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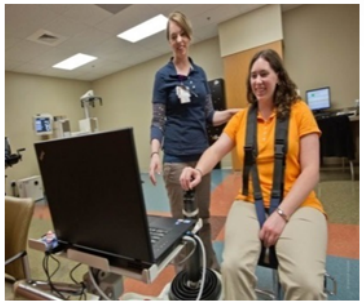

Third Quarter 2016 Earnings Call

October 28, 2016

SUPPLEMENTAL INFORMATION

Forward-Looking Statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect HealthSouth's 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 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 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, 2015, the form 10-Q for the quarters ended March 31, 2016, June 30, 2016, and September 30, 2016, when filed, and in other documents HealthSouth previously filed with the SEC, many of which are beyond its 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, including Adjusted EBITDA, adjusted earnings per share, and adjusted free cash flow. 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. HealthSouth's Form 8-K, dated October 27, 2016, to which the following supplemental information is attached as Exhibit 99.2, provides further explanation and disclosure regarding HealthSouth's use of non-GAAP financial measures and should be read in conjunction with this supplemental information.

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Q3 2016 Summary (Q3 2016 vs. Q3 2015)

(In Millions)	Q3 2016	Q3 2015	Growth Dollars	Growth Percent
HealthSouth Consolidated				
Net operating revenues	$ 926.8	$ 778.6	$ 148.2	19.0%
Adjusted EBITDA	$ 198.4	$ 165.4	$ 33.0	20.0%
Inpatient Rehabilitation Segment				
Net operating revenues	$ 751.7	$ 651.6	$ 100.1	15.4%
Adjusted EBITDA	$ 198.6	$ 166.2	$ 32.4	19.5%
Home Health and Hospice Segment				
Net operating revenues	$ 175.1	$ 127.0	$ 48.1	37.9%
Adjusted EBITDA	$ 25.8	$ 20.7	$ 5.1	24.6%

Major takeaways:

- Strong revenue, volume, and Adjusted EBITDA growth in both segments
  - 12.6% discharge growth for IRFs (same-store = 1.9%)
  - 50.7% admissions growth for home health (same-store = 15.3%)
- Adjusted EPS grew 20.4% to $0.65 per diluted share ($0.54 per diluted share in Q3 2015) - see page 12.
- Adjusted free cash flow of $139.8 million ($132.0 million in Q3 2015) - see page 13.
- Leverage ratio reduced to 3.8x

Reconciliations to GAAP provided on pages 35-43

Q3 2016 Summary (cont.)

- **Balance sheet**
  - Reduced debt by ~$76 million (~$161 million year to date)
    - ✓ Redeemed remaining outstanding principal balance of $76 million of 7.75% Senior Notes due 2022 in September 2016
    - ✓ Reduced leverage ratio by 0.3x to 3.8x - See page 23.
  - S&P revised its rating outlook on the Company from negative to stable in October 2016.
- **Expansion Activity (see page 20)**
  - Opened three new hospitals
    - ✓ Hot Springs, AR - began operations of 27-bed unit in February 2016; replaced with new 40-bed hospital in July 2016
    - ✓ Bryan, TX - opened new 49-bed hospital in August 2016
    - ✓ Broken Arrow, OK - began operations of 22-bed unit in August 2016; expect to replace with new 40-bed hospital in Q3 2017
  - 11 IRF development projects underway
  - Expanded existing hospitals by 10 beds
  - Acquired home health agency in Yuma, AZ
  - Acquired three hospice locations as part of Serenity Care acquisition (two locations in Arkansas; one location in Texas); complements existing home health operations in these markets
- **Shareholder distributions**
  - Paid quarterly cash dividend of $0.23 per share on July 15, 2016
  - Declared a $0.24 per share quarterly cash dividend paid on October 17, 2016

Inpatient Rehabilitation Segment - Revenue

($millions)	Q3 2016	Q3 2015	Favorable/ (Unfavorable)
Net operating revenues:			
Inpatient	$ 724.1	$ 625.1	15.8%
Outpatient and other	27.6	26.5	4.2%
Total segment revenue	**$ 751.7**	**$ 651.6**	15.4%
(Actual Amounts)			
Discharges	41,368	36,746	12.6%
Same-store discharge growth			1.9%
Net patient revenue / discharge	$ 17,504	$ 17,011	2.9%

- **Revenue growth was driven by same-store and new-store volume growth.**
- **New-store discharge growth resulted from the acquisition of Reliant (October 2015); joint ventures in Hot Springs, AR (February 2016), Bryan, TX (August 2016), and Broken Arrow, OK (August 2016); and the opening of a wholly owned hospital in Franklin, TN (December 2015).**
- **Revenue per discharge for Q3 2016 included the benefit of a retroactive indirect medical education(1) ("IME") adjustment of ~ $4 million at the former Reliant hospital in Woburn, MA.**
- **Outpatient and other revenue increase was due primarily to the acquisition of Reliant.**

Refer to pages 44-45 for end notes.

Inpatient Rehabilitation Segment - Adjusted EBITDA

($millions)	Q3 2016	% of Revenue	Q3 2015	% of Revenue
Net operating revenues	$ 751.7		$ 651.6	
Less: Provision for doubtful accounts	(13.7)	1.8%	(10.2)	1.6%
Net operating revenues less provision for doubtful accounts	738.0		641.4	
Operating expenses:				
Salaries and benefits	(371.2)	49.4%	(326.8)	50.2%
Other operating expenses[(a)]	(110.1)	14.6%	(95.8)	14.7%
Supplies	(31.9)	4.2%	(28.9)	4.4%
Occupancy costs	(15.0)	2.0%	(10.6)	1.6%
	(157.0)	20.9%	(135.3)	20.8%
Other income	0.8		0.1	
Equity in nonconsolidated affiliates	2.3		2.4	
Noncontrolling interests	(14.3)		(15.6)	
Segment Adjusted EBITDA	**$ 198.6**		**$ 166.2**	
Percent change	19.5%			
In arriving at Adjusted EBITDA, the following were excluded:				
(a) Loss on disposal or impairment of assets	$ 1.6		$ 0.9	

Segment Adjusted EBITDA for the quarter of $198.6 million

- Q3 2016 expense ratios were favorably impacted by the ~$4 million IME[(1)] adjustment in the quarter

- Salaries and benefits in Q3 2016 included a year-over-year decline in group medical costs.

- Occupancy costs as a percent of revenue increased due to the acquisition of Reliant.

- Bad debt expense as a percent of revenue increased primarily due to aging-based reserves resulting from continued administrative payment delays at the Company's largest Medicare Administrative Contractor; new pre-payment claim denials in Q3 2016 were lower than Q2 2016 (see page 19).

Reconciliations to GAAP provided on pages 35-43

Refer to pages 44-45 for end notes.

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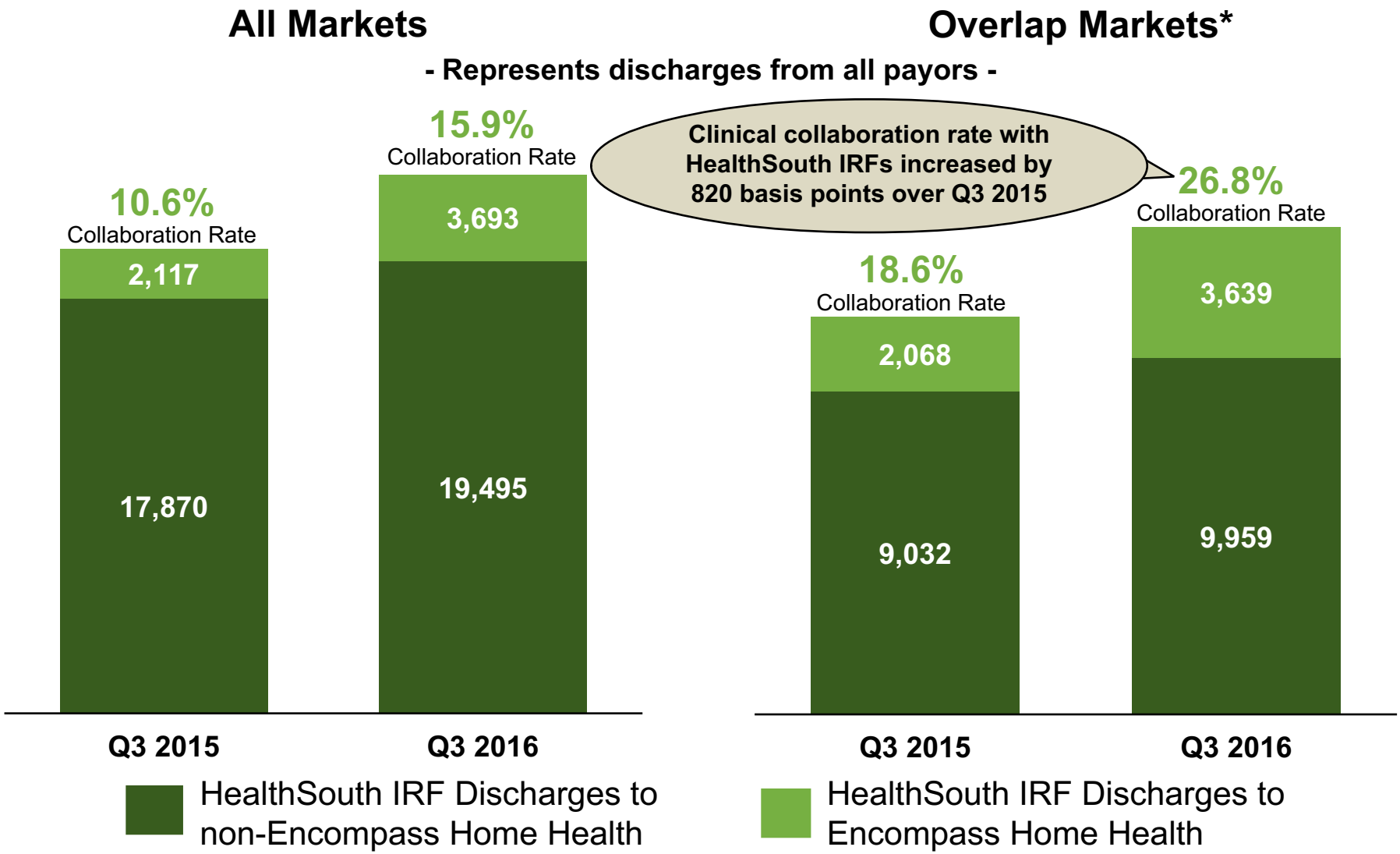
Home Health and Hospice Segment - Revenue

($millions)	Q3 2016	Q3 2015	Favorable/ (Unfavorable)
Net operating revenues:			
Home health revenue	$ 162.0	$ 118.3	36.9 %
Hospice revenue	13.1	8.7	50.6 %
Total segment revenue	**$ 175.1**	**$ 127.0**	37.9 %
(Actual Amounts)			
Admissions	27,239	18,076	50.7 %
Same-store admissions growth			15.3 %
Episodes	46,866	33,542	39.7 %
Same-store episode growth			13.6 %
Revenue per episode	$ 3,032	$ 3,123	(2.9)%

- **Revenue growth was driven by strong same-store and new-store volume growth.**
  - **Approximately 440 basis points of same-store admission growth resulted from clinical collaboration with HealthSouth IRFs.**
- **New-store admission and episode growth resulted from the acquisition of CareSouth and Encompass' other acquisitions throughout 2015.**
- **Revenue per episode was impacted by:**
  - **Medicare reimbursement rate cuts that became effective January 1, 2016 and**
  - **Lower revenue per episode at CareSouth due to patient mix.**

Clinical Collaboration



* Generally defined as a HealthSouth IRF located within a 30-mile radius of an Encompass location.

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Home Health and Hospice Segment - Adjusted EBITDA

($millions)	Q3 2016	% of Revenue	Q3 2015	% of Revenue
Net operating revenues	$ 175.1		$ 127.0	
Less: Provision for doubtful accounts	(1.1)	0.6%	(0.5)	0.4%
Net operating revenues less provision for doubtful accounts	174.0		126.5	
Operating expenses:				
Cost of services	(86.8)	49.6%	(61.7)	48.6%
Support and overhead costs	(59.5)	34.0%	(42.6)	33.5%
	(146.3)	83.6%	(104.3)	82.1%
Equity in net income of nonconsolidated affiliates	0.2		—	
Noncontrolling interests	(2.1)		(1.5)	
Segment Adjusted EBITDA	**$ 25.8**		**$ 20.7**	
Percent change	24.6%			

Segment Adjusted EBITDA for the quarter of $25.8 million.

- Operating expenses as a percent of net operating revenues increased primarily due to lower average revenue per episode, higher cost per visit driven by an increased percentage of therapy patients, merit and benefit cost increases, and expenses related to the integration of CareSouth.

Reconciliations to GAAP provided on pages 35-43

Earnings per Share - As Reported

(In Millions, Except Per Share Data)	Q3 2016	Q3 2015	9 Months 2016	9 Months 2015
Inpatient rehabilitation segment Adjusted EBITDA	$ 198.6	$ 166.2	$ 599.6	$ 501.1
Home health and hospice segment Adjusted EBITDA	25.8	20.7	74.4	56.6
General and administrative expenses	(26.0)	(22.1)	(79.2)	(69.9)
Gain related to SCA equity interest	—	0.6	—	3.2
Consolidated Adjusted EBITDA	198.4	165.4	594.8	491.0
Interest expense and amortization of debt discounts and fees	(42.5)	(35.6)	(130.5)	(98.3)
Depreciation and amortization	(43.5)	(33.7)	(128.8)	(98.3)
Stock-based compensation expense	(4.3)	(6.2)	(17.4)	(21.8)
Noncash loss on disposal or impairment of assets	(1.6)	(0.9)	(2.0)	(0.2)
	106.5	89.0	316.1	272.4
Certain items non-indicative of ongoing operations:				
Government, class action, and related settlements	—	—	—	(8.0)
Loss on early extinguishment of debt	(2.6)	—	(7.4)	(20.0)
Professional fees - accounting, tax, and legal	—	(0.4)	(1.9)	(2.7)
Transaction costs	—	(2.3)	—	(5.6)
Pre-tax income	103.9	86.3	306.8	236.1
Income tax expense[2]	(42.1)	(35.9)	(124.2)	(98.4)
Income from continuing operations*	$ 61.8	$ 50.4	$ 182.6	$ 137.7
Interest and amortization on 2.0% Convertible Senior Subordinated Notes (net of tax)[3]	2.4	2.4	7.2	7.0
Diluted shares (see page 31)	99.4	101.5	99.5	101.4
Diluted earnings per share*[3]	**$ 0.64**	**$ 0.52**	**$ 1.90**	**$ 1.43**

- **Earnings per share for the third quarter and first nine months of 2016 were impacted by:**
  - Higher depreciation and amortization resulting from acquisitions and capital investments
  - Higher interest expense related to the financing of the Reliant and CareSouth acquisitions
  - Loss on early extinguishment of debt associated with the redemptions of the 7.75% Senior Notes due 2022
  - Lower share count resulting from stock repurchases in Q4 2015 and the first half of 2016
- **Earnings per share for the third quarter and first nine months of 2015 were impacted by:**
  - Loss on early extinguishment of debt associated with the redemption of the 8.125% Senior Notes due 2020
  - General Medicine settlement
  - Reliant transaction costs

* Earnings per share are determined using income from continuing operations attributable to HealthSouth.
Refer to pages 44-45 for end notes.

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Adjusted Earnings per Share[4]

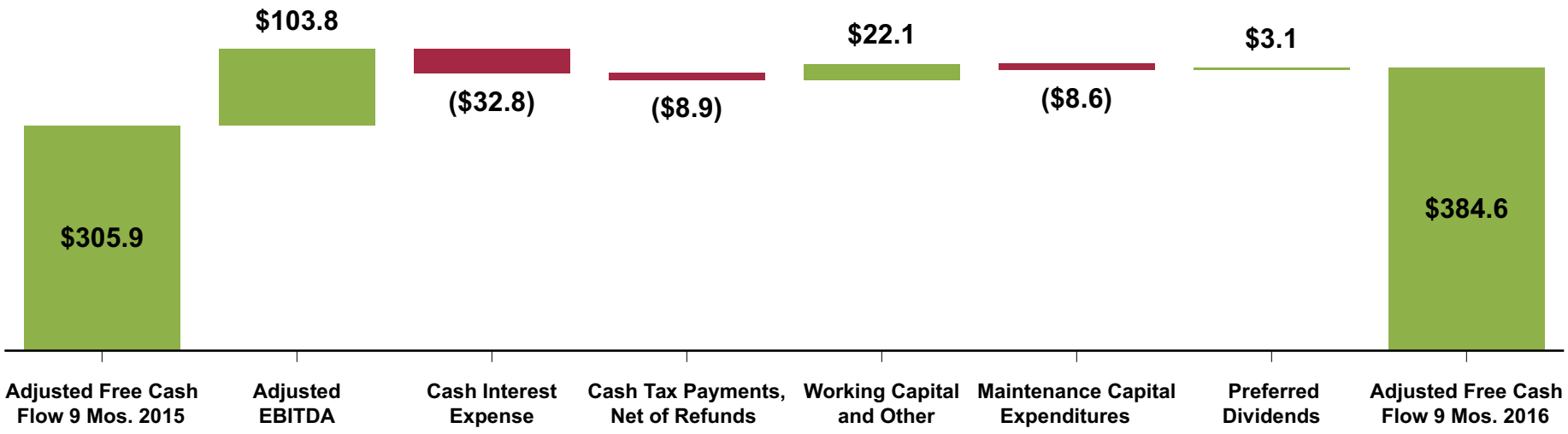
	Q3		9 Months	
	2016	2015	2016	2015
Earnings per share, as reported	**$ 0.64**	**$ 0.52**	**$ 1.90**	**$ 1.43**
Adjustments, net of tax:				
Government, class action, and related settlements	—	—	—	0.05
Professional fees — accounting, tax, and legal	—	—	0.01	0.02
Mark-to-market adjustment for stock appreciation rights[5]	(0.01)	0.01	(0.01)	0.01
Transaction costs	—	0.01	—	0.03
Loss on early extinguishment of debt	0.02	—	0.04	0.12
Sale of hospital	—	—	(0.01)	—
Adjusted earnings per share*	**$ 0.65**	**$ 0.54**	**$ 1.95**	**$ 1.65**

Adjusted earnings per share removes the impact of items that are deemed to be non-indicative of the Company's ongoing operations from the earnings per share calculation.

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 40-43.

Refer to pages 44-45 for end notes.

Adjusted Free Cash Flow[(6)] - Year to Date



- Adjusted free cash flow for the first nine months of 2016 grew 25.7% as a result of increased Adjusted EBITDA and favorable working capital changes.
  - ✓ Cash interest expense increased due to the financing of the Reliant and CareSouth acquisitions.
  - ✓ Working capital changes were mainly attributable to the timing of payroll-related liabilities.

Reconciliations to GAAP provided on pages 35-43

Refer to pages 44-45 for end notes.

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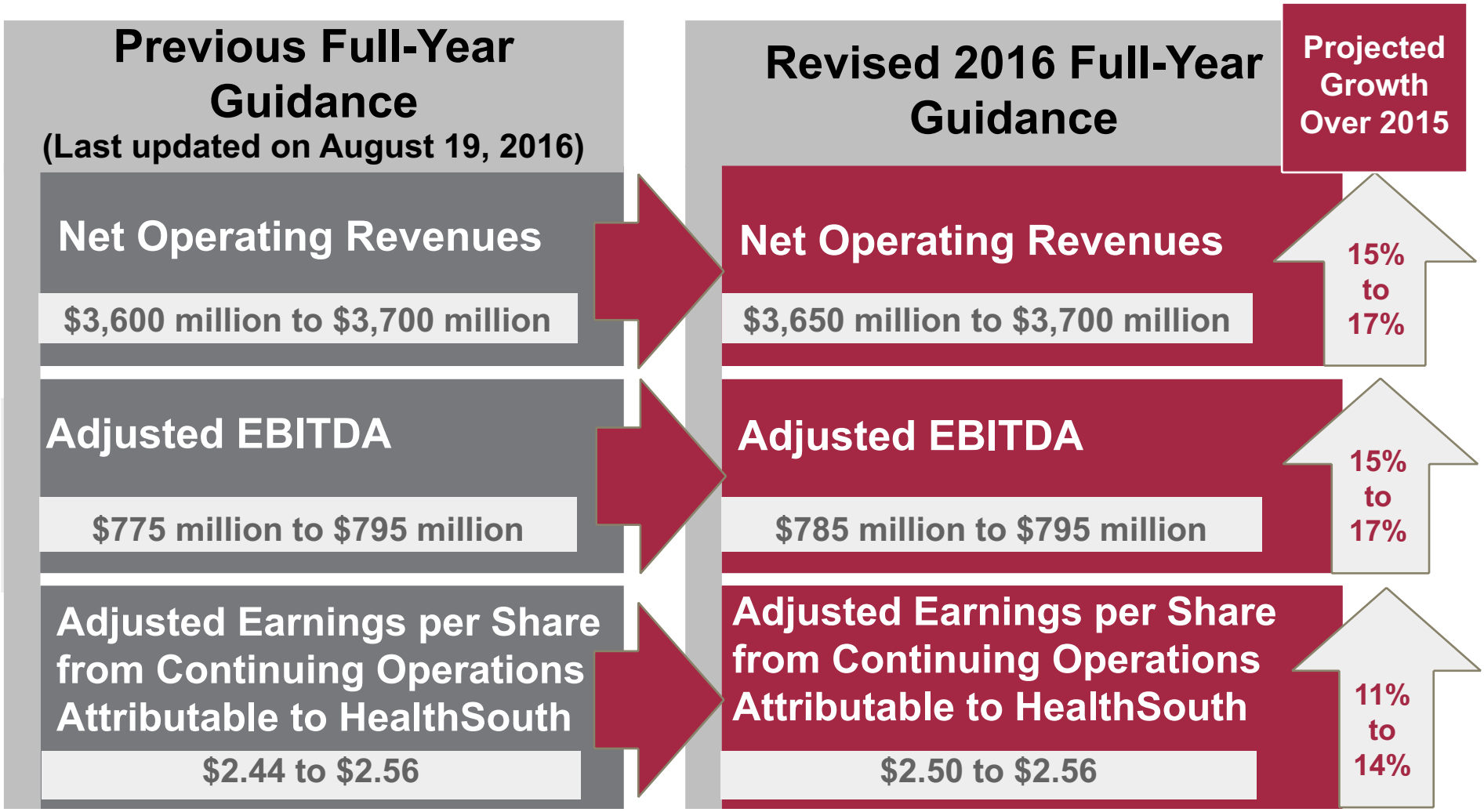
Revised Guidance



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Guidance Considerations

Inpatient Rehabilitation

- **Full-year contribution from Reliant (anniversaried October 1st) and other 2015 acquisitions and openings**
  - Transition to HLS business model
- **Continued evolution of payor mix**
  - Managed care and Medicaid increases expected to moderate in 2016 as compared to 2015
- **Estimated 1.6% increase in Medicare pricing for Q1 through Q3; 1.9% for Q4**
- **Merit increase of 2.75% effective October 1st**
- **Moderating increase in group medical expense compared to increase experienced in 2015**
- **Bad debt expense of 1.8% to 2.0% of net operating revenues in 2016**

Home Health and Hospice

- **Full-year contribution from CareSouth (anniversaries November 2nd) and other 2015 acquisitions and openings**
  - Transition to Encompass business model
- **Estimated 1.7% decrease in Medicare pricing (effective January 1, 2016)**
- **Estimated $1.5 million negative impact in Q4 2016 based on 2017 proposed rule (applicable to all episodes that end after December 31st) - See page 21.**
- **Delayed implementation of the pre-claim review demonstration in four of the five states**
- **Clinical collaboration with HealthSouth IRFs**

Consolidated

- **Diluted share count of 100.0 million shares**
- **Tax rate of approximately 41%**

Adjusted Free Cash Flow[6] and Tax Assumptions

Certain Cash Flow Items (millions)	9 Months 2016 Actual	2016 Assumptions	2015 Actual
• **Cash interest expense** (net of amortization of debt discounts and fees)	$120.2	$160 to $165	$128.6
• **Cash payments for taxes, net of refunds**	$17.6	$15 to $30	$9.4
• **Working Capital and Other**	$7.8	$40 to $60	$69.2
• **Maintenance CAPEX**	$64.5	$95 to $105	$83.1
• **Dividends paid on preferred stock[7]**	$—	$—	$3.1
• **Adjusted Free Cash Flow**	$384.7	$425 to $485	$389.0

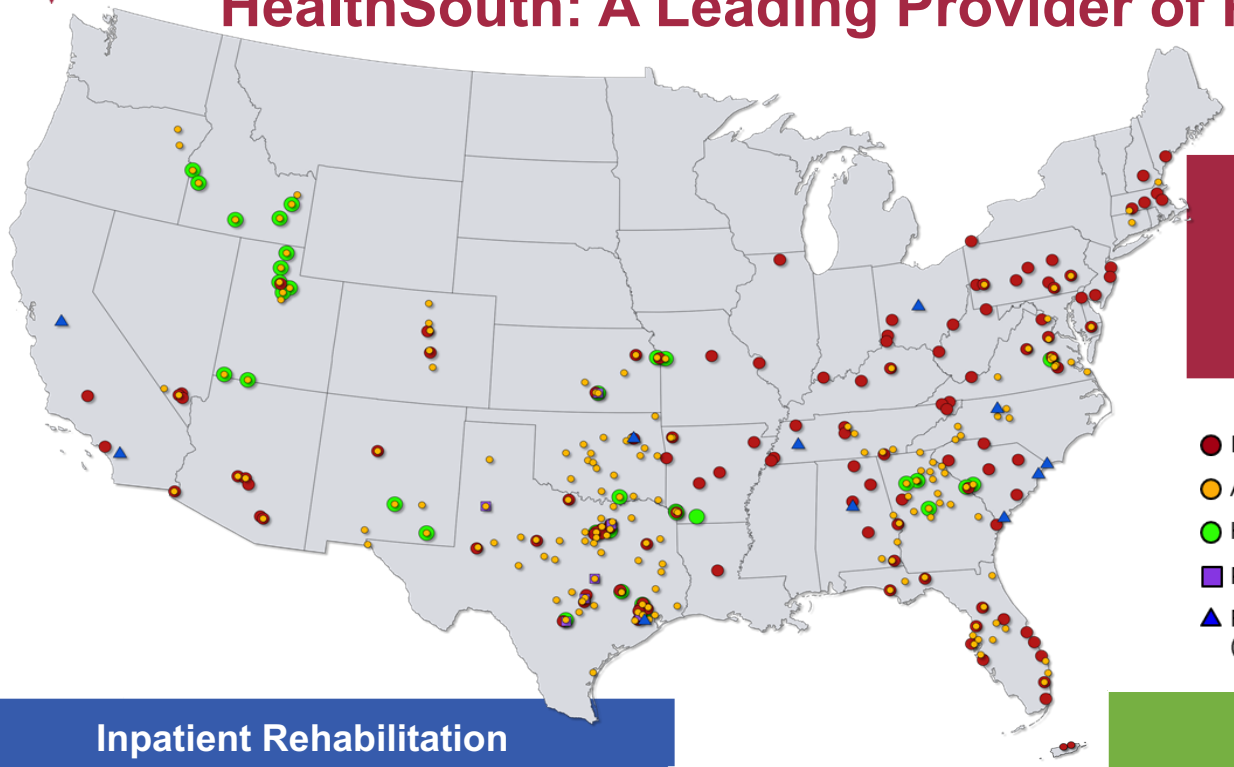
- **Revised working capital range downward by $20 million to reflect current working capital assumptions**
- **GAAP Tax Considerations:**
  - Federal NOL expected to be exhausted by end of 2016*
  - Remaining valuation allowance of ~$28 million related to state NOLs

* The Company has filed with the IRS for a tax accounting method change related to billings denied under pre-payment claims reviews that, if accepted, would increase the gross federal NOL by ~$125 million. Exhaustion of the federal NOL by year-end 2016 excludes the impact of this filing.

Reconciliations to GAAP provided on pages 35-43
Refer to pages 44-45 for end notes.

Appendix

HealthSouth: A Leading Provider of Post-Acute Care



59% of HealthSouth's IRFs are located within a 30-mile radius of an Encompass location.

- Inpatient Rehabilitation Hospitals
- Adult Home Health Locations
- Hospice Locations
- Pediatric Home Health Locations
- Future Inpatient Rehabilitation Hospitals (11 under development)

Inpatient Rehabilitation

Portfolio - As of September 30, 2016	
122	Inpatient Rehabilitation Hospitals • 37 operate as joint ventures with acute care hospitals
30	Number of States (plus Puerto Rico)
~ 28,100	Employees

Key Statistics - Trailing 4 Quarters	
~ $3.0 Billion	Revenue
164,722	Inpatient Discharges
649,510	Outpatient Visits

IRF Marketshare

11% of IRFs

21% of Licensed Beds

28% of Patients Served

Home Health and Hospice Marketshare

4th largest provider of Medicare-certified skilled home health services

Encompass Home Health and Hospice

Portfolio – As of September 30, 2016	
183	Home Health Locations
7	Pediatric Home Health Locations
33	Hospice Locations
24	Number of States
~ 8,000	Employees

Key Statistics - Trailing 4 Quarters	
~ $657 million	Revenue
179,181	Home Health Episodes
2,955	Hospice Admissions

Pre-Payment Claims Denials - Inpatient Rehabilitation Segment

Background

- For several years, under programs designated as "widespread probes," certain Medicare Administrative Contractors ("MACs") have conducted pre-payment claim reviews and denied payment for certain diagnosis codes.
  - Pre-payment claim denials increased during 2014 and 2015 due to an announced widespread review of IRF neurological billing codes and expansion of the ongoing lower extremity code denials.
- HealthSouth appeals most of these denials. On claims it takes to an administrative law judge ("ALJ"), HealthSouth historically has experienced an approximate 70% success rate.
  - MACs identify medical documentation issues as a leading basis for denials.
  - HealthSouth's investment in clinical information systems and its medical services department has further improved its documentation and reduced technical denials.
- By statute, ALJ decisions are due within 90 days of a request for hearing, but appeals are taking years. A federal court is considering remedies to address the backlog.
- All providers continue to experience delays in the adjudication process.
  - For YTD Sept. 2016, 139 of HealthSouth's appeals were heard at the ALJ level. Most of the appeals are of claims denied in 2011 and 2012.
  - During the same period, HealthSouth had 3,273 new claim denials. At current rates, appeals from these denials may not be heard for four years or more.
- Reserves for pre-payment claim denials are recorded via the provision for doubtful accounts when HealthSouth receives the request for additional documents for review from the MAC.

Impact to Income Statement

Period	New Denials	Collections of Previously Denied Claims	Bad Debt Expense for New Denials	Update of Success Rate
		(In Millions)		
Q3 2016	$15.7	$(8.5)	$4.6	$—
Q2 2016	18.7	(4.9)	4.6	—
Q1 2016	22.7	(8.4)	6.0	—
Q4 2015	22.5	(4.1)	5.6	(1.3)
Q3 2015	22.0	(4.1)	5.9	(1.1)
Q2 2015	18.2	(3.8)	4.9	—
Q1 2015	16.3	(3.0)	4.2	—
Q4 2014	22.0	(6.6)	6.2	(3.2)
Q3 2014	15.8	(0.5)	1.7	—
Q2 2014	7.1	(1.7)	3.0	—

Impact to Balance Sheet

	Sept. 30, 2016	Dec. 31, 2015	Sept. 30, 2015	Dec. 31, 2014
		(In Millions)		
Pre-payment claims denials	$ 147.4	$ 114.8	$ 98.0	$ 59.3
Recorded reserves	(43.8)	(31.2)	(28.0)	(22.8)
Net accounts receivable from pre-payment claims denials	**$ 103.6**	**$ 83.6**	**$ 70.0**	**$ 36.5**

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Expansion Activity

11 IRF Development Projects Underway

1 New State

Inpatient Rehabilitation Facilities	# of New Beds		
	2016	2017	2018
De Novo:			
1 Modesto, CA	50	—	—
2 Pearland, TX	—	40	—
3 Murrieta, CA	—	—	50
4 Shelby County, AL	—	—	34
5 Hilton Head, SC	—	—	38
Joint Ventures:			
Hot Springs, AR	40	—	—
6 Broken Arrow, OK	22	18	—
Bryan, TX	49	—	—
7 Westerville, OH	—	60	—
8 Jackson, TN	—	48	—
9 Murrells Inlet, SC	—	—	29
Bed Expansions, net*	103	100	100
	264	266	251

Q3 2016 expansion activity highlights:

- Opened new 40-bed hospital in July 2016 in Hot Springs, AR to replace 27-bed unit opened in February 2016 (joint venture with CHI St. Vincent)
- Opened new 49-bed hospital in Bryan, TX in August 2016 (joint venture with St. Joseph Health System)
- Began operating 22-bed unit in Broken Arrow, OK; expect to replace with new 40-bed hospital in Q3 2017 (joint venture with St. John Health System)
- Announced two joint venture hospitals with Tidelands Health:
  - Murrells Inlet, SC - 29-bed hospital expected to be operational in Q2 2018
  - 10 Little River, SC - filed CON application to build a 46-bed hospital
- Filed a CON application with Novant Health to build a 68-bed 11 hospital in Winston-Salem, NC
- Expanded existing hospital in Ocala, FL by 10 beds
- Received CON approval for:
  - 38-bed hospital in Hilton Head, SC; expected to be operational in 2018
  - addition of 35-bed satellite hospital in St. Peters, MO (existing joint venture with BJC Healthcare); expected to be operational in Q3 2017

Q3 2016 acquisition highlights:

- Acquired Serenity Care (3 hospice locations in Arkansas and Texas)
- Acquired one home health agency in Yuma, AZ

Home Health and Hospice	# of locations
December 31, 2015	213
Acquisitions	8
De Novo	3
Merged / Closed Locations	(1)
September 30, 2016	223

* Net bed expansions in each year may change due to the timing of certain regulatory approvals and/or construction delays. 2016 does not include impact of sale of 61-bed hospital in Beaumont, TX or closure of 83-bed hospital in Austin, TX.

Business Outlook: Revenue Assumptions

Volume	Inpatient Rehabilitation* • 3+% annual discharge growth			Home Health & Hospice* • 10+% annual episode growth • Includes $30-$40 million per annum in agency acquisitions		
Medicare Pricing	**Approx. 73% of Revenue**			**Approx. 82% of Revenue**		
	FY 2016 Q415-Q316	**FY 2017 Q416-Q317 Final Rule**	**FY 2018 Q417-Q318[8]**	**CY 2016 Q116-Q416**	**CY 2017 Q117-Q417 Proposed Rule**	**CY 2018 Q118-Q418[8]**
Market basket update	2.4%	2.7%	1.0%	2.3%	2.8%	1.0%
Healthcare reform reduction	(20) bps	(75) bps	-	-	-	-
Healthcare reform rebasing adjustment	-	-	-	(2.4%)	(2.3%)	-
Healthcare reform coding intensity reduction	-	-	-	(0.9%)	(0.9%)	(0.9%)
Outlier fixed dollar loss adjustment	-	-	-	-	(0.1%)	-
Expiration of rural add-on	-	-	-	-	-	Approx. (0.7%)
Healthcare reform productivity adjustment	(50) bps	(30) bps	-	(40) bps	(50) bps	-
Net impact - all providers	1.7%	1.65%	1.0%	(1.4%)	(1.0%)	(0.6%)
Impact from case mix re-weighting	-	-	-	-	(1.0%)	-
Impact from change in outlier calculation	-	-	-	-	(1.0% to 2.0%)	-
Estimated impact to HealthSouth[9]	1.6%	1.9%		(1.7%)	(3.0% to 4.0%)	
Medicare Advantage & Managed Care Pricing	**2% Sequestration[10]**					
	Approx. 19% of Revenue			**Approx. 13% of Revenue**		
Expected Increases	2-4%	2-4%	2-4%	0-2%	0-2%	0-2%

* Outpatient and hospice, which services accounted for 4.4% of total operating revenues as of December 31, 2015, are not included in the pricing assumptions.

Refer to pages 44-45 for end notes.

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Free Cash Flow Priorities

Highest Priority

Growth in Core Business

(In Millions)

	9 Months 2016 Actuals	2016 Assumptions	2015 Actuals
IRF bed expansions	$15.9	$20 to $30	$20.8
New IRF's			
- De novos	50.0	70 to 90	47.8
- Acquisitions	—	0 to 20	786.2
New home health and hospice acquisitions	19.6	30 to 40	200.2
	$85.5	$120 to $180	$1,055.0

- Redeemed remaining outstanding principal of $176 million of 2022 Notes in the first nine months of 2016
- Purchased land formerly leased at hospital in Melbourne, FL

Debt Reduction

	9 Months 2016 Actuals	2016 Assumptions	2015 Actuals
Debt redemptions (borrowings), net	$160.7	$TBD	$(1,060.3)
Leased property purchases	3.0	TBD	—

Shareholder Distributions

Cash dividends on common stock[11]	62.4	84	77.2
Common stock repurchases	24.1	TBD	45.3
	$250.2	$TBD	$(937.8)

~$137 million authorization remaining as of September 30, 2016

Note: 2015 amount for debt borrowings included ~$208 million related to the Reliant hospitals' capital lease obligations. See the debt schedule on page 23. Refer to pages 44-45 for end notes.

HEALTHSOUTH

Debt Schedule

($millions)	September 30, 2016	Dec. 31, 2015	Change in Debt vs. YE 2015
Advances under $600 million revolving credit facility, July 2020 - LIBOR +200bps	$ 150.0	$ 130.0	$ 20.0
Term loan facility, July 2020 - LIBOR +200bps	426.8	443.3	(16.5)
Bonds Payable:			
7.75% Senior Notes due 2022	—	174.3	(174.3)
5.125% Senior Notes due 2023	295.1	294.6	0.5
5.75% Senior Notes due 2024	1,193.1	1,192.6	0.5
5.75% Senior Notes due 2025	343.7	343.4	0.3
2.0% Convertible Senior Subordinated Notes due 2043	273.2	265.9	7.3
Other notes payable	47.1	39.2	7.9
Capital lease obligations	281.8	288.2	(6.4)
Long-term debt	**$ 3,010.8**	**$ 3,171.5**	$ (160.7)
Debt to Adjusted EBITDA	**3.8x**	**4.6x**	

Note: The Company redeemed the outstanding principal of its 2022 Notes in the first nine months of 2016.

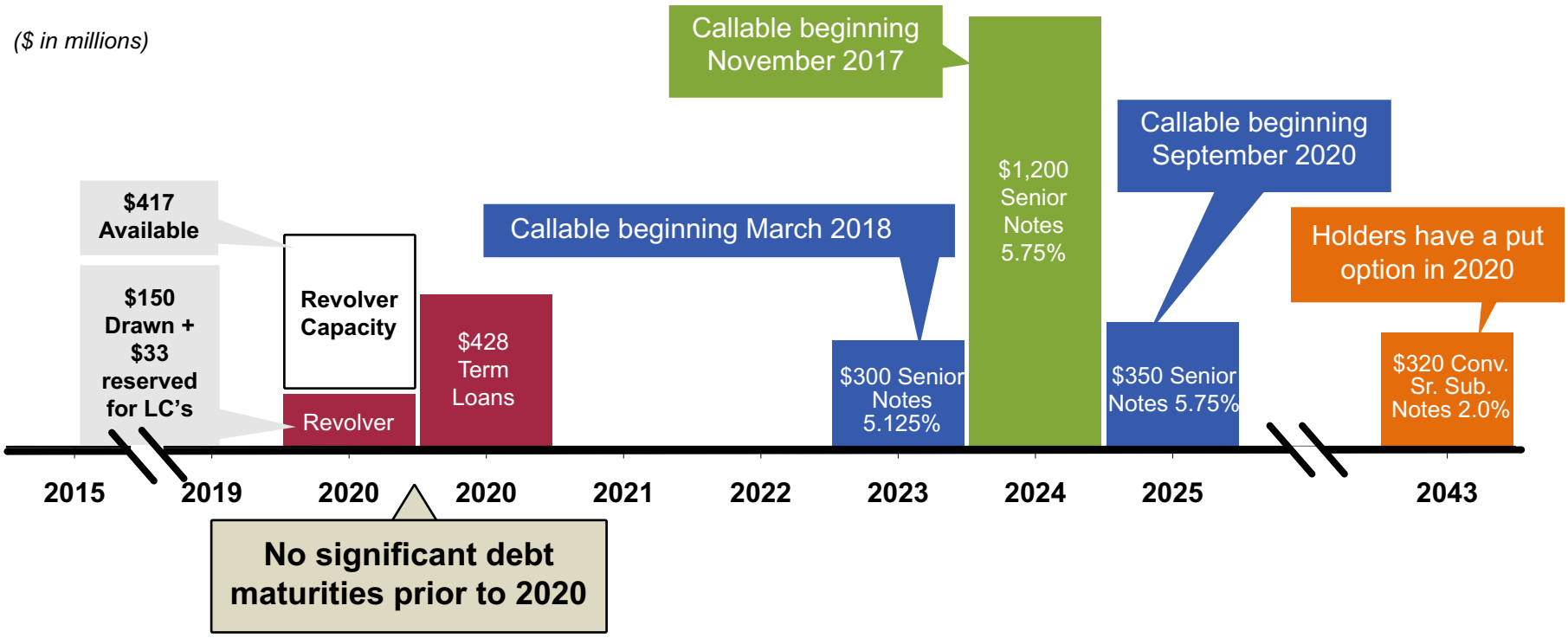
Reconciliations to GAAP provided on pages 35-43

Debt Maturity Profile - Face Value

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

As of September 30, 2016*

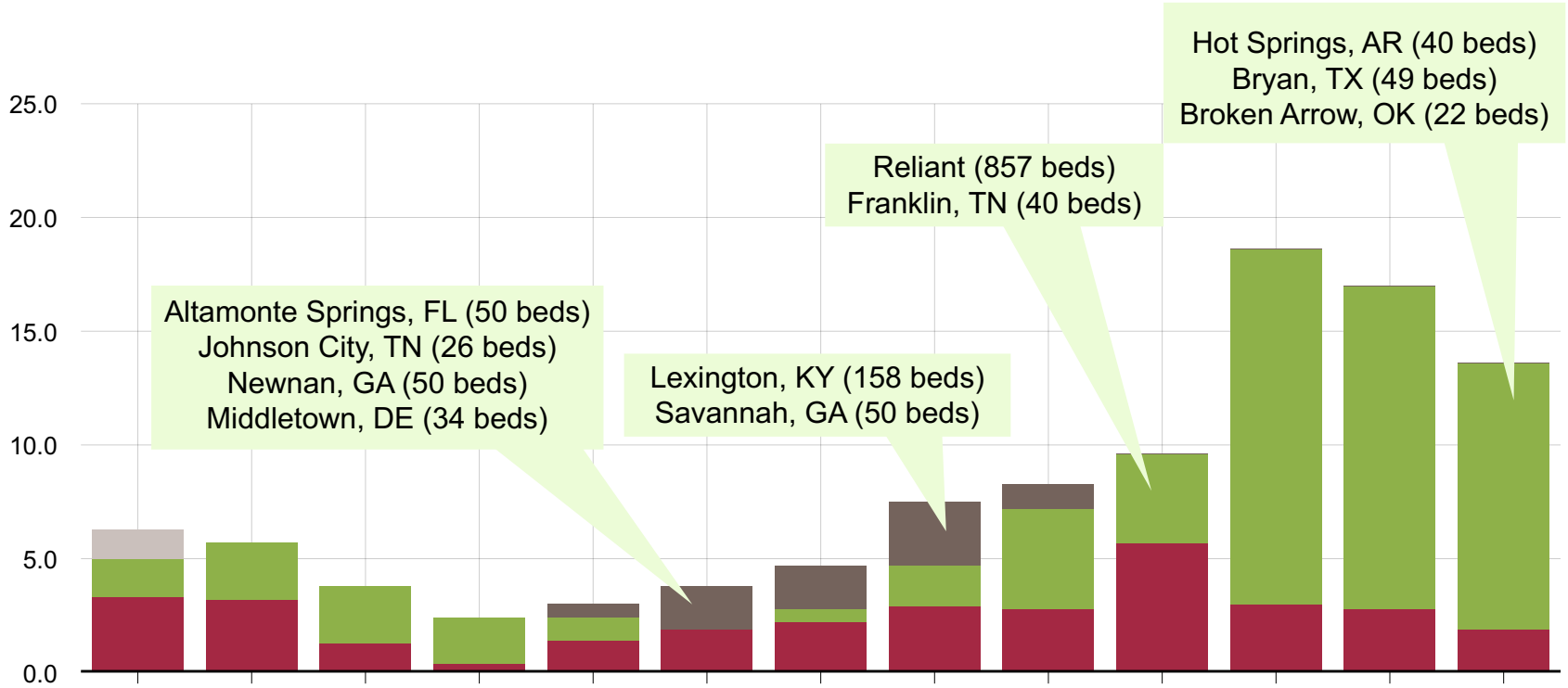
($ in millions)



* This chart does not include ~$282 million of capital lease obligations or ~$47 million of other notes payable. See the debt schedule on page 23.

HEALTHSOUTH

New-Store/Same-Store IRF Growth



	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Fairlawn[12]				0.6%	1.9%	1.9%	2.0%	1.1%					
New Store	2.5%	2.5%	2.0%	1.0%	—%	0.6%	1.8%	4.4%	5.7%	15.6%	14.2%	11.7%	10.7%
Same Store*	3.2%	1.3%	0.4%	1.4%	1.9%	2.2%	2.9%	2.8%	3.9%	3.0%	2.8%	1.9%	1.9%
Total by Qtr.	5.7%	3.8%	2.4%	3.0%	3.8%	4.7%	6.7%	8.3%	9.6%	18.6%	17.0%	13.6%	12.6%
Total by Year		5.0%				3.5%				10.9%			
Same-Store Year*		2.5%				1.3%				3.2%			
Same-Store Year UDS[13]		(0.7)%				(0.2)%				1.3%			

* Includes consolidated HealthSouth inpatient rehabilitation hospitals classified as same store during each period

Refer to pages 44-45 for end notes.

HEALTHSOUTH

CJR Model - How Does It Work?

Begins with an admission to an acute care hospital for a patient who is ultimately discharged under MS-DRG 469 or 470.





Patients are discharged to a post-acute care provider or to home self-care.

There is no downside risk in year one. Repayment responsibility will be phased in during year two.

Acute care hospitals are accountable for expenditures and quality of care for entire "episode." Episode = hospitalization + 90 days post discharge

POST-ACUTE CARE PROVIDERS



RETROSPECTIVE RECONCILIATION PERFORMED BY CMS

At the end of each performance year, actual spending for each episode is compared to each acute care hospital's target price.

If episode spending < target price, acute care hospital receives additional payment from Medicare*.
If episode spending > target price, acute care hospital returns a portion of the Medicare episode payment.

All providers are paid under the usual Medicare payment system rules and procedures.

Acute care hospitals receive separate episode target prices each year reflecting the differences in spending for each MS-DRG. Target prices:

- are based on three years of historical data;
- include a 3% discount* vs. expected episode spending; and
- incorporate a blend of historical, hospital-specific spending and regional spending for CJR episodes, with the regional component of the blend increasing over time.

Years 1 and 2 = 2/3 hospital-specific; 1/3 regional	Year 3 = 1/3 hospital-specific; 2/3 regional	Years 4 and 5 = 100% regional

Source: CMS
*Subject to quality of care attainment

CJR Model - How Does It Work? - Collaborators

Risk Sharing is Allowed in CJR with "Collaborators"

Acute care hospitals participating in CJR may choose to engage in risk-sharing financial arrangements with other care providers for CJR episodes. A provider participating in these risk-sharing arrangements with a CJR acute care hospital is deemed a "collaborator."

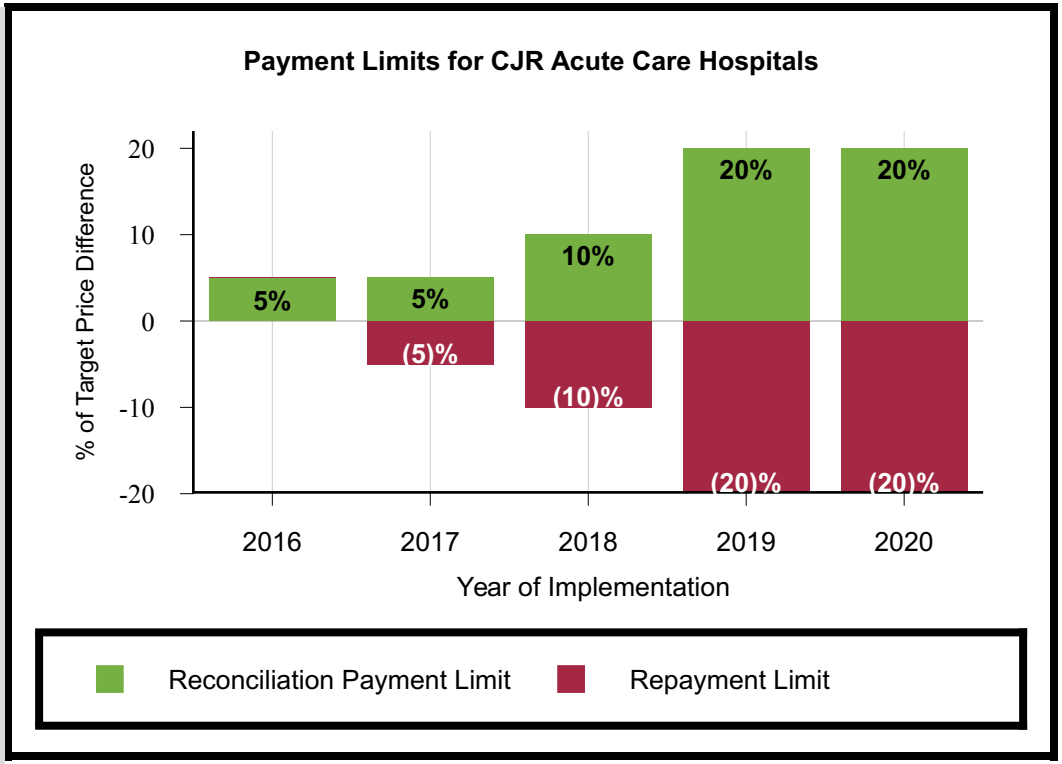
There are eight types of providers eligible to be CJR Collaborators, including IRFs and home health agencies.

CJR acute care hospitals must establish eligibility criteria for Collaborators to meet, including quality of care criteria.

Gain sharing payments must be actually and proportionally related to the care of beneficiaries in a CJR episode.

No one Collaborator may make an alignment payment greater than 25% of the CJR acute care hospital's repayment amount. In aggregate, a CJR acute care hospital may not collect alignment payments for more than 50% of its repayment amount.

There is no ceiling on the portion of the reconciliation payments received by a hospital from Medicare that the hospital may distribute to non-physician Collaborators.



The corridors for risk sharing phase-in over time.

Source: DHG Healthcare and CMS

Payment Sources (Percent of Revenues)

	Inpatient Rehabilitation Segment		Home Health and Hospice Segment		Consolidated				
	Q3		Q3		Q3		9 Months		Full Year
	2016	2015	2016	2015	2016	2015	2016	2015	2015
Medicare	73.3%	73.2%	81.8%	84.7%	74.8%	75.1%	75.0%	74.8%	74.9%
Medicare Advantage	7.6%	7.7%	8.8%	6.7%	7.9%	7.5%	7.9%	7.8%	7.9%
Managed care	11.4%	11.2%	4.5%	2.9%	10.1%	9.9%	9.9%	10.0%	9.8%
Medicaid	3.0%	3.0%	4.7%	5.7%	3.3%	3.4%	3.3%	3.0%	3.0%
Other third-party payors	1.8%	1.7%	—%	—%	1.5%	1.5%	1.4%	1.6%	1.7%
Workers' compensation	1.0%	1.0%	—%	—%	0.8%	0.8%	0.8%	0.9%	0.9%
Patients	0.6%	0.6%	0.1%	—%	0.5%	0.5%	0.5%	0.6%	0.6%
Other income	1.3%	1.6%	0.1%	—%	1.1%	1.3%	1.2%	1.3%	1.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Inpatient Rehabilitation Operational and Labor Metrics

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Full Year 2015
					(In Millions)			
Net patient revenue-inpatient	$ 724.1	$ 721.2	$ 719.4	$ 696.8	$ 625.1	$ 618.7	$ 606.6	$ 2,547.2
Net patient revenue-outpatient and other revenues	27.6	31.4	29.8	29.1	26.5	26.6	23.7	105.9
Net operating revenues	$ 751.7	$ 752.6	$ 749.2	$ 725.9	$ 651.6	$ 645.3	$ 630.3	$ 2,653.1
					(Actual Amounts)			
Discharges[14]	41,368	41,365	41,098	40,891	36,746	36,408	35,116	149,161
Net patient revenue per discharge	$ 17,504	$ 17,435	$ 17,505	$ 17,040	$ 17,011	$ 16,994	$ 17,274	$ 17,077
Outpatient visits	158,981	164,761	162,649	163,119	138,121	144,914	131,353	577,507
Average length of stay	12.7	12.6	12.9	12.6	12.9	13.0	13.3	12.9
Occupancy %	67.8%	68.2%	68.9%	66.4%	69.6%	70.4%	72.8%	62.8%
# of licensed beds*	8,441	8,430	8,481	8,404	7,422	7,374	7,100	8,404
Occupied beds	5,723	5,749	5,843	5,580	5,166	5,191	5,169	5,278
Full-time equivalents (FTEs)[15]	19,663	19,503	19,352	19,136	17,782	17,601	17,002	17,880
Contract labor	241	205	194	152	141	118	116	132
Total FTE and contract labor	19,904	19,708	19,546	19,288	17,923	17,719	17,118	18,012
EPOB[16]	3.48	3.43	3.35	3.46	3.47	3.41	3.31	3.41

* The decrease in licensed beds from Q1 2016 to Q2 2016 was due to the sale of the hospital in Beaumont, TX (61 beds).

Refer to pages 44-45 for end notes.

HEALTHSOUTH

Home Health and Hospice Operational Metrics

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Full Year 2015
					(In Millions)			
Net home health revenue	$ 162.0	$ 157.1	$ 150.9	$ 144.4	$ 118.3	$ 111.5	$ 103.9	$ 478.1
Net hospice and other revenue	13.1	11.0	9.7	9.0	8.7	7.6	6.4	31.7
Net operating revenues	$ 175.1	$ 168.1	$ 160.6	$ 153.4	$ 127.0	$ 119.1	$ 110.3	$ 509.8
Home Health:					(Actual Amounts)			
Admissions[17]	27,239	25,753	25,763	22,892	18,076	16,862	16,499	74,329
Recertifications	20,888	20,432	19,453	18,909	16,542	15,103	14,485	65,039
Episodes	46,866	45,774	43,844	42,697	33,542	31,817	29,512	137,568
Average revenue per episode	$ 3,032	$ 3,033	$ 3,035	$ 3,005	$ 3,123	$ 3,082	$ 3,102	$ 3,072
Episodic visits per episode	19.0	18.9	19.1	18.2	19.6	19.4	19.6	19.1
Total visits	1,001,021	967,968	937,804	862,224	721,055	675,095	630,999	2,889,373
Cost per visit	$ 75	$ 73	$ 73	$ 73	$ 72	$ 71	$ 71	$ 72
Hospice:								
Admissions[18]	832	785	724	614	620	594	624	2,452
Patient days	83,628	71,277	63,431	59,100	55,627	49,272	40,898	204,898
Revenue per day	$ 157	$ 154	$ 153	$ 155	$ 156	$ 154	$ 156	$ 155

Refer to pages 44-45 for end notes.

Share Information

	Weighted Average for the Period						
	Q3		9 Months		Full Year		
(Millions)	2016	2015	2016	2015	2015	2014	2013
Basic shares outstanding[7]	89.1	90.6	89.3	89.1	89.4	86.8	88.1
Convertible perpetual preferred stock[7]	—	—	—	1.3	1.0	3.2	10.5
Convertible senior subordinated notes[19]	8.5	8.4	8.5	8.3	8.3	8.2	1.0
Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants[20]	1.8	2.5	1.7	2.7	2.3	2.5	2.5
Diluted shares outstanding	99.4	101.5	99.5	101.4	101.0	100.7	102.1

	End of Period						
	Q3		9 Months		Full Year		
(Millions)	2016	2015	2016	2015	2015	2014	2013
Basic shares outstanding[7]	89.1	90.6	89.1	90.6	89.3	86.6	86.8

	Date	Approx. Conversion Rate	Approx. Conversion Price
Convertible senior subordinated notes[19]	10/03/16	26.9106	$37.16

Refer to pages 44-45 for end notes.

Segment Operating Results

	Q3 2016				Q3 2015			
	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated
Net operating revenues	$ 751.7	$ 175.1	$ —	$ 926.8	$ 651.6	$ 127.0	$ —	$ 778.6
Less: Provision for doubtful accounts	(13.7)	(1.1)	—	(14.8)	(10.2)	(0.5)	—	(10.7)
	738.0	174.0	—	912.0	641.4	126.5	—	767.9
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(371.2)	—	(126.2)	(497.4)	(326.8)	—	(90.3)	(417.1)
Other operating expenses[(a)]	(110.1)	—	(14.6)	(124.7)	(95.8)	—	(10.0)	(105.8)
Supplies	(31.9)	—	(2.9)	(34.8)	(28.9)	—	(2.1)	(31.0)
Occupancy	(15.0)	—	(2.6)	(17.6)	(10.6)	—	(1.9)	(12.5)
Home Health and Hospice:								
Cost of services sold (excluding depreciation and amortization)	—	(86.8)	86.8	—	—	(61.7)	61.7	—
Support and overhead costs	—	(59.5)	59.5	—	—	(42.6)	42.6	—
	(528.2)	(146.3)	—	(674.5)	(462.1)	(104.3)	—	(566.4)
Other income	0.8	—	—	0.8	0.1	—	—	0.1
Equity in net income of nonconsolidated affiliates	2.3	0.2	—	2.5	2.4	—	—	2.4
Noncontrolling interest	(14.3)	(2.1)	—	(16.4)	(15.6)	(1.5)	—	(17.1)
Segment Adjusted EBITDA	**$ 198.6**	**$ 25.8**	**$ —**	**224.4**	**$ 166.2**	**$ 20.7**	**$ —**	**186.9**
General and administrative expenses[(b)(c)]				(26.0)				(22.1)
Gain related to SCA equity interest				—				0.6
Adjusted EBITDA				**$ 198.4**				**$ 165.4**
In arriving at Adjusted EBITDA, the following were excluded:								
(a) Loss on disposal or impairment of assets	$ 1.6	$ —	$ —	$ 1.6	$ 0.9	$ —	$ —	$ 0.9
(b) Transaction costs	—	—	—	—	—	—	—	2.3
(c) Stock-based compensation	—	—	—	4.3	—	—	—	6.2

Reconciliations to GAAP provided on pages 35-43

Segment Operating Results

	Nine Months Ended September 30, 2016				Nine Months Ended September 30, 2015			
	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated
Net operating revenues	$ 2,253.5	$ 503.8	$ —	$ 2,757.3	$ 1,927.2	$ 356.4	$ —	$ 2,283.6
Less: Provision for doubtful accounts	(43.8)	(2.9)	—	(46.7)	(31.4)	(1.8)	—	(33.2)
	2,209.7	500.9	—	2,710.6	1,895.8	354.6	—	2,250.4
Operating Expenses:								—
Inpatient Rehabilitation:								—
Salaries and benefits	(1,107.2)	—	(362.4)	(1,469.6)	(950.8)	—	(253.2)	(1,204.0)
Other operating expenses[(a)]	(321.7)	—	(43.3)	(365.0)	(284.5)	—	(29.4)	(313.9)
Supplies	(96.1)	—	(8.1)	(104.2)	(88.6)	—	(5.5)	(94.1)
Occupancy	(46.0)	—	(7.5)	(53.5)	(31.7)	—	(5.4)	(37.1)
Home Health and Hospice:								—
Cost of services sold (excluding depreciation and amortization)	—	(246.8)	246.8	—	—	(171.8)	171.8	—
Support and overhead costs	—	(174.5)	174.5	—	—	(121.7)	121.7	—
	(1,571.0)	(421.3)	—	(1,992.3)	(1,355.6)	(293.5)	—	(1,649.1)
Other income	2.1	—	—	2.1	1.0	—	—	1.0
Equity in net income of nonconsolidated affiliates	6.7	0.6	—	7.3	6.3	—	—	6.3
Noncontrolling interest	(47.9)	(5.8)	—	(53.7)	(46.4)	(4.5)	—	(50.9)
Segment Adjusted EBITDA	**$ 599.6**	**$ 74.4**	**$ —**	**674.0**	**$ 501.1**	**$ 56.6**	**$ —**	**557.7**
General and administrative expenses[(b)(c)]				(79.2)				(69.9)
Gain related to SCA equity interest				—				3.2
Adjusted EBITDA				**$ 594.8**				**$ 491.0**
In arriving at Adjusted EBITDA, the following were excluded:								
(a) Loss (gain) on disposal or impairment of assets	$ 2.3	$ (0.3)	$ —	$ 2.0	$ 0.3	$ (0.1)	$ —	$ 0.2
(b) Transaction costs	—	—	—	—	—	—	—	5.6
(c) Stock-based compensation	—	—	—	17.4	—	—	—	21.8

Reconciliations to GAAP provided on pages 35-43

HEALTHSOUTH

Segment Operating Results

	Year Ended December 31, 2015			
	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated
Net operating revenues	$ 2,653.1	$ 509.8	$ —	$ 3,162.9
Less: Provision for doubtful accounts	(44.7)	(2.5)	—	(47.2)
	2,608.4	507.3	—	3,115.7
Operating Expenses:				
Inpatient Rehabilitation:				
Salaries and benefits	(1,310.6)	—	(360.2)	(1,670.8)
Other operating expenses[(a)]	(387.7)	—	(41.8)	(429.5)
Supplies	(120.9)	—	(7.8)	(128.7)
Occupancy	(46.2)	—	(7.7)	(53.9)
Home Health and Hospice:				
Cost of services sold (excluding depreciation and amortization)	—	(244.8)	244.8	—
Support and overhead costs	—	(172.7)	172.7	—
	(1,865.4)	(417.5)	—	(2,282.9)
Other income	2.3	—	—	2.3
Equity in net income of nonconsolidated affiliates	8.6	0.1	—	8.7
Noncontrolling interest	(62.9)	(6.8)	—	(69.7)
Segment Adjusted EBITDA	**$ 691.0**	**$ 83.1**	**$ —**	**774.1**
General and administrative expenses[(b)(c)]				(94.8)
Gain related to SCA equity interest				3.2
Adjusted EBITDA				**$ 682.5**
In arriving at Adjusted EBITDA, the following were excluded:				
(a) Loss (gain) on disposal or impairment of assets	$ 2.8	$ (0.2)	$ —	$ 2.6
(b) Stock-based compensation expense	—	—	—	26.2
(c) Transaction costs	—	—	—	12.3

Reconciliations to GAAP provided on pages 35-43

Reconciliation of Net Income to Adjusted EBITDA[(21)]

	2016							
	Q1		Q2		Q3		9 Months	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	$ 76.7		$ 81.2		$ 78.1		$ 236.0	
Loss from disc ops, net of tax, attributable to HealthSouth	0.1		0.1		0.1		0.3	
Net income attributable to noncontrolling interests	(18.7)		(18.6)		(16.4)		(53.7)	
Income from continuing operations attributable to HealthSouth*	58.1	$ 0.61	62.7	$ 0.65	61.8	$ 0.64	182.6	$ 1.90
Gov't, class action, and related settlements	—		—		—		—	
Pro fees - acct, tax, and legal	0.2		1.7		—		1.9	
Provision for income tax expense	39.7		42.4		42.1		124.2	
Interest expense and amortization of debt discounts and fees	44.6		43.4		42.5		130.5	
Depreciation and amortization	42.4		42.9		43.5		128.8	
Loss on early extinguishment of debt	2.4		2.4		2.6		7.4	
Net noncash loss on disposal or impairment of assets	0.2		0.2		1.6		2.0	
Stock-based compensation expense	4.5		8.6		4.3		17.4	
Adjusted EBITDA	$ 192.1		$ 204.3		$ 198.4		$ 594.8	
Weighted average common shares outstanding:								
Basic		89.5		89.3		89.1		89.3
Diluted		99.4		99.4		99.4		99.5

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 44-45 for end notes.

HEALTHSOUTH

Reconciliation of Net Income to Adjusted EBITDA[(21)]

(in millions, except per share data)	2015 Q1 Total	2015 Q1 Per Share	2015 Q2 Total	2015 Q2 Per Share	2015 Q3 Total	2015 Q3 Per Share	2015 Q4 Total	2015 Q4 Per Share	2015 Full Year Total	2015 Full Year Per Share
Net Income	$ 59.0		$ 60.2		$ 67.8		$ 65.8		$ 252.8	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.3		1.6		(0.3)		(0.7)		0.9	
Net income attributable to noncontrolling interests	(16.5)		(17.3)		(17.1)		(18.8)		(69.7)	
Income from continuing operations attributable to HealthSouth*	42.8	$ 0.44	44.5	$ 0.47	50.4	$ 0.52	46.3	$ 0.48	184.0	$ 1.92
Gov't, class action, and related settlements	8.0		—		—		(0.5)		7.5	
Pro fees - acct, tax, and legal	2.2		0.1		0.4		0.3		3.0	
Provision for income tax expense	30.3		32.2		35.9		43.5		141.9	
Interest expense and amortization of debt discounts and fees	31.8		30.9		35.6		44.6		142.9	
Depreciation and amortization	31.9		32.7		33.7		41.4		139.7	
Loss on early extinguishment of debt	1.2		18.8		—		2.4		22.4	
Net noncash (gain) loss on disposal or impairment of assets	(1.5)		0.8		0.9		2.4		2.6	
Stock-based compensation expense	9.4		6.2		6.2		4.4		26.2	
Transaction costs	—		3.3		2.3		6.7		12.3	
Adjusted EBITDA	$ 156.1		$ 169.5		$ 165.4		$ 191.5		$ 682.5	
Weighted average common shares outstanding:										
Basic		87.1		89.8		90.6		90.1		89.4
Diluted		101.1		101.5		101.5		100.6		101.0

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 44-45 for end notes.

HEALTHSOUTH

Net Cash Provided by Operating Activities Reconciled to Adjusted EBITDA

(Millions)	Q3 2016	Q3 2015	9 Months 2016	9 Months 2015	Full Year 2015
Net cash provided by operating activities	$ 177.6	$ 163.3	$ 489.5	$ 368.2	$ 484.8
Provision for doubtful accounts	(14.8)	(10.7)	(46.7)	(33.2)	(47.2)
Professional fees—accounting, tax, and legal	—	0.4	1.9	2.7	3.0
Interest expense and amortization of debt discounts and fees	42.5	35.6	130.5	98.3	142.9
Equity in net income of nonconsolidated affiliates	2.5	2.4	7.3	6.3	8.7
Net income attributable to noncontrolling interests in continuing operations	(16.4)	(17.1)	(53.7)	(50.9)	(69.7)
Amortization of debt-related items	(3.5)	(4.6)	(10.3)	(10.9)	(14.3)
Distributions from nonconsolidated affiliates	(2.9)	(0.8)	(5.9)	(4.5)	(7.7)
Current portion of income tax expense	4.6	3.5	13.6	10.4	14.8
Change in assets and liabilities	6.4	(7.8)	61.6	93.3	147.1
Net premium paid (received) on bond transactions	1.9	(1.8)	5.8	2.0	3.9
Cash used in operating activities of discontinued operations	0.1	0.5	0.6	0.8	0.7
Transaction costs	—	2.3	—	5.6	12.3
Other	0.4	0.2	0.6	2.9	3.2
Adjusted EBITDA	$ 198.4	$ 165.4	$ 594.8	$ 491.0	$ 682.5

Reconciliation of Segment Adjusted EBITDA to Income from Continuing Operations Before Income Tax Expense

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
			(In Millions)		
Total segment Adjusted EBITDA	**$ 224.4**	**$ 186.9**	**$ 674.0**	**$ 557.7**	**$ 774.1**
General and administrative expenses	(30.3)	(30.6)	(96.6)	(97.3)	(133.3)
Depreciation and amortization	(43.5)	(33.7)	(128.8)	(98.3)	(139.7)
Loss on disposal or impairment of assets	(1.6)	(0.9)	(2.0)	(0.2)	(2.6)
Government, class action, and related settlements	—	—	—	(8.0)	(7.5)
Professional fees - accounting, tax, and legal	—	(0.4)	(1.9)	(2.7)	(3.0)
Loss on early extinguishment of debt	(2.6)	—	(7.4)	(20.0)	(22.4)
Interest expense and amortization of debt discounts and fees	(42.5)	(35.6)	(130.5)	(98.3)	(142.9)
Net income attributable to noncontrolling interests	16.4	17.1	53.7	50.9	69.7
Gain related to SCA equity interest	—	0.6	—	3.2	3.2
Income from continuing operations before income tax expense	**$ 120.3**	**$ 103.4**	**$ 360.5**	**$ 287.0**	**$ 395.6**

Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow[6]

($millions)	Q3 2016	Q3 2015	9 Months 2016	9 Months 2015	Full Year 2015
Net cash provided by operating activities	$ 177.6	$ 163.3	$ 489.5	$ 368.2	$ 484.8
Impact of discontinued operations	0.1	0.5	0.6	0.8	0.7
Net cash provided by operating activities of continuing operations	177.7	163.8	490.1	369.0	485.5
Capital expenditures for maintenance	(23.9)	(19.5)	(64.5)	(55.9)	(83.1)
Dividends paid on convertible perpetual preferred stock[7]	—	—	—	(3.1)	(3.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(15.9)	(13.4)	(49.5)	(39.7)	(54.4)
Items non-indicative of ongoing operations:					
Cash paid for professional fees - accounting, tax, and legal	—	0.4	1.9	3.8	4.1
Transaction costs and related assumed liabilities	—	2.5	0.8	21.8	28.3
Net premium on bond issuance/repayment	1.9	(1.8)	5.8	2.0	4.0
Cash paid for government, class action, and related settlements	—	—	—	8.0	7.7
Adjusted free cash flow	**$ 139.8**	**$ 132.0**	**$ 384.6**	**$ 305.9**	**$ 389.0**
Cash dividends on common stock	**$ 20.5**	**$ 19.2**	**$ 62.4**	**$ 56.3**	**$ 77.2**

Refer to pages 44-45 for end notes.

Adjusted EPS[(4)] - Q3 2016

	For the Three Months Ended September 30, 2016			
		Adjustments		
	As Reported	Mark-to-Market Adjustment for Stock Appreciation Rights	Loss on Early Extinguishment of Debt	As Adjusted
	(In Millions, Except Per Share Amounts)			
Adjusted EBITDA	**$ 198.4**	**$ —**	**$ —**	**$ 198.4**
Depreciation and amortization	(43.5)	—	—	(43.5)
Loss on early extinguishment of debt	(2.6)	—	2.6	—
Interest expense and amortization of debt discounts and fees	(42.5)	—	—	(42.5)
Stock-based compensation	(4.3)	(1.8)	—	(6.1)
Loss on disposal or impairment of assets	(1.6)	—	—	(1.6)
Income from continuing operations before income tax expense	103.9	(1.8)	2.6	104.7
Provision for income tax expense	(42.1)	0.7	(1.0)	(42.4)
Income from continuing operations attributable to HealthSouth	**$ 61.8**	**$ (1.1)**	**$ 1.6**	**$ 62.3**
Add: Interest on convertible debt, net of tax	2.4			2.4
Numerator for diluted earnings per share	**$ 64.2**			**$ 64.7**
Diluted earnings per share from continuing operations*	**$ 0.64**	**$ (0.01)**	**$ 0.02**	**$ 0.65**
Diluted shares used in calculation	**99.4**			

* Adjusted EPS may not sum across due to rounding.
Reconciliations to GAAP provided on pages 35-43; Refer to pages 44-45 for end notes.

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Adjusted EPS[4] - Q3 2015

	For the Three Months Ended September 30, 2015				
		Adjustments			
	As Reported	Professional Fees - Accounting, Tax, and Legal	Mark-to-Market Adjustment for Stock Appreciation Rights	Transaction Costs	As Adjusted
	(In Millions, Except Per Share Amounts)				
Adjusted EBITDA	**$ 165.4**	**$ —**	**$ —**	**$ —**	**$ 165.4**
Depreciation and amortization	(33.7)	—	—	—	(33.7)
Professional fees - accounting, tax, and legal	(0.4)	0.4	—	—	—
Interest expense and amortization of debt discounts and fees	(35.6)	—	—	—	(35.6)
Stock-based compensation	(6.2)	—	1.2	—	(5.0)
Loss on disposal or impairment of assets	(0.9)	—	—	—	(0.9)
Transaction costs	(2.3)	—	—	2.3	—
Income from continuing operations before income tax expense	86.3	0.4	1.2	2.3	90.2
Provision for income tax expense	(35.9)	(0.2)	(0.5)	(0.9)	(37.5)
Income from continuing operations attributable to HealthSouth	**$ 50.4**	**$ 0.2**	**$ 0.7**	**$ 1.4**	**$ 52.7**
Add: Interest on convertible debt, net of tax	2.4				2.4
Numerator for diluted earnings per share	**$ 52.8**				**$ 55.1**
Diluted earnings per share from continuing operations*	**$ 0.52**	**$ —**	**$ 0.01**	**$ 0.01**	**$ 0.54**
Diluted shares used in calculation	**101.5**				

* Adjusted EPS may not sum across due to rounding.
Reconciliations to GAAP provided on pages 35-43; Refer to pages 44-45 for end notes.

Adjusted EPS[(4)] - YTD 2016

	For the Nine Months Ended September 30, 2016					
		Adjustments				
	As Reported	Professional Fees - Accounting, Tax, and Legal	Mark-to-Market Adjustment for Stock Appreciation Rights	Loss on Early Extinguishment of Debt	Sale of Hospital	As Adjusted
	(In Millions, Except Per Share Amounts)					
Adjusted EBITDA	**$ 594.8**	**$ —**	**$ —**	**$ —**	$ —	**$ 594.8**
Depreciation and amortization	(128.8)	—	—	—	—	(128.8)
Professional fees - accounting, tax, and legal	(1.9)	1.9	—	—	—	—
Loss on early extinguishment of debt	(7.4)	—	—	7.4	—	—
Interest expense and amortization of debt discounts and fees	(130.5)	—	—	—	—	(130.5)
Stock-based compensation	(17.4)	—	(1.4)	—	—	(18.8)
Loss on disposal or impairment of assets	(2.0)	—	—	—	(0.9)	(2.9)
Income from continuing operations before income tax expense	306.8	1.9	(1.4)	7.4	(0.9)	313.8
Provision for income tax expense	(124.2)	(0.8)	0.5	(3.0)	0.4	(127.1)
Income from continuing operations attributable to HealthSouth	**$ 182.6**	**$ 1.1**	**$ (0.9)**	**$ 4.4**	**$ (0.5)**	**$ 186.7**
Add: Interest on convertible debt, net of tax	7.2					7.2
Numerator for diluted earnings per share	**$ 189.8**					**$ 193.9**
Diluted earnings per share from continuing operations*	**$ 1.90**	**$ 0.01**	**$ (0.01)**	**$ 0.04**	**$ (0.01)**	**$ 1.95**
Diluted shares used in calculation	**99.5**					

* Adjusted EPS may not sum across due to rounding.
Reconciliations to GAAP provided on pages 35-43; Refer to pages 44-45 for end notes.

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Adjusted EPS[(4)] - YTD 2015

	For the Nine Months Ended September 30, 2015						
	As Reported	Gov't, Class Action, & Related Settlements	Pro. Fees - Acct., Tax, and Legal	Mark-to-Market Adjustment for Stock Appreciation Rights	Transaction Costs	Loss on Early Exting of Debt	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA	**$ 491.0**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 491.0**
Depreciation and amortization	(98.3)	—	—	—	—	—	(98.3)
Government, class action, and related settlements	(8.0)	8.0	—	—	—	—	—
Professional fees - accounting, tax, and legal	(2.7)	—	2.7	—	—	—	—
Loss on early extinguishment of debt	(20.0)	—	—	—	—	20.0	—
Interest expense and amortization of debt discounts and fees	(98.3)	—	—	—	—	—	(98.3)
Stock-based compensation	(21.8)	—	—	1.2	—	—	(20.6)
Loss on disposal or impairment of assets	(0.2)	—	—	—	—	—	(0.2)
Transaction costs	(5.6)	—	—	—	5.6	—	—
Income from continuing operations before income tax expense	236.1	8.0	2.7	1.2	5.6	20.0	273.6
Provision for income tax expense	(98.4)	(3.2)	(1.1)	(0.5)	(2.2)	(8.0)	(113.4)
Income from continuing operations attributable to HealthSouth	**$ 137.7**	**$ 4.8**	**$ 1.6**	**$ 0.7**	**$ 3.4**	**$ 12.0**	**$ 160.2**
Add: Interest on convertible debt, net of tax	7.0						7.0
Numerator for diluted earnings per share	**$ 144.7**						**$ 167.2**
Diluted earnings per share from continuing operations*	**$ 1.43**	**$ 0.05**	**$ 0.02**	**$ 0.01**	**$ 0.03**	**$ 0.12**	**$ 1.65**
Diluted shares used in calculation	**101.4**						

* Adjusted EPS may not sum across due to rounding.
Reconciliations to GAAP provided on pages 35-43; Refer to pages 44-45 for end notes.

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End Notes

(1) Medicare provides that hospitals with residents in an approved graduate medical education program receive an additional payment for a Medicare discharge to reflect higher patient care costs of teaching hospitals relative to non-teaching hospitals. This additional payment is known as an Indirect Medical Education ("IME") adjustment. The Company's revenues for the third quarter of 2016 were positively impacted by ~$4 million due to a retroactive IME adjustment for 2014 and 2015, as well as the year-to-date period through July 2016, for a former Reliant hospital in Woburn, MA.

(2) Current income tax expense was $4.6 million and $3.5 million for Q3 2016 and Q3 2015, respectively. Current income tax expense was $13.6 million and $10.4 million for the nine months ended September 30, 2016 and 2015, respectively.

(3) The interest and amortization related to the convertible senior subordinated notes must be added to income from continuing operations when calculating diluted earnings per share because the debt is assumed to have been converted and the applicable shares are included in the diluted share count.

(4) HealthSouth provides adjusted earnings per share from continuing operations attributable to HealthSouth ("adjusted EPS"), which is a non-GAAP measure. The Company believes the presentation of adjusted EPS provides useful additional information to investors because it provides better comparability of ongoing performance to prior periods given that it excludes the impact of government, class action, and related settlements; professional fees - accounting, tax, and legal; mark-to-market adjustments for stock appreciation rights; gains or losses related to hedging instruments; loss on early extinguishment of debt; adjustments to its income tax provision (such as valuation allowance adjustments and settlements of income tax claims); items related to corporate and facility restructurings; and certain other items deemed to be non-indicative of ongoing operations. It is reasonable to expect that one or more of these excluded items will occur in future periods, but the amounts recognized can vary significantly from period to period and may not directly relate to the Company's ongoing operations. Accordingly, they can complicate comparisons of the Company's results of operations across periods and comparisons of the Company's results to those of other healthcare companies. Adjusted EPS should not be considered as a measure of financial performance under generally accepted accounting principles in the United States as the items excluded from it are significant components in understanding and assessing financial performance.

(5) In connection with the Encompass acquisition, the Company granted stock appreciation rights based on the common stock of HealthSouth Home Health Holdings, Inc. to certain members of Encompass management. The fair value of Holdings' common stock is determined using the product of the trailing 12-month specified performance measure for Holdings and a specified median market EBITDA multiple based on a basket of public home health companies. The fair value of these stock appreciation rights will vary from period to period based on Encompass' performance and the change in the multiple of the basket of public home health companies.

(6) 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 certain other items deemed to be non-indicative of ongoing cash flows. Common stock dividends are not included in the calculation of adjusted free cash flow.

(7) In March 2006, the Company completed the sale 400,000 shares of its 6.5% Series A Convertible Perpetual Preferred Stock. In Q4 2013, the Company exchanged $320 million of newly issued 2.0% Convertible Senior Subordinated Notes due 2043 for 257,110 shares of its outstanding preferred stock. In April 2015, the Company exercised its rights to force conversion of all outstanding shares of its preferred stock. On the conversion date, each outstanding share of preferred stock was converted into 33.9905 shares of common stock, resulting in the issuance of 3,271,415 shares of common stock.

(8) The Medicare Access and CHIP Reauthorization Act of 2015 mandated a market basket update of +1.0% in 2018 for post-acute providers including rehabilitation hospitals as well as home health and hospice agencies.

(9) The Company estimates the expected impact of each rule utilizing, among other things, the acuity of its patients over the 8-month (home health segment) to 12-month (inpatient rehabilitation segment) period prior to each rule's release and incorporates other adjustments included in each rule. These estimates are prior to the impact of sequestration.

(10) 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.

End Notes, con't.

(11) On July 16, 2015, the board of directors approved a $0.02 per share, or 9.5%, increase to the quarterly cash dividend on the Company's common stock, bringing the quarterly cash dividend to $0.23 per common share. On July 21, 2016, the board of directors approved a $0.01 per share, or 4.3%, increase to the quarterly cash dividend on the Company's common stock, bringing the quarterly cash dividend to $0.24 per common share.

(12) 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 this hospital from the equity method to a consolidated entity effective June 1, 2014.

(13) Data provided by Uniform Data System for Medical Rehabilitation, a division of UB Foundation Activities, Inc., a data gathering and analysis organization for the rehabilitation industry; represents ~70% of industry, including HealthSouth sites

(14) Represents discharges from 121 consolidated hospitals in Q3 2016; 120 consolidated hospitals in Q2 2016; 121 consolidated hospitals in Q1 2016; 120 consolidated hospitals in Q4 2015; 108 consolidated hospitals in Q3 2015 and Q2 2015; and 106 consolidated hospitals in Q1 2015

(15) Excludes approximately 425 full-time equivalents in the 2016 periods and approximately 400 full-time equivalents in the 2015 periods presented who are considered part of corporate overhead with their salaries and benefits included in general and administrative expenses in the Company's consolidated statements of operations. Full-time equivalents included in the table represent HealthSouth employees who participate in or support the operations of the Company's hospitals.

(16) Employees per occupied bed, or "EPOB," is calculated by dividing the number of full-time equivalents, including an estimate of full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period. The number of occupied beds is determined by multiplying the number of licensed beds by the Company's occupancy percentage.

(17) Represents home health admissions from 188 consolidated locations in Q3 2016; 187 consolidated locations in Q2 2016; 184 consolidated locations in Q1 2016 and Q4 2015; 141 consolidated locations in Q3 2015; 139 consolidated locations in Q2 2015; and 143 consolidated locations in Q1 2015

(18) Represents hospice admissions from 33 locations in Q3 2016; 29 locations in Q2 2016; 27 locations in Q1 2016 and Q4 2015; 23 locations in Q3 2015; and 21 locations in Q2 2015 and Q1 2015.

(19) In November 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 its 6.5% Series A Convertible Perpetual Preferred Stock. The Company recorded ~$249 million as debt and ~$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 and is 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% of the conversion price ($44.59) 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.

(20) The agreement to settle the Company's class action securities litigation received final court approval in January 2007. The 5.0 million shares of common stock and warrants to purchase ~8.2 million shares of common stock at a strike price of $41.40 (expire January 17, 2017) related to this settlement were issued on September 30, 2009. The 5.0 million common shares are included in the basic outstanding shares. The warrants were not included in the diluted share count prior to 2015 because the strike price had historically been above the market price. In Q3 2016, YTD 2016, full-year 2014, and full-year 2013, zero shares related to the warrants were included in the diluted share count due to antidilution based on the stock price. In Q3 2015, YTD 2015, and full-year 2015, 439,988, 459,899, and 80,814 shares, respectively, related to the warrants were included in the diluted share count using the treasury stock method.

(21) 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.