

# ***HEALTHSOUTH***

*Unlocking Value*

Citigroup

Global Health Care Conference

May 23, 2007

***HEALTHSOUTH***

## Forward-Looking Statements

- The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect our current views with respect to future events and financial performance. These estimates, projections and other forward-looking information are based on assumptions that HealthSouth believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual results, and those differences may be material.
- There can be no assurance that any estimates, projections or forward-looking information will be realized.
- All such estimates, projections and forward-looking information speak only as of the date hereof. HealthSouth undertakes no duty to publicly update or revise the information contained herein.
- You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in our Form 10-Q for the periods ended March 30, 2006, June 30, 2006 & Sept. 30, 2006, the Form 10-K for the fiscal year ended December 31, 2006 and current report on Form 8-K dated May 26, 2006 and in other documents that we previously filed with the SEC, many of which are beyond our control, that may cause actual results to differ materially from the views, beliefs and estimates expressed herein.

# Strategic Repositioning

- August 14, 2006: In an effort to deleverage its Balance Sheet and **reposition** the Company as a “**pure-play**” **post-acute provider**, HealthSouth announced it would seek strategic alternatives for its Surgery and Outpatient business segments
  - Diagnostic business segment previously designated as “non-core”
- Sale of **Outpatient segment** announced January 29, 2007
  - Purchaser: Select Medical
  - Sales Price: Approximately \$245M (debt-free)
  - Closed: May 1, 2007

## Strategic Repositioning (cont'd)

- Sale of **Surgery segment** announced March 26, 2007:
  - Purchaser: TPG
  - Sales Price: Approximately \$920 million (debt-free) plus \$25 million in options
  - Closing: Early third quarter 2007
- Sale of **Diagnostic segment** announced April 14, 2007:
  - Purchaser: The Gores Group
  - Sales Price: Approximately \$47.5 million (debt-free)
  - Closing: Early third quarter 2007

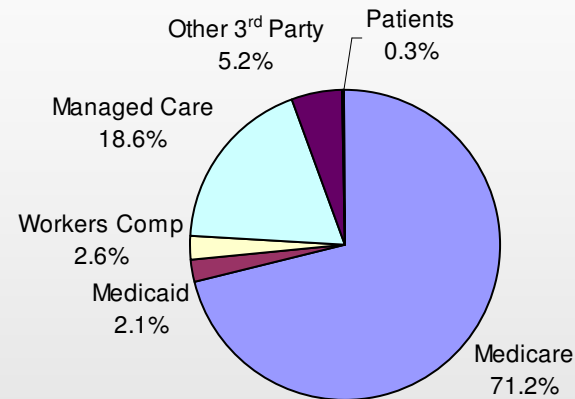
# The “New” HealthSouth: Post-Acute Provider with Near-Term Focus on Inpatient Rehabilitation

## Overview

- Nation's largest provider of inpatient rehabilitation facilities (IRFs)
  - 174 locations (93 IRFs, 81 outpatient satellites)
  - Typical IRF:
 

	<u>40 bed</u>	<u>60 bed</u>
Size (sq. ft.):	42,000	62,000
CAPEX:	\$15-17mm	\$20-24mm
  - Major services offered:
    - Nursing Care (24/7)
    - Inpatient/Outpatient Physical Therapy
    - Occupational Therapy
    - Speech Therapy
- Operate 8 long-term acute care hospitals (“LTCH”)
- Other post-acute platforms within HealthSouth:
  - Home Health
  - Skilled Nursing

## Payor Mix<sup>(1)</sup> for the year ended 12/31/2006



## 101 Hospital Locations

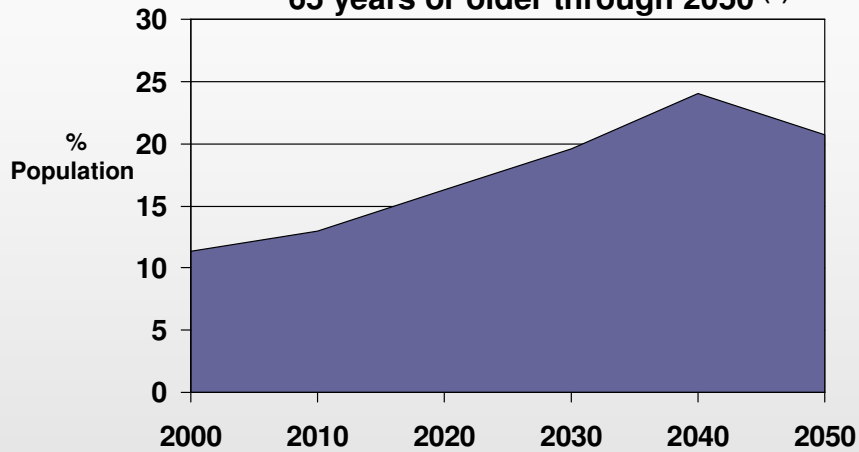
	State Concentrations <sup>(2)</sup>		Cumulative % <sup>(2)</sup>
	IRF	LTCH	
TX	15	1	16%
PA	9	2	26%
FL	9	1	36%
AL	6		42%
TN	6		48%
LA	2	2	52%
AZ	5		57%
SC	5		62%

<sup>(1)</sup> Net Patient Revenue

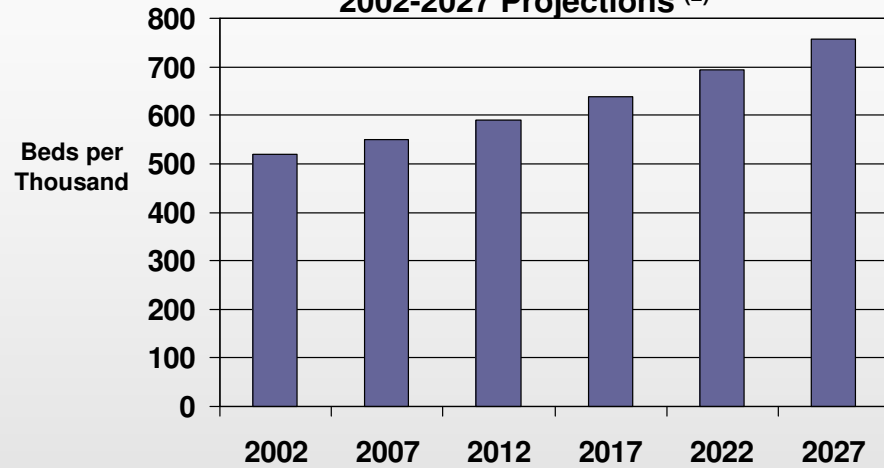
<sup>(2)</sup> Number of IRF's & LTCH's Only

# Aging “Baby Boomers” will Continue to Fuel Demand for IRF Services

**Projected percentage of US population 65 years or older through 2050 <sup>(1)</sup>**

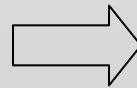
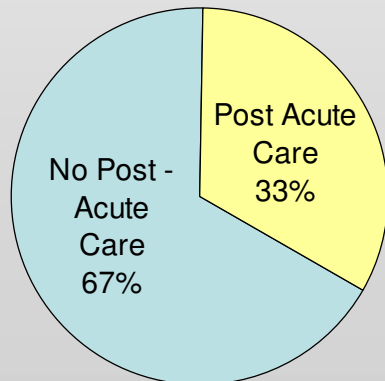


**National Annual Acute Care Bed Demand in US 2002-2027 Projections <sup>(2)</sup>**

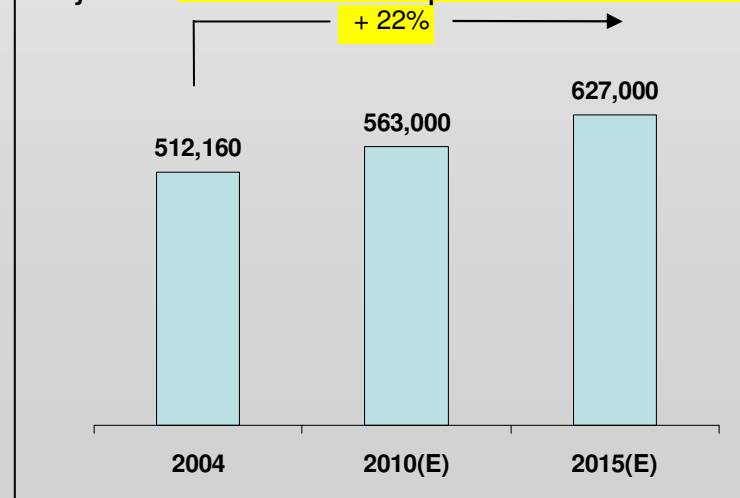


**Post-Acute Usage After Discharge**

- ✓ Post-Acute Industry ~ \$125B
- ✓ IRF Segment ~ \$9B



**Projected Medicare Compliant Case Growth <sup>(3)</sup>**



(1) Source: US Census Bureau, 2004

(2) Source: Solucient, LLC: National and Local Impact of Long-Term Demographic Change on Inpatient Acute Care; Represents demand for additional utilization, not additional beds

(3) Source: Medicare Provider Analysis and Review File (2004); Claritas

# IRFs Provide Greater Nursing and Rehabilitative Patient Care to Patients...

Characteristic	IRF	SNF
1. Attending physician visits	<b>4 + times/week</b>	At least every 30 days
2. Multi-disciplinary team approach; coordinated Program of Care	<b>Required</b>	Not required
3. MD or DO designated as Rehabilitation Director	<b>Required</b>	Not required
4. RN oversight and availability	<b>24 hours/day</b>	8 consecutive hours/day (minimum)
5. Nursing hours per pt-day	<b>5.0 - 7.5</b>	2.5 - 4.0
6. Nursing training, expertise	<b>Rehabilitation specialty expertise</b>	None
7. PT, OT, and/or Speech Therapy	<b>3 hours/day (minimum)</b>	No minimum

with significantly shorter length-of-stay (“LOS”)

Days	Providers with Consistently <sup>(1)</sup>	
	Low Costs	High Costs
SNF average LOS	37.4	30.1
IRF average LOS	10.9	13.3

NOTE:

<sup>(1)</sup> Source: Post-Acute care providers: An Overview of Issues. MedPAC analysis of cost reports.

# Growth = Organic and Development

- Organic:\*
  - 2-3% Pricing
  - 1-2% SS Volume
 Mid- to high-single digit EBITDA growth

\*"Steady-state" basis (post 75% Rule)

- Development: 5-8 new facilities per year

Fragmented Sector		
Type of IRF <sup>(1)</sup>	2005	HLS = 93
All IRFs	1,231	7.5%
Freestanding	217	42.4%
Hospital-Based <sup>(2)</sup>	1,014	
Non-Profit	765	
For-Profit	305	30.2%
Government	161	

## Development Strategies

### IRF

- Consolidation (existing markets)
  - J.V.
  - Acquire
- De-novo (existing or new markets)
- Acquisition (new markets)

LTCH (very limited; to supplement IRF presence, only)

<sup>(1)</sup> Source: Report to Congress: Medicare Payment Policy; March 2007  
MedPAC analysis of Providers of service files from CMS

<sup>(2)</sup> Typically a 15-30 bed unit/ department of an acute care hospital

# Illustrative Development Examples

(in thousands)

Consolidation - Joint Venture			
	<u>Revenue</u>	<u>EBITDA</u> <sup>(1)</sup>	<u>%</u> <sup>(1)</sup>
Stand Alone	\$10,000	\$2,000	20%
Joint Venture <sup>(2)</sup>	\$14,000	\$3,200	23%
- Minority Interest		(\$640)	
After Consolidation	<u>\$14,000</u>	<u>\$2,560</u>	18%
Incremental EBITDA		<u>\$560</u>	
Investment		<u>\$0</u>	

- Incremental EBITDA with No Investment
- Capacity Rationalization
- “Win - Win” Situation for Both Parties

DeNovo - Proforma (40 Bed)			
	<u>Revenue</u>	<u>EBITDA</u> <sup>(1)</sup>	<u>%</u> <sup>(1)</sup>
Year 1	\$8,500	\$1,275	15%
Year 2	\$10,500	\$2,500	23%
Run Rate	\$11,500	\$2,900	25%
Investment		<u>\$15,000-17,000</u>	
5-year Annualized ROI		<u>~ 16-18%</u>	

- Higher Margin from Platform Efficiency
- Ramp-up Period though Strong IRR

(1) Does NOT include estimated corporate overhead of ~4.75% of Net Operating Revenues

(2) Assumes HLS owns ~80% of JV

# Development Achievements

## 2006

- ✓ Opened new 40-bed IRF in Petersburg, VA
- ✓ Created joint venture/market consolidation in Tucson, AZ
  - Merged competitor's 20-bed IRF with existing HLS 80-bed IRF
- ✓ Approved new 50-bed IRF in Phoenix, AZ
- ✓ Announced acquisition/market consolidation in Wichita Falls, TX
  - Acquired competitor's 48-bed IRF; will consolidate patients to HLS 63-bed IRF
- ✓ Opened 18 new beds at two facilities

## 2007

- ✓ New 40-bed IRF in Puerto Rico (opened: April 17, 2007)
- ✓ New 40-bed IRF in Fredericksburg, VA (expected to open Q3)
- ✓ Bed expansion projects approved at five hospitals
  - Total of 54 beds
  - Four of these expansions will come on-line in the second half of 2007 with the final project scheduled to open in 2008
- ✓ Wellmont Health System Partnership
  - Joint venture of existing HLS 50-bed IRF in Kingsport, TN
  - Development of a new 25-bed IRF in Bristol, VA (75% owned by HLS & 25% by Wellmont); COPN was filed May 1, 2007

## 2007 Metrics

- Consolidated:
    - ✓ Volume growth: 1–2% (full-year)
    - ✓ Net Revenue growth: 2-3%
    - ✓ Operating Earnings Growth: 3-4%
  - G&A will still have “noise”:
    - ✓ Costs related to all divisions until closing occurs
    - ✓ General Ledger upgrade investment
    - ✓ Initial development investment
- Goal: ~4.75% of Net Revenues  
by 2008 year-end
- “As Reported” EBITDA = \$275-300 million
  - Investors should focus on **four metrics** to evaluate 2007 performance:
    1. Deleveraging the Balance Sheet
    2. Achieving Net Revenue growth of 2-3%
    3. Achieving Operating Earnings growth of 3-4%
    4. Consummating 5-8 development projects by year end

# Strong Cash Flow Characteristics

(in millions)	Normalization of Gen & Admin Expense	
	at 5.9%* of Rev.	at 4.75%** of Rev.
2007 First Quarter EBITDA	\$ 68.7	\$ 68.7
Add: Normalization of G&A	18.2	23.5
Sub-total	\$ 86.9	\$ 92.2
Less: Capital expenditures	(6.0)	(6.0)
Preferred stock dividend	(6.5)	(6.5)
Cash interest cost***	(56.5)	(56.5)
Excess	\$ 17.9	\$ 23.2
Annualized	\$ 71.6	\$ 92.8

\*Total of G&A to all revenues (continuing and discontinuing)

\*\*Targeted rate

\*\*\*Before tax refund proceeds and proceeds from Corporate complex

# Appendix

## Non-GAAP Financial Reconciliations

### Reconciliation of Net Loss to Adjusted Consolidated EBITDA

	For the three months ended	
	2007	2006
	(In Millions)	
<b>Net loss</b>	\$ (56.6)	\$ (435.1)
Loss from discontinued operations	27.4	2.3
Provision for income tax expense	3.3	13.7
Loss on interest rate swap	4.3	3.8
Interest expense and amortization of debt discounts and fees	58.5	59.9
Loss on early extinguishment of debt	-	361.1
Professional fees—accounting, tax, and legal	21.8	48.6
Government, class action, and related settlements	(12.2)	4.3
Net noncash loss on disposal of assets	0.1	0.9
Depreciation and amortization	18.2	20.2
Compensation expense under FASB Statement No. 123(R)	3.6	4.3
Sarbanes-Oxley related costs	0.3	3.0
<b>Adjusted Consolidated EBITDA*</b>	\$ 68.7	\$ 87.0

\* After consummation of the divestitures discussed earlier in this Item, and in accordance with our Credit Agreement (including the March 2007 amendment to the Credit Agreement, as discussed below), Adjusted Consolidated EBITDA will be calculated on a pro forma basis to give effect to each divestiture, including pro forma adjustments for the allocation of corporate overhead to each divested division. No such pro forma adjustments have been made to the above calculation since no divestitures were consummated as of March 31, 2007.

# Appendix (cont'd)

## Non-GAAP Financial Reconciliations

Reconciliation of Adjusted Consolidated EBITDA to Net Cash Used in Operating Activities

	For the three Months Ended	
	March 31,	
	2007	2006
	(In Millions)	
<b>Adjusted Consolidated EBITDA</b>	\$ 68.7	\$ 87.0
Compensation expense under FASB Statement No. 123(R)	(3.6)	(4.3)
Sarbanes-Oxley related costs	(0.3)	(3.0)
Provision for doubtful accounts	10.6	7.4
Professional fees—accounting, tax, and legal	(21.8)	(48.6)
Interest expense and amortization of debt discounts and fees	(58.5)	(59.9)
Gain on sale of marketable securities	(3.7)	(0.1)
Equity in net income of nonconsolidated affiliates	(2.7)	(1.9)
Minority interest in earnings of consolidated affiliates	8.8	10.6
Amortization of debt issue costs, debt discounts, and fees	2.0	8.8
Amortization of restricted stock	1.1	1.6
Distributions from nonconsolidated affiliates	2.5	0.8
Stock-based compensation	2.5	2.7
Current portion of income tax provision	(2.0)	(4.6)
Change in assets and liabilities	(1.6)	(75.6)
Cash portion of government, class action, and related settlements expense	(0.4)	(4.2)
Change in government, class action, and related settlements liability	(29.9)	(19.8)
Other operating cash provided by discontinued operations	22.5	30.0
<b>Net Cash Used In Operating Activities</b>	<b>\$ (5.8)</b>	<b>\$ (73.1)</b>