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## CCBN StreetEvents Conference Call Transcript

**GTIV - Q1 2004 Gentiva Health Services Earnings Conference Call**

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Ladies and gentlemen, thank you very much for standing by. Good morning, good afternoon or good evening; and welcome to Gentiva Health Services' First Quarter Earnings Conference Call. Now, at this point, all of your phone lines are muted or in a listen-only mode. However, later during the earnings release, there will be opportunities for questions and those instructions will be given at that time. Now, just as a note, if you should require any assistance during our release, you may reach an AT&T operator by pressing "\*" then "0" on your phone keypad. As a reminder, today's call is being recorded for replay purposes and that information will be announced at the conclusion of our call.

Well, with that being said, let's get right to today's agenda. Here, with our opening remarks, is Gentiva Health Services' Senior Vice President and Chief Sales Officer, Ms. Mary Morrisey Gabriel. Please go ahead, madam.

**Mary Morrisey Gabriel - Gentiva Health Services - SVP & Chief Sales Officer**

Thank you very much and good morning, everyone. Thank you for joining us this morning. I'm Mary Morrisey Gabriel, Senior Vice President and Chief Sales Officer at Gentiva Health Services, and this is Gentiva's First Quarter 2004 Earnings Call. We hope that each of you has had a chance to review the company's first-quarter earnings report, which we released after close of market yesterday.

In a moment, I will turn the call over to our company's Chief Executive Officer, Ron Malone, for remarks on Gentiva's performance during the first quarter and to John Potapchuk, our Chief Financial Officer, for additional comments. Also, joining us for the call and the question-and-answer period are Al Perry, Gentiva's President and Chief Operating Officer, and other key executives.

Let me remind participants on this morning's call that comments made by Gentiva executives and associates, other than historical information, should be considered forward-looking and are subject to various risk factors and uncertainties. For example, our strategies and operations involve risks of competition, changing market conditions, changes in laws and regulations affecting our industry, and numerous other factors, discussed in our first quarter earnings release and in our filings with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those anticipated in any forward-looking projections or comments on this call today. Please refer to the forward-looking statement in our news release issued last evening, as well as similar language in our most recent 10-K.

We are also operating under the Securities and Exchange Commission's Regulation FD. Our call this morning, and comments within it, will be consistent with our obligations under these SEC regulations. As such, we strongly encourage participants on this call with questions to present them during today's question-and-answer period, because -- under Regulation FD -- we have certain limitations on comments that can be made in individual inquiries.

We are also mindful of Securities and Exchange Commission Regulation G. Regulation G requires public companies that disclose or release non-GAAP financial measures to include -- in that release or disclosure -- a presentation of the most directly comparable GAAP financial measure, and a reconciliation of the disclosed non-GAAP financial measure to the most directly comparable GAAP financial measure. Because of this, we will not discuss non-GAAP financial measures on this call other than what is set forth in our earnings release.

I'd also like to mention that Gentiva continues to have a policy of being open and responsive to inquiries related to our company. In the Investor Relations section of our company web site, [gentiva.com](http://gentiva.com), you will find our press releases, our investor presentation and many of our SEC filings. In accordance with Regulation G, a transcript of this call will be posted to the web site and available for the next 12 months. Additionally, you may access our earnings call replay for the next 30 days. We appreciate your continued interest in Gentiva Health Services.

And, now, let me turn the call over to Gentiva's Chief Executive Officer, Ron Malone, for comments on the Company's first quarter 2004 performance.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Thanks, Mary. Good morning, everyone, and thanks for joining us. I'll begin by providing comments on our first quarter performance, highlighting events and key accomplishments in recent months. I'll then turn the call over to John Potapchuk for a closure look at our financial performance before we take your questions.

We are pleased with our first quarter results. We have talked before about our goal of achieving improved financial performance, and we continue to deliver on that promise. In March, we reached two important anniversaries. We began our fifth year as an independent healthcare company, and we began our ninth year as a leader in the coordination and delivery of homecare services to managed care members through our CareCentrix® unit.

If we look back over these periods, we've clearly made a lot of progress and have advanced the cause of home care as a high quality, cost-effective and efficient health care solution.

Our recent first quarter results have continued that progress. Our net income for the quarter, as reported, was \$9.2 million, or \$0.34 per diluted share, compared to \$5.2 million, or \$0.19 per diluted share, in the first quarter of 2003.

Net revenues, as reported, were \$213.9 million, up 5.9% from the \$202.0 million reported for the same period last year. There were several items that affect comparisons between the two quarters, including: \$9.0 million that we received this year from our successful PRRB appeal of 1997 Medicare reimbursements; and the \$1.0 million reserve created in the first quarter in response to CMS plans to recover certain Medicare reimbursement funds from homecare companies. These first two special items increased net revenues and pre-tax income by \$8.0 million in the first quarter. A third element affecting our year-over-year comparisons involved the differences between our effective tax rates in 2004 and 2003. John will discuss each of these in greater detail.

Gentiva's other financial results were also positive. We generated positive cash flow from operating activities of over \$9.4 million. Gross profit and net earnings moved higher, even after the special items are excluded. We continue to have a strong balance sheet, ending the quarter with more than \$111 million in cash, cash equivalents and restricted cash. And as we indicated in the news release, we were able to leverage our sales, operational and clinical strategies to achieve a 23% increase in pre-tax income on a 2% increase in net revenues, excluding the special items.

During the first quarter, we also saw a continuation of the upward trend in referrals and admissions, including an increase of about 20% in Medicare admissions. This trend is due to a number of factors that we have discussed, including: the expansion training and deployment of our sale force and its growing collaboration with our operations in clinical teams; continuing operation efficiencies in our nursing branches as well as the increases of full time caregivers; the ongoing utilization and advancement of technology, which was further strengthened by the recent appointment of a new Chief Information Officer, Brian Jones, who comes to us with a strong track record of more than 15 years with PepsiCo; and our focus on reducing turnover and making Gentiva the employer of choice.

Turning to our payor results, we were very pleased to report the Medicare revenues increased significantly in the first quarter of 2004 versus the same period last year. Medicare revenues rose 47.1% on an as reported basis and increased 28.3%, excluding the two special items I mentioned earlier. The increase was due to a rise in referrals and our ability to convert those referrals into admissions. And it was due to the strategies that we executed in 2003. As most of you know, we expanded our sale force by almost 20% last year and invested in their training. We also worked hard to increase collaboration among our sales, operations and clinical staff. Now, we're seeing the results of those efforts.

Furthermore, about half of the first quarter Medicare increase -- excluding those special items -- came from very strong growth in our specialty programs. As we have said before, one of the reasons for developing and expanding these programs is to generate incremental revenue.

Turning to our commercial insurance payors, we saw revenue for our Commercial Insurance and Other category decrease 4.2% in the first quarter of 2004 versus the same period of 2003. The primary driver for this decrease was the decline in net revenues derived from CIGNA HealthCare, our largest customer. Last year, CIGNA represented 38 % of our total first quarter revenues. This year, CIGNA represents 30% of total quarterly revenues.

I would like to mention several major steps that we took during the quarter to successfully implement the new CIGNA contract. First, we created a new provider network that resulted in lower acquisition costs for products and services. Second, we developed a new string line distribution methodology for certain products. And third, we work closely with CIGNA's medical management on new equipment formularies.

The changes to our provider network were significant. We began 2004 with approximately 1,900 credentialed third party provider locations. We ended the first quarter with a comparable figure of about 2600, representing a 37% increase in provider locations across the country. And our CareCentrix associates have handled this task with their characteristic professionalism, efficiency, and energy.

From a provider perspective, we're well-positioned to meet our patients' future needs. And from a payor perspective, a comprehensive, efficient provider network makes CareCentrix even more attractive to companies looking for effective homecare outsourcing solutions.

We also reported an increase in non-CIGNA revenues that partially offset the decrease in CIGNA business in the quarter. The increase was driven by other managed care contracts, including our re-pricing of existing contracts and the contribution from orthopedic specialty services delivered through nursing branch operations.

We continue to see activity in our pipeline of new managed care business, and one result was the recent announcement of our agreement with ParadigmHealth to assist in managing and delivering homecare to workers compensation patients. This is a relatively new and promising area for CareCentrix.

Turning to our third payor group, Medicaid and Other Government, this category remains under some pressure. As a result, revenue in this category decline by 7.5% in the first quarter of 2004 versus the same period last year. This is due to reductions in reimbursement and services provided by certain Medicaid and state and local programs, and to our decision to reduce involvement in some of these programs. This is part of our overall

strategy to capitalize on any future positive developments within any area of our three payor groups.

Before I leave the discussion of our payors, I want to say that I believe our industry must move forward with its efforts to convince legislators and all levels of government of the cost-efficient quality outcomes and other benefits of homecare over more costly institutional care. Gentiva has invested in this area and we have programs under way this year to educate legislators at both the state and federal levels.

Speaking of homecare efficiency, I'm pleased to report that we are reaping benefits from the continuous improvements in our nursing branch operations. We are moving forward with a number of initiatives most of which we've discussed on past calls. They include: the continued expansion of our Gentiva Performance Suite business monitoring program to include Medicare, financial and other caregiver resource management models; the identification of Centers of Excellence -- our top-performing branches -- for the development and replication of best practices and the training and education of both management and staff; new training programs for our sales, operations and clinical associates; the continuous refinement of our LifeSmart® clinical care protocols, based on our current best practices derived from our extensive and growing patient outcomes analysis; our focus on clinical outcomes to improve the care we deliver; the ongoing development of our focused vertical specialty offerings to improve the quality of care and drive market share; the upgrading of our contact center technology and the introduction of a new customer relationship management system in the second half of the year; and a host of recruiting and retention programs.

Regarding recruitment and retention, we have continued to reduce turnover among all associates, with a special focus on caregivers. At the same time, we are pleased to report that number of full-time caregivers increased by 25% in the first quarter of 2004 compared to same period last year.

In addition to expanding our use of full-time caregivers, we've accelerated a number of initiatives that will allow us to better match our caregiver capacity with our growth strategy, despite the nationwide caregiver shortage, which will not subside for the foreseeable future. These initiatives include: a renewed effort to improve productivity of underutilized caregivers; the expanded use of committed schedules for per diem caregivers, thereby increasing our fixed capacity while still providing a level of flexibility for both the caregivers and Gentiva; and a detailed compensation and benefits analysis to target specific states or regions that experience the most acute challenges in caregiver availability.

We've also launched a three-step program for hiring, orientation and promotion that's designed to create a high performance culture. The first step is a program called Hiring for Excellence, which insures that we place the right people into the right positions and that they fit with --and thrive in --the Gentiva culture. The second

step is a comprehensive orientation for new managers that begins with a five-day program known as The Right Start, in which they interact with senior executives and began working closely with their peers. The third step is a visit to a Center of Excellence, where our associates receive even more training through the establishment of peer mentoring relationships. As a result, they're better equipped to make earlier contributions to Gentiva's success.

So, as we indicated in the earnings release, our strategies are working -- from our focus on Medicare and commercial insurance to initiatives that strengthen recruitment and retention. We've made good progress in the first quarter, and we're focused on pursuing those strategies for the balance of the year and beyond.

Now that I've covered the highlights of the quarter, I'd like to turn the call over to our CFO, John Potapchuk, for a discussion of our financial performance before we go on to your questions. John.

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

Thanks, Ron, and welcome everyone. I'm pleased to bring you an overview of Gentiva's financial results for the first quarter of 2004.

First, I would like to comment on three items that affect the presentation format and comparability of our statements of income for the 2004 and 2003 period.

The first item is the settlement of our appeal, originally filed with the U.S. Provider Reimbursement Review Board, or PRRB, relating to methodology used for determining Medicare reimbursements in our 1997 cost reports. As we disclosed in our Form 10-K filed in March, we were notified by the fiscal intermediary on February 17, 2004 that it had completed the reopening of all 1997 cost reports and determined that the favorable adjustment to allowable costs for 1997 was approximately \$9.0 million. This amount was remitted to the company and we recorded as net revenues in the first quarter of 2004.

Regarding our appeals for 1998 and 1999, and our open cost reports for the year 2000, it is likely that future recoveries of funds for any of these years will be significantly less than the 1997 settlement. We do not expect the settlements relating to these cost reports to be completed until the second half of fiscal 2004 or fiscal 2005.

The second item relates to previously announced plans by the Centers for Medicare & Medicaid Services to recover certain payments made to homecare companies since October 2000. CMS has determined that homecare providers should have received lower reimbursement for certain services rendered to beneficiaries discharged from inpatient hospitals within 14 days immediately preceding admission to home healthcare. We recorded a revenue adjustment of \$1.0 million in the first quarter of fiscal 2004,

representing our estimated repayment in Medicare relating to this issue.

The third item is our effective tax rate, which -- at 10.5% for the first quarter of 2003 -- was substantially lower than the statutory rates due to the reversal of a portion of the valuation allowance relating to the realization of tax benefits associated with net operating loss carry forward and other net deferred tax assets. The remaining valuation allowance was reversed during the fourth quarter of fiscal 2003 and we discussed this on our last call. Our effective tax rate for reporting purposes was approximately 39% in the first quarter of fiscal 2004.

Gentiva reported a strong increase in first quarter Medicare revenues after we exclude the impact of the special items I just mentioned. This marks Gentiva's third consecutive quarter in which the percentage increase in admissions exceeded double digits when compared to the same period of the prior year. In this first quarter of 2004, admissions grew 20% versus the same period of 2003.

This volume growth was a primary reason for the Medicare revenue increase. In addition, Medicare revenue grew as result of the 3.3% market basket rate increase that became effective for patients on service on or after October 1, 2003, as well as from various operational and clinical process enhancements. The market basket rate increase represented \$1.4 million in incremental revenue in the first quarter.

On the Medicare reimbursement front, the 3.3% rate increase was adjusted down to 2.5% for open episodes of care on or after April 1. A rural add-on of 5% also become an effective April 1 to provide additional reimbursement for homecare services in specifically defined rural areas around the country. These two reimbursement changes will have a negligible impact on company results for the remainder of 2004.

Our Medicaid and Other Government revenues decreased by 7.5% for the quarter due to more restrictive eligibility requirements, lower authorized services per beneficiary and lower state reimbursement rates, as well as our decision to reduce participation in certain low-margin, hourly Medicaid and state and county programs.

In the Commercial Insurance and Other category, the 4.2% revenue decrease for the first quarter was due primarily to declining revenue derived from CIGNA HealthCare. The CIGNA revenue decline of \$12.3 million, or 16 %, was caused by a reduction in that company's enrolled members in 2004, and lower revenue and related costs resulting from a change in the delivery model of certain HME product and services. The revenue decrease was partially offset by an increase in non-CIGNA revenue driven by volume and pricing increases from existing business, as well as contracts signed during the past year.

Our non-CIGNA revenue, excluding special items, increased 12.9% in the first quarter of 2004 compared to the first quarter of 2003. As a result of this and other factors, our payor mix has changed for the first quarter. Medicare represented 26.5% of our total revenue in the first quarter of fiscal 2004, excluding special items, up 5.5 percentage points from the first quarter of 2003; Medicaid and Other Government represented 19% of total revenue, a decrease of 2 percentage points from the first quarter of last year; and Commercial Insurance and Other represented about 54.5% of total revenue, a decrease of about 3.5 percentage points from the first quarter of 2003.

Gross profit in the first quarter of 2004 was approximately \$14.5 million higher than the corresponding period of 2003. As a percentage of net revenues, gross profit margins increased 4.8% , from 34.0% in the first quarter of 2003 to 38.9% in the first quarter of 2004.

During the first quarter, the two special items had a net positive impact of 2.3% on gross profit margin. The remaining increase in gross margin percentage was due to improved rates in both Medicare and managed care contracts, as well as a favorable change in business mix in which volume growth of Medicare business more than offset the anticipated revenue loss in certain low-margin Medicaid and local government programs, as well as in the CIGNA business.

Selling, general and administrative expenses, including depreciation and amortization, increased \$5.2 million in the first quarter of 2004 compared to the first quarter of 2003. About one-half of this increase related to field operating and administrative costs to service incremental revenues, including revenues from our specialty programs. The remaining SG&A expense increase resulted from increased sales and clinical care coordination expenses, as well as incremental cost associated with the retooling of our CareCentrix network of HME providers and various IT strategic initiatives.

Pre-tax income as a percentage of net revenues, excluding the special Medicare items, was 3.5% in the first quarter of 2004 as compared to 2.9% in the first quarter of 2003. Net income per diluted share for the first quarter of 2004 was \$0.34 versus \$0.19 for the same period last year.

In our earnings release, we also disclosed pro forma net income and reconciled such amounts to the reported GAAP presentation. We believe that the pro forma presentation is useful to investors since it presents all period results using a 39% effective tax rate, which is representative of the companies normalized tax rates, and excludes the special Medicare items reported in the current year's first quarter. In this regard, net income on a pro forma basis was 13 cents per diluted share in the 2003 period compared to 16 cents per diluted share reported in the current first quarter.

We are pleased with the strength of the company's balance sheet. At the end of the first quarter, cash, cash equivalents and restricted cash were \$111.0 million. Net accounts receivable were up \$5.1 million from 2003, and our days sales outstanding at March 28th, 2004 was 59 days, consistent with December 2003.

Cash flow from operating activities was \$9.4 million in the first quarter of 2004. This amount included funds received in settlement of our 1997 Medicare cost reports. Excluding the special items, operating cash flow was impacted by anticipated expenditures in quarter one for operating items, such as insurance renewal payments and incentives, and some delay in the CareCentrix billing process during the quarter as we transitioned our HME provider network. We anticipate a favorable collection experience in that area during the second quarter, and we reaffirm our 2004 outlook of positive cash flow from operating activities of between \$25.0 million and \$30.0 million, excluding the special items.

As many of you know, during 2003 our Board of Directors authorized two separate stock repurchase programs under which the company could repurchase and formally retire up to 2.5 million shares of Gentiva's common stock. During the first quarter of 2004, we repurchased approximately 428,000 Gentiva common shares in the open market at a cost of approximately \$5.8 million, or about \$13.61 per share. As of March 28th, 2004, the company had repurchased approximately 1,867,000 shares under the two programs at a total cost of approximately \$20.3 million, representing an average cost of \$10.85 per share.

I would also like to mention that on March 30th, 2004, we receive a \$4.1 million payment for completing the sale of our remaining 19.9% interest in a Canadian homecare company to whom we sold our Canadian operations in November of 2000. As part of that earlier agreement, Gentiva had retained the interest in this entity, and we now have sold it as part our focus on operating as a pure U.S. home healthcare company. Gentiva will record a gain on the sale of these investments of approximately \$900,000 in the second quarter of this year.

At this time, I would also like to say that -- excluding the special items of the first quarter -- we are reaffirming the 2004 outlook that we had published late last year and discussed on the last earnings call. However, as we indicated, the special items increased first quarter revenues by \$8.0 million and increased our diluted earnings per share in the first quarter by \$0.18. If we include these amounts in our outlook, our 2004 net revenues are expected to be in a range of \$843.0 million to \$858.0 million, and earnings would increase to a range between \$0.75 and \$0.81 per diluted share.

Now I'd like to turn the call back to Ron for some brief comments before we take your questions. Ron.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Thanks, John. Before we turn to questions, I want to make the point that all of our initiatives are focused on improving and changing the delivery of homecare in America to the benefit of patients, payors, caregivers and investors alike. Today, we're working hard to improve our performance and drive more predictable results. We've built a strong balance sheet as a resource for investing in our growth. We're focused on creating a balanced payor mix that continues to limit our dependence on any one group, yet allows us to capitalize on positive changes in a dynamic marketplace. We're concentrating on development of a high-performance culture that blends efficiency and productivity with clinical excellence. We're raising the bar for homecare, and we will not be content to just to meet current industry standards. And we've made strides in recruitment in retention in the midst of a national caregiver shortage, and are determined to lead the industry as the employer of choice.

These are the elements which should contribute to our future leadership and allow us to gain market share as America's aging population embraces the benefits of homecare. With that, we'd love to take your questions.

**QUESTION AND ANSWER****Operator**

Very good and thank you, Mr. Malone. And ladies and gentleman, as you just heard, if you do have any questions or comments, we invite you to queue up. At this point, simply press "\*" then "1" on your phone keypad. Now you hear a tone indicating that you've been placed in queue. And should you wish to remove yourself from the queue, you may do so by pressing the "#" key. So once again, to ask a question, simply press "\*" then "1" on your phone keypad.

Ladies and gentleman, we do ask that you limit yourself to one initial question and a follow-up, and then if time allows, you're free to re-queue by pressing "\*" then "1" on your touchtone phone.

Representing Smith Barney, our first question comes from Matthew Ripperger. Please go ahead.

**Matthew Ripperger - Smith Barney - Analyst**

Great. Thanks very much. I guess my one question would be . . . you commented that you increased your full-time caregivers by 25% in the quarter. Can you update us as to what the count is in terms of full-time caregivers, now or at the end of the quarter?

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Yes.

**Matthew Ripperger - Smith Barney - Analyst**

And whether you continue to add full-time caregivers throughout the year? And maybe if you talk briefly as to how the unit economics change for you, as you make your caregiver staff full-time versus outsourcing it to someone else? Thank you.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Matt, this is Ron. The full-time count was just over 700 at the end of the quarter. And as it relates to the dynamics of unit cost, once we get a full-time caregiver through the initial training and orientation program and get their productivity up to where we have gauged it should be, it really allows us to often take on more revenue by reaching more geographic areas that we could not typically take where we perhaps have a less dedicated caregiver on staff. So, what we're doing right now, is really working toward establishing ratios for our various branches that we believe is the right mix. I would tell you that we believe during the year, we will continue to build on this group and in fact we're strengthening our

work in this area, and we're quite pleased with what we've been able to accomplish in the quarter.

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**Matthew Ripperger - Smith Barney - Analyst**

Great. Thanks very much.

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**Operator**

And thank you, sir. Next we go to Sheryl Skolnick with Fulcrum Global Partners. Please go ahead.

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**Sheryl Skolnick - Fulcrum Global Partners - Analyst**

Hi. I know I said you'll be okay if you limit us to one question, but I guess it's not OK as there are lots of questions here. No, I just can't stop at one question. First of all, on the Medicare, this is in the context of you've done a terrific job in positioning the company very, very well to take advantage of what is strong, underlying Medicare demand of 10%. You've obviously doubled the industry growth rate as measured by what Amedisys is doing. So that's terrific. Now, here is the problem with having done so well. In the fourth quarter, you're going to come up against what I would call a tough comp of 17% unit growth that you experienced in the December '03 quarter. You've also got this challenge of -- you don't anniversary the depressing or pressuring impact of the CIGNA contract that's masking what is otherwise looking to be fairly reasonable managed care growth of nearly 13%. So the question that I have is what do you think . . . how do you think this is going to play out? Are you introducing enough new specialty programs? Are you bringing enough new headcount into the mix? Or do you have enough unit volume growth coming from the activities that you were doing to roll out new programs to offset both the tough comp on Medicare and the continuing pressure of a tough comp, but in the opposite direction on the CIGNA?

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

Hey, Sheryl, this is John. Let me just clarify one thing before I turn it over for some additional answers. You'd indicated the non-CIGNA managed care growth at 12.9%. Let me just clarify that. That 12.9% is the non-CIGNA revenue, excluding special items. So that includes managed care, Medicare and Medicaid. The reason for putting that number out of 12.9% in our outlook . . . on the last call, we indicated non-CIGNA revenue for the full year in a range between 8 and 12%. So I wanted to give some visibility of that. With respect to the non-CIGNA managed care revenue, that's actually up 18% in the first quarter versus the, the first quarter of last year. And what I might -- give you a little bit more color on that 18%, about 8% of that relates to new contracts that we signed over the last 12 to 15 months and the remaining 10% is a combination of volume and price, so, you know, most of that being volume on our existing accounts.

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**Sheryl Skolnick - Fulcrum Global Partners - Analyst**

Okay. That's very helpful. Because that was sort of the second part of the question, but I guess, the other part of the question is . . . so can you be a little bit more specific about how, you know, quantifying how many markets or by percentage, how much growth are we going to get in rolling out new programs, new verticals, new marketing and sales initiatives this year versus last? Is it intensifying? Is it at the same rate? Because it seems to me that when you've got a tough Medicare comp, you may need to go out there and gain market share at an accelerated rate in order to be able to sustain, maybe not 25% Medicare growth before items, but at least enough growth to be able to sustain the momentum going into the next year. And particularly to make your fourth quarter numbers, to put it bluntly.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Sheryl, this is Ron. While we certainly are pleased with what we've done, our intent is to, to continue that track record and we'd like to . . . in fact, we'd like to accelerate it. We indicated that we grew the sales force about 20% last year. I suspect that we will grow it almost 20% this year as well. We're also adding the complementary group of clinicians that help to coordinate the discharge of patients from the hospital into the homecare setting. We're likely grow that group at 20% or greater this year as well. And we do have, we have good traction. We indicated in the script that we see improved operations. From our nursing branches, we see improved results and we have a number of branches that in the past had really focused away from Medicare, more towards Medicaid and that transition is in process and we're seeing good results in making that transition. So it's not . . . this growth is coming not just from the specialty programs; it is also coming in our broad Medicare demand as well. As relates to specialty programs, we have mentioned that we were introducing or we had in pilot last time four locations in the new program we call "Safe Strides." Now that . . . those core pilots had been judged to be successful and are in full operations this time and we would intend to open 10 or more new Safe Strides practices this year, while also adding probably 10 to 12 new orthopedic practices as well. We also have a focused in wound care that we're rolling out as a best practice, which we believe will make us better and a more desirable company to fulfill those requirements. As you may know, a very large percentage of hospital discharges involved wound care and this year we've also introduced a cardiopulmonary suite of services as an additional specialty. So I think that we're doing a considerable amount. Mary, do you have others to add?

**Mary Morrisey-Gabriel - Gentiva Health Services - SVP & Chief Sales Officer**

No, I think just to reiterate, the specialty services really are growth drivers for us, certainly in the marketplace, and in addition, on the managed care side. Sheryl, we feel generally very positive. We have a very promising pipeline. I think that we have a very strong sales force that's very focused on new business acquisition and, certainly, pull-through -- working together with our field-based sales force -- pull-through on expansion of the existing contracts that we have and then again making sure that we're priced appropriately. So, I think that bodes well for the balance of the year.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Thank you, Mary. Thank you, Sheryl.

**Operator**

And, Ms. Skolnick, of course your host panel doesn't invite any follow-up questions, so just re-queue by pressing the "\*" then "1" on your touchtone phone. Next we go to Art Henderson with Jeffries & Company. Please go ahead.

**Arthur Henderson - Jeffries & Company - Analyst**

Okay, thanks. Good morning. Could you tell me again -- I know you've mentioned this in the past -- what your gross margins are roughly by payor line?

**John Potapchuk - Gentiva Health Services - SVP & CFO**

Arthur, I don't think we've specified gross margins by payer line. I think what we have done is indicate on a broad scale that a Medicare provider -- an efficient Medicare provider -- will generally run gross margins in the 50 to 60% range, although the cost of servicing that is also higher. On the managed care side, those margins could run in the mid-30s to 40% range. And on the Medicaid side, it's really all over the lot. You can go anywhere from 10 to 50, depending on the program . . .

**Arthur Henderson - Jeffries & Company - Analyst**

Or higher?

**John Potapchuk - Gentiva Health Services - SVP & CFO**

Or higher. And the only other color we have given in the past is to keep in mind that, with respect to CareCentrix, there's a significant . . . a portion of that business that's really serviced by third party

providers and there's a cost associated with that -- a direct cost associated with that. We're keeping an administrative or management fee associated with that, and clearly, what we keep is lower margin now because there's a significant piece put out to the third party.

**Arthur Henderson - Jeffries & Company - Analyst**

And when you say the managed care side is in the mid-30s, that's sort of non-network referral margins?

**Ron Malone - Gentiva Health Services - Chairman & CEO**

Yeah. Mid-30s to low 40s.

**Mary Morrisey-Gabriel - Gentiva Health Services - SVP & Chief Sales Officer**

Yeah. Low 40s. That's correct.

**Arthur Henderson - Jeffries & Company - Analyst**

Okay. And now, let me direct the question to Mary. This Medicaid admissions growth of 20%, is the bulk of that, is a one component or is the bulk of that the specialty programs?

**Mary Morrisey-Gabriel - Gentiva Health Services - SVP & Chief Sales Officer**

No, I think it's a nice balance between some of the traditional Medicare as well as the specialty programs -- really executing on the strategy, working the hospitals as well as the skilled nursing facilities, and it's just working very well with the expanded sales force.

**Arthur Henderson - Jeffries & Company - Analyst**

Okay. And . . . alright. I'll jump back in the queue and get back in. Thanks

**Ron Malone - Gentiva Health Services - Chairman & CEO**

Thank you.

**Operator**

Thank you very much, Mr. Henderson. And next let's go to Raymond James' John Ransom. Please go ahead.

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**John Ransom - Raymond James - Analyst**

Good morning. We're coming up on the state budget cycle and we're also going to anniversary the \$20 billion subsidy that the feds gave last year. Are you seeing any trends in any key states that have you alarmed relative to Medicaid reimbursement rates for the back half of '04? Thanks.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

John, this is Ron. Good morning.

**John Ransom - Raymond James - Analyst**

Good morning.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

We're really not seeing any. We've seen a couple of states push the rates back up a little bit. I think, probably, you know, providers are very sensitive to movement because some other state Medicaid programs are -- as we've indicated -- are challenged already. So we really haven't . . . I think if anything, we have seen state governments become very interested in understanding the dynamics of the industry. And we have, in turn, reached out to governors and to their assistants that manage the programs to become much more actively involved because we believe that we can help them understand perhaps ways to make the system more efficient.

**John Ransom - Raymond James - Analyst**

And great. One quick follow-up on just a couple of details. What is your correct approximate turnover ratio among your RNs, and secondly -- and I apologize if I missed this -- but how much did your sales force grow in 2003 versus how much you expect it to grow in 2004? Thanks. Now, I'll jump off the queue.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

It's okay. On the first question, John, the RN turnover rates we're experiencing right now is in the mid-20% range

**John Ransom - Raymond James - Analyst**

Okay.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

And then what's the other what's the other question?

**John Ransom - Raymond James - Analyst**

The sales force growth?

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Sales force growth. It grew approximately 20% last year and we would expect to grow about an additional 20% this year.

**John Ransom - Raymond James - Analyst**

Alright. Thanks a lot.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Thank you.

**Operator**

Okay. Thank you, Mr. Ransom. And we do have a follow-up question from Matthew Ripperger. Please go ahead.

**Matthew Ripperger - Smith Barney - Analyst**

Great. Thanks very much. I just have one follow-up related primarily to just government reimbursement. Number one, I just wanted to see if there has been some speculation about the government maybe expanding the Medicare benefit or loosening the requirements to be eligible for the homecare benefit. I wanted to see if you could give us some color as to whether there is any chance they'll do that and what that can mean to you. And then, secondly, can you maybe provide some color to what you are looking for the PPS update in 2005?

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Okay. Matt, as it relates to the first question, I don't think we really see any broad changes afoot on the home . . . essentially the homebound definition, I think is what you have said. We expect to help educate legislatures though as to how change in that definition could open up significant savings for the government in areas that we service and in areas that other parts of the home health segment service. There are restrictions on that definition that we believe are archaic and should be absolutely reviewed. But, as you know, sometimes the wheels grind a bit more slowly in Washington than we would like. As it relates to the PPS update, there is . . . I think there is . . . certainly CMS might change the way they would look at that. We would anticipate a positive update at this time, but we wouldn't have any more . . . we wouldn't have any more specific information than that. We don't have it available to us.

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**Matthew Ripperger - Smith Barney - Analyst**

Right. Okay. And then just to follow up, late last year, I believe there was a change in the requirement to fill OASIS billing forms for commercial patients. I just wanted to see if that's going into effect and if it has any impact on your billing and SG&A-related cost for the commercial piece of your business.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

I think over time the benefit we would get from that is we would expect our caregivers to become more productive. We believe that it will remove some of the stress. And it . . . I mean it just makes for more efficient branch operation. As you may know, that data was being collected and not used for any purpose. So we have lobbied for some time for that regulatory change. We were happy to see it happen and I think -- while it would be difficult for us to measure that -- you know, I think it is a contributing factor to our ability in the branch to focus on converting more referrals into admissions because our inside staff and our caregiving clinicians are not distracted by that unneeded work.

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**Matthew Ripperger - Smith Barney - Analyst**

Thanks very much.

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**Operator**

Okay. Thank you very much, sir. And next, representing Legg Mason, we'll go to the line of Eric Gommel. Please go ahead.

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**Eric Gommel - Legg Mason - Analyst**

Well, thanks. We have been suggesting that you have been waiting to make acquisitions until June 2004 due to the indemnification of the Accredo sale. I guess my question is, should we expect more acquisitions after June 2004?

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Well, Eric, I think that's a good question. While we have mentioned both our caution around acquisitions as well as the expiration of certain indemnifications in June, the fact that they're coincidental, I wouldn't go so far as to link them. As we said on our last call, we are spending . . . we are putting more energy into this area to understand opportunities out there. Last year, we looked at a number of businesses. We did not see anything attractive for us to execute on. We are hopeful this year we will. We've said that our interest would be in very high quality companies in our space -- where we had absolute confidence in their compliance and clinical practices -- that would fit nicely into

our current geography. We've also said that we have interest in some other ancillary services that could make sense for us. So, we will tell you that we wouldn't comment beyond saying we are putting more energy and resources into this area.

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

And I'll just comment that, while we're putting more resources in that, there are no acquisitions embedded into our 2004 outlook. We're being very careful with what we do. Certainly, we don't want to feel that there's pressure that something has to be done about this if this is not the right thing for the company.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

That's correct, John. Thanks.

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**Eric Gommel - Legg Mason - Analyst**

Okay. Thanks.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Thanks, Eric.

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**Operator**

And thank you very much. Sir, we do have a follow-up question from Sheryl Skolnick with Fulcrum. Please go ahead.

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**Sheryl Skolnick - Fulcrum Global Partners - Analyst**

Hi. Yeah. If we could turn to your cash flow and the comments that you made also. Just the reason why I was really focused on the specialty programs and your remarks, Ron, was because you did say that -- if I'm quoting correctly -- half of the additional beyond the industry growth, I think you meant, was coming out of the specialty programs. So, thank you for that clarification that it was a lot more than that. On the cash flow from operations, John, you mentioned that there was some sort of an issue with billing with the change in the network structure for the HME portion. So, can you tell me what those issues were, whether they have been resolved and whether now that we're, I guess, a month into the second quarter, whether those things have been resolved and whether the cash flows are now more likely to be timely?

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

Yeah. I . . . number one Sheryl, they have been resolved. Really what the issue was, as I think, Ron mentioned, in signing up so many new providers and we talked about a 37% increase in our

provider network, there is a process of getting them into the system. And on a fee-for-service basis, we need to receive the documentation and the bills from the providers in order to bill, in turn, the managed care company. So, just to give you a little perspective on that, typically, if you go back over the last year or so, we would bill during any month of the quarter on kind of a pro rata basis. Let's say the third month of the quarter, typically, we would bill about 35% of the total billings for the quarter. Well this quarter, we billed about 40 . . . we billed 45% of our quarterly billings during the month of March, because there was some delay in the earlier months as we were getting those new providers in place. So, we anticipate that, in the second quarter, those bills will monetize into cash and we'll be back on target from a cash flow standpoint.

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**Sheryl Skolnick - Fulcrum Global Partners - Analyst**

Okay. Are you seeing any issues with bad debts in collections of co-pays and the managed care piece of your billing?

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

There has been some increase in our patient pay receivables. We collect a significant portion of that. We have some programs in place to increase those percentages and we feel our bad debt reserve is adequate at this time.

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**Sheryl Skolnick - Fulcrum Global Partners - Analyst**

Okay. Thank you.

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

Thanks.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Thank you.

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**Operator**

Thank you very much, ma'am. Next, we'll go to Hamlin Thomson with Westfield. Please go ahead.

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**Hamlin Thomson - Westfield - Analyst**

Good morning, guys. Thank you for taking my call. Can you just speak so I just understand the guidance of the seasonality within a given year, if there is any?

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**John Potapchuk - Gentiva Health Services - SVP & CFO**

Well Hamlin, what we had indicated is that, generally, the third quarter of our fiscal year would be the quarter of the lowest revenue. There is a seasonal theme in the summer months. People are not as ill during that period of time and that has been our trend in the past, but other than that, we haven't really commented on any individual quarterly results.

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Right. I think other contributing factor that softens in the summer really has to do with physician practices and the fact there are fewer elective surgeries held during that time as well.

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**Hamlin Thomson - Westfield - Analyst**

Okay. Thank you. That is helpful. And you guys talk about both ramping up your nurses and your sales force. Can you just talk about the lag between the ramp and when they become productive? How long does it typically take?

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Well, I think it really . . . on the side of the clinician, when you speak specifically about RNs or PTs and physical therapy, it really depends upon the degree of homecare experience they have when they come to us. So you could be talking perhaps as little as 30 days to see a caregiver be fully productive or as much as perhaps 90 days if we had to take somebody through a full cycle to familiarize them with the documentation and the regulation around, particularly, Medicare. And as a sales force, while we see pretty immediate, you know, within, you know, sort of a three-four month range we'll see a sales person start to produce. We have said in the past, and our results continue to indicate, that we see the strongest new business development in their second year. They then are fully trained. They really are very comfortable with our company and our procedures. They've gotten to know their territory, so, generally, we look for . . . the investments really come back and pay off in the second year of their employment.

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**Hamlin Thomson - Westfield - Analyst**

Thank you. And my last question I've misplaced somewhere in my notes, exactly where you are in the share buyback? But if I recollect correctly, you have about 800,000 shares left under the current buyback. Talking about that, you'd suggested that you may become more inclined to some acquisitions. Does that change your perspective on the stock buyback?

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**Ronald Malone - Gentiva Health Services - Chairman & CEO**

I don't think it does at all. And just to clarify, at the end of the first quarter, we had 633,000 shares remaining under the authorized repurchase program.

**Hamlin Thomson - Westfield - Analyst**

Thank you. Thank you, guys.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Sure. Thank you.

**Operator**

And thank you, Mr. Thompson. Next we'll go to the line of Allan Cohen with Home Health Line. Please go ahead.

**Allan Cohen - Home Health Line - Reporter**

Yeah. Thank you. I want to ask a follow-up on the specialty programs, if it's appropriate. Which specialty programs in particular helped to drive your Medicare growth? And can you tell me more about the Safe Strides program, specifically?

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

First of all, the first program that we established was the orthopedic program. And given that we have roughly 90 practices out there right now in specialty programs just because of that volume. Ortho is the specialty that's the most dominant one in driving growth at this time. And Al, would you like to tell a bit more about Safe Strides?

**Al Perry - Gentiva Health Services - President & COO**

Yeah. First of all, just to amplify a little bit on the orthopedic services, most of that growth has been primarily in joint replacement therapy, post-surgically. As Ron said, we have about 90 programs and expect to open more than a dozen for the remainder of this year. Safe Strides was a program that we developed last year, which has gotten a very positive reception, certainly, in some areas we've not gotten the typical kind of response from, for example, neurologists. It's a vestibular program delivered by physical therapists. It takes pretty intensive training; in fact, it's about a 19-hour intensive training that these folks go through. And it really gives them a tool kit to be able to deal with patients who have a propensity for falling, and understanding the underlying reasons why people are falling and dealing with it. So

it's been very positively received and that will be a big focus of our specialty rollout for the remainder of this year.

**Allan Cohen - Home Health Line - Reporter**

And you mentioned four initial pilot sites. Do you have goal for eventual coverage for extending it or any idea, how many programs you will have eventually if it works out?

**Al Perry - Gentiva Health Services - President & COO**

We are really just focused on the balance of this year, as I said.

**Allan Cohen - Home Health Line - Reporter**

Okay.

**Al Perry - Gentiva Health Services - President & COO**

It takes a considerable amount of training for these folks.

**Allan Cohen - Home Health Line - Reporter**

Right.

**Al Perry - Gentiva Health Services - President & COO**

It's a bit more complex. And we've targeted specific locations for the rest of the year. And so our plan is to do probably about a dozen.

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

Yeah. And assuming continued success with the complex therapy, we would, if anything, we want to accelerate our rollout. And we do believe that the offering has broad appeal and really differentiates Gentiva's ability to deliver complex therapies in the home. Thank you for your question, Allan.

**Allan Cohen - Home Health Line - Reporter**

Thank you.

**Operator**

And thank you, Mr. Cohen. With that, Mr. Malone and our host panel, I'll turn the call back to you. There are no further questions.

## GTIV - Q1 2004 Gentiva Health Services Earnings Conference Call

**Ronald Malone - Gentiva Health Services - Chairman & CEO**

I would like to thank each of you for your participation this morning and for your continued interest in and support of Gentiva Health Services. We'll continue to keep you informed as we move forward with our strategies for growth in 2004. And we look forward to seeing some of you at our annual meeting, May 14, here on Long Island, and speaking with you again on our second quarter earnings call. Good morning.

**Operator**

And ladies and gentlemen, your host is making today's conference available for digitized replay for one week. It starts at 1:30 PM Eastern Daylight Time from April the 29<sup>th</sup> all the way through 11:59 PM, May 6. To access AT&T's Executive replay service simply dial 320-365-3844. At the voice prompt, enter today's conference ID of 728263. And that does conclude our earnings conference for this quarter. Thank you very much for your participation and also for using AT&T's Executive Teleconference Service. You may now disconnect.

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