

REHABCARE GROUP INC

Form 425

March 16, 2011

1

Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

March 16, 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

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

transaction

with

RehabCare

Group,

Inc.

(RehabCare),

Kindred

Healthcare,

Inc.

(Kindred)

will

file

with

the

Securities

and

Exchange

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

Kindred.

Kindred

and

RehabCare

will

mail

the

definitive

proxy

statement/prospectus

to

their

respective

stockholders.

WE

URGE

INVESTORS

AND

SECURITY

HOLDERS

TO

READ

THE

JOINT

PROXY

STATEMENT/PROSPECTUS

REGARDING

THE

PENDING

TRANSACTION

WHEN

IT

BECOMES
AVAILABLE
BECAUSE

IT
WILL
CONTAIN IMPORTANT INFORMATION.

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

Kindred

and

RehabCare

with

the

SEC

at

the

SEC's

website

at

.

The

joint

proxy

statement/prospectus

(when

available)

and

the

other

documents

filed

by

Kindred

and

RehabCare

with

the

SEC

may

also

be

obtained

for

free

by

accessing

Kindred's website

at

www.kindredhealthcare.com

and

clicking

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

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

Participants in this Transaction

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

Forward-Looking Statements

Information set forth in this presentation contains forward-looking statements, which involve a number of risks and uncertainties. There is no assurance 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 RehabCare,

including

future

financial

and

operating

results,

the

combined

company's

plans,

objectives,

expectations

and

intentions

and

other

statements

that

are

not

historical facts.

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

potential

for

dilution

RehabCare

disclaim

any

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

2

www.sec.gov

www.sec.gov

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

40

states

56,800

(3)

dedicated

employees,

making Kindred

a top-200 private

employer in

the U.S.

(4)

33,800

(3)

patients and

residents

per day

\$4.4 billion

(2)

consolidated

revenues

Largest Diversified Post-Acute

Provider in the United States

(1)

(1) Ranking based on revenues.

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

(3) As of December 31, 2010.

(4) Ranking provided by TMP, Inc.

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

Largest operator in U.S.

(2)

89 hospitals with
6,887 licensed beds

(3)

\$2.2 billion revenues

(1)

Third largest nursing
center operator in U.S.

(2)

226 nursing centers with
27,442 licensed beds

(3)

7 assisted living facilities with 463
licensed beds

(3)

NURSING CENTER

Nursing and Rehabilitation Centers

\$505 million revenues

(1)

Second largest contract therapy
company in U.S.

(2)

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

(3)

REHABILITATION

Peoplefirst

Rehabilitation

Services

(1)

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

(2)

Ranking based on revenues.

(3)

As of December 31, 2010.

Kindred's Market Leading Businesses

5

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

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

7

Investment Rationale

Each year, nearly 9 million people

23,000 a day

are discharged from

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

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

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

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

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

8
Kindred Update

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

RehabCare
Group,
Inc.
(RehabCare)

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

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

Kindred
will
be
well
positioned
for
future
growth
in
a
changing
healthcare
landscape
with
the expansion of the combined service offerings
The transaction substantially enhances Kindred's growth and margin profile
The proposed transaction is highly accretive to Kindred's earnings and cash flows and
generates
strong
operating
cash
flows
providing
the
ability
to
quickly

delever
and
finance
future growth

10

Both Kindred and RehabCare beat 4Q and 2010 analyst estimates

Summary of Q4 and 2010 Results

Kindred

RehabCare

1)

I/B/E/S consensus as of 2/7/2011.

2)
Reflects income from continuing operations.

3)
Actual revenues exclude Miami IRF.

4)
Includes discontinued operations.

(\$MM, except EPS Data)

(\$MM, except EPS Data)

Q4 2010

2010

Consensus

(1)

Actual

% Surprise

Consensus

(1)

Actual

% Surprise

Revenues

1,121.0

1,135.5

1.3%

4,345.0

4,359.7

0.3%

EBITDA

61.0

66.8

9.5%

211.0

217.3

3.0%

EBIT

30.0

35.4

18.0%

90.0

95.7

6.3%

Net Income

(2)

16.0

19.8

23.8%

52.0

56.1

7.9%

EPS

(2)

\$0.41

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

\$2.45

\$2.53

3.3%

11
Transaction Overview

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

share
in
cash;
~\$9

/
share
in
Kindred
stock)

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

Transaction Overview

Consideration

Accretion

Synergies

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

Transaction

Substantially accretive to Kindred's earnings and operating cash flows

\$40 million in identified annual cost and operating synergies

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

Excluding one time costs

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

Financing

Expected Close

On or about June 30, 2011

1)

Based on a fixed exchange ratio.

13
Transaction Overview
J.P.
Morgan,
Morgan
Stanley
and

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

Ability

to
delever
quickly

(Pro
forma
adjusted
leverage

flat
to
current

Kindred
standalone)

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

Sources and Uses

(1)
(\$MM)

Sources
% of Total

\$600MM ABL Revolving Credit Facility

\$350
19%

Term Loan B

700
38%

Senior Unsecured Notes

550
30%

Equity Consideration

(3)
228

13%

Total Sources

1,828
100%

Uses

% of Total

Purchase RehabCare Equity (~\$35/share)

885
48%

Retire RehabCare Debt

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

2010PF

(2)

1)

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

2)

2010PF figures reflect full year run rate of 2010 Kindred acquisitions (\$157MM in revenue, \$44MM in EBITDAR, \$7MM in net income). 2011 figures display 10 months of run rate results do not include the results of discontinued operations (inpatient rehabilitation facility in Miami). 2011 figures display 10 months of run rate results the transaction closed on 1/1/11.

3)

Based on a fixed exchange ratio.

4)

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

5)

Calculated with 6.0x cap rate.

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

(1)
B1
Ba3
Standard and
Poor's

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

(2)
Release dated March 11, 2011

15

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

Metrics

Kindred

Kindred + RehabCare

Focus

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

States

Facilities

Beds

2010 Revenue (Pro Forma)

2010 EBITDA (Pro Forma)

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

RehabCare

Contract Rehab and LTAC

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

\$445MM

(2)(3)

Payor Mix (09)

Business

Mix:

EBITDA

(10)

(2)

29%

13%

58%

Contract Rehab

SNF

LTAC

40%

24%

36%

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

11%

Contract Rehab

SNF

LTAC

(1)

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

(2)

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

(3)

Includes \$25MM of run rate synergies.

(4)

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

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

Potential New Cluster Market

Transaction enhances Kindred s Cluster Market Strategy

17

Leading Position in Attractive Growing Businesses

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

Multiple earnings streams, multiple avenues for growth

PF Kindred

116

3

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

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

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

Number of Facilities

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

19

Rapidly Changing Post-Acute Market

Multiple Patient Discharge Destinations

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

20
Positioned to Take Advantage of
Changing Healthcare Landscape
Continue [The](#)

Care
Uniquely Positioned For Bundled Or Episodic Payment Environment

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

21

Transaction Enhances Financial Profile

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

Pro

forma

Kindred

growth

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

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

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

22

Transaction Reduces Rent and
Fixed Charge Burden

Declining Rent Burden

Enhanced Margin Profile

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

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

(2)
Midpoint of pro forma guidance which reflects combined business as if the transaction closed 1/1/11.
2011 Operating Leverage
(\$MM)
Kindred

(1)
Pro Forma

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

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

10
20
30
40
50

2006

Current Kindred

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

Acquisitions

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

Exercise of in-the-money purchase
options

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

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

Kindred expects pro forma stabilized
EBITDA

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

(1) Only includes Kindred facilities

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

Mid Point

High End of

Guidance

2011 EPS Impact

\$

%

\$0.50

\$0.52

\$0.55

34%

34%

34%

2011 EPS Guidance

Prev

(1)

New

(2)

\$1.45

\$1.53

\$1.60

\$1.95

\$2.05

\$2.15

(1)

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

(2)

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

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

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

(x)

Historical

Adjusted

Debt

/

EBITDAR

(1)

(1)

Calculated with 6.0x cap rate.

(2)

Per guidance midpoint, issued 12/15/2010.

(3)

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

Cash Flow Profile

Kindred has operated comfortably with a levered balance sheet

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

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

LTACs
and
SNF
Rehab
management
contracts;
No.
4
standalone
SNFs
Expands
relationships
with
acute
care
networks
through