




J.P. MORGAN HIGH YIELD AND LEVERAGED FINANCE CONFERENCE

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HEALTHSOUTH®

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, acquisition and other development activities, cyber security, dividend strategies, repurchases of securities, effective tax rates, financial performance, financial assumptions, business model, balance sheet and cash flow plans, and shareholder value-enhancing transactions. 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.

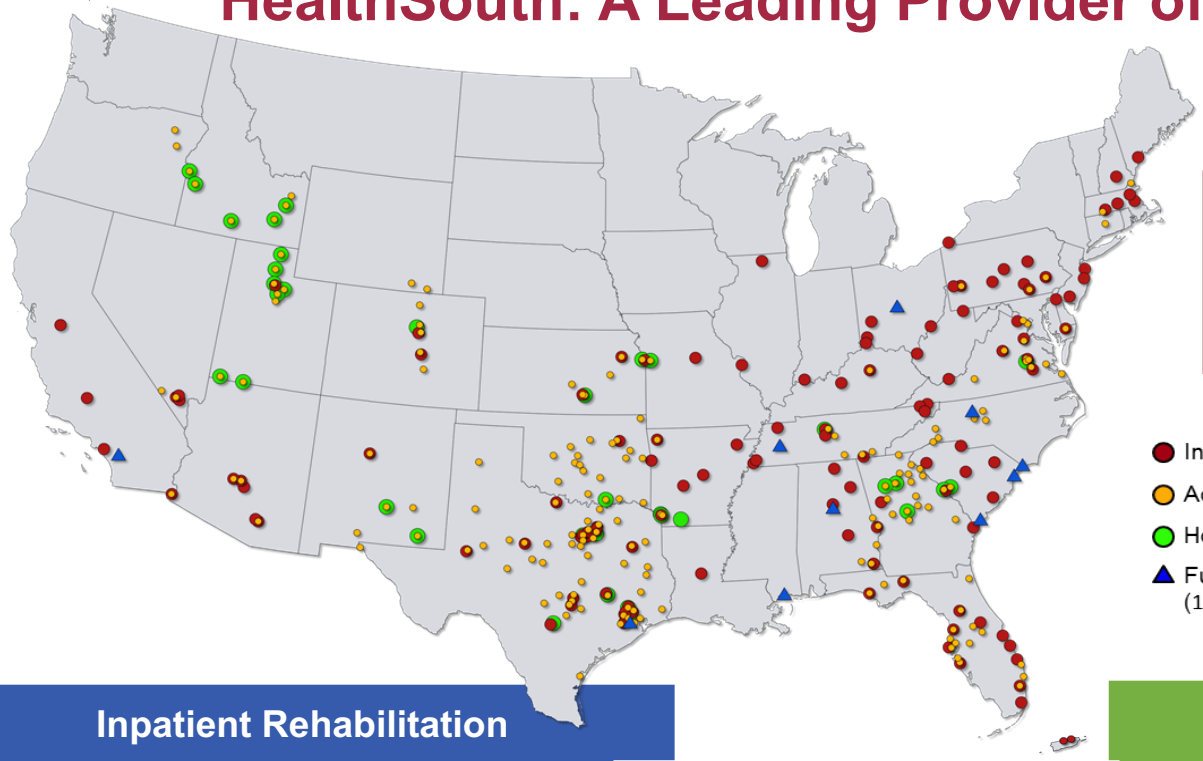
All such estimates, projections and forward-looking information speak only as of the date hereof. HealthSouth undertakes no duty to publicly update or revise the information contained herein.

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, 2016 and in other documents HealthSouth previously filed with the SEC, many of which are beyond HealthSouth's 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, leverage ratios, adjusted earnings per share, and adjusted free cash flow. Schedules are available at http://investor.healthsouth.com 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: 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

Portfolio - As of December 31, 2016	
123	Inpatient Rehabilitation Hospitals • 37 operate as joint ventures with acute care hospitals
30	Number of States (plus Puerto Rico)
~ 28,000	Employees

Key Statistics - Full Year 2016	
~ $3.0 Billion	Revenue
165,305	Inpatient Discharges
640,702	Outpatient Visits

IRF Market Share

Largest owner & operator of IRFs

21% of Licensed Beds

28% of Medicare Patients Served

Home Health and Hospice Market Share

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

Encompass Home Health and Hospice

Portfolio – As of December 31, 2016	
188	Home Health Locations
35	Hospice Locations
25	Number of States
~ 7,700	Employees

Key Statistics - Full Year 2016	
~ $686 million	Revenue
185,737	Home Health Episodes
3,337	Hospice Admissions

Note: One of the 123 IRFs and two of the 188 adult home health locations are nonconsolidated. These locations are accounted for using the equity method of accounting.

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Leading Position in Cost Effectiveness[1] - IRFs

		Avg. Beds per IRF	Avg. Medicare Discharges per IRF[3]	Case Mix Index[4]	Avg. Est. Total Cost per Discharge for FY 2017	Avg. Est. Total Payment per Discharge for FY 2017
HLS[2] =	119	68	956	1.25	$12,645	$19,371
Free-Standing (Non-HLS) =	144	57	582	1.23	$16,653	$20,248
Hospital Units =	870	24	234	1.18	$19,879	$20,551
Total	1,133	33	354	1.21	$17,152	$20,153

Medicare pays HealthSouth less per discharge, on average, and HealthSouth treats a higher acuity patient.

HealthSouth differentiates itself by:

- *"Best Practices" clinical protocols*
- *Supply chain efficiencies*
- *Sophisticated management information systems*
- *Economies of scale*

The average estimated total payment per discharge, as stated, does not reflect a 2% reduction for sequestration.[5]
Refer to pages 14-15 for end notes.

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Leading Position in Cost Effectiveness - Home Health

	2015 Episodes	Average Revenue per Episode	Visits per Episode	Effective Revenue per Visit	Cost per Visit
Encompass	137,568	$3,072	19	$162	$72
Public Peer Average	259,215	$2,732	17*	$161	$84*
Encompass Compared to Peer Average		12.4%	11.8%	0.6%	(14.3)%

Public peer average represents 2015 data from publicly traded home health providers.

* One publicly traded company (Kindred) does not report visit counts.

Encompass' average revenue per episode is 12.4% higher due to higher acuity patient mix.

Encompass' cost per visit is 14.3% lower due to market density & operational efficiency:

- ***Caregiver optimization***
- ***Full utilization of Homecare Homebase (HCHB)***
- ***Employee culture of excellence***
- ***~76% of visits conducted by full-time staff***
- ***Daily monitoring of productivity***

CMS: Driving Change Toward Integrated Delivery Payment Models, Value-Based Purchasing, and Site Neutrality

CMS Goals

>> **30%** of Medicare fee-for-service payments via **integrated delivery payment models** (e.g., bundled payments; accountable care organizations (ACOs))

>> **85%** of Medicare fee-for-service payments tied to **quality/value** (i.e., value-based purchasing, readmissions reduction programs)

CMS Goals

>> **50%** of Medicare fee-for-service payments via **integrated delivery payment models**

>> **90%** of Medicare fee-for-service payments tied to **quality/value**

2016 — **2017** — **2018** — **2019**

Current Post-Acute Providers

- *Medicare payments/regulations are site specific (e.g., 60% Rule, 3-Hour Rule, "preponderance" of one-to-one therapy).*

- Long-Term Acute Care Hospitals
- Inpatient Rehabilitation Facilities
- Skilled Nursing Facilities
- Home Health

- ***Integrated Delivery Payment Models***
- ***Value-Based Payments***
- ***Site Neutrality***

Future Post-Acute Providers (Timing?)

- *Medicare payments/regulations will be outcome focused.*
- *Many existing regulations will become obsolete.*

Facility-Based Post Acute Services
- Full range: low acuity → high acuity
- 24/7 nursing coverage
- Eliminates payment silos

Home-Based Post-Acute Services
- More care in the home (lowest cost setting)
- Differentiator: Ability to care for high-acuity, poly-chronic patients

Source: Health and Human Services Fact Sheet announcing new reimbursement goals - January 26, 2015

HealthSouth is Well-Positioned for the Progression Towards Site Neutrality as It Will be Able to Treat All Types of Post-Acute Patients by Leveraging Its Operational Expertise Across Its Network of Facility-Based and Home-Based Assets.

HealthSouth's rehabilitation hospitals have the physical construct, clinical staffing, and operating expertise to "pivot from the center" to address the full spectrum of inpatient post-acute needs in a site neutral environment.

Present

	LTACs	HealthSouth IRFs	SNFs
Therapy Gym & Training	Seldom Available	Always Available	Sometimes Available
Systems for All PAC Patients	Seldom Available	Always Available	Seldom Available
Staff Trained for All Acuity	Sometimes Available	Always Available	Seldom Available

Progression to Site Neutrality

Future

HealthSouth's Post-Acute Inpatient Facilities

Post-Acute Inpatient Spectrum

Higher Acuity — **Lower Acuity**

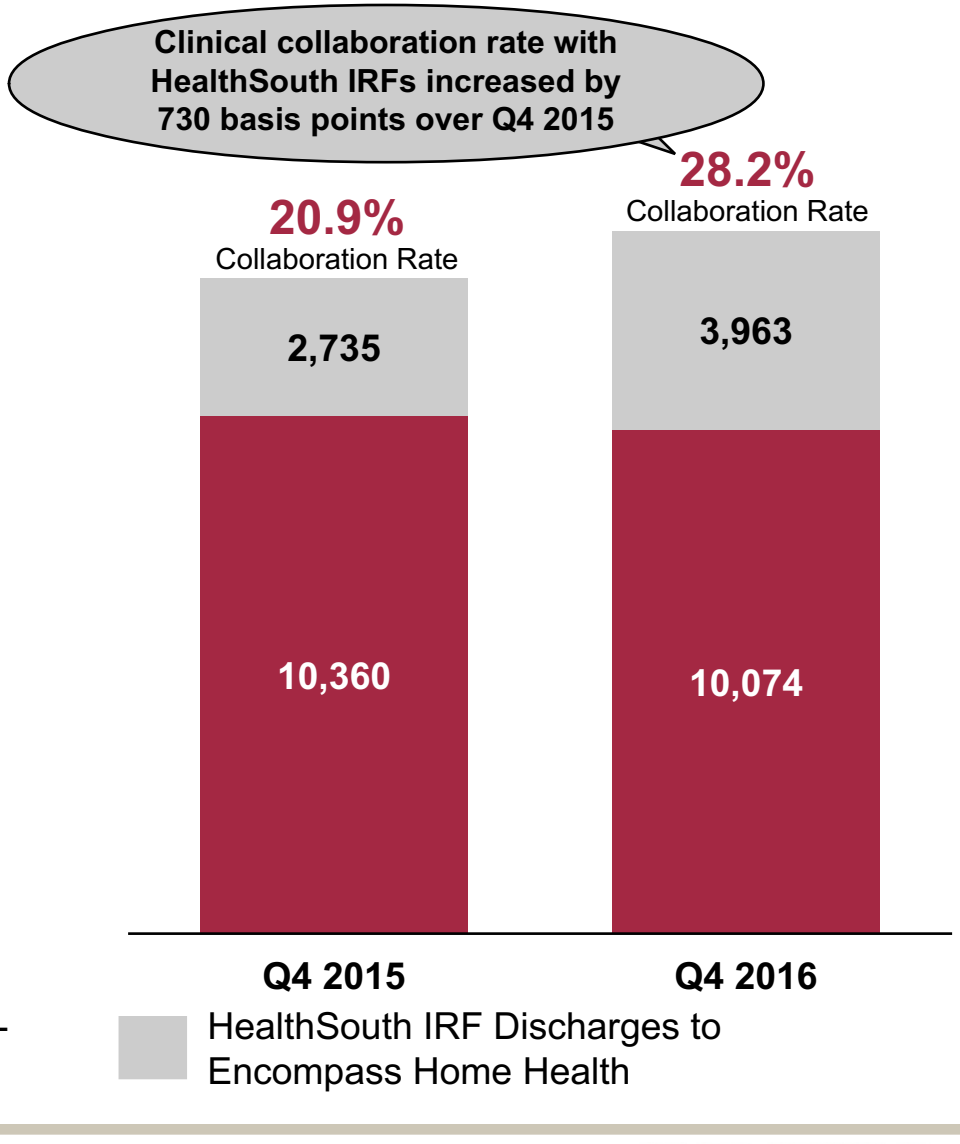
Encompass Home Health

Higher acuity patients will transition from HealthSouth post-acute inpatient facilities to Encompass Home Health.
Lower acuity patients will go directly to Encompass Home Health.

IRF-Home Health Clinical Collaboration (All Payors)

Overlap Markets

- **Overlap markets are defined as a HealthSouth IRF located within a 30-mile radius of an Encompass location**
- **Currently, 59% of HealthSouth's IRFs are located within overlap markets.**
- **The Company's clinical collaboration rate goal for overlap markets is 35% to 40% within the next three years.**



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Guidance

2016 Actuals		2017 Guidance	
Net Operating Revenues	$3,707.2 million	Net Operating Revenues	$3,850 million to $3,950 million
Adjusted EBITDA[6]	$793.6 million	Adjusted EBITDA[6]	$800 million to $820 million
Adjusted Earnings per Share from Continuing Operations Attributable to HealthSouth[7]	$2.67	Adjusted Earnings per Share from Continuing Operations Attributable to HealthSouth[7]	$2.61 to $2.73

Refer to pages 14-15 for end notes.

Guidance Considerations

Inpatient Rehabilitation

- Estimated 1.9% increase in Medicare pricing for Q1 through Q3; ~1.0% for Q4 (see page 13)
- Salary increase of ~3.0%
- 2016 included the benefit of a retroactive indirect medical education ("IME") adjustment of ~$4 million at the former Reliant hospital in Woburn, MA.
- Bad debt expense of 1.8% to 2.0% of net operating revenues

Home Health and Hospice

- Estimated 3.6%, or ~$21 million, net Medicare pricing reduction for CY 2017 (see page 13)
- Salary increase of ~3.0%
- Estimated incremental cost of $1.0 million to $1.5 million for the pre-claim review demonstration scheduled to begin in Florida on April 1, 2017
- Inclusive of home health and hospice acquisitions in 2017 (see page 12)
- Sale of pediatric home health assets in Q4 2016; Pediatrics generated ~$2 million of Adjusted EBITDA in 2016

Consolidated

- Diluted share count of ~100 million shares
- Tax rate of approximately 40%

Adjusted Free Cash Flow[8] and Tax Assumptions

Certain Cash Flow Items (millions)	2015 Actuals	2016 Actuals	2017 Assumptions
• **Cash interest expense** (net of amortization of debt discounts and fees)	$128.6	$158.4	$150 to $160
• **Cash payments for taxes, net of refunds**	$9.4	$31.9	$120 to $175
• **Working Capital and Other**	$69.2	$36.2	$50 to $70
• **Maintenance CAPEX**	$83.1	$104.2	$130 to $150
• **Dividends paid on preferred stock[9]**	$3.1	$—	$0
• **Adjusted Free Cash Flow**	$389.0	$462.9	$245 to $370

- Increased cash payments for taxes due to exhaustion of federal NOL as of December 31, 2016*
- Increased maintenance capital expenditures due to growth in the Company, enhanced hospital maintenance program, and leasehold improvements and furnishings associated with the build-out of the Company's new home office location (building will be leased)

* 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 replenish the gross federal NOL by ~$130 million. Exhaustion of the federal NOL by year-end 2016 excludes the impact of this filing.

Refer to pages 14-15 for end notes.

Free Cash Flow Priorities

Highest Priority

Growth in Core Business

	(In Millions) 2015 Actuals	2016 Actuals	2017 Assumptions
IRF bed expansions	$20.8	$19.1	$30 to $40
New IRF's			
- De novos	47.8	72.6	85 to 105
- Acquisitions	786.2	—	TBD
- Replacement hospitals	—	11.1	10 to 20
New home health and hospice acquisitions	200.2	48.1	50 to 100
	$1,055.0	$150.9	$175 to $265, excluding IRF acquisitions

Debt Reduction

The Company has ~$39 million of contractual debt repayment obligations in 2017.[10]

	2015 Actuals	2016 Actuals	2017 Assumptions
Debt (borrowings) redemptions, net	$(1,060.3)	$155.1	$TBD

Shareholder Distributions

Quarterly cash dividend currently set at $0.24 per common share

Cash dividends on common stock[11]	77.2	83.8	~$87
Common stock repurchases	45.3	65.6	TBD
	$(937.8)	$304.5	$TBD

~$96 million authorization remaining as of December 31, 2016

Note: 2015 amount for debt borrowings included ~$208 million related to the Reliant hospitals' capital lease obligations.
Refer to pages 14-15 for end notes.

Business Outlook 2017 to 2019: Revenue Assumptions

Volume (Includes New Stores)	Inpatient Rehabilitation • 3+% annual discharge growth			Home Health & Hospice • 10+% annual episode growth		
Medicare Pricing	**Approx. 73% of Revenue**			**Approx. 83% of Revenue**		
	FY 2017 Q416-Q317	**FY 2018 Q417-Q318[12]**	**FY 2019 Q418-Q319 Mgmt. Estimate**	**CY 2017 Q117-Q417**	**CY 2018 Q118-Q418[12]**	**CY 2019 Q119-Q419 Mgmt. Estimate**
Market basket update	2.7%	1.0%	3.3%	2.8%	1.0%	3.1%
Healthcare reform reduction	(75) bps	-	(75) bps	-	-	-
Healthcare reform rebasing adjustment	-	-	-	(2.3%)		-
Coding intensity reduction	-	-	-	(0.9%)	(0.9%)	-
Expiration of rural add-on	-	-	-	-	Approx. (0.7%)	-
Healthcare reform productivity adjustment	(30) bps	-	(100) bps	(30) bps	-	(100) bps
Net impact - all providers	1.65%	1.0%	1.55%	(0.7%)	(0.6%)	2.1%
Outlier fixed dollar loss adjustment	-	-	-	(0.1%)	-	-
Impact from case mix re-weighting	-	-	-	(0.9%)	-	-
Impact from change in outlier calculation	-	-	-	(1.9%)	-	-
Estimated impact to HealthSouth[13]	1.9%			(3.6%)		
Medicare Advantage & Managed Care Pricing	**Approx. 19% of Revenue**			**Approx. 13% of Revenue**		
Expected Increases	2-4%	2-4%	2-4%	0-2%	0-2%	0-2%

Refer to pages 14-15 for end notes.

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End Notes

(1) Source: FY 2017 CMS Final Rule Rate Setting File and the last publicly available Medicare cost reports (FYE 2014/2015) or in the case of new IRFs, the June 2016 CMS Provider of Service File.

a. All data provided was filtered and compiled from the Centers for Medicare and Medicaid Services (CMS) Fiscal Year 2017 IRF Final Rule Rate Setting File found at https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/Downloads/FY2017_datafiles_final.zip. The data presented was developed entirely by CMS and is based on its definitions which are different in form and substance from the criteria HealthSouth uses for external reporting purposes. Because CMS does not provide its detailed methodology, HealthSouth is not able to reconstruct the CMS projections or the calculation.

b. The CMS file contains data for each of the 1,133 inpatient rehabilitation facilities used to estimate the policy updates for the FY 2017 IRF-PPS Final Rule. Most of the data represents historical information from the CMS fiscal year 2015 period and may or may not reflect the same HealthSouth hospitals in operation today. The data presented was separated into three categories: Freestanding, Units, and HealthSouth. HealthSouth is a subset of Freestanding and the Total.

(2) The 119 for HLS excludes the inpatient rehabilitation hospital at HealthSouth Rehabilitation Hospital of Franklin (opened December 2015); CHI St. Vincent Hot Springs Rehabilitation Hospital, an affiliate of HealthSouth (opened February 2016); HealthSouth Rehabilitation Hospital of Beaumont (sold June 2016); St. Joseph HealthSouth Rehabilitation Hospital (opened August 2016); St. John Rehabilitation Hospital, affiliated with HealthSouth (opened August 2016); and HealthSouth Rehabilitation Hospital of Modesto (opened October 2016).

(3) In 2015, HealthSouth averaged 1,332 total Medicare and non-Medicare discharges per hospital in its then 107 consolidated hospitals that were open the full year.

(4) Case Mix Index (CMI) from the rate-setting file is adjusted for short-stay transfer cases. HealthSouth's unadjusted CMI for 2015 was 1.36 versus 1.31 for the industry as measured by UDSMR.

(5) 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.

(6) 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 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.

(7) HealthSouth is providing adjusted earnings per share from continuing operations attributable to HealthSouth ("adjusted earnings per share"), which is a non-GAAP measure. The Company believes the presentation of adjusted earnings per share 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 earnings per share 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. Because adjusted earnings per share is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, it may not be comparable as presented to other similarly titled measures of other companies.

End Notes

(8) Definition of adjusted free cash flow, which is a non-GAAP measure, 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 operations. Common stock dividends are not included in the calculation of adjusted free cash flow.

(9) In March 2006, the Company completed the sale of 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 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.

(10) The contractual debt repayment obligations in 2017 includes ~$15 million of capital lease payments and ~$1 million of other notes payable.

(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) 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.

(13) 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.