HEALTHSOUTH®







Raymond James 36th Annual Institutional Investor Conference
Orlando, FL | March 2, 2015

Doug Coltharp, Chief Financial Officer

Forward-Looking Statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect our current outlook, views and plans with respect to future events, including legislative and regulatory developments, strategy, capital expenditures, development activities, dividend strategies, repurchases of securities, effective tax rates, financial performance, and business model. These estimates, projections and other forward-looking information are based on assumptions that HealthSouth believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.

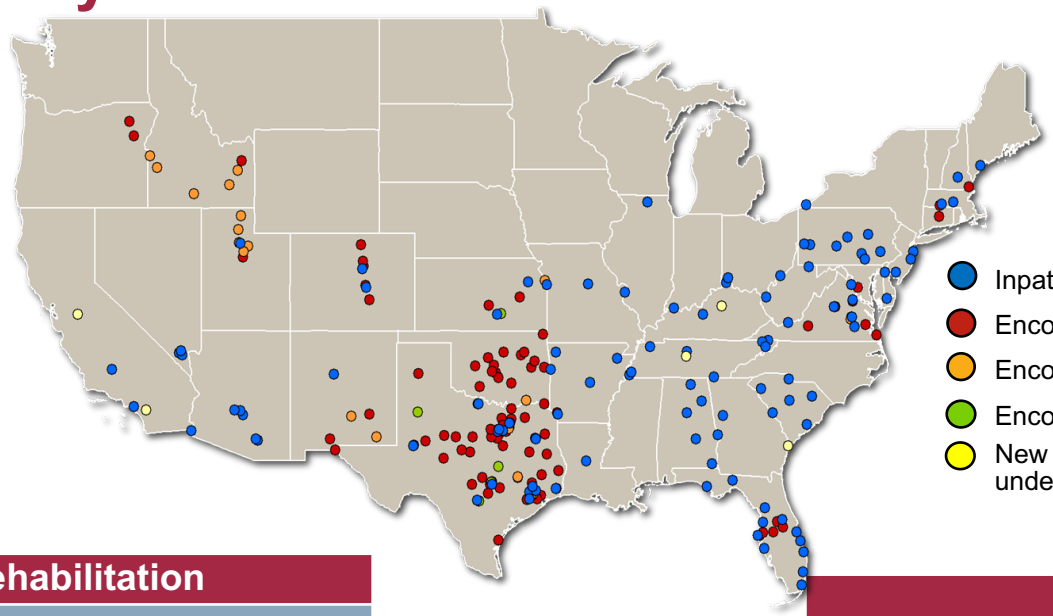
There can be no assurance that any estimates, projections or forward-looking information will be realized.

All such estimates, projections and forward-looking information speak only as of the date hereof. HealthSouth undertakes no duty to publicly update or revise the information contained herein.

You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the Form 10-K for the year ended December 31, 2014, and in other documents we previously filed with the SEC, many of which are beyond our control, that may cause actual events or results to differ materially from the views, beliefs and estimates expressed herein.

Note Regarding Presentation of Non-GAAP Financial Measures
The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934. Schedules are attached that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States. Our current reports on Form 8-K, dated January 13, 2015 and February 24, 2015, to which the following supplemental slides are attached as Exhibit 99.1 and Exhibit 99.2, respectively, provide further explanation and disclosure regarding our use of non-GAAP financial measures and should be read in conjunction with these supplemental slides.

Company Overview[1]



Inpatient Rehabilitation

Portfolio - As of December 31, 2014	
107	Inpatient Rehabilitation Hospitals ("IRF") • 32 operate as JV's with Acute Care Hospitals
25	Hospital-Based Home Health Agencies[2]
16	Outpatient Rehabilitation Satellite Clinics
29	Number of States (plus Puerto Rico)
~ 24,100	Employees

Key Statistics - Year Ended December 31, 2014	
~ $2.4 Billion	Revenue[2]
134,515	Inpatient Discharges
739,227	Outpatient Visits[2]

Refer to pages 31-33 for end notes.

IRF Marketshare

~ 9% of IRFs

~ 18% of Licensed Beds

~ 21% of Patients Served

Home Health and Hospice Marketshare

5th largest provider of Medicare-certified home health services

Encompass Home Health and Hospice[1]

Portfolio – As of December 31, 2014	
107	Home Health Locations
8	Pediatric Home Health Locations
20	Hospice Locations
12	Number of States
~ 4,900	Employees

Key Statistics - Year Ended December 31, 2014	
~ $369 million	Revenue
98,461	Home Health Episodes
387	Hospice Census

HEALTHSOUTH

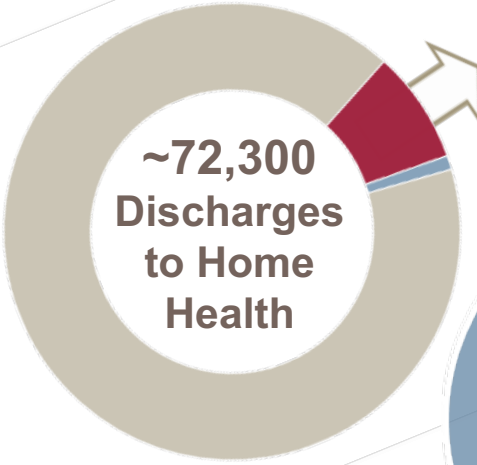
Encompass Transaction

- **Acquired Encompass Home Health and Hospice (closed December 31, 2014)**
  - $750 million purchase price; $695.5 million in cash and $64.5 million in Encompass management equity roll
  - Transaction funded via credit facility
    - In January 2015, the Company issued $400 million of additional 5.75% senior notes due 2024 and used the proceeds to repay a portion of the term loan and revolver.[3]
    - Pro forma leverage of approx. 3.3x[4]
  - New HealthSouth home health and hospice operating segment
    - Retaining Encompass management and trade name
    - Will integrate legacy 25 HealthSouth home health agencies into Encompass[2]
  - Accretive upon closing
    - Expected Adjusted EBITDA contribution of approx. $72 million in 2015 (after noncontrolling interest; Encompass management equity roll was greater than originally forecast, resulting in an increased estimate for noncontrolling interest).
    - Expected EPS accretion of approx. $0.15 in 2015

Refer to pages 31-33 for end notes.

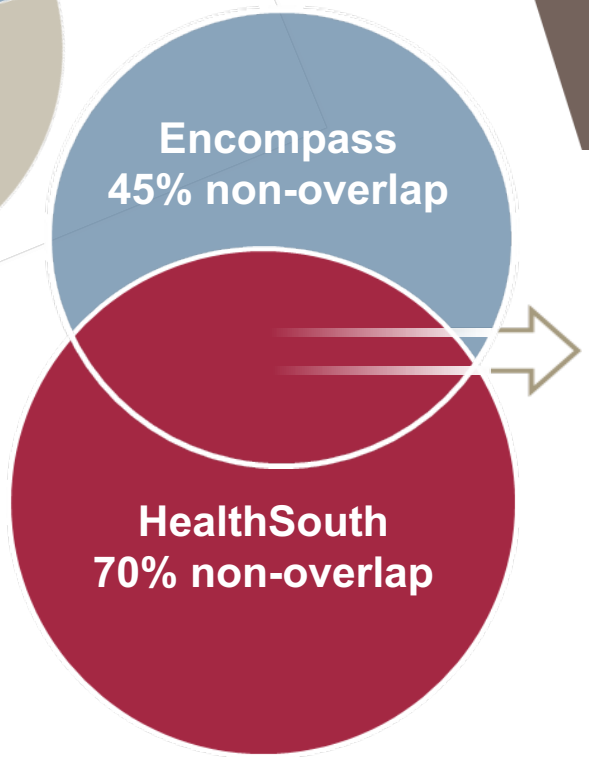
HealthSouth and Encompass Market Overlap

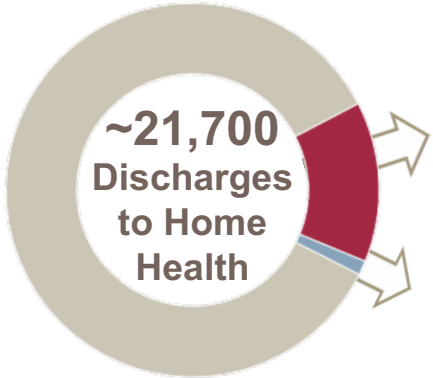
Approx. 54% or approx. 72,300[(5)] of HealthSouth's discharges went to home health in 2014.



Approx. 5,900 discharges, or 8%, went to HealthSouth home health.
Approx. 850 discharges, or 1%, went to Encompass home health.

55% of Encompass' locations overlap with 30% of HealthSouth's hospitals.





Approx. 2,950 discharges, or 14%, went to HealthSouth home health.

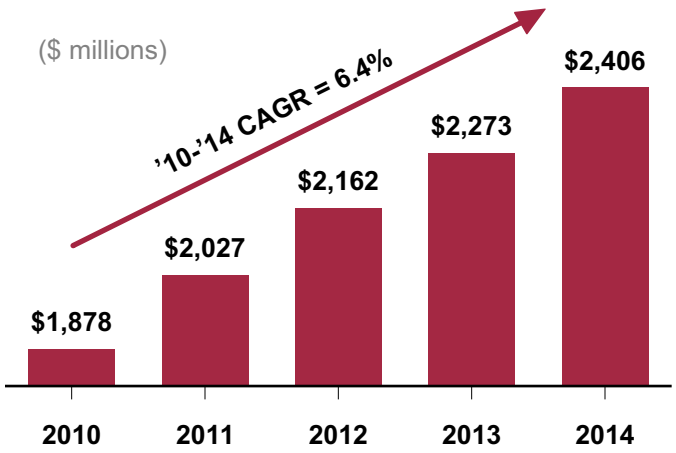
Approx. 800 discharges, or 4%, went to Encompass home health.

Refer to pages 31-33 for end notes.

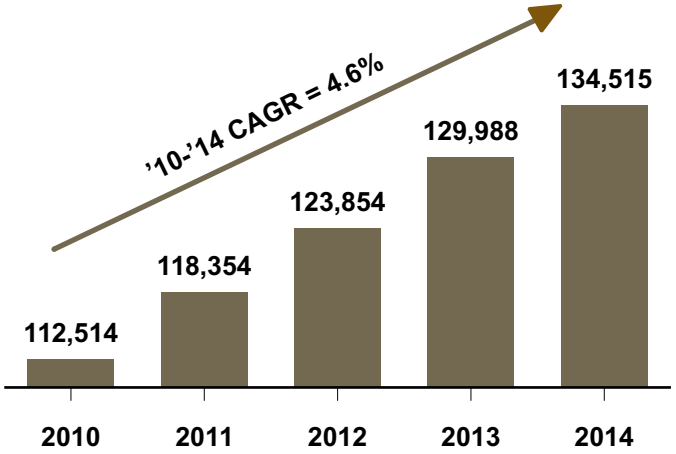
HEALTHSOUTH

Our Track Record

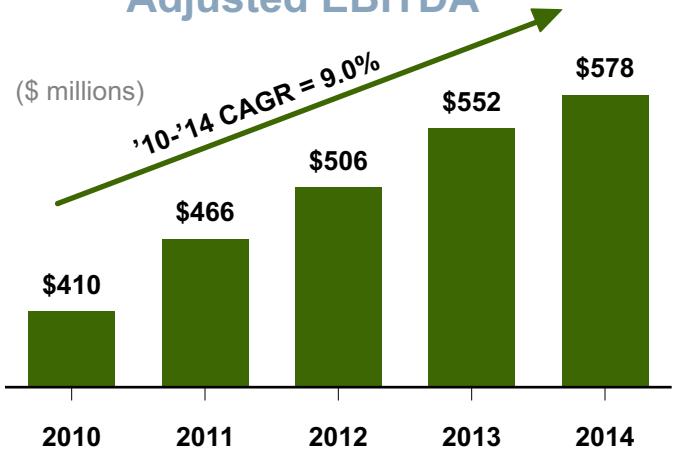
Revenue



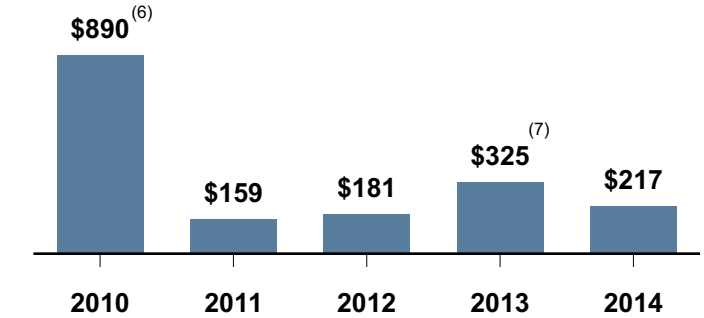
Discharge Volume



Adjusted EBITDA*



Income from Continuing Operations Attributable to HealthSouth

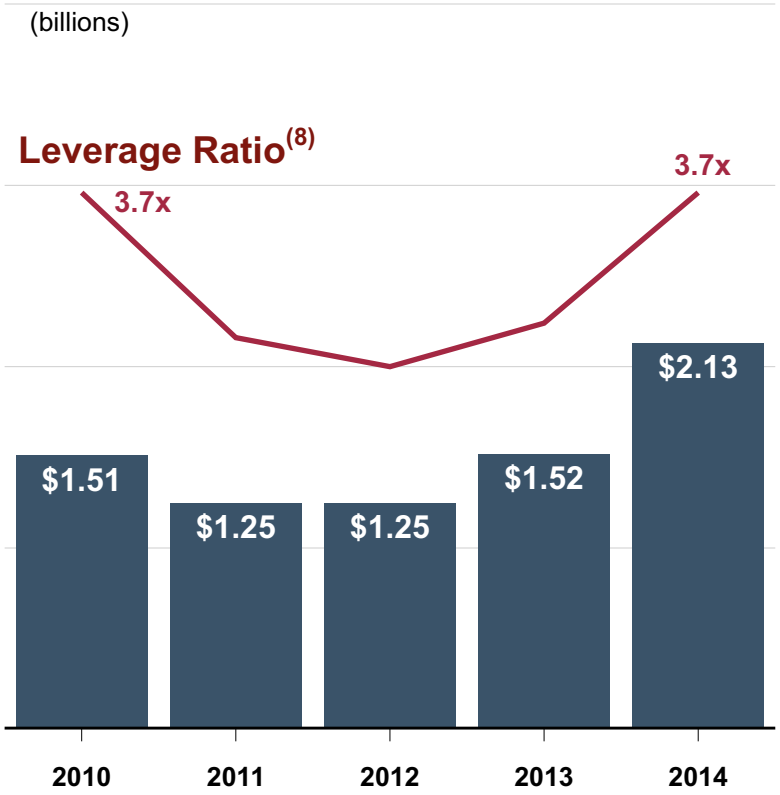


*Reconciliation to GAAP provided on pages 26-30.
Refer to pages 31-33 for end notes.

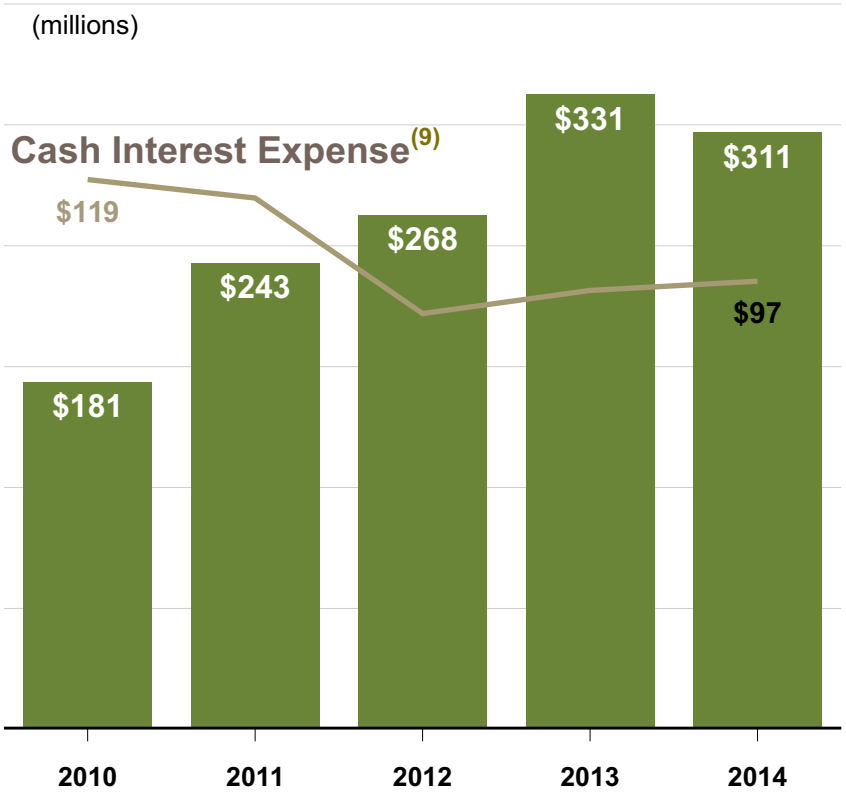
HEALTHSOUTH

Our Track Record (con't)

Total Debt



Adjusted Free Cash Flow*



*Reconciliation to GAAP provided on slide 25.
Refer to pages 31-33 for end notes.

HEALTHSOUTH

2015 Guidance - Adjusted EBITDA*

Adjusted EBITDA
$670 million to $680 million

- **Inpatient rehabilitation segment considerations for 2015:**
  - Revenue growth between 5.9% and 7.3%
  - Discharge growth between 3.5% and 4.5%
  - Revenue per discharge growth between 2.3% and 2.6%
  - Bad debt expense of approx. 1.5%
- **Home health and hospice segment considerations for 2015:**
  - Encompass contribution of approx. $72 million in Adjusted EBITDA after noncontrolling interest (does not include HealthSouth's legacy 25 home health agencies)(2)
- **Other considerations for 2015:**
  - Approx. $10 million of new investments in our operating platform
    - Contractual increase for our clinical information system (CIS)
    - New medical services department
    - Additional hospital staff for quality reporting
    - Bundling pilot participation

*Reconciliation to GAAP provided on pages 26 and 30.
Refer to pages 31-33 for end notes.

Adjusted Free Cash Flow* and Tax Assumptions

Certain Cash Flow Items[12] (millions)	2015 Assumptions	2014 Actual	2013 Actual
• Cash interest expense[9]	$110 to $115	$96.5	$95.4
• Cash payments for taxes, net of refunds	$15 to $20	$16.4	$7.7
• Working Capital and Other[10]	$40 to $50	$55.0	$19.6
• Maintenance CAPEX[11]	$90 to $100	$92.0	$74.8
• Dividends paid on preferred stock	$6	$6.3	$23.0
• Dividends on common stock[12]	$74	$65.8	$15.7

GAAP Tax Considerations:

- As of 12/31/14, the Company's federal NOL had a gross balance of approx. $630 million.
- The Company has a remaining valuation allowance of approx. $23 million related to state NOLs.
- The Encompass acquisition includes an approx. $40 million (NPV) tax benefit (in addition to the Company's NOLs).

* Reconciliation to GAAP provided on page 25.
Refer to pages 31-33 for end notes

Priorities for Reinvesting Free Cash Flow

Remains Highest Priority

Growth in Core Business

	2015 Assumptions	2014 Actuals	2013 Actuals
IRF bed expansions	$30 to $40	$23.6	$24.9
New IRF's			
- De novos	40 to 60	53.7	26.6
- Acquisitions	TBD	20.2	28.9
New home health and hospice acquisitions	30 to 40	674.6[14]	—
	$100 to $140, excluding IRF acquisitions	$772.1	$80.4

Opportunity

Debt Reduction

	2015 Assumptions	2014 Actuals	2013 Actuals
Debt (borrowings) redemptions, net[3][14][19]	TBD	$(614.1)	$(264.0)
Purchase leased properties	TBD	20.0	90.3

Complements Growth Investments

Shareholder Distributions

Convertible preferred stock repurchase[19]	TBD	—	249.0
Cash dividends on common stock[15]	74	65.8	15.7
Common stock repurchase (~$207 million authorization remaining as of December 31, 2014)[16]	TBD	43.1	234.1
	TBD	$(485.2)	$325.1

Refer to pages 31-33 for end notes.

New Inpatient Rehabilitation De novo/Acquisitions

- ✓ Entered into an agreement to acquire Cardinal Hill Rehabilitation Hospital in Lexington, KY (158 licensed inpatient rehabilitation beds and 74 licensed skilled nursing beds); expect to close in the first half of 2015

- ✓ Continued progress on a new joint venture 50-bed inpatient rehabilitation hospital in Savannah, GA with Memorial University Medical Center; expect to be operational in first half 2015

- ✓ Began construction of a 40-bed inpatient rehabilitation hospital in Franklin, TN; expect to be operational in Q4 2015

- ✓ Continued the design and permitting process to construct a 50-bed inpatient rehabilitation hospital in Modesto, CA; expect to be operational in Q2 2016

- ✓ Acquired land and began the design and permitting process on a 50-bed inpatient rehabilitation hospital in Murrieta, CA; expect to be operational in Q4 2017

New IRFs: De Novo (40-50 beds) Assumptions and Timing

All projects have minimum IRR target of 15% (pre-tax).

Investment Considerations

- Cash Payback[17] = 5 to 7 years
- Inclusive of CON costs (where applicable)
- Includes cost of CIS installation
- May be structured as a joint venture

- Prototype includes all private rooms
- A minimum of 30 patients treated for zero revenue (Medicare certification)
- Core infrastructure of building anticipates future expansion; potential to enhance returns with future bed expansion

Capital Cost (millions)	Low	High
Construction, design, permitting, etc.	$15	$17
Land	2	3
Equipment (Including CIS)	3	4
	$20	$24

Pre-Opening Expenses[36] (thousands)	Low	High
Operating	$325	$550
Salaries, wages, benefits	375	650
	$700	$1,200

Operational Date	Location	Beds
Q4 2017	Murrieta, CA	50
Q2 2016	Modesto, CA	50
Q4 2015	Franklin, TN	40
Q4 2014	Middletown, DE	34
Q4 2014	Newnan, GA	50
Q4 2014	Altamonte Springs, FL	50
Q2 2013	Littleton, CO	40
Q2 2013	Stuart, FL	34
Q4 2012	Ocala, FL	40
Q4 2011	Cypress, TX	40
Q3 2010	Bristol,VA	25
Q2 2010	Loudoun County, VA	40

Refer to pages 31-33 for end notes.

New IRFs: Acquisition Assumptions, Timing and Performance

All projects have minimum IRR target of 15% (pre-tax).

Investment Considerations

- Price varies depending on size, market, and physical asset
- Cash Payback[17] = 4 to 6 years
- May be structured as a joint venture
- Clinical information system is additive to the purchase price.

Value Added

- TeamWorks approach to sales/marketing
- Labor management tools and best practices
- Clinical expertise
- Clinical technology and programming
- Supply chain efficiency
- Medical leadership and clinical advisory boards

Unit/Equity Acquisitions

Location	Beds	Date Acquired
Worcester, MA[18]	110	Q2 2014
San Antonio, TX	34	Q3 2012
Ft. Smith, AR	30	Q3 2010
Little Rock, AR	23	Q1 2010
Altoona, PA	18	Q4 2009
Arlington, TX	30	Q3 2008

IRF Acquisitions

Location	Date Acquired	Acquired Census	One Year Later Census
Lexington, KY	1st half 2015	TBD	TBD
Savannah, GA[20]	1st half 2015	TBD	TBD
Johnson City, TN	Q4 2014	6	TBD
Augusta, GA	Q2 2013	31	39
Cincinnati, OH	Q4 2011	—	27
Sugar Land, TX	Q3 2010	26	35
Las Vegas, NV	Q2 2010	16	35

Refer to pages 31-33 for end notes.

New Home Health and Hospice Acquisitions

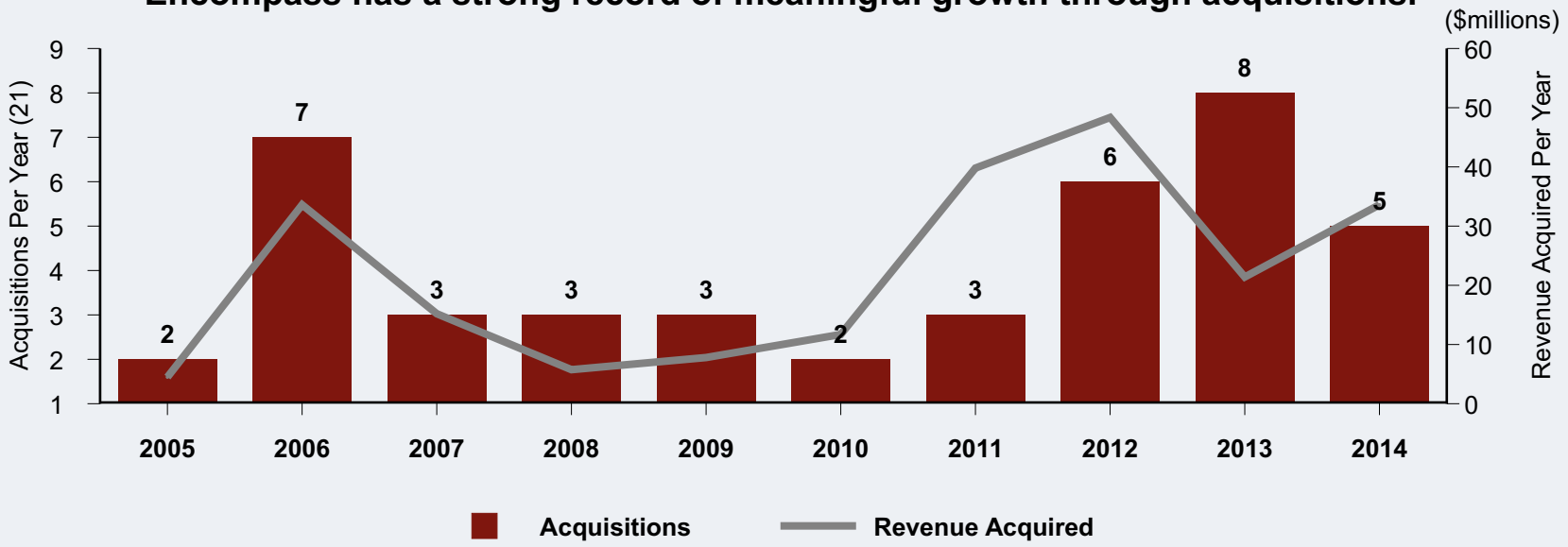
Investment Considerations

- Highly fragmented home health market
  - Over 12,600 home health agencies
  - Approx. 95% of these have annual revenue of less than $5 million
- Diverse referral source relationships
- Quality people who will succeed in Encompass culture

Value Added by Encompass

- Strengthen existing referral relationships; establish new relationships
- Install/enhance technology platform "Homecare Homebase"
- Roll-out care transition program to reduce readmissions through safe/effective inpatient to home transition
- Introduce "Clinical Specialty Programs" for high-risk patients

Encompass has a strong record of meaningful growth through acquisitions.



Refer to pages 31-33 for end notes.

HEALTHSOUTH

Future Growth: Coordinated Care Delivery Models

Positioned to succeed in coordinated care delivery models by offering both "facility-based" and "home-based" post-acute services

High-quality, cost-effective IRF provider:
- FIM® gains consistently exceed industry results.
- Scale and operating leverage contribute to low cost per discharge.[22]
- On average, Medicare pays HealthSouth less per discharge although HealthSouth treats a higher acuity patient.[22]

High-quality, cost-effective home care provider:
- Lower re-hospitalization rates than national average[23]
- Scale and operating leverage contribute to low cost per visit
- Consistent use of evidence-based clinical pathways
- Outcome-based "Clinical Specialty Programs"

Commitment to coordinated care is enhanced by utilization of technology:
- Electronic clinical information system in 58 hospitals as of YE 2014; capable of interfacing with all major acute care EMR systems
- Homecare Homebase (HCHB) leading home care technology manages the entire patient work flow.
- Ability to use data from both to develop clinical protocol "best practices"

Currently participating in several initiatives:
- 103 IRFs accepted into Phase 1 of CMS bundling initiative; in January 2015, we began the process to seek acceptance into Phase 2 of this initiative for five IRFs with an April 2015 start date.
- Encompass has partnered with Premier PHC,™ an ACO serving 20,000 Medicare patients
- Exploring ACO participation in several other markets

Strong balance sheet and free cash flow:
- No significant debt maturities prior to 2019
- Ample liquidity under revolving credit facility
- Consistently strong free cash flow
- 80 of 107 HealthSouth IRFs are owned vs. leased.

Track record of successful partnerships with acute care providers:
- 32 IRFs are joint ventured with acute care systems
  - – Barnes-Jewish
  - – University of Virginia Medical Center
  - – Vanderbilt University

Refer to pages 31-33 for end notes.

Our Strong and Sustainable Business Fundamentals

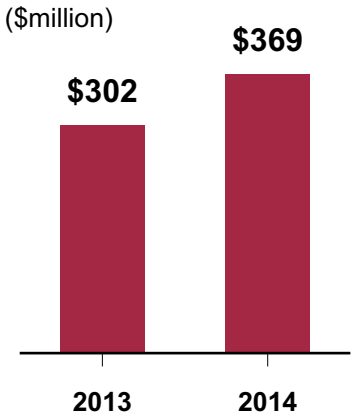
Attractive Healthcare Sectors	• Favorable demographic trends • Nondiscretionary nature of many conditions treated • Highly fragmented industry
Industry Leading Position	• #1 market share in inpatient rehabilitation segment • Consistent delivery of high-quality, cost-effective care • Enhanced utilization of technology
Cost-Effectiveness	• Focused labor management • Continued improvements in supply chain • Significant operating leverage of G&A and occupancy expenses
Real Estate Portfolio	• Portfolio of strategically located, well-designed physical assets • 107 IRFs[24]; 80 owned and 27 long-term, real estate leases
Financial Strength	• Strong balance sheet; ample liquidity, no near-term maturities • Minimal cash income tax expense ($15 - $20 million in 2015) • Substantial free cash flow generation; $0.21 per share quarterly cash dividend on common stock
Growth Opportunities	• Attractive organic growth opportunities in both segments including seasoning of previously acquired home health and hospice agencies and bed expansions at existing hospitals • Flexible inpatient rehabilitation de novo and acquisition strategy • Home health and hospice platform with track record of acquisition growth in highly fragmented industry

Refer to pages 31-33 for end notes.

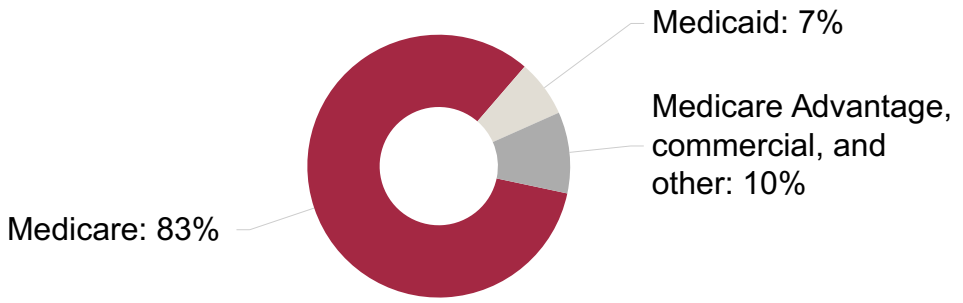
Appendix

Encompass Operational Metrics

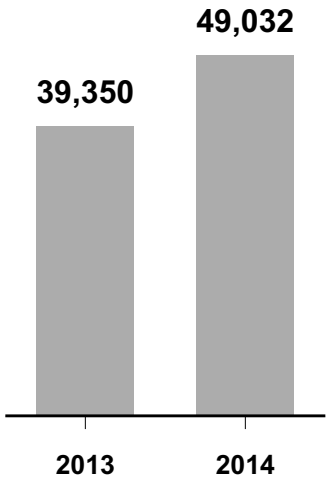
Revenue



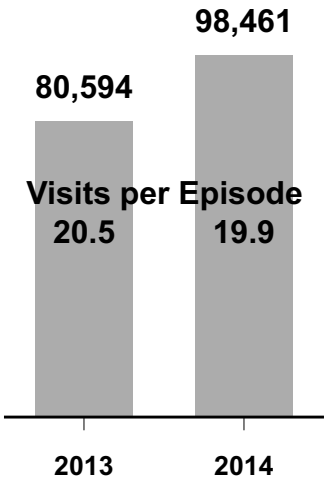
Payor Mix[25]



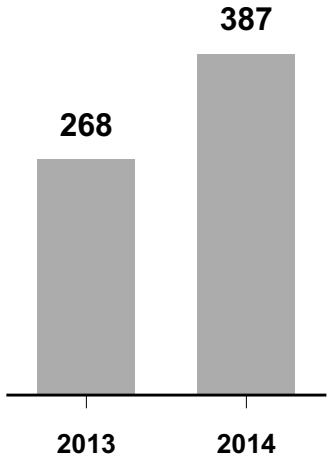
Home Health Admissions



Home Health Total Episodes



Hospice Daily Census



Refer to page 31-33 for end notes.

HEALTHSOUTH

Business Outlook: 2015 to 2017[26]

Business Model :

- **Adjusted EBITDA* CAGR: 5% - 9%** (2014 base-year Adjusted EBITDA includes an estimate for Encompass)[27]
- **Continued strong free cash flow generation**

Strategy Component

	2015	2016	2017
Shareholder Distributions	• **Quarterly cash dividends** • **Opportunistic repurchases** ($207 million authorization remaining as of December 31, 2014)		
Strong Balance Sheet	• **Target Leverage < 3.0x** (subject to shareholder value-creating opportunities)		
Core Growth	• **Same-store IRF Growth** • **New-Store IRF growth (Target 4-6/Year)** • **Same-store Home Health and Hospice Growth** • **New-store Home Health and Hospice Growth**		
Complementary Growth		• **Consider acquisitions of other complementary post-acute businesses**	
Key Operational Initiatives	• **Enhance clinical outcomes and patient experience** • **Implementing CIS: installed in 58 IRF's at YE 2014; Expect all IRF's to be on system by YE 2017** • **Participate in new delivery and payment models (ACO's; bundling)**		

*Reconciliation to GAAP provided on pages 26 and 30.

Refer to pages 31-33 for end notes.

Business Outlook: Revenue Assumptions

Volume	Inpatient Rehabilitation	Home Health & Hospice
	• 2.5% to 3.5% annual discharge growth (excludes acquisitions) • Includes bed expansions, de novos and unit consolidations	• 10% to 15% annual episode growth • Includes $30-$40 million per annum in agency acquisitions

Medicare Pricing	Inpatient Rehabilitation Approx. 74% of Revenue			Home Health & Hospice Approx. 83% of Revenue		
	FY 2015 [28] Q414-Q315	FY 2016 Q415-Q316	FY 2017 Q416-Q317	FY 2015 [29] Q115-Q415	FY 2016 Q116-Q416	FY 2017 Q117-Q117
Market basket update	2.9%	2.9%	2.9%	2.6%	2.6%	2.6%
Healthcare reform reduction	(20) bps	(20) bps	(75) bps	-	-	-
Healthcare reform rebasing adjustment	-	-	-	(2.4%)[31]	(2.8%)	(2.8%)
Healthcare reform productivity adjustment	(50) bps	Approx. (100) bps	Approx. (100) bps	(50) bps	Approx. (100) bps	Approx. (100) bps
Net impact	2.2%	1.7%	1.15%	(0.3%)	(1.2%)	(1.2%)

2% Sequestration[30]

Managed Care Pricing	Inpatient Rehabilitation Approx. 19% of Revenue			Home Health & Hospice Approx. 10% of Revenue		
	2015	2016	2017	2015	2016	2017
Expected increases	2-4%	2-4%	2-4%	2-4%	2-4%	2-4%

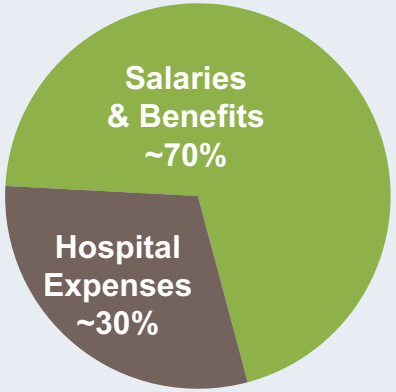
Refer to pages 31-33 for end notes.

Business Outlook: Labor and Other Expense Assumptions

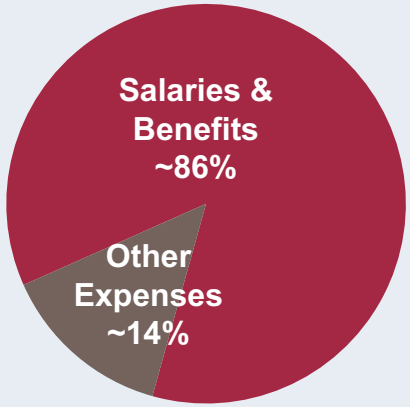
Inpatient Rehabilitation

Home Health and Hospice

Salaries and Benefits	2015	2016	2017
Merit increases	2.25-2.75%	2.5-3.0%	2.5-3.0%
Benefit costs	5-8%	5-8%	5-8%



Percent of Salaries & Benefits	
Salaries	~ 88%
Benefit	~12%



Hospital Expenses

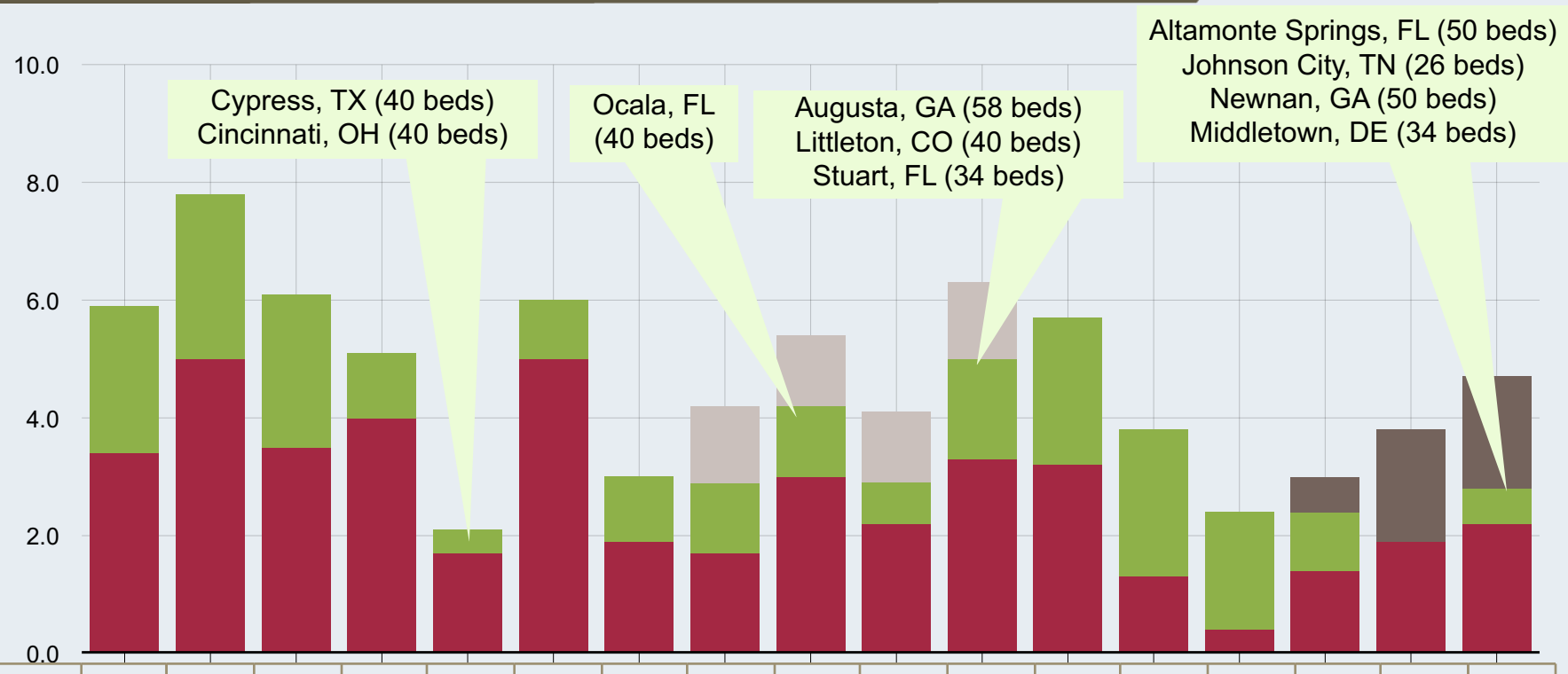
- Other operating expenses and supply costs tracking with inflation

Home Health Expenses

- Other operating expenses and supply costs tracking with inflation

Our New-Store/Same-Store IRF Growth

HealthSouth's IRF volume growth is driven by bed expansions and new IRFs.



	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Fairlawn[18]															0.6%	1.9%	1.9%
St. Vincent's[13]								1.3%	1.2%	1.2%	1.3%						
New Store	2.5%	2.8%	2.6%	1.1%	0.4%	1.0%	1.1%	1.2%	1.2%	0.7%	1.7%	2.5%	2.5%	2.0%	1.0%	—%	0.6%
Same Store	3.4%	5.0%	3.5%	4.0%	1.7%	5.0%	1.9%	1.7%	3.0%	2.2%	3.3%	3.2%	1.3%	0.4%	1.4%	1.9%	2.2%
Total by Qtr.	5.9%	7.8%	6.1%	5.1%	2.1%	6.0%	3.0%	4.2%	5.4%	4.1%	6.3%	5.7%	3.8%	2.4%	3.0%	3.8%	4.7%
Total by Year	3.1%				5.2%				4.6%				5.0%				3.5%

Refer to page 31-33 for end notes.

HEALTHSOUTH

Debt Schedule

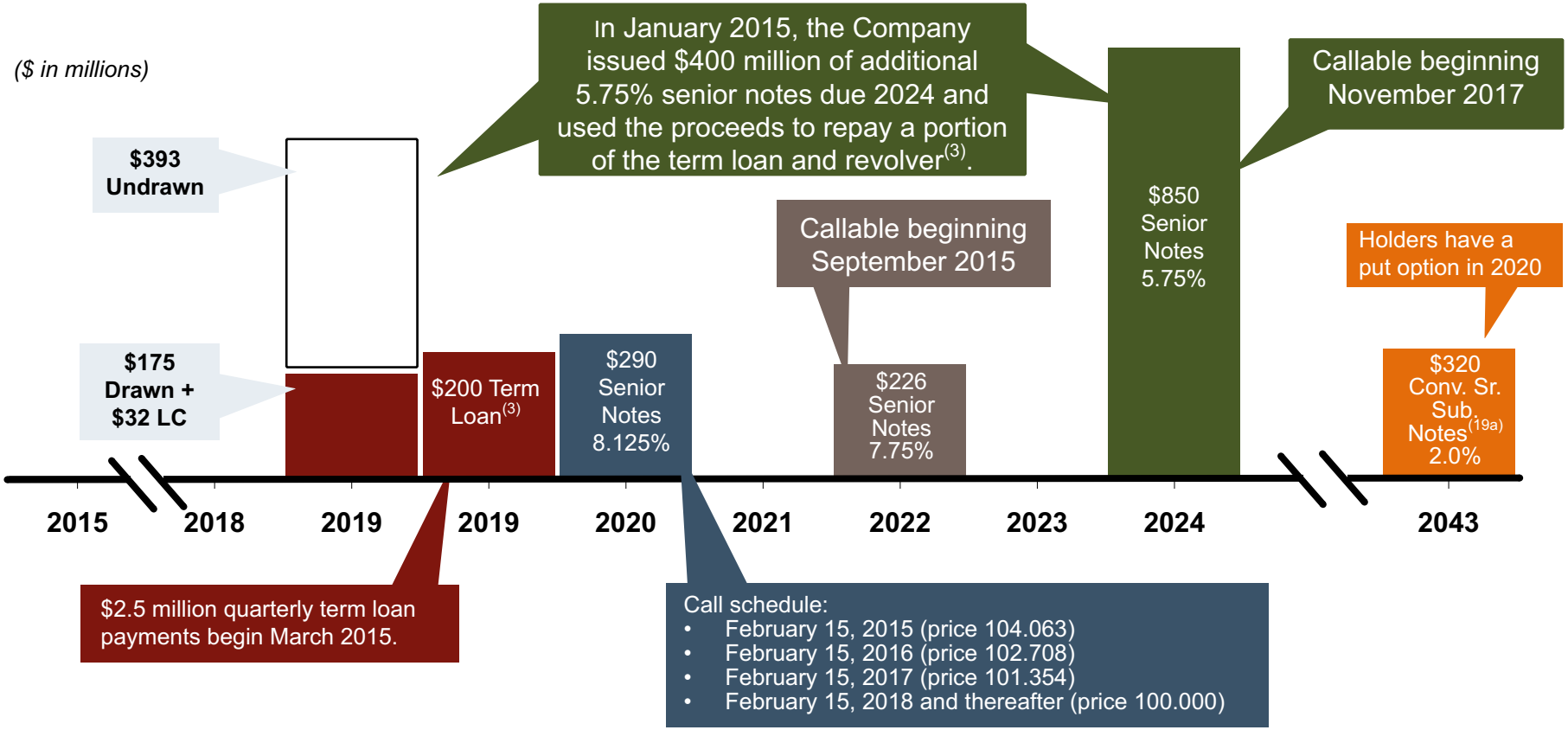
(Millions) Corporate	Credit Rating S&P	Credit Rating Moody	Pro Forma Post Issuance and Term Loan Paydown[3]	Dec. 31, 2014[3]	Dec. 31, 2013	Pro Forma Change in Debt vs. YE 2013
Advances under $600 million revolving credit facility, September 2019 - LIBOR +175bps[3]	BB+	Baa3	$ 175.0	$ 325.0	$ 45.0	$ 130.0
Term loan facility, September 2019 - LIBOR +175bps[3]	BB+	Baa3	200.0	450.0	—	200.0
Bonds Payable:						
7.25% Senior Notes due 2018[3]	BB-	Ba3	—	—	272.4	(272.4)
8.125% Senior Notes due 2020	BB-	Ba3	287.0	287.0	286.6	0.4
7.75% Senior Notes due 2022[3]	BB-	Ba3	227.1	227.1	252.5	(25.4)
5.75% Senior Notes due 2024[3]	BB-	Ba3	864.2	456.2	275.0	589.2
2.00% Convertible Senior Subordinated Notes due 2043[19a]			258.0	258.0	249.5	8.5
Other notes payable			41.6	41.6	47.6	(6.0)
Capital lease obligations			86.7	86.7	88.9	(2.2)
Long-term debt			**$ 2,139.6**	**$ 2,131.6**	**$ 1,517.5**	$ 622.1
Debt to Adjusted EBITDA*[32]			**3.7x**	**3.7x**	**2.8x**	

*Reconciliation to GAAP provided on slides 26, 27, and 30.
Refer to pages 31-33 for end notes.

Debt Maturity Profile - Face Value

HealthSouth is positioned with a cost-efficient, flexible capital structure.

Proforma Dec. 31, 2014 for Issuance and Credit Facility Repayments[3][33]



Refer to pages 31-33 for end notes.

HEALTHSOUTH

Adjusted Free Cash Flow History[12]

(Millions)	Q4 2014	Q4 2013	Full-Year 2014	Full-Year 2013	Full-Year 2012	Full-Year 2011	Full-Year 2010
Net cash provided by operating activities	$ 70.2	$ 100.9	$ 444.9	$ 470.3	$ 411.5	$ 342.7	$ 331.0
Impact of discontinued operations	0.2	0.5	1.2	1.9	(2.0)	(9.1)	(13.2)
Net cash provided by operating activities of continuing operations	70.4	101.4	446.1	472.2	409.5	333.6	317.8
Capital expenditures for maintenance[11]	(26.1)	(20.5)	(92.0)	(74.8)	(83.0)	(50.8)	(37.9)
Net settlements on interest rate swaps	—	—	—	—	—	(10.9)	(44.7)
Dividends paid on convertible perpetual preferred stock	(1.6)	(5.8)	(6.3)	(23.0)	(24.6)	(26.0)	(26.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(14.5)	(12.2)	(54.1)	(46.3)	(49.3)	(44.2)	(34.4)
Nonrecurring items:							
Net premium paid on bond issuance/redemption	10.6	1.7	4.3	1.7	1.9	22.8	—
Cash paid for professional fees - accounting, tax, and legal	1.3	1.7	8.6	7.0	16.1	21.0	17.2
Encompass transaction costs paid in 2014	2.0	—	2.0	—	—	—	—
Cash paid (received) for government, class action, and related settlements	3.3	—	2.7	(5.9)	(2.6)	5.7	2.9
Income tax refunds related to prior periods	—	—	—	—	—	(7.9)	(13.5)
Adjusted free cash flow	**$ 45.4**	**$ 66.3**	**$ 311.3**	**$ 330.9**	**$ 268.0**	**$ 243.3**	**$ 181.4**
Cash dividends on common stock	**$ 18.4**	**15.7**	**$ 65.8**	**$ 15.7**	**—**	**—**	**—**

Refer to pages 31-33 for end notes.

Reconciliation of Net Income to Adjusted EBITDA[34]

(in millions, except per share data)	2014 Q1 Total	2014 Q1 Per Share	2014 Q2 Total	2014 Q2 Per Share	2014 Q3 Total	2014 Q3 Per Share	2014 Q4 Total	2014 Q4 Per Share	2014 Full Year Total	2014 Full Year Per Share
Net Income	$ 61.5		$ 97.9		$ 64.8		$ 57.5		$ 281.7	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.1		(3.8)		0.9		(2.7)		(5.5)	
Net income attributable to noncontrolling interests	(14.8)		(14.8)		(14.7)		(15.4)		(59.7)	
Income from continuing operations attributable to HealthSouth [35]	46.8	$ 0.48	79.3	$ 0.81	51.0	$ 0.53	39.4	$ 0.41	216.5	$ 2.24
Gov't, class action, and related settlements	—		(0.8)		—		(0.9)		(1.7)	
Pro fees - acct, tax, and legal	1.6		2.0		4.0		1.7		9.3	
Provision for income tax expense	32.8		36.5		22.1		19.3		110.7	
Interest expense and amortization of debt discounts and fees	27.9		27.8		27.8		25.7		109.2	
Depreciation and amortization	26.4		26.4		27.4		27.5		107.7	
Loss on early extinguishment of debt	—		—		—		13.2		13.2	
Gain on consolidation of Fairlawn Rehabilitation Hospital	—		(27.2)		—		—		(27.2)	
Other, including net noncash loss on disposal or impairment of assets	1.3		1.7		2.7		1.0		6.7	
Stock-based compensation expense	7.3		7.0		5.0		4.6		23.9	
Encompass transaction costs	—		—		—		9.3		9.3	
Adjusted EBITDA [34]	$ 144.1		$ 152.7		$ 140.0		$ 140.8		$ 577.6	
Weighted average common shares outstanding:										
Basic		87.3		86.7		86.5		86.6		86.8
Diluted		100.9		100.6		100.5		100.8		100.7

Refer to pages 31-33 for end notes.

Reconciliation of Net Income to Adjusted EBITDA[34]

(in millions, except per share data)	2013 Q1 Total	2013 Q1 Per Share	2013 Q2 Total	2013 Q2 Per Share	2013 Q3 Total	2013 Q3 Per Share	2013 Q4 Total	2013 Q4 Per Share	2013 Full Year Total	2013 Full Year Per Share
Net income	$ 65.9		$ 179.0		$ 72.3		$ 64.2		$ 381.4	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.4		(0.1)		0.9		(0.1)		1.1	
Net income attributable to noncontrolling interests	(14.6)		(13.8)		(14.1)		(15.3)		(57.8)	
Income from continuing operations attributable to HealthSouth [35]	51.7	$ 0.48	165.1	$ 1.66	59.1	$ 0.59	48.8	$ (0.31)	324.7	$ 2.59
Gov't, class action, and related settlements	—		(2.0)		(21.3)		(0.2)		(23.5)	
Pro fees - acct, tax, and legal	1.4		2.2		4.2		1.7		9.5	
Provision for income tax expense (benefit)	33.5		(86.5)		35.2		30.5		12.7	
Interest expense and amortization of debt discounts and fees	24.2		24.4		25.3		26.5		100.4	
Depreciation and amortization	22.1		23.1		24.3		25.2		94.7	
Loss on early extinguishment of debt	—		—		—		2.4		2.4	
Other, including net noncash loss on disposal of assets	0.1		1.7		2.5		1.6		5.9	
Stock-based compensation expense	6.3		6.5		6.2		5.8		24.8	
Adjusted EBITDA[34]	$ 139.3		$ 134.5		$ 135.5		$ 142.3		$ 551.6	
Weighted average common shares outstanding:										
Basic		94.0		86.1		86.2		86.4		88.1
Diluted		107.1		99.8		100.4		100.8		102.1

Refer to pages 31-33 for end notes.

Reconciliation of Net Income to Adjusted EBITDA[34]

(in millions, except per share data)	2012 Q1 Total	2012 Q1 Per Share	2012 Q2 Total	2012 Q2 Per Share	2012 Q3 Total	2012 Q3 Per Share	2012 Q4 Total	2012 Q4 Per Share	2012 Full Year Total	2012 Full Year Per Share
Net Income	$ 56.8		$ 59.9		$ 59.9		$ 59.3		$ 235.9	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.4		(3.5)		0.5		(1.9)		(4.5)	
Net income attributable to noncontrolling interests	(12.6)		(13.2)		(12.8)		(12.3)		(50.9)	
Income from continuing operations attributable to HealthSouth [35]	44.6	$ 0.39	43.2	$ 0.38	47.6	$ 0.44	45.1	$ 0.41	180.5	$ 1.62
Gov't, class action, and related settlements	—		—		(3.5)		—		(3.5)	
Pro fees - acct, tax, and legal	3.6		5.5		4.1		2.9		16.1	
Provision for income tax expense	29.1		26.9		28.1		24.5		108.6	
Interest expense and amortization of debt discounts and fees	23.3		23.0		23.5		24.3		94.1	
Depreciation and amortization	19.5		20.0		21.3		21.7		82.5	
Loss on early extinguishment of debt	—		—		1.3		2.7		4.0	
Gain on consolidation of St. Vincent Rehabilitation Hospital	—		—		(4.9)		—		(4.9)	
Other, including net noncash loss on disposal of assets	0.8		0.6		1.6		1.4		4.4	
Stock-based compensation expense	6.1		5.9		6.1		6.0		24.1	
Adjusted EBITDA[34]	$ 127.0		$ 125.1		$ 125.2		$ 128.6		$ 505.9	
Weighted average common shares outstanding:										
Basic		94.5		94.6		94.7		94.7		94.6
Diluted		108.7		108.0		108.1		108.0		108.1

Refer to pages 31-33 for end notes.

Reconciliation of Net Income to Adjusted EBITDA[34]

(in millions, except per share data)	2010 Total	2010 Per Share	2011 Total	2011 Per Share
Net income	$ 939.8		$ 254.6	
Income from disc ops, net of tax, attributable to HealthSouth	(9.2)		(49.9)	
Net income attributable to noncontrolling interests	(40.8)		(45.9)	
Income from continuing operations attributable to HealthSouth [35]	889.8	$ 8.20	158.8	$ 1.39
Gov't, class action, and related settlements	1.1		(12.3)	
Pro fees-acct, tax, and legal	17.2		21.0	
Loss on interest rate swaps	13.3		—	
Provision for income tax benefit	(740.8)		37.1	
Interest expense and amortization of debt discounts and fees	125.6		119.4	
Depreciation and amortization	73.1		78.8	
Impairment charges, including investments	—		—	
Net noncash loss on disposal of assets	1.4		4.3	
Loss on early extinguishment of debt	12.3		38.8	
Stock-based compensation expense	16.4		20.3	
Other	0.2		—	
Adjusted EBIDTA[34]	$ 409.6		$ 466.2	
Weighted average common shares outstanding:				
Basic		92.8		93.3
Diluted		108.5		109.2

Refer to pages 31-33 for end notes.

Net Cash Provided by Operating Activities Reconciled to Adjusted EBITDA

(Millions)	Q4		Full-Year				
	2014	2013	2014	2013	2012	2011	2010
Net cash provided by operating activities	$ 70.2	$100.9	$444.9	$470.3	$411.5	$342.7	$331.0
Provision for doubtful accounts	(6.6)	(3.6)	(31.6)	(26.0)	(27.0)	(21.0)	(16.4)
Professional fees—accounting, tax, and legal	1.7	1.7	9.3	9.5	16.1	21.0	17.2
Interest expense and amortization of debt discounts and fees	25.7	26.5	109.2	100.4	94.1	119.4	125.6
Equity in net income of nonconsolidated affiliates	1.9	3.0	10.7	11.2	12.7	12.0	10.1
Net income attributable to noncontrolling interests in continuing operations	(15.4)	(15.3)	(59.7)	(57.8)	(50.9)	(47.0)	(40.9)
Amortization of debt-related items	(3.2)	(2.0)	(12.7)	(5.0)	(3.7)	(4.2)	(6.3)
Distributions from nonconsolidated affiliates	(3.2)	(1.8)	(12.6)	(11.4)	(11.0)	(13.0)	(8.1)
Current portion of income tax expense	3.5	3.3	13.3	6.3	5.9	0.6	2.9
Change in assets and liabilities	46.4	27.1	90.1	48.9	58.1	41.4	5.7
Net premium paid on bond issuance/redemption	10.6	1.7	4.3	1.7	1.9	22.8	—
Cash used in (provided by) operating activities of discontinued operations	0.2	0.5	1.2	1.9	(2.0)	(9.1)	(13.2)
Encompass transaction costs	9.3	—	9.3	—	—	—	—
Other	(0.3)	0.3	1.9	1.6	0.2	0.6	2.0
Adjusted EBITDA	$140.8	$142.3	$577.6	$551.6	$505.9	$466.2	$409.6

End Notes

(1) HealthSouth completed the acquisition of Encompass Home Health and Hospice on December 31, 2014.

(2) Beginning in Q1 2015, HealthSouth's legacy 25 home health agencies will be included in the home health and hospice segment. The 2014 results for these agencies will be recast and reported in the 2014 results for the home health and hospice segment.

(3) In September 2014, the Company issued an additional $175 million of its 5.75% senior notes due 2024. In September and December 2014, the Company amended its credit agreement to, among other things, add $450 million of term loan facility capacity and extend the revolver maturity to September 2019. In October 2014, the Company redeemed all of its 7.25% senior notes due 2018 (approx. $271 million) using the proceeds from the September offering of 5.75% senior notes due 2024, a $75 million draw under its term loan facilities, and cash on hand. In December 2014, the Company redeemed approx. $25 million (exercise of 10% call rights) of its 7.75% senior notes due 2022 using cash on hand. In December 2014, the Company drew $375 million under its term loan facitities and $325 million under its revolving credit facility to fund the acquisition of Encompass. In January 2015, the Company issued an additional $400 million of its 5.75% senior notes due 2024 and used $250 million of the net proceeds to repay borrowings under its term loan facilities, with the remainder used to repay borrowings under its revolving credit facility.

(4) The pro forma leverage ratio is based on year-end 2014 debt and includes an estimate of Encompass' Adjusted EBITDA for 2014 of approx. $61 million, which represents 83.3% ownership.

(5) Represents 2014 full-year discharges

(6) 2010 includes an income tax benefit of ~$741 million primarily due to the reversal of a substantial portion of the valuation allowance against deferred tax assets.

(7) 2013 includes an approx. $115 million benefit related to a settlement with the IRS.

(8) Based on 2010 Adjusted EBITDA of $409.6 million and 2014 Adjusted EBITDA of $577.6 million; reconciliation to GAAP provided on pages 26-30.

(9) Cash interest expense is net of amortization of debt discounts and fees.

(10) 2014 working capital was negatively impacted by growth in accounts receivable due to additional claims denials predominantly by one Medicare Administrative Contractor and continued delays at the administrative law judge hearing level.

(11) Capital expenditures for maintenance in 2013 benefited by approx. $12 million for equipment purchases that were invoiced in Q4 2013 and paid in early 2014.

(12) Definition of adjusted free cash flow is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, dividends paid on preferred stock, distributions to noncontrolling interests, and nonrecurring items. Common stock dividends are not included in the calculation of adjusted free cash flow.

(13) In Q3 2012, HealthSouth amended the joint venture agreement related to St.Vincent Rehabilitation Hospital in Sherwood, AR which resulted in a change in accounting for this hospital from the equity method of accounting to a consolidated entity. The hospital moved to same-store in Q3 2013.

(14) The Encompass acquisition was funded using a combination of draws under the revolving credit facility and expanded term loan facility.

(15) On July 25, 2013, the board of directors approved the initiation of a quarterly cash dividend on our common stock of $0.18 per share.
On July 17, 2014, the board of directors approved a $0.03 per share, or 16.7%, increase to the quarterly cash dividend on our common stock, bringing the quarterly cash dividend to $0.21 per common share.

(16) On February 14, 2014, the board of directors approved an increase in our existing common stock repurchase authorization from $200 million to $250 million. The $234 million reflects the tender offer completed in Q1 2013 for approx. 9.5% of the common shares.

(17) Future cash payback periods may increase when the Company exhausts its NOLs (page 9)

(18) HealthSouth acquired an additional 30% equity interest in Fairlawn Rehabilitation Hospital in Worcester, MA from its joint venture partner. This transaction increased HealthSouth's ownership interest from 50% to 80% and resulted in a change in accounting for the hospital from equity method to a consolidated entity effective June 1, 2014.

End Notes, con't.

(19) The difference between the basic and diluted shares outstanding is primarily related to the convertible senior subordinated notes and our convertible perpetual preferred stock (convertible into 8.2 million and 3.2 million common shares, respectively, as of December 31, 2014).

a. On November 18, 2013, the Company closed separate, privately negotiated exchanges in which it issued $320 million of 2.0% Convertible Senior Subordinated Notes due 2043 in exchange for 257,110 shares of the Company's 6.5% Series A Convertible Perpetual Preferred Stock. The Company recorded approx. $249 million as debt and approx. $71 million as equity. The convertible notes are convertible, at the option of the holders, at any time on or prior to the close of business on the business day immediately preceding December 1, 2043 into shares of the Company's common stock at a conversion rate of approx. 25.7582 shares per $1,000 in principal amount, which is equal to a conversion price of approximately $38.82 per share, subject to customary antidilution adjustments. The Company has the right to redeem the convertible notes before December 1, 2018 if the volume weighted average price of the Company's common stock is at least 120% ($46.58) of the conversion price of the convertible notes for a specified period. On or after December 1, 2018, the Company may, at its option, redeem all or any part of the convertible notes. In either case, the redemption price will be equal to 100% of the principal amount of the convertible notes to be redeemed, plus accrued and unpaid interest. As a result of the transaction, the dividend on the convertible perpetual preferred stock was reduced from approx. $5.7 million per quarter to approx. $1.6 million per quarter.

b. The 96,245 shares of preferred stock outstanding after the exchange transaction are convertible, at the option of the holder, at any time into shares of common stock at a conversion price of $29.70 per share, which is equal to a conversion rate of approx. 33.6700 shares of common stock per share of preferred stock, subject to a specified adjustment. We may at any time cause the shares of preferred stock to be automatically converted into shares of our common stock at the conversion rate then in effect if the closing price of our common stock for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give the notice of forced conversion exceeds 150% ($44.55) of the conversion price of the preferred stock.

(20) Expect to commence operations of an inpatient rehabilitation hospital under a joint venture agreement with Memorial Health in the first half of 2015 and plan to begin building a 50-bed replacement hospital, which is expected to be completed in early 2016.

(21) Each acquisition may have multiple locations.

(22) See page 8 of the Q3 2014 Investor Reference Book filed in a form 8-K with the SEC on November 20, 2014.

(23) Internal Encompass data and OCS HomeCare (National Research Corporation)

(24) Inclusive of one nonconsolidated entity

(25) Payor mix reflects 2014 revenue.

(26) If legislation affecting Medicare is passed, HealthSouth will evaluate its effect on the Company's business model.

(27) To arrive at the 5% - 9% CAGR, 2014 (the base year) includes an estimate of Adjusted EBITDA for Encompass. This is a multi-year CAGR; annual results may fall outside the range.

(28) HealthSouth believes, based on the Medicare IRF-PPS Final Rule for FY 2015, it should realize a net increase of approx. 2.3% in FY 2015 before sequestration.

(29) Encompass believes, based on the Medicare Home Health Prospective Payment System Final Rule for CY 2015, it should realize an approx. 1.3% net reduction in revenue per episode for calendar year 2015.

(30) The Budget Control Act of 2011 included a reduction of up to 2% to Medicare payments for all providers that began on April 1, 2013 (as modified by H.R. 8). The reduction was made from whatever level of payment would otherwise have been provided under Medicare law and regulation. This automatic reduction, known as "sequestration," resulted in a net year-over-year decrease to our net operating revenues of approx. $9 million in 2014 (anniversaried April 1, 2014).

(31) The net 2.4% rebasing adjustment is net of the case mix index budget neutrality factor and an increase in estimated outlier payments.

End Notes, con't.

(32) The leverage ratio is based on Adjusted EBITDA for 2014 and 2013 of $577.6 million and $551.6 million, respectively. Pro forma leverage with Encompass Adjusted EBITDA included would be approx. 3.3x.

(33) Pro forma debt amounts do not include approx. $93 million of convertible perpetual preferred stock, approx. $87 million of capital leases, and approx. $42 million of other notes payable.

(34) Adjusted EBITDA is a non-GAAP financial measure. The Company's leverage ratio (total consolidated debt to Adjusted EBITDA for the trailing four quarters) is, likewise, a non-GAAP financial measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure and the leverage ratio as a liquidity measure on an ongoing basis. These measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance or liquidity. In evaluating Adjusted EBITDA, the reader should be aware that in the future HealthSouth may incur expenses similar to the adjustments set forth.

(35) Per share amounts for each period presented are based on diluted weighted average shares outstanding unless the amounts are antidilutive, in which case the per share amount is calculated using the basic share count after subtracting the quarterly dividend on the convertible perpetual preferred stock, income allocated to participating securities, and the repurchase premium on shares of preferred stock. The difference in shares between the basic and diluted shares outstanding is primarily related to the convertible senior subordinated notes and our convertible perpetual preferred stock.

(36) Pre-opening expenses include expenses for training new employees on the clinical information system, which vary based on the timing of the first admission.