

NYSE MKT: ADK



# ***AdCare Health Systems, Inc.***

May 28, 2015  
Investor Presentation

# Forward-Looking Statements

Any forward-looking statements made in this presentation are based on management's current expectations, assumptions and beliefs about the Company's business and the environment in which AdCare operates. These statements are subject to risks and uncertainties that could cause the Company's actual results to materially differ from those expressed or implied in this presentation. Readers should not place undue reliance on forward-looking statements and are encouraged to review the Company's SEC filings for more complete discussion of factors that could impact the Company's results. Except as required by federal securities laws, AdCare does not undertake to publicly update or revise any forward-looking statements, where changes arise as a result of new information, future events, changing circumstances or for any other reason.

In addition, any AdCare facility or business the Company may mention today is operated by a separate independent operating subsidiary that has its own management, employees and assets. References to the consolidated company and its assets and activities, as well as the use of terms like "we," "us," "our" and similar verbiage are not meant to imply that AdCare Health Systems, Inc. has direct operating assets, employees or revenue or that any of the operations are operated by the same entity.

Also, the Company supplements its GAAP reporting with non-GAAP metrics, such as Adjusted EBITDA and EBITDAR. When viewed together with the Company's GAAP results, these measures can provide a more complete understanding of its business. They should not be relied upon to the exclusion of GAAP financial measures. A reconciliation of these measures to GAAP is available in the Company's latest earning release.

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# Investor Highlights

AdCare Health Systems is a healthcare property holding and leasing company.

- 40 senior care properties located primarily in the Southeast U.S. with a total of 4,235 beds / units
- Primarily long-term, triple-net leases generate predictable, recurring streams of rental payments
- Seasoned management team with prior experience in healthcare real estate and operating companies, capital raising and M&A
- Substantial completion of strategic transition reduces earnings and cash flow volatility risk, enabling Board to declare a quarterly cash dividend of \$0.05 per share, paid on April 30<sup>th</sup>
- Upon completion of the strategic transition, the Company will take on the characteristics and general structure of a real estate investment trust



## In July 2014, the Company Announced Its Strategic Transition Plan

Transitioning from an owner and operator of skilled nursing facilities to a healthcare property holding & leasing company in order to:

- Increase shareholder value
- Reduce operating risk
- Create predictable revenue and income
- Improve free cash flow to enable quarterly cash dividends
- Drive growth and further improve financial performance through acquisition of additional properties to grow portfolio and support ongoing dividends

**Entered Into Agreements for 37 of 40 Properties Since the Plan Was Announced**

- Access to financial capital to fund growth initiatives
  - Cash on hand
  - Recent private placement of \$7.7M of convertible subordinated debt in March / April 2015 and public offering of \$14.8M of preferred stock in April 2015
- Ample growth opportunities available with returns in the low to medium double-digit range
  - Facility expansion within existing portfolio
  - Expand footprint with existing operators
  - New opportunities
- Expanded management team with deep industry experience
- Given the Company's current size, modest investment activity is expected to have a significant effect on cash flow

- Continued “graying of America” expected to result in increased demand for long-term care services and properties
- Population aged 75+ expected to increase by ~89% by 2030 vs. 2012 and increase from 6% of the total U.S. population to ~10%
- From 2010 to 2020, average annual health care spending growth of 5.8% is anticipated to outpace average annual growth in the overall economy of 4.7%
- National health care spending is expected to increase ~73% from \$2.6 trillion in 2010 to \$4.5 trillion by 2020
- Limited additions to supply for senior housing and long-term care properties are expected to help bolster long-term occupancy levels

## Lease structure favorable to AdCare

- “Triple-net basis” terms; Lessee is typically obligated for all liabilities of the property including:
  - Insurance
  - Taxes
  - Facility maintenance
- Typically 10+ years in duration with multiple renewal options
- Annual escalation clauses
- Cross collateral and cross default provisions with security deposits

**Profile similar to other healthcare REITs in terms of structure, terms and overall economics**

# Recent Key Activity

- |             |                  |  |
|-------------|------------------|--|
| <b>2014</b> | <b>September</b> | <ul style="list-style-type: none"><li>• Leased two properties in Alabama</li></ul>   |
|             | <b>October</b>   | <ul style="list-style-type: none"><li>• Bill McBride named Chief Executive Officer</li><li>• Signed agreement to lease seven properties in Georgia and Ohio*</li></ul>   |
|             | <b>November</b>  | <ul style="list-style-type: none"><li>• Leased one property in Georgia</li></ul>   |
| <b>2015</b> | <b>January</b>   | <ul style="list-style-type: none"><li>• Leased 10 facilities in Arkansas, two leases subsequently terminated</li></ul>   |
|             | <b>February</b>  | <ul style="list-style-type: none"><li>• Leased two facilities in Georgia</li><li>• Leased two additional facilities in Georgia</li></ul>   |
|             | <b>March</b>     | <ul style="list-style-type: none"><li>• Board declared cash dividend of \$0.05 per share</li><li>• Leased one facility in North Carolina* and two facilities in South Carolina</li><li>• Bill McBride named Chairman</li><li>• Allan Rimland named President and Chief Financial Officer</li><li>• Leased one additional facility in Georgia</li></ul> |
|             | <b>April</b>     | <ul style="list-style-type: none"><li>• Private placement of \$7.7M of convertible subordinated notes</li><li>• Public offering of \$14.8M of Series A Cumulative Redeemable Preferred Stock</li></ul>   |
|             | <b>May</b>       | <ul style="list-style-type: none"><li>• Leased two facilities and under contract to sell one facility in Oklahoma* and one facility in Arkansas*</li></ul>   |

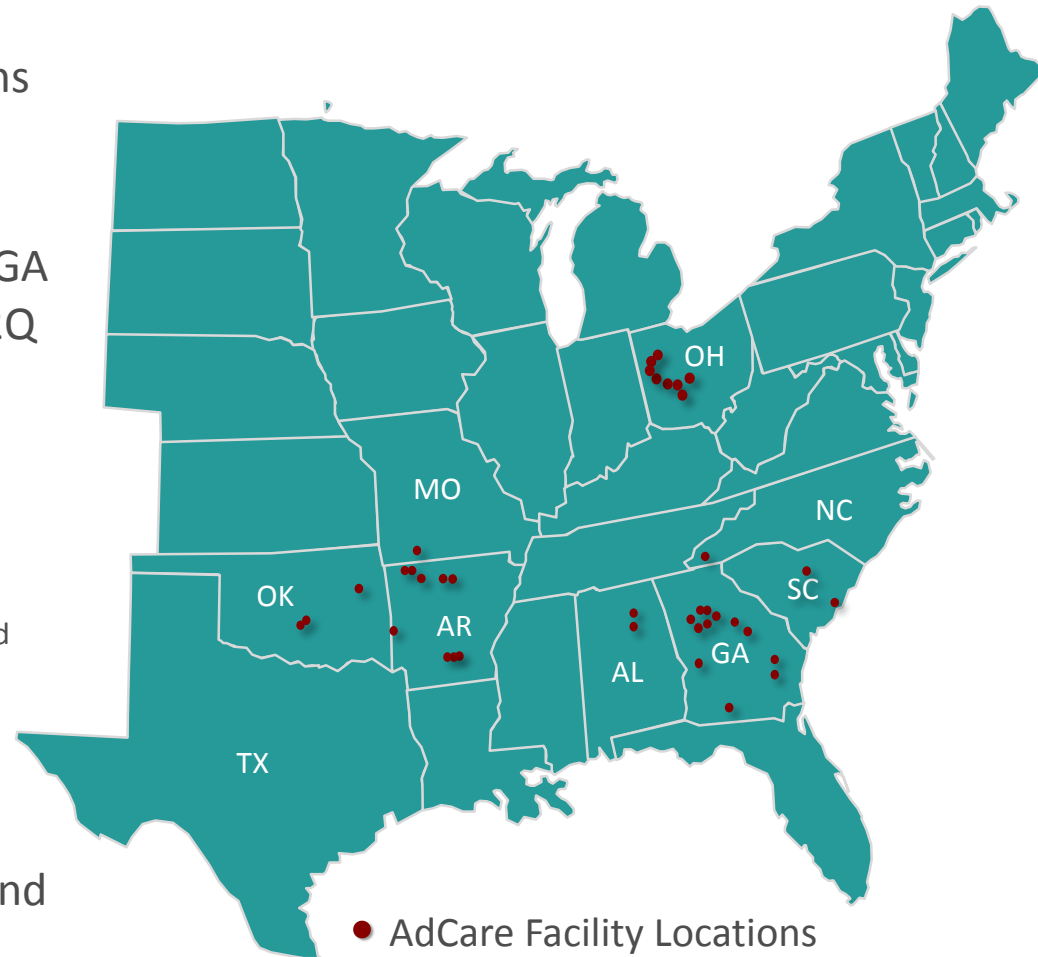
\*Operations transfers in connection with leases and sales contracts are subject to licensure and requisite regulatory, financing and other approvals

# Portfolio Composition



## Entered Agreements for 37 of 40 Facilities

- 25 facilities have transferred operations to 3<sup>rd</sup> party operators or are under a management contract
- Expect to transition seven facilities in GA and OH to 3<sup>rd</sup> party operators during 2Q 2015, subject to HUD approval
- Expect to complete transition one NC facility during 2Q 2015, pending licensure
- Expect to transition two facilities to 3<sup>rd</sup> party operators in OK during 3Q 2015, upon HUD financing approval
- Expect to close the sale, subject to certain conditions, of one OK facility and one AR facility in 3Q 2015



## Remaining three facilities are pending final disposition

## **On May 1, eight of the company's skilled nursing facilities in Arkansas transferred operations to affiliates of Aria Health Group**

- Initial term of 10 years with a five year renewal option
- Annual base rent in year one will total \$5.3 million in aggregate with 2% annual escalator in the initial term and 3% per year upon renewal
- Agreements include protective features including cross-defaults, guarantees and security deposits
- AdCare provided Aria with a \$2 million upfront lease inducement
- Annual special rent of \$354,000 over the initial term provides for an attractive return on the lease inducement of ~12.5% per annum

# Income Statement Summary

(\$ in thousands, except %)	LTM ended 3/31/2015 <sup>1</sup>	FY 2014	FY 2013
Revenues	\$193,710	\$193,314	\$185,750
Gross Profit (excl. facility rent and D&A)	31,631	33,880	33,173
<i>Gross Margin %</i>	<i>16.3%</i>	<i>17.5%</i>	<i>17.9%</i>
Adjusted EBITDAR <sup>2</sup>	18,325	19,494	15,329
<i>Adjusted EBITDAR Margin %</i>	<i>9.5%</i>	<i>10.1%</i>	<i>8.2%</i>
Adjusted EBITDA <sup>2</sup>	10,973	12,414	9,015
<i>Adjusted EBITDA Margin %</i>	<i>5.7%</i>	<i>6.4%</i>	<i>4.8%</i>

<sup>1</sup> Please refer to the tables in the Appendix of this presentation for summary income statement information

<sup>2</sup> Adjusted EBITDAR from continuing operations and Adjusted EBITDA from continuing operations are non-GAAP terms; please refer to the Appendix of this presentation for reconciliation of these terms to GAAP measures.

# Select Balance Sheet Summary

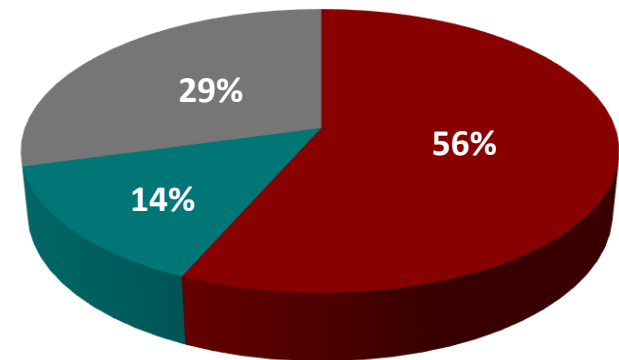
(\$ in thousands)	As of 3/31/2015	As Adjusted <sup>1</sup>
Non-convertible debt	136,086	136,086
Convertible subordinated debt	15,685	15,685
<b>Total Debt</b>	<b>\$151,771</b>	<b>\$151,771</b>
<b>Preferred stock</b>	<b>\$20,392</b>	<b>\$33,892</b>
<b>Total Equity / (Deficit)</b>	<b>(\$615)</b>	<b>(\$615)</b>
<b>Total Capitalization</b>	<b>\$171,548</b>	<b>\$185,048</b>

1 "As Adjusted" reflects the issuance of 575,000 shares of the Series A Preferred Stock offered in April 2015

# Total Capitalization (at Market Value)

(\$ in thousands)	As of 3/31/2015	As Adjusted <sup>1</sup>
Total Debt	\$151,771	\$151,771
Preferred stock (at liquidation value)	\$23,750	\$38,125
Market value of equity <sup>2</sup>	\$79,210	\$79,210
<b>Total Market Capitalization</b>	<b>\$254,731</b>	<b>\$269,106</b>

**Total Capitalization  
(at Market Value)  
As Adjusted<sup>1</sup>**



- Total debt
- Preferred stock (at liquidation value)
- Market value of equity

<sup>1</sup> "As Adjusted" reflects the issuance of 575,000 shares of the Series A Preferred Stock offered in April 2015

<sup>2</sup> Market value of equity as of 4/30/2015: 19,802,454 shares @ \$4.00 per share

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**Stock Price (5/15/15)** **\$4.00**

Avg. Daily Vol. (3 mo.) 50,719

52 Week Low/High \$3.58 – \$5.05

Shares Outstanding (4/30/15) 19.8M

Public Float, est. 14.2M

Dividend Yield 5.0%

## Valuation Measures

Market Capitalization \$79.2M

Enterprise Value \$240.7M

## Ownership

Institutional, est. 20.2%

Insider, est. 24.8%

(Sources: AdCare, Bloomberg, Big Charts)

## Income Statement (TTM ended 3/31/15)

TTM Revenue \$193.7M

TTM Adj. EBITDAR - cont. ops.<sup>1</sup> \$18.3M

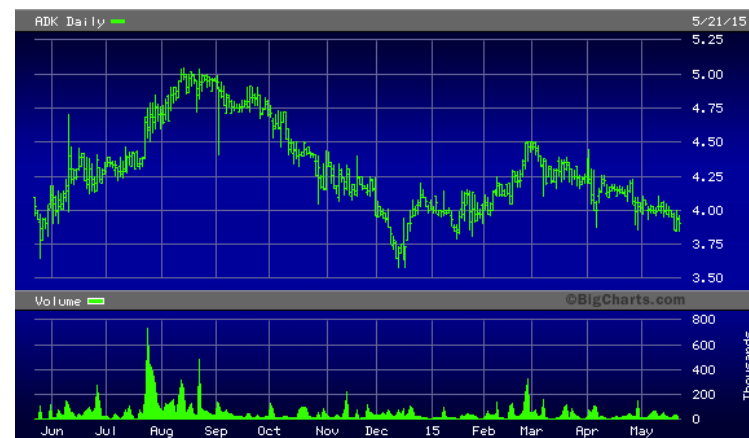
TTM Adj. EBITDA - cont. ops.<sup>1</sup> \$11.0M

## Balance Sheet (at 3/31/15)

Unrestricted cash & equivalents \$10.7M

Total Assets \$208.5M

Total Debt \$151.8M



<sup>1</sup>Adjusted EBITDAR from continuing operations and Adjusted EBITDA from continuing operations are non-GAAP terms; please refer to the Appendix of this presentation for reconciliation of these terms to GAAP measures.

# Use of Non-GAAP Financial Information

Beginning with the reporting of results for the first quarter of 2011, the company began to report the measures of Adjusted EBITDA from continuing operations and Adjusted EBITDAR from continuing operations. These are measures of operating performance that are not calculated in accordance with U.S. generally accepted accounting principles ("GAAP"). The company defines: (i) "Adjusted EBITDA from continuing operations" as net income (loss) from continuing operations before interest expense, income tax expense, depreciation and amortization (including amortization of non-cash stock-based compensation), loss on extinguishment of debt and other non-routine adjustments; and (ii) "Adjusted EBITDAR from continuing operations" as net income (loss) from continuing operations before interest expense, income tax expense, depreciation and amortization (including amortization of non-cash stock-based compensation), loss on extinguishment of debt, rent and other non-routine adjustments.

Adjusted EBITDA from continuing operations and Adjusted EBITDAR from continuing operations should not be considered in isolation or as a substitute for net income, income from operations or cash flows provided by, or used in, operations as determined in accordance with GAAP. Adjusted EBITDA from continuing operations and Adjusted EBITDAR from continuing operations are used by management to focus on operating performance and management without mixing in items of income and expense that relate to the financing and capitalization of the business, fixed rent or lease payments of facilities and other non-routine adjustments.

The company believes these measures are useful to investors in evaluating the company's performance, results of operations and financial position for the following reasons:

They are helpful in identifying trends in the company's day-to-day performance because the items excluded have little or no significance to the company's day-to-day operations;

They provide an assessment of controllable expenses and afford management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance; and

They provide data that assists management to determine whether or not adjustments to current spending decisions are needed. AdCare believes that the use of these measures provides a meaningful and consistent comparison of the company's underlying business between periods by eliminating certain items required by GAAP which have little or no significance in the company's day-to-day operations.

# Reconciliation of Net Loss to Non-GAAP Measures

## Reconciliation of Net Loss to Adjusted EBITDA from Continuing Operations and Adjusted EBITDAR from Continuing Operations (\$ in 000's)

<i>(Amounts in 000's)</i>	Three Months Ended March 31,		For the Year Ended December 31,		Twelve Months
	2015	2014	2014	2013	Ended March 31, 2015
Condensed Consolidated Statements of Operations Data:					
Net Loss	\$ (5,249)	\$ (2,523)	\$ (14,405)	\$ (13,363)	\$ (17,130)
Discontinued Operations	1,407	(75)	1,510	1,255	2,630
Net loss from continuing operations (Per GAAP)	(3,842)	(2,598)	(12,895)	(12,108)	(14,500)
Add back:					
Interest expense, net	2,537	2,622	10,780	12,351	10,901
Income tax expense	20	8	132	142	141
Amortization of stock based compensation	203	513	1,155	1,097	846
Depreciation and amortization	1,706	1,786	7,300	6,918	7,375
Acquisition costs	-	-	8	565	8
Derivative (gain) loss	-	-	-	(3,006)	-
Loss on extinguishment of debt	680	583	1,803	109	1,900
Loss on legal settlement	-	-	600	-	-
Loss on disposal of assets	-	-	7	10	-
Audit committee investigation expense	-	-	-	2,386	-
Reincorporation - Georgia	-	-	-	91	-
Other expenses	280	110	888	306	1,674
Salary retirement and continuation costs	-	-	2,636	154	2,628
Adjusted EBITDA from continuing operations	1,584	3,024	12,414	9,015	10,973
Facility rent expense	1,931	1,659	7,080	6,314	7,352
Adjusted EBITDAR from continuing operations	\$ 3,515	\$ 4,683	\$ 19,494	\$ 15,329	\$ 18,325