3
Kindred Overview

4
706
(3)
sites of service,
313
facilities
in

40

states

56,700

(3)

dedicated

employees,

making Kindred

a top-200 private

employer in

the U.S.

(4)

34,400

(3)

patients and

residents

per day

\$4.5 billion

(2)

consolidated

revenues

Largest Diversified Post-Acute

Provider in the United States

(1)

(1) Ranking based on revenues.

(2) Revenues for the twelve months ended March 31, 2011.

(3) As of March 31, 2011.

(4) Ranking provided by TMP, Inc.

5
5
\$2.0 billion revenues
HOSPITAL
Long-term Acute Care Hospitals
Largest
operator

in
U.S.
89 hospitals with
6,889
licensed
beds
\$2.2 billion revenues
Third largest nursing
center
operator
in
U.S.
224 nursing centers with
27,252
licensed
beds
6 assisted living facilities with 413
licensed beds
NURSING CENTER
Nursing and Rehabilitation Centers
\$530 million revenues
Second largest contract
therapy
company
in
U.S.
393 external locations served
through 5,970 therapists and
10,500
total
employees
REHABILITATION
Peoplefirst
Rehabilitation
Services
(1)
Revenues
for
the
twelve
months
ended
March
31,
2011
(divisional
revenues before intercompany eliminations).
(2)
Ranking based on revenues.
(3)

As of March 31, 2011.

Kindred's Market Leading Businesses

- (2)
- (2)
- (2)
- (3)
- (3)
- (3)
- (3)
- (1)
- (1)
- (1)

6

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

8

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

9
RehabCare
Transaction Overview

10
RehabCare Group Acquisition
Transaction Update
Transaction has received all material Federal
government approvals

Joint

proxy
statement

was
made
effective

April
26

th

Commitments have been obtained for \$1.35 billion of
senior secured financing

\$550.0 million unsecured notes offering remaining

Kindred and RehabCare shareholder meetings to
approve the merger have been scheduled for late May

Integration

and

synergy

plans

progressing

well

-

high

degree of enthusiasm at both companies for the
combination of our respective businesses

Both companies' strong performances in Q1 provides
substantial momentum as we approach the closing

11
~\$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

By June 30, 2011

1)

Based on a fixed exchange ratio.

12
Transaction Overview
J.P. Morgan, Morgan Stanley and Citi have committed \$1.9Bn in debt financing
Key Capital Considerations
Maintain strong balance sheet, liquidity and financial flexibility (approximately \$350MM undrawn revolver capacity at close)
Sources and Uses

(1)
 (\$MM)
 Sources
 % of Total
 \$600MM ABL Revolving Credit Facility
 \$264
 15%
 Term Loan B
 700
 39%
 Less original issue discount on Term Loan B

(7)
 (1%)
 Senior Unsecured Notes
 550
 31%

Equity
 Consideration

(3)
 288
 16%
 Total Sources

1,795
 100%

Uses
 % of Total
 Purchase RehabCare Equity (~\$35/share)

951
 53%
 Retire RehabCare Debt
 369
 21%

Retire Kindred Debt
 350
 19%

Other
 125
 7%

Total Uses
 1,795
 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

1)

Sources

and

Uses

is

as

of

3/31/11.

Pro-Forma

Capitalization

is

based

on

borrowings

expected

at

closing.

Figures

may

not

add

due

to

rounding.

2)

2010PF figures reflect full year run rate of 2010 Kindred acquisitions (\$157MM in revenue, \$44MM in EBITDAR, \$7MM in interest expense) and do not include the results of discontinued operations (inpatient rehabilitation facility in Miami). 2011 figures display low and high end of range for 1/1/11.

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.

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)

13

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

(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

(3)

Includes \$25MM of run rate synergies.

(4)

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

Contract Rehab

SNF
LTAC
Medicaid
Medicare
Commercial
LTAC
SRS
LTAC
SRS
HRS
Medicaid
2%
Medicare
LTAC
SNF
HRS
LTAC
SNF
HRS
Commercial
Medicaid
Medicare
Business
Mix:
Revenue
(10)
(2)(4)
SNF
LTAC
HRS
Contract Rehab
Contract Rehab
Contract Rehab
Commercial
47%
42%
11%
39%
48%
13%
45%
35%
3%
17%
29%
13%
58%
52%
27%
21%

11%
8%
62%
19%
40%
24%
36%
69%
29%
51%
20%
29%

14
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

15

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

16
Strategic Rationale

17

17

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

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

Strong free cash flow and ability to delever

Proven

ability

to

successfully

operate

and

grow

free

cash

flow

in

a

highly

regulated

environment

Superior cash management through lean working capital

18

Rapidly Changing Post-Acute Market

Multiple Patient Discharge Destinations

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

19
Positioned to Take Advantage of
Changing Healthcare Landscape
Uniquely Positioned For Bundled Or Episodic Payment Environment
HOME
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
ADULT DAY
CARE
TCC
&
TCU
Continue [TheCare](#)

20

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

21

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%

22	
Growing Portfolio of Owned Real Estate	
16	
Facilities	
44	
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 17 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 \$111 million from owned real estate

(1) Only includes Kindred facilities

23
Transaction Provides
Significant EPS and Cash Flow Accretion
Low End of
Guidance
Pro-Forma
Impact

Mid Point
High End of
Guidance
2011 EPS Pro-Forma

Impact

\$

%

\$0.50

\$0.52

\$0.55

34%

34%

34%

2011 EPS

Prev

(1)

Pro-Forma

(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.

24
Strong Free Cash Flows
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

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%

25

Kindred Has a History of Successfully
Integrating Acquisitions

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
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
April 2010:
Stratford
Commons (NC
and ALF)
September 2010:
3 Texas NCs
November 2010:
Signature Health
Services
2004
July 2007: (Spin-off)
Kindred and AmerisourceBergen
combine their institutional pharmacy
businesses to form Pharmerica Corp.

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

26
Reimbursement Update

27

Kindred Medicare Reimbursement Update

On April 19, CMS proposed FY 2012 LTAC PPS rates that CMS projected would increase payment rates to LTACs by 1.9%. The increase would take effect October 1, 2011. Kindred estimates that the impact of these proposed changes would result in an approximate 0.5% increase in payments to the Company's hospitals

CMS issued a proposed rule on April 28 regarding Medicare payments for skilled nursing centers for FY 2012. The rule proposed two options for updating payment rates:

Option one would address potential overpayments related to the transition to the new RUGs IV system by reducing payments by a projected 11.3%

Under option two, nursing centers would receive a 1.5% rate increase, effective October 1, 2011, while CMS continues to collect more data regarding the implementation of the RUGs IV system

CMS

further

proposed

to

define

group

therapy

as

therapy

sessions

with

four patients who are performing similar therapy activities

28

Kindred Medicare Reimbursement Update **(cont.)**

The proposed skilled nursing rule offers two alternatives for a potential parity adjustment, one of which recognizes that three months of data may be insufficient to arrive at an accurate calculation

Kindred strongly supports an approach that ensures adequate data before arriving at definitive conclusions on appropriate rates

Kindred has experienced a 4.2% decline in Medicare average length of stay from 2008-2010 and a 2.4% decline in the first quarter of 2011 compared to the same period last year

29
% Change in Key Measures, 2008 -
2010
11%
9%
7%
-4%

-5%

0%

5%

10%

15%

2008

2010

Medicare Rate PPD

Operating Cost PPD

Medicare Case Mix Index

Medicare Length of Stay (days)

Kindred SNF cost and

case mix severity

increases have kept pace

with Medicare rate

increases. Significant

declines in Length of

Stay restrain both margin

expansion and Medicare

spending under the PPS

system.

Nursing and Rehabilitation Centers

30

9% increase in Medicare CMI from 2.83 to 3.09

4% Decrease in Medicare LOS from 33.9 to 32.5 days

32.0

34.0

36.0

38.0

2008

2010

2.65

2.75

2.85

2.95

Length of Stay (days)

Case Mix Index

32.0

32.5

33.0

33.5

34.0

Sep-10

Dec-10

2.75

2.85

2.95

3.05

3.15

Length of Stay (days)

Case Mix Index

7% increase in Medicare CMI from 2.70 to 2.88

4% Decrease in Medicare LOS from 35.5 to 34.0 days

Kindred SNF Medicare Case Mix Severity has increased significantly and Length of Stay has declined. (2008

2010 & 4th Quarter 2010)

Nursing and Rehabilitation Centers (cont.)

6%
8%
10%
11%
27%
24%
15%
1%
67%

68%

75%

88%

0%

100%

Total Group %

Total Concurrent %

Total Individual %

2010 Medicare Part A

Therapy Minutes / RUG Day

Q1

Q2

Q3

Q4

69

70

71

71

Kindred maintained the same level and intensity of Rehab Services for patients pre and post RUG IV, primarily through providing more individual therapy (at a higher cost) and increasing therapist time spent with patients (versus administrative time).

Nursing and Rehabilitation Centers (cont.)

33

Kindred Financial Update Q1 2011

Company reported strong results of \$0.55 per diluted share

Reported results included charges of \$0.10 per diluted share, primarily related to pending RehabCare transaction

Excluding certain charges in both periods, diluted earnings per share rose 48% from Q1 of 2010

Consolidated revenues grew 9% to \$1.2 billion

Each operating division reported revenue growth as compared to Q1 of 2010

First quarter operating income for the hospital division grew 14% to \$108 million

Strong admissions and higher Medicare and managed care volumes drove nursing center growth in operating income of 24% to \$87 million

34

Kindred Financial Update Q1 2011

(cont.)

Peoplefirst

Rehabilitation revenues grew by 21% to
\$145 million

Division reported \$15 million in operating income

Operating cash flows grew to \$46 million for the quarter,
up \$60 million from last year's first quarter

Accounts receivables days outstanding declined to 49.8
days at March 2011, down from 54.4 days at March 2010

Long-term debt declined by \$15 million during the quarter

35

RehabCare Group Financial Update Q1 2011

RehabCare net earnings per diluted share increased 20.3% year over year to \$0.71

\$0.12 per diluted share of transaction related expenses were included in the Q1 2011 results

Hospital division EBITDA margin improved to 17.6% from 12.9% a year

ago

Skilled Nursing Rehabilitation Services division operating earnings margin in line with expectations

Hospital Rehabilitation Services division delivered operating earnings margin of 18.7%

Cash flow from operations allows RehabCare to pay down debt by \$18 million in the quarter

36
Investment Considerations

37

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

38
Investor Presentation
Kindred Healthcare, Inc. (NYSE: KND)
May 12, 2011

40
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

41
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
 Transaction costs
 Operating income
 Rent
 Depreciation and amortization
 Interest, net
 Income before income taxes
 Income taxes
 Income from cont. ops.

\$ Millions

2010

First
 Quarter

2010

First
 Quarter

2011

\$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
\$364
305
51
-
(135)
(6)
(141)
-
579
(348)
(126)
(3)
102
39
\$63
\$360
304
53
-
(134)
(3)
(137)
(5)
575
(357)
(122)
(6)
90
34
\$56
\$96

70
15
-
(34)
-
(34)
(1)
146
(89)
(31)
-
26
11
\$15
\$108
87
15
-
(38)
(1)
(39)
(4)
167
(91)
(33)
(5)
38
16
\$22

42
Investor Presentation
Kindred Healthcare, Inc. (NYSE: KND)
May 12, 2011