

REHABCARE GROUP INC

Form 425

March 03, 2011

1

Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

March 3, 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

In connection with the pending transaction with RehabCare Group, Inc. ( RehabCare ), Kindred Healthcare, Inc. ( Kindred ) and the U.S. Securities and Exchange Commission (the SEC ) a Registration Statement on Form S-4 that will include a joint proxy statement of Kindred and RehabCare and Kindred. Kindred and RehabCare will mail the definitive proxy statement/prospectus to their respective stockholders.

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 may also be obtained for free by accessing Kindred's website at [www.kindredhealthcare.com](http://www.kindredhealthcare.com) then clicking on the link for SEC Filings or by accessing RehabCare's website at [www.rehabcare.com](http://www.rehabcare.com) and clicking on the link for SEC Filings.

Kindred, RehabCare and their respective directors, executive officers and certain other members of management and employees are soliciting the support of their respective stockholders in favor of the pending transaction. Information regarding the persons who may, under the rules of the SEC, solicit the support of stockholders in connection with the pending transaction will be set forth in the joint proxy statement/prospectus. Information about Kindred's executive officers and directors in Kindred's definitive proxy statement filed with the SEC on April 15, 2010, and RehabCare's executive officers and directors in its definitive proxy statement filed with the SEC on March 23, 2010. You can obtain copies of Kindred or RehabCare, respectively, using the contact information above.

Information set forth in this presentation contains forward-looking statements, which involve a number of risks and uncertainties. You should understand that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from the 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 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 of 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 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 2010; (c) the potential for unanticipated issues, expenses and liabilities associated with those acquisitions and the risk that RehabCare fails to meet its operating targets; (d) the potential for diversion of management time and resources in seeking to complete the RehabCare acquisition and the potential failure to retain key employees of RehabCare; (e) the impact of Kindred's significantly increased levels of indebtedness as a result of the RehabCare acquisition on Kindred's funding costs, operating flexibility and ability to fund ongoing operations with additional borrowings, particularly in the current capital markets; (f) the potential for dilution to Kindred stockholders as a result of the RehabCare acquisition; and (g) the ability to meet the terms of its debt obligations, including Kindred's obligations under financings undertaken to complete the RehabCare acquisition. Kindred, pursuant to its master lease agreements with Ventas, Inc. (NYSE:VTR). Additional factors that may affect future results are contained in the proxy statement filed with the SEC,

and RehabCare disclaim any obligation to update and revise statements contained in these materials based on new information.

Additional  
Information  
About  
this  
Transaction  
Kindred  
and  
RehabCare  
with  
the  
SEC  
at  
the  
SEC's  
website  
at  
joint  
proxy  
statement/prospectus  
(when  
available)

The

and  
the  
other  
documents  
filed  
by  
Participants  
in  
this  
Transaction  
Forward-Looking  
Statements  
which  
are  
available  
at  
the  
SEC's  
web  
site  
at  
Many  
of  
these  
factors  
are  
beyond  
the  
control  
of  
Kindred  
or  
RehabCare.  
Kindred  
and

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

[www.sec.gov](http://www.sec.gov).  
[www.sec.gov](http://www.sec.gov).

3  
Kindred Update

4

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 delever quickly to below current leverage levels



5  
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%

6  
Transaction Overview

7  
~\$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.

8  
Sources and Uses  
(1)  
(\$MM)  
Sources  
% of Total  
New Borrowings



1,600  
 88%  
 Equity Consideration  
 (3)  
 228  
 12%  
 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  
 179  
 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  
 Transaction Overview (Cont d)  
 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 Kindred standalone)

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

1)

Sources

and

Uses

is

as

of

12/31/10.

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

rent

and  
\$37MM  
of  
EBITDA  
benefit)  
and  
RehabCare.  
RehabCare  
2010  
results  
do  
not  
include the results of discontinued operations (inpatient rehabilitation facility in Miami). 2011 figures display low and high end  
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  
444  
414  
857  
3.6x  
4.8x  
1,600  
1,600  
2010PF  
(2)

9  
Skilled Nursing Rehab Services (SRS)  
Hospital Rehab Services (HRS)  
Program Management Services  
Hospital Division  
\$516  
\$180

\$633

2010A Revenue (\$ MM)

(1)

39%

13%

48%

% Total Revenue

\$45

\$35

\$134

2010A

EBITDA

(\$MM)

(1)

Manages 1,112 skilled nursing facility  
(SNF) programs in 38 states

Therapy services includes physical and  
occupational therapy and  
speech/language pathology skilled nursing  
facilities

Significant same store revenue and  
margin growth since completion of  
Symphony integration in 2007

Focused on implementing next generation  
of point-of-care technology and web-  
based therapy management system

Paid by clients on negotiated per diem  
rate or negotiated fee schedule based on  
type of service rendered

Manages inpatient rehabilitation  
facilities (IRFs) in 106 ARU hospitals  
for patients with various diagnoses  
including stroke, orthopedic conditions,  
arthritis, spinal cord and traumatic brain  
injuries

Manages 31 hospital-based and  
satellite outpatient therapy programs  
that complement hospitals  
occupational medicine initiatives and  
allow therapy to be continued for  
patients discharged from IRFs

Entered rehabilitation and long-term

acute care hospital business in 2005  
when the Company acquired assets  
of MeadowBrook Healthcare

In November 2009, RehabCare  
acquired Triumph HealthCare, which  
operated 20 LTACHs, more than  
doubling the size of hospital  
segment

34 hospitals include

- 
- 23 free-standing LTACHs
- 
- 6 HIH LTACHs
- 

5 IRFs  
Description  
% Margin  
9%  
19%  
21%  
Total  
\$1,329  
100%  
\$214  
16%

RehabCare Overview

- 1)  
RehabCare 2010 results do not include the results of discontinued operations (inpatient rehabilitation facility in Miami).

10  
Combined Company Overview  
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

\$1,329MM

\$164MM

46

356

36,580

\$5,846MM

(2)

\$443MM

(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)  
Contract Rehab  
SNF  
LTAC  
39%  
48%  
14%  
HRS

47%

42%

11%

Together Kindred and RehabCare will be the premier leader in the post-acute market

(1)

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

(2)

Includes the full year benefit of all of the acquisitions Kindred has closed in 2010 (\$157MM Revenue and \$37MM EBITDA by facility in Miami). Figures may not add due to rounding.

(3)

Includes \$25MM of run rate synergies.

(4)

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

11  
Kindred and RehabCare Combined Presence  
Kindred Hospitals  
Kindred Nursing and Rehabilitation Centers  
RehabCare Hospitals  
Acute Rehabilitation Units  
Source:

Company  
website

(1)

Circles represent cluster strategy markets.

Enhances

Kindred s

cluster

strategy

(1)

Existing Cluster Market

Potential New Cluster Market

12

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 Skilled Nursing Contract Rehab Manager
- #1 Operator of Long-Term Acute Care Hospitals

13

Diversified Services Offerings

(1)

Segment figures do not sum to totals due to eliminations / corporate expenses. RehabCare figures do not include discontinued

Kindred gains significant 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  
633  
0  
1,329  
Total  
951  
264  
1,215  
2,726  
2,212  
5,846  
EBITDAR  
(1)  
Kindred Healthcare  
24  
16  
40  
336  
242  
618  
RehabCare  
45  
35  
80  
134  
0  
214  
Total

69  
51  
120  
470  
242  
832  
% 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  
84  
0  
164  
Total  
63  
51  
114  
260  
44  
418  
% Margin  
6.6%  
19.3%  
9.4%  
9.5%  
2.0%  
7.2%  
(+) Synergies  
25  
Pro Forma EBITDA  
443

14

Rapidly Changing Post-Acute Market

Multiple Patient Discharge Destinations

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

Well Positioned to Take Advantage of  
Changing Healthcare Landscape

Continue  
The

Patient Illness Severity  
Home

Adult Day  
Care  
Home Health  
Care  
Assisted  
Living  
Skilled  
Nursing  
Facilities  
In-Patient  
Rehab  
LTACS  
Freestanding / HIH  
SAU  
Hospice  
TRANS  
CARE  
ICU  
Acute Care  
Hospitals  
Outpatient  
Rehab  
TCC  
&  
TCU  
Uniquely Positioned For Bundled Or Episodic Payment Environment  
15  
Care  
Homecare  
and Hospice  
Homecare  
and Hospice

16

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

17

Enhances Growth 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 margin and operating profit growth profiles

18

Declining Rent and Fixed Charge Burden

Declining Rent Burden

Enhanced Margin Profile

RehabCare operates an asset-light business model

Pro forma capital intensity of business drives higher return 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%

19  
Strong Asset Base Including 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 \$1Bn

Kindred

has

Pro

Forma

EBITDA

(1)

of

approximately \$100MM from owned real estate

(1) Only includes Kindred facilities

20  
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

21  
84  
125  
34  
31  
31  
153

194  
177  
247  
265  
69  
69  
143  
216  
234  
0  
100  
200  
300  
400  
2010A  
2011E  
2012E  
2013E  
2014E  
124  
131  
121  
110  
108  
0  
100  
200  
300  
400  
2010A  
2011E  
2012E  
2013E  
2014E  
277  
325  
298  
357  
373  
0  
100  
200  
300  
400  
2010A  
2011E  
2012E  
2013E  
2014E  
Strong Free Cash Flows (cont d)

Cash Flow Available for Discretionary CapEx and Debt Paydown

(\$MM)

Discretionary CapEx

(1)

Available for Debt Paydown

Routine CapEx

(\$MM)

Cash Flow From Operations

(\$MM)

(1)

Does not include acquisition capex of \$1MM, \$13MM and \$4MM in 2011, 2012 and 2013, respectively.

Note: 2010 estimated cash flow from operations based on 2010A actual, does not include impact of Vista acquisition.

22  
Significant EPS Accretion  
(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.  
Acquisition is significantly accretive at the contemplated transaction value  
and financing structure on both an EPS  
and cash flow basis

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

23

Strong operating cash  
flows and ability to  
delever

Management intends to delever, but is comfortable at expected leverage levels and has successfully  
operated business at higher levels in the past

Enhanced operating cash flow provides the ability to significantly delever over time



Strong track record of successfully growing operating cash flow in highly regulated environment  
Well diversified service offering  
Diversified across four critical segments in the post-acute continuum with leadership positions in each segment  
RehabCare adds IRF and ARU capabilities to Kindred's already strong set of capabilities  
Decreased reimbursement risk profile via diversified revenue across multiple segments and payors  
Leading position in attractive growing businesses  
Largest provider of post-acute services in US with broadest service offering across post-acute continuum  
Multiple avenues for growth, multiple earnings streams  
Long-term growth prospects supported by strong demographic trends and significant increase in the incidence of chronic diseases  
Enhances growth and margin profile  
Enhanced margins throughout income statement; accelerated growth prospects  
Scale economies and related combination synergies help to accelerate operating profit and earnings growth of combined company  
Declining rent and fixed charge burden  
Rent expense declines as a % of revenues;  
Routine CapEx

declines  
as  
a  
%  
of  
revenues  
Book  
value  
of  
PP&E  
is  
approximately  
\$1.0Bn

Significant  
operating  
cash  
flow  
generated  
by  
assets  
that  
are  
unencumbered by leases

Transaction enhances Kindred's cluster market strategy

Best-positioned to compete in a potentially bundled payment environment given broad service capabilities

Kindred can deliver the right care at the right site at the right time

Well positioned to take  
advantage of changing  
healthcare landscape

Significant accretion

Significantly accretive to EPS & operating cash flow / share

Transaction Enhances Growth Prospects, is EPS  
& FCF Accretive and Strengthens Credit Profile



25

Kindred Q4 10 Highlights

Continuing operations income of \$0.50 per diluted share tops  
guidance of \$0.43

Q4 2010 continuing operations EPS up 19% over same  
period last year

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

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

26

Kindred Q4 10 Highlights (cont d)

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

Division reports solid 13% growth in operating income

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

*Peoplefirst*

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

Revenue growth of 21% primarily driven by new customers

27

Excluding transaction related expenses in the 2009 fourth quarter, net earnings per diluted share increased 86.5% 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 \$103.8 million in 2010 allowed the Company to pay down debt by \$65.7 million and lower debt to EBITDA ratio to 2.4

RehabCare Q4 10 Financial Results

28  
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