Colleen Lang, Analyst, Lazard Capital Markets LLC

Okay, great. I think we'll get started. I'm Colleen Lang, part of the healthcare services team here at Lazard. Our next presenter today is HealthSouth. We are very excited to have their CEO, Jay Grinney, on hand with us today, and Mary Ann Arico from Investor Relations is in the room as well. I'd like to turn over to Jay to tell you a little bit more about their story.

Jay Grinney, President and Chief Executive Officer

Great. Thank you, Colleen. I thought what we would do, just to quickly just go through a quick presentation and then we'll open it up for Q&A. Now for those of you who may not be entirely familiar with HealthSouth, we're the largest provider of inpatient rehabilitative care in the United States. We have 99 hospitals, as you see geographically, from the Northeast down through Florida, Southeast into Texas and New Mexico, Arizona and a couple of hospitals in California.

If you look at the bottom box, it gives you an idea of our size and scale, of all of the inpatient rehabilitation hospitals in the country. Some of those are freestanding hospitals like ours. The vast majority, however, are units or departments of acute care hospitals. But there are about 1,150 rehab facilities nationwide, and of those, we own and operate 8%. Because our hospitals tend to be larger, quite a bit larger actually than the average unit, you can see that the number of bed – market share with respect to beds, is quite a bit larger and then, as a result of the fact that our hospitals tend to be much more productive. We see more patients per unit from a patient care standpoint, we've got about 20%, 23% of the market.

So another way of looking at that is one out of every five patients getting inpatient rehabilitative care in this country gets that care at a HealthSouth hospital and that's without any hospitals in New York, Chicago or Los Angeles, the top three metropolitan markets.

So we've got a very good footprint across the country. We've been able to achieve some very significant results over the last several years. If you look at the first nine months, our discharge volume is up 4.4%. We've gotten a little bit of a pricing lift this year, so revenues up 6.5%. Adjusted EBITDA, we're very pleased, we continued to post very strong EBITDA growth, a reflection of the very disciplined cost structure, so we're able to bring new patients on in a --on a highly profitable basis. And I give a lot of credit to our hospital operators for getting those kind of results and then you can see earnings per share for the first nine months, $1.23 a share.

If you look at the fourth quarter, everybody wants to know, all right, it's great that you had a good three quarters in 2012, what are you doing for me lately? And I would tell you that we're off to a very nice start in the fourth quarter. When we reported Q3, we talked about the fact that we saw a slightly longer length of stay for some of the patients who were scheduled to be discharged towards the end of the month because the end of the month occurred on a weekend. Those discharges spilled over into October. So we did have a very, very solid October. It's very early to tell what the rest of the quarter is going to look like, but we are off to a very nice start going into Q4.

The storm that hit the Northeast and I hope all of you who have been affected are on the road to recovery and getting your back lives back to some sense of normalcy, really only affected a couple of our hospitals. The one in Toms River, New Jersey was the hardest hit. We don't really think there's going to be a material impact to our results as a result of the storm. And even though we had a lot of hospitals with power outages and disruption in terms of getting employees in and out, but net-net, we feel that it really is not going to affect us materially.

And then just as a reminder, we've talked about this on several occasions. We did have the ability to redeem a portion of the 2018 and 2022 bonds. We announced that in the third quarter. We actually then concluded that this quarter and that's a $65 million debt reduction. So we continue to focus on the balance sheet. We think that's an important consideration for all healthcare providers going into what we think is

going to be a pretty challenging environment in 2013 and 2014 as members of Congress and the President try to tackle the budget deficit in this country.

Despite the fact that there's a lot uncertainty out there, we feel very good about the segment we're in. It's primarily driven by the aging of the population. So we have a very favorable demographic tailwind that helps to continue to fuel a lot of the growth that we're able to realize. And so, not only do we have the same-store hospital growth, we're also able to look for new markets to bring HealthSouth rehabilitative services to.

As you can see here, we're continuing the construction on several hospitals down in Stuart, Florida and Littleton, Colorado. Both of those will be opening up the in 2013. We've finished the construction and soon we'll be seeing patients in our new hospital in Ocala and then we are replacing a old hospital, a very old hospital, over 100 years old that we had been leasing for many years. The lease terminated, it gave us an opportunity to then build a state-of-the-art all-private room hospital in Ludlow, Massachusetts.

As we look at guidance for the balance of the year, I think those of you who listen to the call know that we did take action in advance of the sequestration that we still believe is going to occur on January. And if sequestration doesn't occur, something else is going to affect Medicare pricing next year as the government tries to grapple with the federal deficit.

We took and instead of adding a fixed cost merit increase to our salary, wages and benefits, we provided our employees a one-time bonus that they'll get in December of this year. We're freezing all of the salaries at their current levels and then we're going to be absorbing the cost of health insurance increases next year. But the net effect is that we're going to have another $11 million in the fourth quarter of 2012 as a result of this one-time bonus.

So that's got to be factored in as you think about the quarter and even with that, we're really tightening the range at the high-end. In terms of EBITDA, we were at $485 million to $495 million now. We're tightening that up. I think that will be somewhere in the $494 million to $495 million range and then you can see the impact that it has on earnings per share.

So just in closing, I think that the company is very well positioned. We've got a very strong balance sheet. We've worked very hard at creating one that will withstand just about any kind of environmental challenge that may come our way. We are the leading provider of inpatient rehabilitative care. It's a segment that is growing. The demand is not going away. It's not a service that can be replicated or replaced by technology. I mean it's a lot of therapy care that is being provided for patients who are unable to care for themselves.

Another factor that I think is important is that we own a good percentage of our real estate. So we're not subject to the inexorable rise of lease expense year after year after year, which we think gives us a lot more flexibility than some of our other competitors who do – or have mortgaged their real estate and have to deal with the lease cost increases at a time when reimbursement is going to be pressured.

And then finally, we do think that there are some very compelling growth opportunities out there, both on the de novo side as well as acquisitions; either freestanding hospitals, similar to what we just announced earlier in the month, with the acquisition of a 53-bed hospital in Augusta, Georgia, Walton Rehabilitation Hospital, as well as the acquisition of units and consolidating those units into existing hospitals in existing markets.

So with that, very quick overview, I'm going to turn it over to Colleen for Q&A.

QUESTION AND ANSWER SECTION

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Yeah, maybe I'll just – or do you want to start? Go for it.

<Q>: Thank you. And now that the election's over, you've got hopefully four years of continuous or normal regulation going forward, do you know what's coming in terms of the Reform Act, does it change your opinion on issues such as ACO, such as diversifying into home health?

<A – Jay Grinney – HealthSouth Corp.>: No, it doesn't. Not at this point and the reason it doesn't is because I think that, even though there's been a lot of attention paid to the election. We have maintained all along that that was while very interesting and very important, the much, much bigger issue is the debt and fixing the deficit. And I think we're now seeing that there's a lot of attention in Washington on those topics.

So what we're concerned about and focusing on is what will the impact of those initiatives be on healthcare providers. And so for the time being, at least through 2013, we're going to be watching and monitoring and seeing what those changes might be. Now longer term, if you're looking out over next five years. I do believe that there will be opportunities for HealthSouth to grow beyond the inpatient rehabilitation focus that we have today. It won't be a requirement. I mean, as we look down the road, we see a lot of very appealing growth opportunities in our space.

We also think however that, there are some nice synergies with home care. There are nice synergies even with long-term acute care that would allow us to expand potentially into those areas, once the regulatory environment is much clear. Because today, we don't know, nobody knows, what are Medicare rates going to look like post deficit discussions. Whatever that big grand bargain is, whatever that fix is, it's going to involve something – it will hit, I should say, and involve Medicare at some point, because it has to, I mean that's where 13% of government spending is, on Medicare. They're going to have to do something there.

So we want to get on the other side of that. But we certainly believe that longer term, there are some interesting opportunities beyond inpatient rehabilitation. But as I said, we don't feel that that's a requirement for us to be able to continue to grow.

<Q>: Just to your point there, obviously no one knows exactly what's going to happen in D.C. But I know you guys keep a pretty close tab on what people are thinking down there. Can you give us your latest sense of expectations around a bigger sort of a deal?

<A – Jay Grinney – HealthSouth Corp.>: Yeah. We do spend – I spend a lot of time in Washington and I spent a lot of time meeting with members, both in the House and the Senate, staffs of theirs, committees of jurisdiction. And there is no question that up until November 6, the entire focus was on the election. And it was a little bit disconcerting that nobody was talking about the fact that we do have this big problem, this debt ceiling that's going to be breached again. And we'll have to go back to August of 2011. In those conversations, I got the sense that while the focus was on the election, there were people in Washington who really understood that the debt and the deficit were huge issues for this country and that they were going to have to roll up their sleeves and address it.

Whether or not they do it in lame duck, I don't know. I think it's almost impossible to envision getting a grand bargain structured in that short period of time. But I do have a sense that there are enough level-headed, forward-thinking individuals both democrats and republicans saying, we've got to solve this. We've kicked the can down the road for 20 years. And the can is now getting so large, it no longer can be kicked down the road?

So I think that they're – I'm optimistic and I hope that I'm right that a grand bargain will be struck. I think, if it does, it will involve much bigger structural changes that what we've seen in the past. I think sort of the ala Simpson-Bowles kind of proposals, where the eligibility age is increased, where there's means testing, where they put in co-pays for services that don't have co-pays today, where they unwind the reimbursement for bad debts.

I mean there are a lot of things out there that can move the needle and move the needle in a big way. And I think that's what's going to have to happen to get us to the point where, we're eventually balancing our budget.

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Just to follow up to that, Jay, I think one of the questions we get asked about is if they do increase the eligibility age for Medicare. Can you just remind us about the average age of your patients?

<A> – Jay Grinney – HealthSouth Corp.>: The average age of our patients is about 72, 73 years old. So I don't think it would have an impact on our business, if it did. And most of the proposals for raising the eligibility age call for that to occur, like in 2020, 2022. So I'm sure everybody here is a long-only holder, but I wouldn't suggest that that probably is even a little bit longer than most of your time frames..

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Okay.

<A> – Jay Grinney – HealthSouth Corp.>: I could be wrong, but I doubt it.

<Q>: Just to sort of build upon the question the gentleman asked over here regarding ACOs, how do you guys think about justifying sort of the overall cost save you've provided the system through better care. Is that something you track and are you sort of preparing yourself to make that argument to regulators as you move forward?

<A> – Jay Grinney – HealthSouth Corp.>: Yeah. First of all, I do think that ACOs are sort of an interesting concept. When they were first proposed as part of the Affordable Care Act, it was sort of hailed as a transformative component of the Affordable Care Act. Don Berwick, at the time was estimating that there would be 10% of all hospitals who would participate in an ACO. There are fewer than 200 participating in that right now, I think 160.

So is it a phenomenon? Yes. We are participating in about a half a dozen. But when we say participating, it really is nothing more than having organizational meetings and talking about what is it going to, how would this look, from an organization standpoint. I think the bigger issue that is soon going to become very apparent is that while it's easy to get a bunch of providers around the table and say that ACOs make sense. We like one another, we trust your quality. There's a nice overlap in medical staff. But very few providers have the capability of actually managing that underwriting risk.

I mean, it's one thing to say, I'm going to take and be responsible for 5,000 lives. But if you don't the ability to track and monitor every single one of those patients and be able to intervene early for chronic care, I mean those systems are not – they're not just sitting there on the shelf and they're not something that is going to be created overnight.

I mean, some of the people that I know on the insurance side are sitting there or sort of been used by this notion that providers are going to be able to step in and do in a short period of time what the insurance companies have been trying to do for decades and not always successfully.

Do I think that there's an opportunity for HealthSouth in that kind of environment? The answer is yes, and because we do have the ability to demonstrate that our outcomes are superior to other rehabilitation providers. We do provide that care on a very cost-effective basis and I think that our footprint, gives us the ability to provide that service on a pretty broad geographic basis.

But I think it's – I really think it's the – I think ACOs will evolve and even -- you talk to Marilyn Tavenner at CMS and she's not – nobody in CMS is saying that, that this is going to be the dominant model, it will be a model in the Medicare payment system.

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Great. Let's just shift gears a bit. Your volume growth has surpassed our expectations throughout the year and I was just wondering if you could talk about some of the drivers behind that strong growth. It's really been a relative bright spot for most of the providers.

<A> – Jay Grinney – HealthSouth Corp.>: Yeah, I think that there are a couple of things. First and foremost, any provider's volume growth is going to have to start with superior product and that product for

us is rehabilitative care that gets patients who are dependent, that had a stroke, they'd fallen and broken their hip, they're suffering from some kind of chronic neurological condition that limits their ability to live independently. And actually most of them find their way into an acute care hospital because of an acute episode.

So they're highly dependent on us, to get them back to a state where they can resume their normal lives. If we couldn't do that for them, and more specifically, for their referring physician, those physicians would look elsewhere to refer that next patient. And so what we've done, I think, is we've created a best-of-class operating platform, clinical platform that's really the main driver of our volume growth.

Now, we have spent a lot of time and effort in our sales and marketing. We've streamlined that, we standardized that. We've put performance metrics around that. We've provided all the sales people with handheld devices and we've created a very streamlined and efficient process for identifying a patient and then being able to decide whether that patient meets the criteria for admission into our hospital.

That all facilitates the process, but I want to go back, if we didn't have the underlying quality that we could build off of, we wouldn't be seeing the kind of growth that we've experienced. And I give all the credit to our hospitals, and the therapists, and the nurses and the medical directors who make this their sole purpose for being. And if you think about it, most of our competitors have rehab as kind of an afterthought. They're part of an acute care hospital, hospital CEO is sitting there worrying about open heart programs, surgery programs, replacing imaging equipment in their imaging department, worrying about the out migration or outpatient services, worrying about the 15% of patients coming into the ER that are no-pay and maybe at the end of the day, they're thinking about, oh yeah, what am I going to do about rehab?

But again, most hospitals have only small units. They're not going to be able to get patients from other acute care hospitals. It's very hard for an acute care CEO who doesn't have rehab to see that patient go into a rehab unit in a competitor acute care hospital that does have rehab. And so they're going to be looking for and their medical staffs are going to be looking to bring those patients to a high quality provider that is out there, in a quasi- independent role and that would be HealthSouth.

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Great. Free cash flow generation is clearly a strength of your business. Could you maybe talk a little bit about your priorities for deploying your free cash over the next year?

<A> – Jay Grinney – HealthSouth Corp.>: Yeah. And we do have what we refer to as our Investor Reference Book. I hope everybody has a copy of that. There's a lot of information in there. We update that on a quarterly basis. And if you go to page 54 of that reference book, you can see how we prioritize the use of our free cash flow.

First and foremost, it's growing the core business. We think we've got some very exciting opportunities. First, we've got a lot of hospitals that are outgrowing their bed capacity because of their success. So we're adding anywhere from 80 to 100 beds per year in existing hospitals. That continues to fuel growth. As I mentioned before, we're targeting four de novos per year, some years, it maybe a little more, some years, maybe a little less. We're also targeting acquisitions of either freestanding hospitals, similar to what we did in Georgia; or units, similar to what we did in San Antonio.

We think that pipeline is broadening. We think that the financial and reimbursement pressures that all hospitals are going to be facing in 2013 and beyond will tend to accelerate and widen that. We do have opportunities to pay down debt. We talked about the additional amount that we just pulled down. Next year, we'll be able to reset that, take another $60 or so million dollars off of our long-term debt.

We do have quite a few leased hospitals whose lease terms are expiring. We will look to acquire those, get control of the hospital, get out from under the lease obligation. And then, we do have some stock repurchases, authorizations out there for both the convert and the common. So at the end of the day, if we're not able to grow and expand and invest in the business either through growth or by getting – gaining control of our hospitals, we'll certainly be looking at those other alternatives.

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Okay. Great. I think we have less than a minute left, so does anyone in the audience have a question?

<Q>: Just a quick one on pay, for the last couple of years, I've heard you talk about controlling expenses, merit increases, this year the bonus instead of a merit increase, has that affected the turnover of therapists and is that an issue?

<A> – Jay Grinney – HealthSouth Corp.>: No. In fact, we have been very pleased with the reaction from our employees. Whenever we do launch anything, I tend to get emails. I mean that's of the great things, is that people will just email me and tell me what they think, which I really appreciate. This action that we took, elicited the most number of emails I've ever received, I mean well over 100, which is, that's a big number for people saying, okay, I'm going to email the CEO and obviously the name is going to be there, so they've got to feel compelled to do it. I only got two who were upset. Everybody else was effusive in their appreciation. One, because we had been telling them all along what was happening in Washington and the challenges that, as a country, we're facing.

But two, we were very candid with them, said, you know, we don't know what next year is going to look like, but we don't think it's smart to add cost going into a time of uncertainty. But we're having a great year and you're going to get some of that through a one-time bonus and by the way, we know that without a merit increase, passing on the increase of health insurance costs would be burden to you, we'll absorb that.

So I think we have laid the foundation, not just with this action, but we've been doing this as long as I've been here, we've really tried to put the focus where it needs to be and that's on our employees. So, based on the reaction that we've seen, I think it will not affect our turnover. And based on the reaction that I'm hearing from our operators, the regional presidents, this has been very, very well received.

You got to think, there are a lot of them out there, a lot of hospitals, they're cutting staff, they're freezing and passing on cost of insurance, increased cost of insurance and they're not giving any kind of bonus. So I mean employees in healthcare are being squeezed, maybe a little bit differently than what you're seeing in other industries. But so far the reaction has been pretty positive.

<Q> – Colleen Lang – Lazard Capital Markets LLC>: Great....

<A> – Jay Grinney – HealthSouth Corp.>: And the only two, by the way, the only two that were negative, were the PRN. Those are the staff that are not full-time employees. They come and go when they want. They're in a pool. We call them, we say, can you come in. If they want to come in, they come in to help us. And they're already paid at a premium amount. They're never eligible for annual merit increases. So I've got two, so well, how about us? And so I sent – told them, I said, well, you're not a full-time employee and so you're not eligible for it, so.

Colleen Lang, Analyst, Lazard Capital Markets LLC

Great. I really want to thank Jay and Mary Ann for taking the time to be with us today.

Jay Grinney, President and Chief Executive Officer

Yeah. Thank you.