J.P. Morgan Healthcare Conference

January 13, 2014
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Select Medical Overview

Founded – 1996

123 specialty hospitals, 997 outpatient clinics, operations in 44 states plus D.C.

$3.0 Billion Net Revenue LTM Q3 ‘13

$385 Million Adjusted EBITDA LTM Q3 ’13(1)

31,300 Employees

Specialty Hospitals Segment

108 LTAC Hospitals
4,585 beds in 28 states

15 Inpatient Rehab Hospitals
945 beds in 7 states

Outpatient Rehabilitation Segment

997 Outpatient Rehab Clinics in 32 states and the District of Columbia

507 Contract Therapy locations in 30 states and the District of Columbia

Note: Statistics as of September 30, 2013  (1) See Slide 40 for non-GAAP reconciliation
Strategy

- Be the “preferred” provider of post acute services in our markets
  - Structured partnerships
  - Hospital in hospital model
  - Outpatient critical mass
Significant Scale and Breadth

**LTACH**
- 107 Owned Hospitals
- 1 Managed Hospital
- 28 States

**Inpatient Rehab**
- 8 Consolidated
- 7 Non-consolidated
- 4 Managed Units
- 7 States

**Outpatient Rehab**
- 876 Owned Clinics
- 50 Non-consol. Clinics
- 71 Managed Clinics
- 32 States and D.C.

**Contract Therapy**
- 507 Locations
- 30 States and D.C.

*As of September 30, 2013*
## Post Acute Care Continuum

<table>
<thead>
<tr>
<th></th>
<th>LTACH</th>
<th>Rehab</th>
<th>SNF</th>
<th>Outpatient Rehab</th>
<th>Hospice</th>
<th>Homehealth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SEM Market Share</strong></td>
<td>2nd largest</td>
<td>2nd largest</td>
<td>--</td>
<td>largest</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>2012 Market Size - units</strong>(^{(1)})</td>
<td>430</td>
<td>239 freestanding</td>
<td>≈15,000</td>
<td>≈16,000</td>
<td>≈3,700</td>
<td>≈12,300</td>
</tr>
<tr>
<td></td>
<td></td>
<td>927 units</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,166 Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2012 Industry Size</strong></td>
<td>$5.5B</td>
<td>$6.7B</td>
<td>$29.0B</td>
<td>$10B</td>
<td>$15.7B</td>
<td>$18.0B</td>
</tr>
<tr>
<td><strong>2012 MedPAC Medicare Margins</strong></td>
<td>7.1%</td>
<td>11.1%</td>
<td>13.8%</td>
<td>-</td>
<td>8.7%(^{(4)})</td>
<td>14.4%(^{(3)})</td>
</tr>
<tr>
<td><strong>2014 MedPAC proj Medicare Margin</strong>(^{(2)})</td>
<td>6.5%</td>
<td>13.1%</td>
<td>12.0%</td>
<td>-</td>
<td>7.8%</td>
<td>12.6%(^{(3)})</td>
</tr>
<tr>
<td><strong>2011 PPD Rate</strong></td>
<td>$1,470</td>
<td>$.1338</td>
<td>$431</td>
<td>≈$100</td>
<td>$132</td>
<td>$44</td>
</tr>
</tbody>
</table>

\(^{(1)}\) MedPAC Dec 2013 presentation
\(^{(2)}\) MedPAC Dec 2013 presentation – see transcript – doesn't' take into account sequestration impact
\(^{(3)}\) Freestanding only
\(^{(4)}\) 2011
Revenue Mix

Total Company

50% Commercial & Other

46% Medicare

4% Medicaid

Medicare

Inpatient 59%
Outpatient 9%

Note: LTM as of September 30, 2013
2013 Highlights

- LTAC Hospitals patient criteria legislation

- Rehab Joint Ventures
  - OhioHealth
  - Scottsdale Health
  - San Antonio
  - UCLA/Cedar Sinai (executed)

- LTACH Joint Venture
  - Emory Health System (executed)
Specialty Hospitals
Long Term Acute Care
LTACH Overview

- Major provider of LTACH services in U.S.

- 108 hospitals
  - 78 are hospital-in-hospital (2,885 beds); **average size 37 beds**
  - 29 are freestanding (1,700 beds); **average size 59 beds**
  - 1 managed freestanding hospital

- Ownership of freestanding LTACHs
  - 18 owned
  - 11 leased
LTACH Legislation

- Passed in late December 2013 as part of Budget bill and SGR

- Bill provides
  - Full LTACH DRG rates for patients
    - 3 day prior short term hospital ICU stay or
    - Ventilation patients for > 96 hours in the LTACH
  - Other patients receive “site neutral” rate which is lesser
    - IPPS per diem (plus outlier payment) or
    - 100% cost
LTACH Legislation (con’t)

- Effective Date – cost report period beginning on or after October 1, 2015

- Site Neutral Payments
  - Phased in over three years. Patients paid under this rate excluded from 25 ALOS
  - After FY 2020, those hospitals with 50% or less of their discharges at LTACH DRG will convert to IPPS hospital

- 25% Rule – extended through cost reporting period ending on or after December 28, 2016

- Moratorium on new beds – renewed for period January 1, 2015 through September 30, 2017
LTACH Legislation – Select Impact

- **Positives:**
  - Degree of segment certainty with phase-in
  - 25% Rule extension
  - Select high CMI
  - HiH Strategy

- **Neutral:**
  - Moratorium

- **Negatives:**
  - Loss of some volume
  - Reduced rates for IPPS patients
Patient Criteria Opportunity

2012 LTACH Discharges

≈145,000

2012 STACH Eligible Patients

≈2,400,000

Major Diagnostic Categories (MDC)  % of LTACH Discharges to Eligible Patients

Respiratory System  12.3%
Infectious and Parasitic DDS  7.2%
Musculoskeletal System & Connective Tissue  11.8%
Non-healing Wounds  51.6%
Circulatory System  1.4%
All Other MDCs  4.8%
TOTALS  6.1%
Specialty Hospitals

Inpatient Rehabilitation
Rehabilitation Hospitals

- **Wholly Owned Hospitals (4)**
  - Kessler Institute (3 hospitals) – New Jersey
  - West Gables Rehabilitation – Miami, FL

- **Consolidated Joint Ventures (5)**
  - Penn State Hershey Rehabilitation – Hershey, PA
  - SSM Rehabilitation Network (2 hospitals and 1 managed unit) – St. Louis, MO
  - Select Rehabilitation – San Antonio, TX
  - UCLA/Cedar Sinai – Los Angeles, CA (2015 opening)

- **Non-Consolidating Joint Ventures (7)**
  - Baylor Institute for Rehabilitation (4 hospitals and 3 managed units) – Dallas, TX
  - Select Rehabilitation – Denton, TX
  - Scottsdale Healthcare Rehabilitation – Scottsdale, AZ
  - Ohio Health Rehabilitation – Columbus, OH
Rehabilitation Overview

Kessler Overview

- Founded in 1948
- Largest licensed rehab hospital in U.S. (three campuses)
- 21 consecutive years *U.S. News & World Report* best hospital
- One of eight rehabilitation centers in U.S. to have Model System designation for both traumatic brain injury and spinal cord injury

U.S. News & World Report
Best Rehabilitation Hospital Rankings 2012-2013

1. Rehabilitation Institute of Chicago, Chicago, IL
2. Kessler Institute for Rehabilitation, West Orange, NJ
3. TIRR Memorial Hermann, Houston, TX
4. University of Washington Medical Center, Seattle, WA
5. Spaulding Rehabilitation Hospital, Boston, MA
6. Mayo Clinic, Rochester, MN
7. Craig Hospital, Englewood, CO
8. Rusk Institute, NYU Langone Medical Center, New York, NY
9. Moss Rehab-Albert Einstein, Elkins Park, PA
10. Shepherd Center, Atlanta, GA
Strategy
Partner in joint ventures with premier acute care hospitals and systems to build post acute networks
Rehab JV Overview

SSM Rehabilitation Hospital
An SSM Select Medical Partnership
- Start Date: Dec. ‘09
- 2 inpatient hospitals
- 1 managed inpatient rehab unit
- 36 outpatient locations
- 15 contract therapy locations
- 3 occupational health clinics
- 4 day institute clinics

Baylor Institute for Rehabilitation
- Start Date: Apr. ‘11
- 4 inpatient hospitals
- 3 managed inpatient rehab units
- 48 outpatient locations
- 1 contract therapy location

Cedars-Sinai and UCLA
- Start Date: Aug. ‘07
- 54-bed rehab hospital
- May 2014 hospital expansion
  • 22 Rehab beds
  • 22 SNF beds

Scottdale Healthcare Rehabilitation Hospital
In affiliation with Select Medical
- Start Date: Jun. ‘13
- 50-bed inpatient hospital

OhioHealth Rehabilitation Hospital
In partnership with Select Medical
- Start Date: Aug. ‘13
- 44-bed inpatient hospital

Cedars-Sinai and UCLA
- 138-bed rehab hospital scheduled to open late 2015
- First provider partnership between UCLA and Cedars-Sinai
Inpatient Rehab Regulatory Environment

- Budget Sequestration cuts effective April 1, 2013

- CMS Final Rule FY 2014 effective 10/1/13
  - Standard Payment Conversion Factor increase 3.5%
    - Net Market basket increase of 1.8%
    - Other Budget Neutrality adjustments increasing standard payment rate 1.7%
Outpatient Rehabilitation

Outpatient Rehab Clinics
Outpatient Rehabilitation – Industry Overview

Source: Company public filings and websites as of September 30, 2013
Outpatient Clinic Strategy

- Establish and grow critical mass of clinics in key geographic marketplaces
  - Collaborate with market dominant physicians
  - Pricing power
  - Labor management efficiencies
  - Snap on acquisitions in marketplace
2014 Outpatient Initiatives

- Continued growth in workers’ comp business by illustrating historical ROI benefits of working with Select
  - Payors
  - Employers
- Expand hand therapy services to more clinics
- Expand concussion management program
- Continued development of start-up clinics
Outpatient Rehab Regulatory Environment

- Commercial - Stable

- Medicare
  - MPPR changes to therapy payments (effective April 2013)
    - 25% reductions increased to 50% reductions to practice expense component for 2\textsuperscript{nd} and subsequent codes
Outpatient Rehabilitation

Contract Therapy
Contract Services

- 507 contracts in 30 states and the District of Columbia
- LTM Q3 ‘13 Net Revenue of $181.5M
- Organic growth only
## Minority Investments

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allevant</td>
<td>Rural Hospital Management Services (Mayo Clinic JV)</td>
</tr>
<tr>
<td>Amplion</td>
<td>Alarm alert technology company</td>
</tr>
<tr>
<td>Haven Health</td>
<td>Inpatient Psychiatric hospital company</td>
</tr>
<tr>
<td>naviHealth</td>
<td>Post acute managed care company</td>
</tr>
<tr>
<td>U.S. Psychiatry</td>
<td>Physician practice management company</td>
</tr>
</tbody>
</table>
Strategic Priorities

- **Use of capital – opportunistic**
  - Acquisitions – primarily inpatient and outpatient rehab
  - Dividends
    - Special dividend $1.50/share @ 12/2012
    - Dividend payment of $.30/share in 2013
  - Stock buyback – $129.5M in 2011-13 (avg. price $7.75)
  - Debt repayment – net leverage of 3.8x @ 9/30/13
Financial Overview
Net Revenue and Adjusted EBITDA Trends

**Net Revenue**

CAGR 7.0%

- 2008: $2,153
- 2009: $2,240
- 2010: $2,390
- 2011: $2,805
- 2012: $2,949
- LTM Q3'13: $2,971

**Adjusted EBITDA**

CAGR 7.8%

- 2008: $270
- 2009: $330
- 2010: $307
- 2011: $386
- 2012: $406
- LTM Q3'13: $385

*Note: In Millions*
Volume Analysis

Specialty Hospital - Patient Days
Volume Analysis

Outpatient - Visits

NOTE: Data through Q1 2011 excludes reported visits from clinics transferred to the Baylor JV that no longer consolidate
Key Financial Metrics

Pricing and Volume Trends

Specialty Hospital
Revenue per Patient Day$1 / Admissions
(Admissions in Thousands)

Outpatient Rehab
Revenue per Visit$2 / Visits
(Visits in Thousands)

1 Net revenue per patient day is calculated by dividing specialty hospital direct patient service revenues by the total number of patient days
2 Net revenue per visit is calculated by dividing outpatient rehabilitation clinic revenue by the total number of visits. For purposes of this computation, outpatient rehabilitation clinic revenue does not include managed clinic or contract services revenue
Annual Capital Expenditures

($ in millions)

2008: $57
2009: $58
2010: $52
2011: $46
2012: $68
LTM Q3'13: $68

- Maintenance
- Development
Free Cash Flow

Focus on Free Cash Flow Generation

Free Cash Flow\(^1\)

($ in millions)

Note: Free Cash Flow calculated as Net Cash Provided by Operating Activities less Purchases of Property and Equipment

\(^1\) See Slide 40 for non-GAAP reconciliation
2014 Operational Focus

- Improve LTACH education process to STACHs
- Reduce variations in physician practice patterns
- Tighter labor management efficiencies
- Accelerate procurement savings
- Speed up real time data delivery to line level operators
2014 Financial Guidance

Net Revenue $ 3,050M - $ 3,150M

Adjusted EBITDA $ 365M - $ 385M

Adjusted EPS $ 0.84 - $ 0.93
Appendix: Additional Materials
## Non-GAAP Reconciliation

($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Q3’ 12 YTD</th>
<th>Q3’ 13 YTD</th>
<th>Q3’ 13 LTM</th>
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</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$ 25</td>
<td>$ 79</td>
<td>$ 82</td>
<td>$ 113</td>
<td>$ 154</td>
<td>$ 113</td>
<td>$ 92</td>
<td>$ 133</td>
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<tr>
<td>(+) Income tax</td>
<td>26</td>
<td>37</td>
<td>42</td>
<td>71</td>
<td>90</td>
<td>71</td>
<td>57</td>
<td>76</td>
</tr>
<tr>
<td>(+/-) Equity in losses/(earnings) of unconsolidated subsidiaries</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>(3)</td>
<td>(8)</td>
<td>(6)</td>
<td>(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>(+/-) Other expense / (income)</td>
<td>-</td>
<td>1</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(+) Interest expense, net</td>
<td>146</td>
<td>132</td>
<td>112</td>
<td>99</td>
<td>95</td>
<td>72</td>
<td>66</td>
<td>89</td>
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<tr>
<td>(-/+)(Gain) / Loss on debt retirement</td>
<td>(1)</td>
<td>(13)</td>
<td>-</td>
<td>31</td>
<td>6</td>
<td>6</td>
<td>19</td>
<td>19</td>
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<tr>
<td>(+) Depreciation and Amortization</td>
<td>72</td>
<td>71</td>
<td>69</td>
<td>71</td>
<td>63</td>
<td>47</td>
<td>48</td>
<td>64</td>
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<tr>
<td>(+) Stock Based Compensation</td>
<td>2</td>
<td>23</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>$ 270</td>
<td>$ 330</td>
<td>$ 307</td>
<td>$ 386</td>
<td>$ 406</td>
<td>$ 307</td>
<td>$ 286</td>
<td>$ 385</td>
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<tr>
<td>Net Cash Provided by Operating Activities</td>
<td>$ 107</td>
<td>$ 166</td>
<td>$ 145</td>
<td>$ 217</td>
<td>$ 299</td>
<td>$ 194</td>
<td>$ 115</td>
<td>$ 220</td>
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<tr>
<td>(-) Purchase of Property and Equipment</td>
<td>56</td>
<td>58</td>
<td>52</td>
<td>46</td>
<td>68</td>
<td>45</td>
<td>45</td>
<td>68</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td>$ 51</td>
<td>$ 108</td>
<td>$ 93</td>
<td>$ 171</td>
<td>$ 231</td>
<td>$ 149</td>
<td>$ 70</td>
<td>$ 152</td>
</tr>
</tbody>
</table>