

The logo for AVCA Advocat. The word "AVCA" is in a grey, serif font with thin blue horizontal lines above and below it. The word "Advocat" is in a bold, blue, serif font. The background features a dark blue horizontal bar and a light blue gradient area on the left with a pattern of overlapping squares.

**AVCA** **Advocat**

**Midwest IDEAS Conference**

**August 2011**

# Will Council



- President and Chief Executive Officer
- Joined AVCA in 2001



# Profile

Advocat is a premier provider of long term and rehabilitation care services for senior patients, primarily in the Southeast and Southwest in a blend of urban, suburban and rural areas.

- Pure play in skilled nursing home sector
- 46 Facilities in 8 states
- 117 average licensed beds per facility



# Advocat Mission Statement

- Committed to Compassion
- Striving for Excellence
- Serving Responsibly

*We aim to be the facility of choice in every community we serve.*



# Market Data

(As of 8/24/2011)

Stock Symbol	Nasdaq: AVCA
Stock Price:	\$5.84
Dividend Yield	\$0.22 / 4.0%
52 Week High/Low	\$7.60 - \$4.49
Market Capitalization	\$34.0 million
Shares Outstanding	5.8 million
Average Daily Volume	Approx. 18,000



# Key Fundamental

Funds Provided by Operations  
(per diluted common share)

- YTD Q2 2011 – \$1.62
- Q2 2011 – \$1.08
  
- 2010 – \$2.52
- 2009 – \$2.26
- 2008 – \$1.78

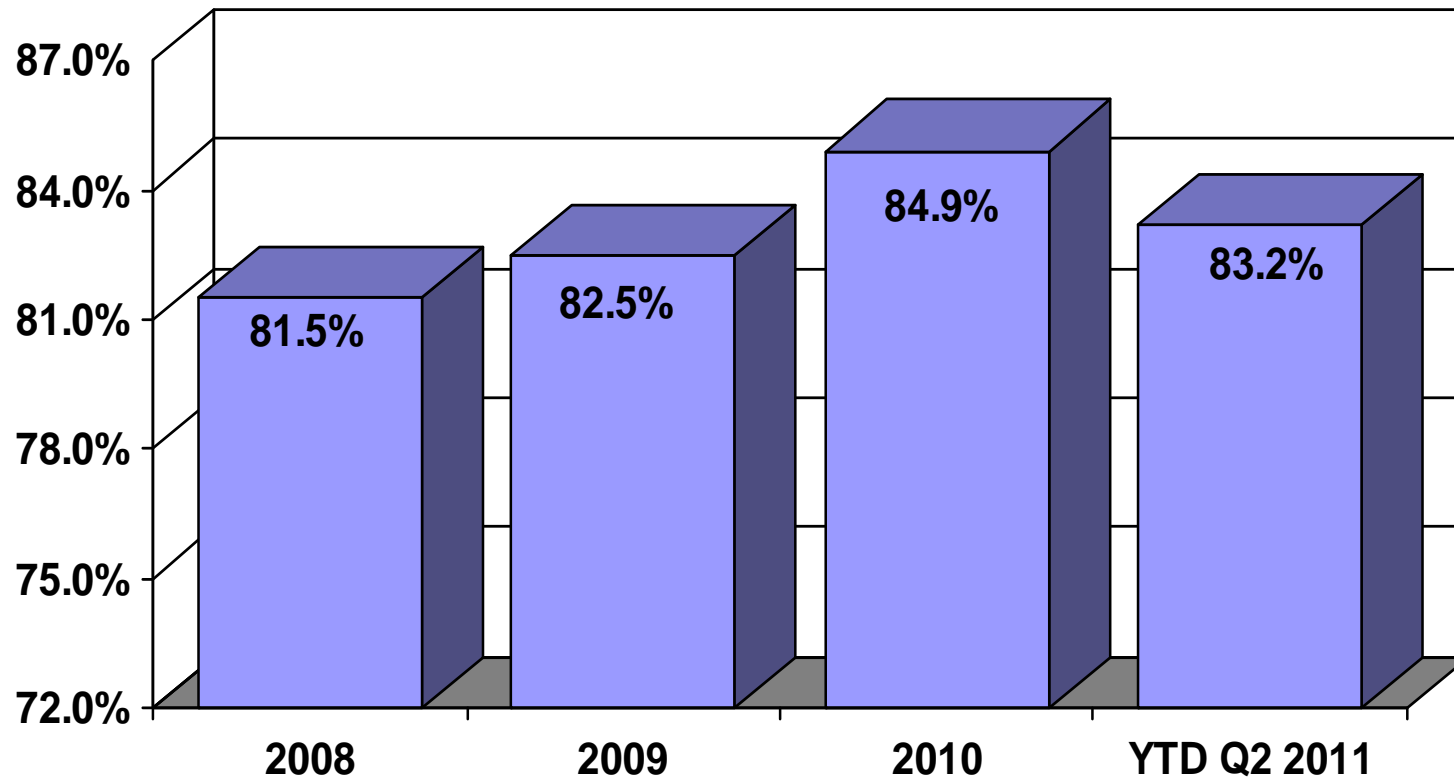


# Drivers for Growth

- Occupancy
- Patient mix
- Cost Control



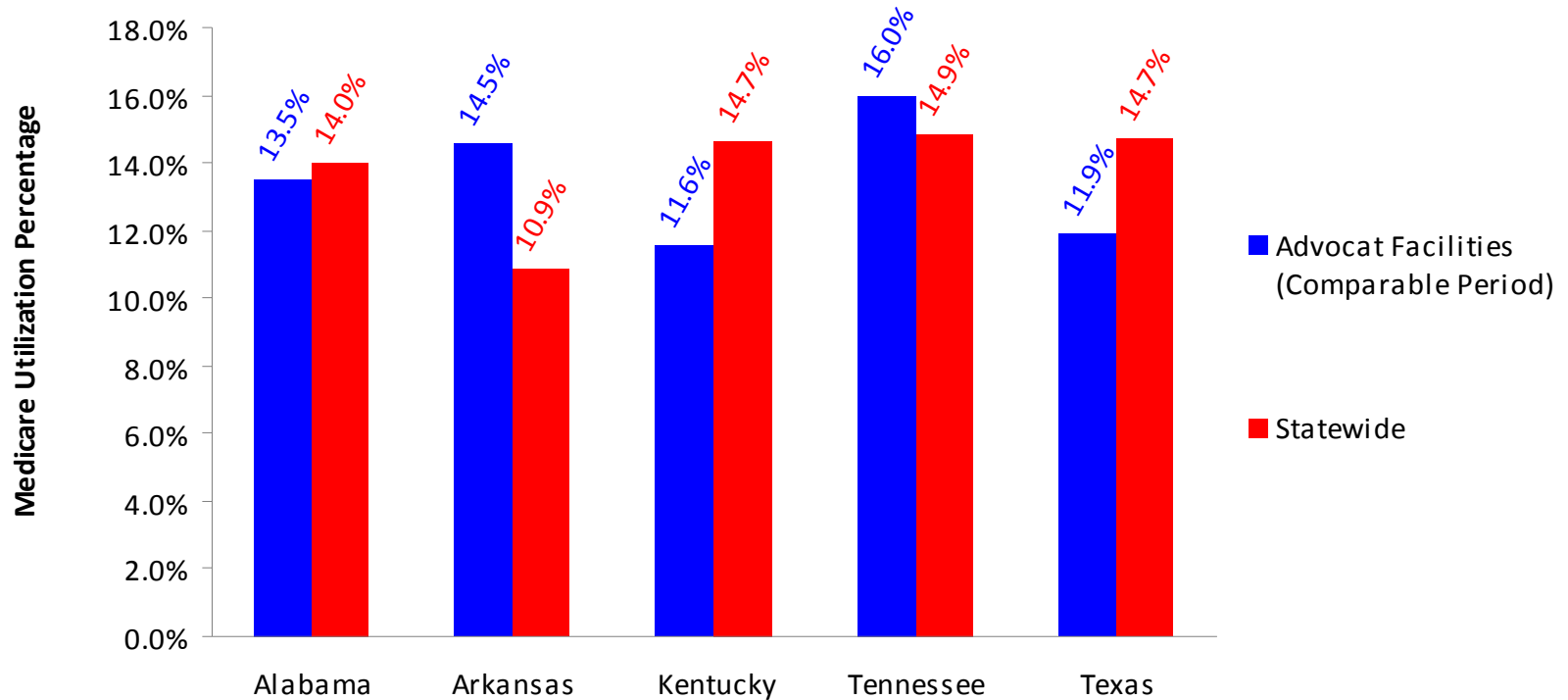
# Occupancy Rates – available beds





# Patient Mix

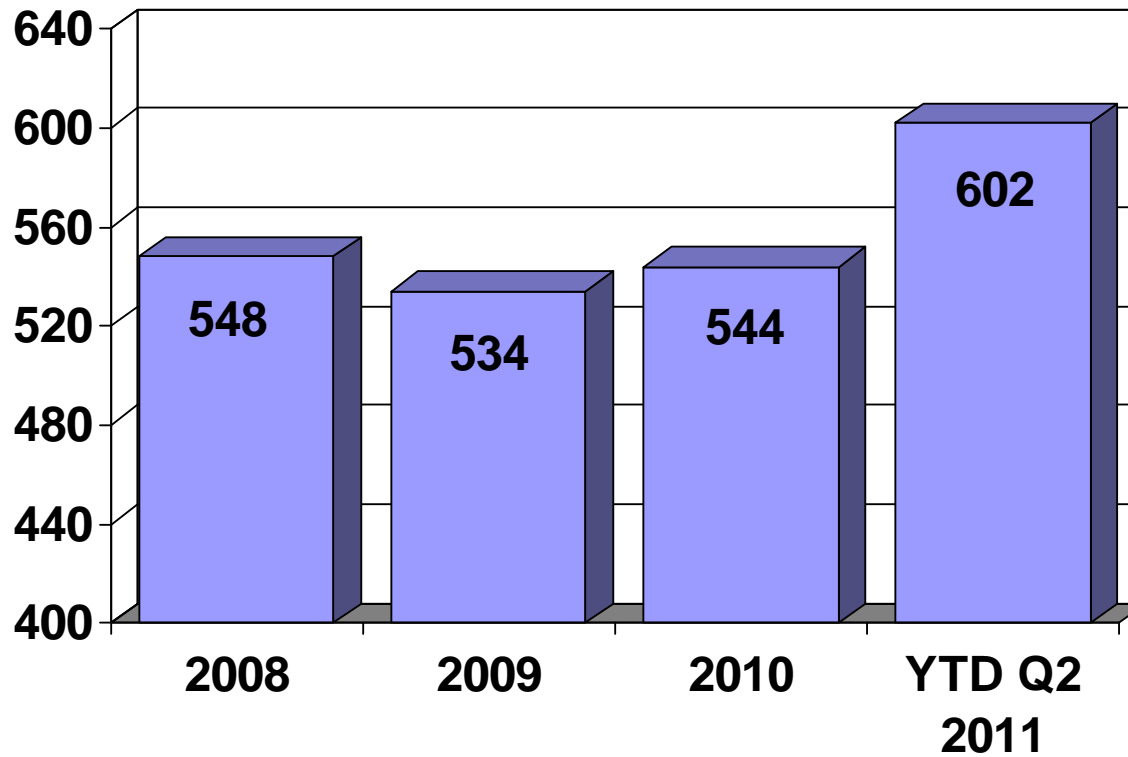
## Medicare Utilization: Advocat vs. States in which we Operate



**Note: Advocat operates two facilities in West Virginia and one each in Ohio and Florida not included in the comparison above.**

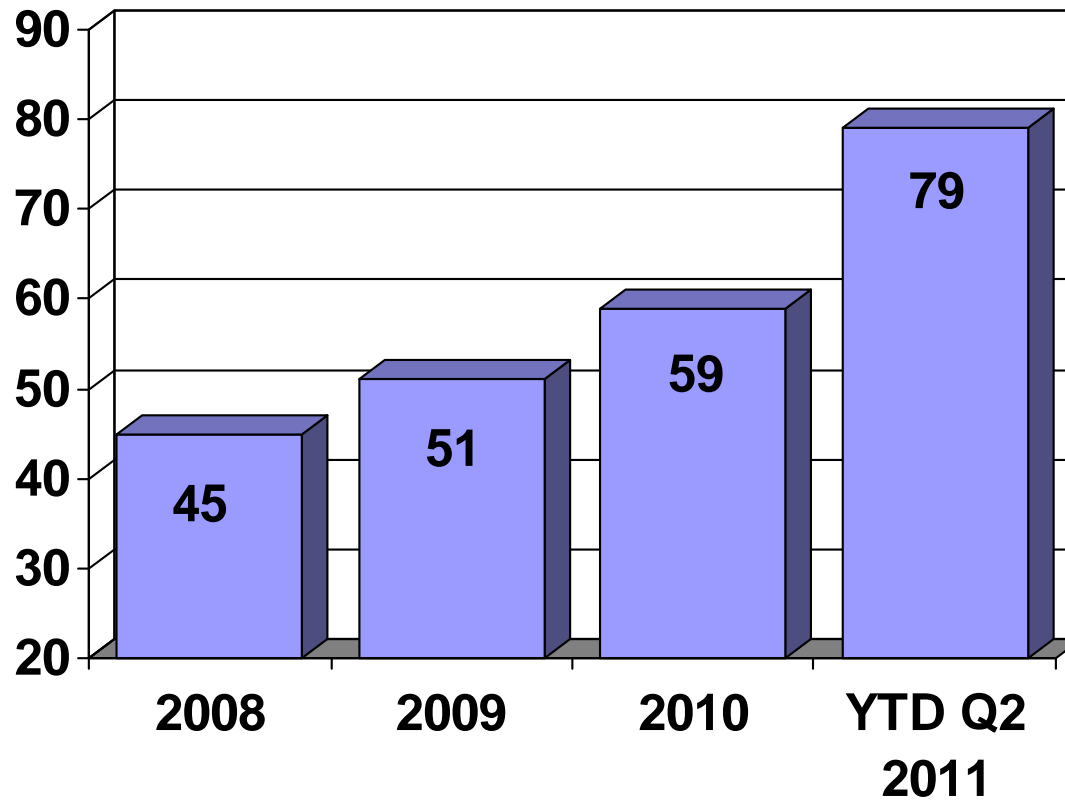


# Medicare average daily census





# Managed care average daily census





# Cost Control Operating Expense As a Percentage of Revenue

- YTD Q2 2011 – 77.2%
- Q2 2011 – 75.5%
  
- 2010 – 79.0%
- 2009 – 79.3%



# Patient Mix Improvement

One percentage point improvement in Medicare utilization increases annual revenue \$3.9 Million and pre-tax income \$2.4 Million

# Management Profile

## **William R. Council, III**

### **Chief Executive Officer**

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- Joined Advocat in 2001
- President & CEO since 2002
- Prior Experience:
  - CEO Senior Counseling Group – psychologist practice management
  - Senior Audit Manager – Arthur Andersen – AVCA primary client for 9 years.

## **Kelly Gill**

### **Chief Operating Officer**

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- Joined Advocat in 2010
- 20+ Years in LTC
  - Sr. VP, Sub Acute Care – Beverly Enterprises (Division Executive – 168 Facilities)
  - Division President , Rehab Services – Living Centers of America
  - Exec. VP Ancillary Services Division – Skilled Healthcare (Hallmark Rehabilitation Services; Hospice Care Division)
  - Healthcare Entrepreneurial Endeavors

## **Glynn Riddle**

### **Chief Financial Officer**

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- Joined Advocat in 2002
- Executive Vice President
- Chief Financial Officer
- Secretary
- 19+ Years as Senior Financial Officer for Public Companies
- Certified Public Accountant

## **David Houghton**

### **Chief Information Officer**

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- Joined Advocat in 2010
- 20+ Years of Healthcare, Technology & Consulting
- Prior Experience:
  - Nashville Strategic CIO Services Lead – North Highland
  - Contract CIO – Bridgestone Industrial Products
  - Healthcare Strategy, Ops/Enterprise Systems – Deloitte Consulting
  - Lab Information Systems & Ops – Scott & White Hospital
  - US Residential Systems Management – AT&T



# Key Operational Performance Improvement Initiatives

- Expanded Clinical Care Delivery Capability
- Expanded Marketing and Sales Infrastructure
- Electronic Medical Records
- Facilities Renovation
- Development Activity



## Skilled Care Development Initiatives

- 24 Hour RN Coverage
- Sub Acute Clinical Care Capability
- Specialized Clinical Care
- Drives Favorable Reimbursement
- Marketing Advantage





# Marketing Infrastructure Development

- Facility-Based Sales Representatives
- Business Development
  - Managed Care
  - Physician Relationships
- Clinical Program Development
  - Customized for Physician Needs



# Operations Improvement

- Goal - #1 Referral Destination in each Market
- Improvements:
  - Clinical Care Expansion
  - Marketing Components
  - Business Development
- Advocat Well Positioned for Continued Success



## EMR Components

- Activities of Daily Living (ADL) Tracking
- Nursing Notes and Assessment
- Medication and Treatment Administration



## 18 month deployment - by Dec. 2011

- Currently 34 Facilities on EMR
  - Twelve (12) Arkansas Facilities – Full EMR
  - Nine (9) Kentucky Facilities – Full EMR
  - Thirteen (13) Texas Facilities ADL Capture Only



## Remaining 2011 Deployment schedule

- By year end, all Facilities deployed with Full EMR
  - 4-6 Facilities Completed every Two Months



# Typical Facility Deployment Costs

- Total Cost of \$130,000

<input type="checkbox"/> Hardware/Installation	\$70,000
<input type="checkbox"/> Software	\$10,000
<input type="checkbox"/> Training	\$50,000



## EMR Operational Benefits

- Improves customer and employee satisfaction
  - Easier/faster Documentation
  - Resident Family Inquiry Response
- Improves facility regulatory compliance
  - Consistency
  - Surveyor Access
- Provides timely monitoring of care delivery
  - Easier/More Broad Monitoring
  - Faster Response and Control



# Facility Renovations Initiative

- Program Accelerates
- Historical ROI – 46%
- \$22.4 million Invested
- 15 Facilities Renovated
- 4 Facilities in Progress





# Facility Renovations Initiative

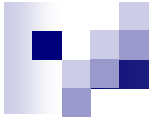
- \$5 million lease financing committed
- \$2.4 million available cash – mortgage refinancing

## Projects expected to start in 2011

NURSING CENTER LOCATION	NUMBER OF CENTERS TO RENOVATE	TOTAL LICENSED BEDS	EXPECTED COMPLETION	TOTAL ESTIMATED COSTS
Kentucky	1	120	Q4 2011	\$1.7 Million
Ohio	1	139	Q4 2011	\$0.4 Million
Texas	3	544	Q2 2012	\$5.6 Million
Tennessee	1	125	Q3 2012	\$2.8 Million
Alabama	1	86	Q1 2012	\$0.7 Million
Arkansas	1	105	Q2 2012	\$1.2 Million
<b>Total</b>	<b><u>8</u></b>	<b><u>1,119</u></b>		<b><u>\$12.4 Million</u></b>

## Projects underway – August 2011

NURSING CENTER NAME	NURSING CENTER LOCATION	PRIMARY FUNDING SOURCE	EXPECTED COMPLETION	TOTAL ESTIMATED COSTS
Best Care	Wheelersburg, OH	Omega	11/30/2011	\$0.4 Million
Carter	Grayson, KY	Omega	12/31/2011	\$1.7 Million
Hartford	Hartford, AL	Private Bank	1/31/2012	\$0.7 Million
Oakmont	Humble, TX	Omega	5/30/2012	\$1.8 Million
<b>Total</b>				<b><u>\$4.6 Million</u></b>



## Development Activities

- Acquisition Development
- Rose Terrace – Near Huntington, WV

# Rose Terrace - Rendering



## Rose Terrace, Culloden, WV



- Under Construction -



- 90 Bed Facility
- Bedroom community of Huntington, West Virginia
- Huntington-Charleston Corridor
- Expected to complete by the end of 2011
- Open early 2012



# Rose Terrace

- Lease with purchase option
- Company supervised construction
- \$7.2 million facility



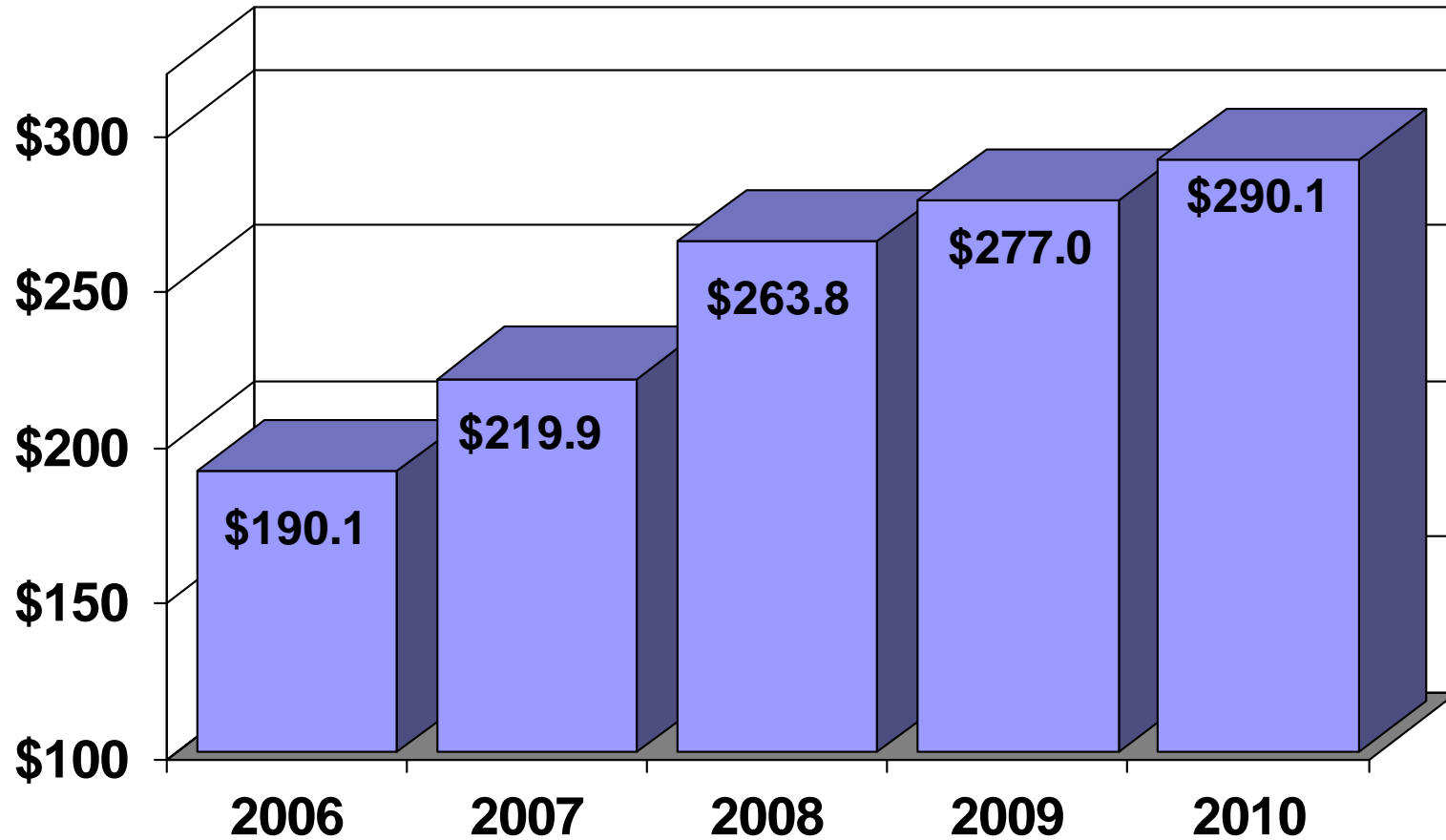
# Rose Terrace

- 2011 Impact
- Positive cash flow
- Breakeven
- Current West Virginia average Daily Rates
  - Medicare - \$444
  - Medicaid - \$188





## Revenue Growth 2006-2010 (\$ in millions)



# Second Quarter Highlights

	Q2 Ending June 30,	
	<u>2011</u>	<u>2010</u>
Occupancy	77.3%	78.2%
Total Average Daily Census – Medicare & Managed Care	685	619
Revenue	\$79.2 million	\$71.5 million
Medicare Rate Per Day	\$464.71	\$389.13
Medicaid Rate Per Day	\$150.66	\$145.32
Professional Liability Expense	\$1.1 million	\$1.0 million
Operating Income	\$4.9 million	\$2.0 million
Net Income Per Diluted Common Share	\$0.48	\$0.15
Funds from Operations	\$6.4 million	\$3.1 million

# Strategic Investing Q2 2011

(In millions)	
Operating expenses	\$1.1
General and administrative expenses	<u>\$0.6</u>
Total investment expenses	<u>\$1.7</u>
Recurring expenses	\$1.5
Non-recurring expenses	<u>\$0.2</u>
Total investment expenses	<u>\$1.7</u>
Non-recurring EMR (Capital Spending)	<u>\$0.2</u>



# Medicare Reimbursement

- CMS Rule
- AVCA Impact and Response



# Investment Highlights

- Exceptional performances
- Strong cash flow
- Dividends – current yield  $\approx$  4%
- Exceptional Demographic Trends
- Program for Accelerating Growth



# Forward-Looking Statements

Forward-looking statements made in this presentation involve a number of risks and uncertainties, but not limited to, our ability to successfully construct and operate the new nursing center in West Virginia, our ability to increase census at our renovated facilities, changes in governmental reimbursement, including the impact of a recently announced final rule that is expected to result in an 11.1% reduction in Medicare reimbursement as of October 2011, government regulation, the impact of the recently adopted federal health care reform or any future health care reform, any increases in the cost of borrowing under our credit agreements, our ability to comply with covenants contained in those credit agreements, the outcome of professional liability lawsuits and claims, our ability to control ultimate professional liability costs, the accuracy of our estimate of our anticipated professional liability expense, the impact of future licensing surveys, the outcome of regulatory proceedings alleging violations of laws and regulations governing quality of care or violations of other laws and regulations applicable to our business, costs and impacts associated with the implementation of our electronic medical records plan, the costs of investing in our business initiatives and development, our ability to control costs, changes to our valuation of deferred tax assets, changes in occupancy rates in our facilities, changing economic and competitive conditions, changes in anticipated revenue and cost growth, changes in the anticipated results of operations, the effect of changes in accounting policies as well as other risk factors detailed in the Company's Securities and Exchange Commission filings. The Company has provided additional information in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as in other filings with the Securities and Exchange Commission, which readers are encouraged to review for further disclosure of other factors that could cause actual results to differ materially from those indicated in the forward-looking statements.