GENTIVA HEALTH SERVICES INC
Form 425
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Filer: Kindred Healthcare, Inc.
(Commission File No. 001-14057)
Subject Company: Gentiva Health Services, Inc.
(Commission File No. 001-15669)

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Forward-Looking Statements

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This presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as am
financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competiti
approximate, believe, plan, estimate, expect, project, could, should, will, intend, may and othe
performance, anticipated profitability, revenues, expenses or other financial items, and product or services line growth, togethe
Company based upon currently available information.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that a
discussed below. Such forward-looking statements are based upon management s current expectations and include known and
actual results or performance to differ materially from any future results or performance expressed or implied by such forward-
Kindred s filings with the Securities and Exchange Commission.

In addition to the factors set forth above, other factors that may affect Kindred s plans, results or stock price include, without l
potential material changes to the delivery of healthcare services and the reimbursement paid for such services by the governme
Education and Reconciliation Act (collectively, the ACA) or future deficit reduction measures adopted at the federal or stat
amend, modify or retract funding for various aspects of the ACA create additional uncertainty about the ultimate impact of the
Medicare and Medicaid Services (CMS) and others, and the numerous processes required to implement these reforms, Kind
such reforms or any other future legislation or regulation will have on Kindred s business, financial position, results of operat
reimbursement to Kindred s transitional care (TC) hospitals in 2013 and beyond by imposing a budget neutrality adjustme
Medicare reimbursement to Kindred s nursing centers and changed payments for the provision of group therapy services effe
Taxpayer Relief Act)) which instituted an automatic 2% reduction on each claim submitted to Medicare beginning April 1,
Act of 2013, which will reduce the population of patients eligible for Kindred s hospital services and change the basis upon w
subsequent procedures when multiple therapy services are provided on the same day. At this time, Kindred believes that the ru
reimbursement rates or the methods or timing of payment from third party payors, including commercial payors and the Medic
potential changes in the Medicare payment rules, the Medicare Prescription Drug, Improvement, and Modernization Act of 20
home health and hospice operations, and the expiration of the Medicare Part B therapy cap exception process, (h) the effects o
regulations governing the healthcare industry, (i) the ability of Kindred s hospitals and nursing centers to adjust to medical ne
pending whistleblower and wage and hour class action lawsuits against Kindred) and Kindred s ability to predict the estimate
outcomes, (k) the impact of Kindred s significant level of indebtedness on Kindred s funding costs, operating flexibility and
ability to successfully redeploy its capital and proceeds of asset sales in pursuit of its business strategy and pursue its developm
economies of scale, cost savings and productivity gains associated with such operations, as and when planned, including the p
when and if declared by the Board of Directors, in compliance with applicable laws and Kindred s debt and other contractual
and cost containment efforts of managed care organizations and other third party payors, (p) Kindred s ability to meet its rent
thereunder, and Kindred s ability to operate pursuant to its master lease agreements with Ventas, Inc. (NYSE:VTR), (r) the co
and terms of debt and equity financing sources to fund the requirements of Kindred s businesses, or which could negatively i
successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability and other claims, (u) Kindr
associated obligation to refund overpayments to government payors, fines and other sanctions, (v) national and regional econo
services, (w) increased operating costs due to shortages in qualified nurses, therapists and other healthcare personnel, (x) Kind
facilities, (z) events or circumstances which could result in the impairment of an asset or other charges, such as the impact of t
changes in generally accepted accounting principles or practices, and changes in tax accounting or tax laws (or authoritative in
reporting.

This presentation also includes forward-looking statements regarding Kindred s proposed business combination transaction w
transaction), all statements regarding Kindred s (and Kindred and Gentiva s combined) expected future financial position, res

opportunities, plans and objectives of management, and statements containing the words such as anticipate, approximate,
similar expressions. Statements in this presentation concerning the business outlook or future economic performance, anticipat
businesses of Kindred and Gentiva), together with other statements that are not historical facts, are forward-looking statements

Risks and uncertainties related to the proposed transaction with Gentiva include, but are not limited to, uncertainty as to wheth
adverse reactions or changes to business relationships resulting from the announcement or completion of the transaction, uncer
the transaction or any failure to complete the transaction, competitive responses to the announcement or consummation of the t
obtained or are obtained subject to terms and conditions that are not anticipated, costs and difficulties related to the integration
savings and synergies from the transaction, unexpected costs, liabilities, charges or expenses resulting from the transaction, liti
conditions.

Many of these factors are beyond Kindred s control. Kindred cautions investors that any forward-looking statements made by
results of any revisions to any of the forward-looking statements to reflect future events or developments

Kindred has provided information in this presentation to compute certain non-GAAP measurements for specified periods befor
presentation and on our website at www.kindredhealthcare.com under the heading investors.

Additional Information

This presentation is provided for informational purposes only and does not constitute an offer to purchase or the solicitation of
the SEC in connection with a possible business combination transaction with Gentiva. Kindred and Gentiva shareholders shoul
contain important information. Those documents, if and when filed, as well as Kindred s other public filings with the SEC, ma

Kindred Healthcare s Diversified Business and
Revenue Mix
(1) Revenues for the twelve months ended March 31, 2014 (before intercompany eliminations).
(2) March 31, 2014.
(3) For the twelve months ended March 31, 2014.
40%
($2.0 billion)
Medicare
Medicaid
Revenue
Mix
(1
)
Business

Mix
(1)
21%
($1.1 billion)
Business-to-
Business
Commercial
Insurance/
Private
12%
($0.6 billion)
27%
($1.4 billion)
25%
($1.3 billion)
21%
($1.1 billion)
49%
($2.5 billion)
Hospitals
(LTAC/IRF)
RehabCare
Nursing and
Rehabilitation
Centers
5%
($0.2 billion)
Care
Management
3

$5.1 billion total revenues

2,313 locations, 309 facilities in 47 states

503,000 patients and residents

63,000 dedicated employees
(1)
(2)
(3)
(2)

Leading Diversified Post-Acute Provider
With Focus on Developing *Integrated Care Market*
Capabilities
Transitional Care Hospitals (100)
Inpatient Rehabilitation Hospitals (5)
Hospital-Based Acute Rehab Units (105)
Nursing and Rehabilitation Centers (99)

RehabCare Total Sites of Service (1,825)
Home Health, Hospice and Private Duty
in 16 Integrated Care Markets (157)
Regional Support Centers
As of March 31, 2014
Integrated Care Market (12)
Targeted Integrated Care Market (10)
4

Kindred s Value Proposition and our
Continue
The

Care
Campaign

Be a leader in helping to coordinate and deliver high quality care at the lowest cost (particularly for those patients who are the highest users of healthcare services)

By providing superior clinical outcomes in the most appropriate setting, with an approach which is patient-centered, disciplined and transparent

Lower healthcare costs by reducing rehospitalizations and lengths-of-stay in acute care hospitals and throughout an episode of care

By transitioning patients home at the highest possible level of function and wellness

Participate in the development of new care delivery and payment models

To better coordinate care and manage patients with chronic conditions, including the dual-eligibles, with our partners through our integrated care management teams and protocols

5

and More Quickly
(Reducing Average
Length-of-Stay)
2
Sending More Patients
Home
1
Kindred Healthcare
Delivering on Quality, Value and Innovation in Patient Care Delivery
Outperforming
National Quality Benchmarks
503,000
Patients and Residents were
cared for in settings across the
continuum
Kindred Hospitals, Nursing Centers, and Home Health and Hospice
continue to improve on quality indicators and beat industry benchmarks

Reducing
Rehospitalization
2

56%
of our Nursing Center

patients go home
after
32
days

70%
of our Hospital patients
go home or to a Lower Level
of Care after
27 days
Reduced the total average length
of stay

by
10.3%
in our Hospitals

by
11%
in
our
Nursing
Centers
Kindred Hospitals reduced
rehospitalization rates by
14%
Kindred Nursing Centers have
reduced rehospitalization rates by
15%
(1)
2013 Results
(2)
Same store Comparison 2013 to 2009
6

Kindred s Five-Year Strategic Plan
Creating Value for Patients, Payors, Teammates and Shareholders
Fee-For-Service World
Succeed Today
in a
Value-Based Payment World
Prepare for a Future
Succeed In
The Core
Reposition
Portfolio
Aggressively Grow
Kindred at Home,
RehabCare, and

Assisted Living
Businesses
Develop Care
Management
Capabilities
Advance
Integrated Care
Market Strategy
Improve Capital
Structure and Enhance
Shareholder Returns
1
2
3
4
5
6

In Integrated
Care Markets

Redeploy
Capital to
Higher
Margin
Businesses

To Operationalize
Continue
The
Care

Support new Risk-
Based Payment
Systems

People Services

Quality and
Clinical
Outcomes

Organic Growth

Manage Cost
and Capital

Partner with
Hospitals, Payors
and ACOs

Continue to Delever

Acquire Facility Real

Grow Dividend
7
Estate

2010 Actual
2014 Est.
8
Growth Phase Begins
Repositioning
Strategy Complete
2
Executing on Kindred s 5-Year Strategic Plan
Business
Mix

Owned vs
Leased
Facilities
Capital
Structure
(1)
(2)
(1)
Revenue before intercompany eliminations;
(2)
Leases capitalized using 6x rent; Equity represents market cap and Funded Debt calculated as of 12/31 for 2010 Actual and 2014 Est. and calculated as of 3/31 for the twelve months ended March 31, 2014.

Pursuing Highly Accretive External Opportunities to Accelerate Growth
and Advance Our Continue the Care
Strategy
Aggressively Grow Kindred
at Home and RehabCare
3
Executing on Kindred s 5-Year Strategic Plan
9

Kindred has invested approximately $121 million in
Acquisitions for its Kindred at Home and RehabCare

Divisions over the Last Twelve Months, Advancing Care Management Capabilities

Integration of Senior Home Care acquisition ahead of plan

Volumes, revenue and operating margins are all exceeding our pro forma plan in its first full quarter of operations

Kindred Home Based Primary Care (formerly Western Reserve Senior Care) has exceeded expectations

Strengthens our commitment to further expand our Care Management division

Senior Home Care
(December 2013)

Operates 47 home health locations throughout Florida and Louisiana

$143 million in revenues

Western Reserve Senior Care
(October 2013)

Kindred s entry into the home-based primary care physician practice sector

TherEX (September 2013)

Provides on-site, hospital-based rehabilitation services nationwide

Other Acquisitions include Virginia Beach Home Health, Dignity Home Health Joint Venture, and 3 TCCs and 2 IRFs being developed on hospital campuses in Integrated Care Markets

Kindred has a history of thoughtful, disciplined growth, and successfully integrating acquisitions and achieving synergies. Gentiva is a compelling opportunity to build on this track record of success

10
Kindred s New Care Management Division
Optimized for Episodic Care, Bundled Payment and Risk
Develop Care
Management Capabilities
4
Executing on Kindred s 5-Year Strategic Plan

Boston
Cleveland
Indianapolis
Las Vegas
Houston
New
Dallas/Fort
Worth
Single Market
Leadership

Incentive Alignment
Post-Acute Physician
Leadership
Standardized Quality
Measures
Centralized
Placement and
Admissions
Dedicated Care
Managers
I-T Interoperability /
Info Sharing
Integrated Care Market Strategy
Market Implementation Update
Advance Integrated Care
Market Strategy and
Implement Care
Management
Capabilities
5
Executing on Kindred s 5-Year Strategic Plan
11

Attractive Investment Considerations
Kindred Substantially Repositioned for Growth Going Into 2015
12

Repositioned to faster growth, higher
margin and less capital intensive businesses

Through repositioning, $1 billion of
revenues shifted from Nursing Centers
to
Hospital, Rehab and Home Health Care
since 2011.
1)

As of 3/31/14
2)
Pro Forma 2014 rents of $335M at 6x
Improving Business
Mix
(Revenues)
Enhanced Future
Earnings, Margin and
Free Cash Flow
Profile
(as of May 7, 2014)
($ in millions)

$125 -
$145 million of free cash flows

Dividend Yield: 2.0%
Improved Capital
Structure
($ in millions)

Enterprise EBITDAR Multiple: 6.8x

Free Cash Flow Yield
4
: 10.5 %

TAD / EBITDAR: 5.1x
3) Market value calculated as of close of business on 3/31/14 ($23.42).
4) Free Cash Flow Yield represents free cash flow mid-point divided by Market Value of Equity.
2010
2014E
Hospital Services
42%
48%
Rehab Services
10%
24%
Nursing Center
47%
21%
Care Management /
Home Health Care
1%
7%
Total
100%
100%
EBITDAR
Cash Flows from

Operations
CAPEX
Free Cash Flow
Outstanding Share Count
Dividend
$120 -
$130
$715-
$732
$26
$125 -
$145
$245 -
$275
55 million
Funded debt
1
$1,669
Lease obligations
2
$2,010
Total adjusted debt (TAD)
$3,679
Market value of equity
3
$1,283
Enterprise Value
$4,962

Legislative and Financial Review
13

LTAC Legislation Enacted
Providing Long Term Strategic Opportunity and Visibility

Key Provisions, Timeline and
Preliminary View of Impact

Strategic Considerations and
Opportunities
14
6%
34%
Medicare Fee-For-Service
Medicaid
Insurance/Medicare
Advantage/Other
60%

The Bipartisan Budget Act of 2013, signed by the President
on December 26, brings long-sought patient and facility
criteria to long-term care hospitals
Hospital
Division
Revenue
Mix
(1)
(1)
Revenues for the twelve months ended March 31, 2014 (divisional revenues before intercompany eliminations).

Overview of Key Payment Provisions
in LTAC Criteria Legislation

Definition of Patients Eligible for LTAC Rate

Patients will continue to be eligible for payment under the current LTAC PPS if they meet either one of two criteria: patients with 3 or more days in an acute care hospital Intensive Care Unit (ICU); or patients receiving prolonged mechanical ventilation (greater than 96 hours) in the LTAC

Definition of Patients Eligible for Site Neutral Rate

Other medically complex patients may still be admitted to LTACs and receive a site neutral rate that is either at LTAC cost or at a per diem rate comparable to payments made to acute care

hospitals
under
the IPPS payment system

Effective Date and Phase-In

Effective date: Two-year Phase-in of criteria begins after October 1, 2015, linked to each LTAC s cost-reporting period

About 70% of Kindred LTACs have cost-reporting periods that begin July of each year; phase-in of new criteria would not begin for most Kindred LTACs until Summer 2016

During
phase-in,
cases
receiving
site
neutral
rate
get
paid
50%
based
on
current
LTAC
rate
and
50%
based
on
the
site
neutral
rate
15
The new criteria would not become fully effective until Summer 2018
for most Kindred LTACS.

16
2014
2015
2016
2017
2018
Oct. 1
July 1
Oct. 1
July 1
Oct. 1
July 1
Oct. 1
July 1
Oct. 1

July 1
1. Patient Criteria
2. Site Neutral IPPS
Equivalent Rate:

50/50 Blend

Full Site Neutral
Rate
3. 25-Day Length of Stay
Rule Relief
4. 25% Rule Relief
5. Moratorium
6. 50%
Compliance
Test
2020
LTAC Legislation Phase-in and Timeline for the
Majority of Kindred s Hospitals
Jan 1, 2014
Jan 1, 2015
Summer 2016
Summer 2016
Summer 2016
Summer
2018

17
Preliminary View of Impact on Kindred s Medicare Fee
For
Service
Business
(60%
of

Current
Hospital
Revenues)
Payment Categories under
Current LTAC PPS
Payment Categories under
New LTAC Criteria
1.
LTAC DRG (with outlier
payment)
~ 70% of current cases
2.
LTAC Cost (for short
stays)
3.
IPPS
Per
Diem
(for
very
short stays)
1.
LTAC DRG (with outlier
payment) for defined cases
~ 40% of current cases
2.
LTAC Cost; or
3.
IPPS Per Diem
~ 60% of
current cases
~ 30% of
current
cases
Site
Neutral
Rate
When
fully
phased-in
(Summer
2018),
an
additional
30%
of
cases
will
be
paid

at the site neutral rate under the new criteria, but without the current restraints imposed by the 25-day length of stay requirement.

18
Comparison of IPPS and LTAC Per Diem Rates
for Top Diagnostic Categories
IPPS Per Diem
LTAC Per Diem
Percent of Kindred Discharges
1.

Pulmonary Edema
$1,812
$1,722
12.8%
2.
Septicemia
$2,106
$1,569
9.5%
3.
Respiratory Infections
$1,806
$1,610
3.9%
4.
Skin Ulcers
$1,607
$1,338
2.5%
5.
Ventilator < 96 hours
$2,653
$2,061
2.3%
6.
Osteomyletitis
$1,743
$1,411
2.1%
7.
Chronic Obstructive Pulmonary
Disease
$1,617
$1,536
1.8%
Subject
to
effective
care
management,
IPPS
per
diem
rates
are
at
or
above
LTAC per diem rates for Kindred s most frequent cases and creates a platform for innovative arrangements with managed care payors for a

broader range of patients.

Incremental Volume from:

Increased Medicare Advantage volume, where the 25 ALOS requirement will no longer be an issue (patient revenues priced to match cost)

Potential for increased Direct Admissions to Kindred Hospitals

Incremental Volume from:

Opportunity to go upstream and take market share

Identify patients discharged from acute to SNF that are LTAC Eligible
The
New
LTAC
Criteria
Presents
Potential
Incremental
Medicare
Volume
for
Kindred
Hospitals
19
New
Patients
through
Repositioning of
Hospital Services
New Patients through
Site Neutral Payment
New Patients that
Meet LTAC Criteria

IRFs

Psych

Sub Acute

Managed Care Hospitals
Incremental Volume through:

Creation of new service lines
or whole hospital conversions

Strategic Considerations

Affirms role of LTACs in healthcare continuum for severely ill, medically complex patients at LTAC rate and many other medically complex patients at site neutral rate.

Creates strategic platform for managed care

and episodic
LTAC services

Elimination of 25-day length of stay requirement for MA patients

Direct admits to LTACs at site neutral IPPS comparable rates

Continued development of co-located Sub-Acute Units to create patient care continuum for recovering critically chronically ill patients in need of inpatient and rehabilitation services

Opportunity to develop clinical programs and services that better align cost and care (including risk-based arrangements) over the implementation period to appeal to ACOs, managed care organizations and others
20
LTAC legislation provides significant clarity and will allow Kindred to organically grow patient volumes and leverage existing capacity.

Kindred and Gentiva
A Compelling Opportunity for
American Healthcare and Shareholders
21

Proposed Transaction Highlights
22
1
Per FactSet consensus estimates.

Kindred has submitted a proposal to the Gentiva Board of Directors to acquire all of the outstanding shares of Gentiva common stock

Transaction is supported by a strong strategic and financial rationale and creates significant value for all shareholders

Kindred
has
a
strong
desire
to
reach
a
negotiated
agreement
with
Gentiva

We urge Gentiva s shareholders to impress upon Gentiva's Board of Directors and Management the value of engaging with Kindred immediately on a potential combination

Our Proposal

Purchase
Consideration

$14.00 per share

50% stock / 50% cash or 100% cash at Gentiva Board s option

Premium &
Valuation

64% premium to May 14, 2014 closing price

59% premium to the 60-day volume weighted average price

40% premium to the median Wall Street analysts one year price target of $10 per share

8.9x 2014E EBITDA

Financing

Mix of debt, equity and other instruments such that pro forma leverage profile is consistent with Kindred stand alone

Pro Forma
Impact

Significantly and immediately accretive to Kindred s earnings and cash flows

Pro forma leverage remains similar to Kindred s current standalone leverage

Approximately $60-80 million in annual pre-tax operating and financial synergies

Increased financial flexibility and meaningful capital structure
synergies by replacing Gentiva s highly levered
capital structure

1

Combination Creates Premier Post-Acute Care Provider
23
($ in millions)
Kindred
Gentiva
Pro Forma
States
47
40
47
Locations
2,313
500
2,813
Employees
63,000

47,000
110,000
2014 Revenue
$5,200
1
$2,000
2
$7,200
2014 EBITDAR
$724
1
$226
2
$1,005
3
1
Based on midpoint of Kindred s management s guidance, issued on May 7, 2014.
2
Gentiva revenue based on management guidance. Gentiva EBITDAR based on consensus estimate.
3
Pro forma Kindred includes $55mm of non-finance cost synergies.
4
Peer group based on FactSet consensus estimates.
Benchmarking Peers
4
2014 Revenue
($ in millions)
2014 EBITDAR
($ in millions)
The acquisition of Gentiva further strengthens Kindred s ability to serve patients
across the full continuum of post-acute care
2014 Revenue
($ in millions)
2014 EBITDAR
($ in millions)
Pro Forma
(1)
Pro Forma
(1)
$7,200
$5,200
$3,065
$2,373
$2,000
$1,206
$839
$711
$485
$1,005
$724

$630
$535
$226
$93
$70
$67
$37

Strategic Rationale
24
Creates leading national provider of diversified and integrated post-acute care services across the full spectrum of care
Expands and enhances presence in Kindred s Integrated Care Markets, driving coordinated care to more communities in a more efficient and cost-effective manner
Increased financial flexibility, lower cost of capital and substantial cost / revenue synergies will allow for investment to improve care management, support further clinical investments and create career opportunities for employees
Combined
company
will
be

well
positioned
not
just
to
respond
to,
but
to
help
shape,
the
evolution
of
the
American
Healthcare
Delivery
System
Shareholder value creation through significant and immediate premium and synergies, a meaningful dividend and combined Company s growth potential

Compelling Value for Gentiva Shareholders
25
Source: FactSet as of 5/14/2014.
Gentiva Share Price Performance

$14.00 per share value represents a substantial premium to its current share price

50%
stock
/
50%
cash
deal
allows
for
investors
to
participate
in
the
greater
growth
prospects,
meaningful
dividend and increased financial flexibility of the combined company

On an NTM EBITDA multiple basis, this proposal is higher than any multiple Gentiva has traded at over the

previous five years
2.00
6.00
10.00
14.00
$18.00
May-12
Sep-12
Jan-13
May-13
Sep-13
Jan-14
May-14
Gentiva
Offer Price: $14.00 per share
60-Day VWAP as of 5/14/14: $8.82
39%
Premium
59%
Premium
VWAP Since 5/1/2012: $10.05
$8.54
Current
Price

64% premium to May 14, 2014 closing price of $8.54

59% premium to the 60-day volume weighted average price

Cash election provides opportunity for immediate liquidity

Offer Supported by Wall Street Analysts
26
Source:
Bloomberg.
Broker
Support for
Combination
Selected Commentary

Knowing Gentiva management pretty well . . . these really nice people will ultimately **realize that independence is no longer an option** and that it is time to come to the table to meet its new family.

Combined entity could **create a post-acute titan** with the ability to provide integrated population health management to patients at home.

This **deal would be a good exit strategy for Gentiva shareholders**, as the company s several large acquisitions have not translated to returns.

Value in expanding the breadth and scope of services throughout the post-acute space. The greater **density and scale will also provide**

benefits
as
uncertainty
remains
with
the
underlying
fundamentals.

Over the long term **Kindred s integrated post-acute model could have**
strategic
advantages
vs.
Gentiva s
current
home
based
only
structure

This is **likely a pretty good deal for Gentiva shareholders** given the execution / reimbursement risks.

Wall Street analysts who cover Gentiva have universally supported our proposal, noting the compelling price delivers greater value than Gentiva could hope to achieve through its standalone plans and that the combined company would provide the kind of integrated, patient-centered care that our country and healthcare system need

Kindred Is Helping to Shape the Future
of Healthcare Delivery

As the U.S. population ages, demand for patient-centered healthcare is growing
rapidly and
Kindred
is
pioneering
an
integrated
approach
to
address
this
demand

Continue
The
Care
strategy delivers the services that patients need across the full
spectrum of care, from inpatient hospitalization to post-acute rehab services to home
and hospice care

Kindred is enhancing scale and fostering innovation to provide more communities
with integrated, patient-centered care in the lowest-cost setting

Gentiva s complementary capabilities are one way to advance this strategy
27
Kindred is at the forefront of healthcare reform: we are implementing a better
model to improve outcomes, smooth care transitions and lower costs

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Conference
June 2, 2014

Appendix
30

Hospital Division
$2.5
billion
Revenues
(1)
$533
million
Operating
Income
(2)(4)
Transitional Care Hospitals (certified as LTAC hospitals)

100

Transitional
Care
Hospitals
(3)

7,324
licensed
beds
(3)
Inpatient Rehabilitation Hospitals (IRFs)

5
IRFs
(3)

215
licensed
beds
(3)
(1)
Revenues for the twelve months ended March 31, 2014 (divisional revenues before intercompany eliminations).
(2)
Operating income for the twelve months ended March 31, 2014.
(3)
As of March 31, 2014.
(4)
Before certain disclosed items.
#2 Operator of Long-Term Acute
Care Hospitals and Inpatient
Rehabilitation Facilities

Consistently outperforms national benchmarks on key quality indicators

Sale of 16 facilities to Vibra Healthcare, LLC
Divestiture of 14 Transitional Care Hospitals, 1 inpatient rehabilitation hospital and 1 skilled nursing facility
$180 million of net sales proceeds

In Q1 2014, cost per patient day outpaced revenue compared to Q1 2013, which resulted in an operating income margin decline
to
22.3%
from
23.5%
(4)

Q1 2014 operating income declined to $147 million versus

$158
million
last
year
(4)
6%
34%
Medicare
Medicaid
Insurance/Other
Revenue
Mix
(1)
60%
31
117
105
100
44
27
19
16
0
20
40
60
80
100
120
140

Revenue
Mix
(1)
Nursing Center Division
47 Transitional Care Centers (Sub-Acute facilities
licensed
as
SNFs)
(3)
13 Nursing and Rehabilitation Centers
(with
Transitional
Care
Units)
(3)

12
Hospital-Based
Sub-Acute
Units
(3)
39
Skilled
Nursing
Centers
(Traditional
SNFs)
(3)

Challenging operating environment under RUGs IV rules and ongoing Medicaid rate pressures

Divestiture or non-renewal of 123 nursing centers proceeding toward completion

New Transitional Care Centers (TCCs) and hospital based sub-acute core growth continuing

Division overhead restructuring near completion, allowing for a smaller, but more profitable business

HCP transaction to acquire real estate will eliminate $9 million of annual rent for the Nursing Center Division
39%
33%
28%
Medicaid
Medicare
Private/Other
$1.1
billion
Revenues
(1)
$145
million
Operating
Income
(2)(4)
(1)
Revenues for the twelve months ended March 31, 2014 (divisional revenues before intercompany eliminations).

(2)
Operating income for the twelve months ended March 31, 2014.
(3)
As of March 31, 2014.
(4)
Before certain disclosed items.
32

2,230 sites of service served through
20,200 therapists
(3)

Including 105 hospital-based acute
rehabilitation units
(3)
#1 Contract Rehab Manager
Third Party

Affiliated

Provides a compelling value proposition to our Hospital (HRS) and Skilled Nursing (SRS) partners through advanced tech systems, clinical programs and highly trained therapist team

Q1 2014 operating margin at 11.4%, showing stability while implementing significant recent Medicare rule changes

In October 2013, acquired TherEX which provides on-site, hospital-based rehabilitation services in 11 states
$1.3 billion Revenues
(1)
$144 million Operating Income
(2)(4)
Business
Mix
(1)
HRS
SRS
22%
$0.3 billion
78%
$1.0 billion
(1)
Revenues for the twelve months ended March 31, 2014 (divisional revenues before intercompany eliminations).
(2)
Operating income for the twelve months ended March 31, 2014.
(3)
As of March 31, 2014.
(4)
Before certain disclosed items.
2,230
1,350
1,000
471
33
308
1,940
1,042
700
471
290
300
0
500
1,000

1,500
2,000
2,500

Acquired Senior Home Care which operated 47 home health locations throughout Florida and Louisiana with $143 million in revenue

Building management team, including sales, clinical operations and IT capabilities to support accelerated expansion

While implementation of Homecare Homebase
IT system contributed to performance issues in
2013, all branches (including Senior Home Care)
fully operational and standardized Q1 2014

Q1 2014 revenues of $88 million
34
Including our key affiliates:
Senior Home Care
IntegraCare
Professional Healthcare at Home
Signature Health Services
Acclaim Hospice and Palliative Care

207 sites of service in 13 states

71 in Kindred s Integrated Care Markets

5,000
caregivers serving 17,000 patients on
a daily basis
Care Management Division/Kindred At Home
$356
million
Pro
Forma
Annualized
Revenues
(1
)
Care Management Division and
(1)
Includes historical results of Senior Home Care acquisition, plus Kindred at Home revenues for the twelve months ended March 31, 2014 (divisional revenues before intercompany eliminations).
Commercial
Insurance/
Other
($71 million)
Private Duty
Hospice
Home Health
Revenue Mix
(1)
Business Mix
(1)
Medicaid
($13 million)
Medicare

($272 million)
4%
76%
20%
80%
15%
5%

2014 Earnings Guidance
($ millions, except statistics)
35
As of May 7, 2014
As of February 20, 2014
Low
High
Low
High
Operating income
715
$
732
$
725

$
742
$
Rent
335
335
338
338
Depreciation and amortization
163
163
165
165
Interest, net
98
98
106
106
Income from continuing operations before income taxes
119
136
116
133
Provision for income taxes
46
53
45
52
Income from continuing operations
73
83
71
81
Earnings attributable to noncontrolling interests
(15)
(15)
(13)
(13)
Income from continuing operations attributable to the Company
58
68
58
68
Allocation to participating unvested restricted stockholders
(2)
(2)
(2)
(2)
Available to common stockholders
56

$
66
$
56
$
66
$
Earnings per diluted share
1.05
$
1.25
$
1.05
$
1.25
$
Shares used in computing earnings per diluted share
53.2
53.2
53.2
53.2
The earnings guidance excludes the effect of reimbursement changes, severance, retirement and retention costs, litigation costs, transaction-related costs, any further acquisitions or divestitures, any impairment charges, and any repurchases of common stock.

36

Explanation of Non-GAAP Measures

The enclosed presentation includes financial measures referred to as operating income, or earnings before interest, income taxe amortization and rent. The Company s management uses operating income as a meaningful measure of operational performan measures. The Company uses operating income to assess the relative performance of its operating divisions as well as the empl businesses. In addition, the Company believes this measurement is important because securities analysts and investors use this the Company s performance to other companies in the healthcare industry. The Company believes that income (loss) from con most comparable GAAP measure. Readers of the Company s financial information should consider income (loss) from contin measure of the Company s financial performance because it provides the most complete measure of its performance. Operatin considered in addition to, not as a substitute for, or superior to, financial measures based upon GAAP as an indicator of operati reconciliation of operating income to income (loss) from continuing operations is provided in the enclosed Appendix.

In addition to the results provided in accordance with GAAP, the Company provides information in the enclosed presentation t measurements for the twelve months ended March 31, 2014 and three months ended March 31, 2013 before certain charges or charges that were excluded from core operating results are denoted in the tables in the enclosed Appendix.

The use of these non-GAAP measurements are not intended to replace the presentation of the Company's financial results in ac Company believes that the presentation of core operating results provides additional information to investors to facilitate the co by excluding certain charges for the twelve months ended March 31, 2014 and three months ended March 31, 2013 that the Co representative of its ongoing operations due to the materiality and nature of the charges. The Company's core operating results performance measure for the purpose of evaluating performance internally.

Reconciliation of Non-GAAP Measures
($ in thousands)
37
First
Twelve
2013 Quarters
Quarter
months ended
First
Second
Third
Fourth
2014

March 31, 2014
Revenues:
Hospital division
671,206
$
618,598
$
604,169
$
616,721
$
657,453
$
2,496,941
$
Nursing center division
275,141
269,501
270,210
274,908
281,572
1,096,191
Rehabilitation division:
Skilled nursing rehabilitation services
257,884
248,710
244,384
242,376
253,285
988,755
Hospital rehabilitation services
74,523
69,777
68,296
74,017
73,964
286,054
332,407
318,487
312,680
316,393
327,249
1,274,809
Care management division
51,621
53,039
53,801
66,466
87,704
261,010

1,330,375
1,259,625
1,240,860
1,274,488
1,353,978
5,128,951
Eliminations:
Skilled nursing rehabilitation services
(29,303)
(29,257)
(28,698)
(28,728)
(30,070)
(116,753)
Hospital rehabilitation services
(24,200)
(23,706)
(22,944)
(22,553)
(23,689)
(92,892)
Nursing centers
(1,213)
(1,001)
(1,161)
(875)
(662)
(3,699)
(54,716)
(53,964)
(52,803)
(52,156)
(54,421)
(213,344)
1,275,659
$
1,205,661
$
1,188,057
$
1,222,332
$
1,299,557
$
4,915,607
$
Income (loss) from continuing operations:
Operating income (loss):
Hospital division
149,698

$
131,676
$
113,147
$
127,898
$
146,895
$
519,616
$
Nursing center division
29,844
36,678
32,146
36,694
39,095
144,613
Rehabilitation division:
Skilled nursing rehabilitation services
12,373
20,686
(8,155)
13,356
17,358
43,245
Hospital rehabilitation services
18,132
19,573
18,215
18,005
19,820
75,613
30,505
40,259
10,060
31,361
37,178
118,858
Care management division
2,786
3,961
1,085
2,131
4,697
11,874
Corporate:
Overhead
(45,585)
(43,196)

(39,157)
(48,557)
(44,050)
(174,960)
Insurance subsidiary
(509)
(384)
(482)
(539)
(406)
(1,811)
(46,094)
(43,580)
(39,639)
(49,096)
(44,456)
(176,771)
Impairment charges
(187)
(438)
(441)
(76,127)
(74)
(77,080)
Transaction costs
(944)
(108)
(613)
(447)
(683)
(1,851)
Operating income
165,608
168,448
115,745
72,414
182,652
539,259
Rent
(77,957)
(78,796)
(78,228)
(82,381)
(82,474)
(321,879)
Depreciation and amortization
(42,249)
(39,228)
(37,190)
(38,361)

(40,210)
(154,989)
Interest, net
(28,084)
(27,609)
(24,399)
(23,906)
(25,624)
(101,538)
Income (loss) from continuing operations
before income taxes
17,318
22,815
(24,072)
(72,234)
34,344
(39,147)
Provision (benefit) for income taxes
6,481
9,160
(7,217)
(20,903)
13,102
(5,858)
10,837
$
13,655
$
(16,855)
$
(51,331)
$
21,242
$
(33,289)
$

Reconciliation
of
Non-GAAP
Measures
(continued)
($ in thousands)
38
Twelve months ended March 31, 2014
Severance
Facility
Senior debt
Before
and retirement
closing
Impairment
Transaction
modification

As
charges
costs
costs
Litigation
charges
costs
charges
Total
Reported
Income (loss) from continuing operations:
Operating income (loss):
Hospital division
533,342
$
-
$
(6,026)
$
(7,700)
$
-
$
-
$
-
$
(13,726)
$
519,616
$
Nursing center division
144,677

-

(64)

-

-

-

-

(64)

144,613

Rehabilitation division:
Skilled nursing rehabilitation services
66,534

(139)

-

(23,150)

-

-

-

(23,289)

43,245

Hospital rehabilitation services
76,989

(1,376)

-

-

-

-

-

(1,376)

75,613

143,523

(1,515)

-

(23,150)

-

-

-

(24,665)

118,858

Care management division
13,002

(676)

(452)

-

-

-

-

(1,128)

11,874

Corporate:
Overhead
(171,135)

(3,366)

-

-

-

-

(459)

(3,825)

(174,960)

Insurance subsidiary
(1,811)

-

-

-

-

-

-

-

(1,811)

(172,946)

(3,366)

-

-

-

-

(459)

(3,825)

(176,771)

Impairment charges
(998)

-

-

-

(76,082)

-

-

(76,082)

(77,080)

Transaction costs
-

-

-

-

-

(1,851)

-

(1,851)

(1,851)

Operating income
660,600

(5,557)

(6,542)

(30,850)

(76,082)

(1,851)

(459)

(121,341)

539,259

Rent
(321,879)

-

-

-

-

-

-

-

(321,879)

Depreciation and amortization
(154,989)

-

-

-

-

-

-

-

(154,989)

Interest, net
(100,077)

-

-

-

-

-

(1,461)

(1,461)

(101,538)

Income (loss) from continuing operations
before income taxes
83,655

(5,557)

(6,542)

(30,850)

(76,082)

(1,851)

(1,920)

(122,802)

(39,147)

Provision (benefit) for income taxes
29,869

(2,186)

(2,312)

(12,139)

(17,803)

(532)

(755)

(35,727)

(5,858)

53,786
$
(3,371)
$
(4,230)
$
(18,711)
$
(58,279)
$
(1,319)
$
(1,165)
$

(87,075)
$
(33,289)
$
Charges

Reconciliation
of
Non-GAAP
Measures
(continued)
($ in thousands)
39
Three months ended March 31, 2013
Charges
Before
One-time
Transaction
As
charges
bonus
costs

Total
reported
Income from continuing operations:
Operating income (loss):
Hospital division
157,661
$
(7,963)
$
-
$
(7,963)
$
149,698
$
Nursing center division
34,550

(4,706)

-

(4,706)

29,844

Rehabilitation division:
Skilled nursing rehabilitation services
17,425

(5,052)

-

(5,052)

12,373

Hospital rehabilitation services
19,387

(1,255)

-

(1,255)

18,132

36,812

(6,307)

-

(6,307)

30,505

Care management division
3,619

(833)

-

(833)

2,786

Corporate:
Overhead
(45,270)

(315)

-

(315)

(45,585)

Insurance subsidiary
(509)

-

-

-

(509)

(45,779)

(315)

-

(315)

(46,094)

Impairment charges
(187)

-

-

-

(187)

Transaction costs
-

-

(944)

(944)

(944)

Operating income
186,676

(20,124)

(944)

(21,068)

165,608

Rent
(77,957)

-

-

-

(77,957)

Depreciation and amortization
(42,249)

-

-

-

(42,249)

Interest, net
(28,084)

-

-

-

(28,084)

Income from continuing operations
before income taxes
38,386

(20,124)

(944)

(21,068)

17,318

Provision for income taxes
15,008

(8,145)

(382)

(8,527)

6,481

23,378
$
(11,979)
$
(562)
$
(12,541)
$

10,837
$

Jefferies 2014 Global Healthcare
Conference
June 2, 2014