

First Quarter 2017 Earnings Call

April 28, 2017
Supplemental Information

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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, the form 10-Q for the quarter ended March 31, 2017, when filed, 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 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 April 27, 2017, 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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Q1 2017 Summary

(In Millions)	Q1		Growth	
	Q1 2017	Q1 2016	Dollars	Percent
HealthSouth Consolidated				
Net operating revenues	$ 974.8	$ 909.8	$ 65.0	7.1%
Adjusted EBITDA	$ 200.8	$ 192.1	$ 8.7	4.5%
Inpatient Rehabilitation Segment				
Net operating revenues	$ 792.5	$ 749.2	$ 43.3	5.8%
Adjusted EBITDA	$ 205.4	$ 196.9	$ 8.5	4.3%
Home Health and Hospice Segment				
Net operating revenues	$ 182.3	$ 160.6	$ 21.7	13.5%
Adjusted EBITDA	$ 23.9	$ 22.6	$ 1.3	5.8%

Major takeaways:

- Strong revenue growth in both segments
  - IRF growth driven by pricing and volume
    - ✓ Net revenue per discharge increase of 3.6%
    - ✓ Discharge growth of 2.8%; same-store = 1.6%
  - Home health and hospice growth driven primarily by volume (admissions growth of 19.6%; same-store = 13.9%)
- Consolidated Adjusted EBITDA of $200.8 million increased 4.5%
- Adjusted EPS of $0.70 per diluted share increased 14.8%
- Adjusted free cash flow of $147.5 million increased 5.8% - see page 13.

Reconciliations to GAAP provided on pages 34-40

Q1 2017 Summary (cont.)

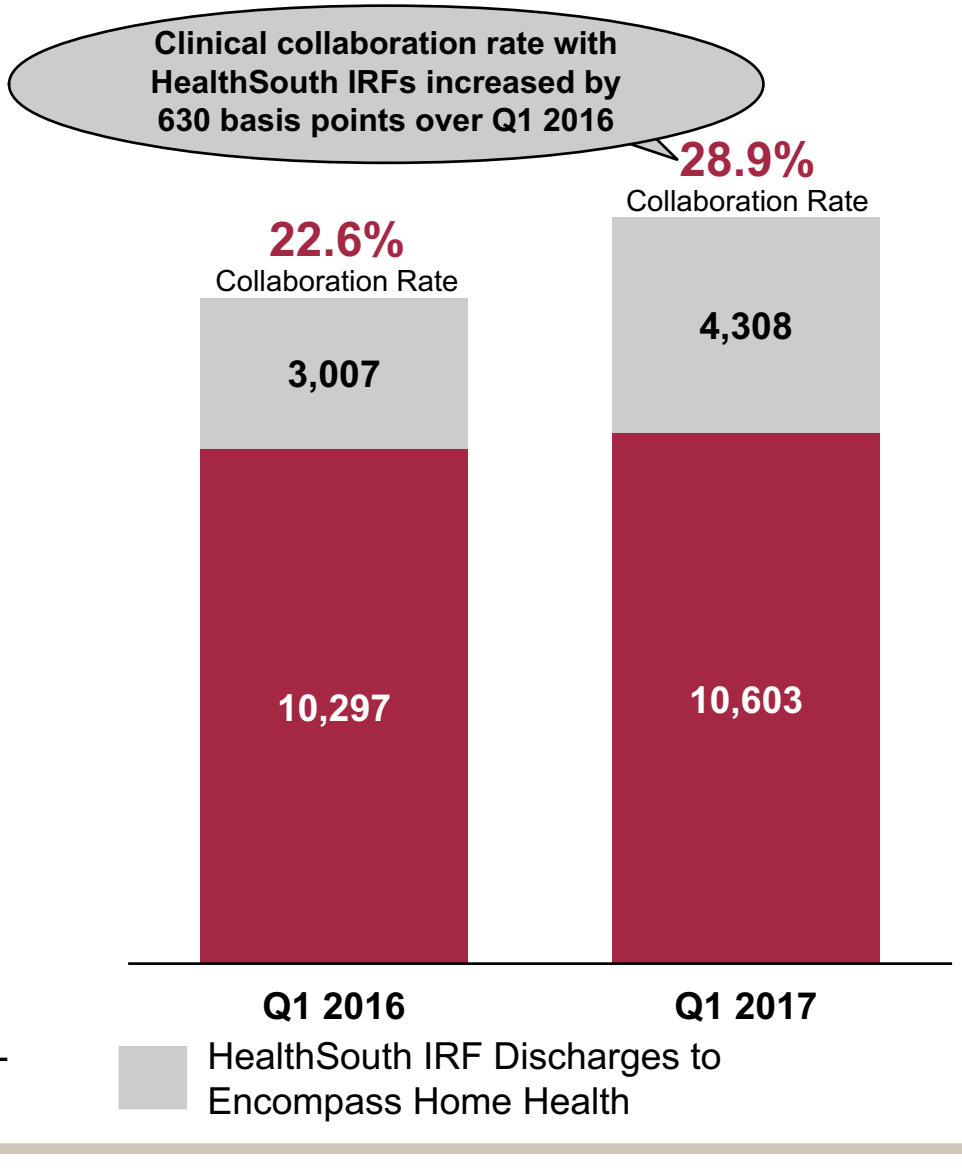
- **Balance Sheet**
  - Leverage ratio of 3.7x at end of first quarter
    - ✓ Continue to expect range of 3.5x to 3.8x at year-end 2017, subject to opportunities for creating shareholder value
- **Expansion Activity (see page 21)**
  - 9 IRF development projects underway (5 are joint ventures)*
  - Expanded existing hospitals by 24 beds
  - Acquired four home health locations — two in Maryland and two in Kentucky — and opened one home health location in Massachusetts
- **Shareholder Distributions**
  - Repurchased 458,578 shares of common stock for $18.1 million in Q1 2017
  - Paid quarterly cash dividend of $0.24 per share in January 2017
  - Declared a $0.24 per share quarterly cash dividend in February 2017 which was paid in April 2017

* Two of the nine IRF development projects that were underway as of March 31, 2017 began operations in April 2017 - Gulfport, MS and Westerville, OH

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**
- **As of March 31, 2017, 61% of HealthSouth's IRFs were 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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Inpatient Rehabilitation Segment - Revenue

($millions)	Q1 2017	Q1 2016	Favorable/ (Unfavorable)
Net operating revenues:			
Inpatient	$ 766.2	$ 719.4	6.5%
Outpatient and other	26.3	29.8	(11.7%)
Total segment revenue	**$ 792.5**	**$ 749.2**	5.8%
(Actual Amounts)			
Discharges	42,259	41,098	2.8%
Same-store discharge growth			1.6%
Net patient revenue / discharge	$ 18,131	$ 17,505	3.6%

- **Revenue growth was driven by pricing and volume growth.**
- **Same-store discharge growth of 2.8% in Q1 2016 included approximately 80 to 100 basis points due to leap year.**
- **New-store discharge growth resulted from joint ventures in Hot Springs, AR (February 2016), Bryan, TX (August 2016), and Broken Arrow, OK (August 2016) and a wholly owned hospital in Modesto, CA (October 2016).**
- **Growth in revenue per discharge resulted primarily from patient mix (higher percentage of stroke and neurological patients).**
- **Outpatient and other revenue decrease was due primarily to the closure of six outpatient programs in the latter half of 2016.**

Inpatient Rehabilitation Segment - Adjusted EBITDA

($millions)	Q1 2017	% of Revenue	Q1 2016	% of Revenue
Net operating revenues	$ 792.5		$ 749.2	
Less: Provision for doubtful accounts	(14.7)	1.9%	(15.6)	2.1%
Net operating revenues less provision for doubtful accounts	777.8		733.6	
Operating expenses:				
Salaries and benefits	(398.2)	50.2%	(369.9)	49.4%
Other operating expenses[(a)]	(111.8)	14.1%	(104.8)	14.0%
Supplies	(33.7)	4.3%	(32.4)	4.3%
Occupancy costs	(15.1)	1.9%	(15.6)	2.1%
Hospital operating expenses	(160.6)	20.3%	(152.8)	20.4%
Other income	1.0		0.6	
Equity in nonconsolidated affiliates	1.9		2.2	
Noncontrolling interests	(16.5)		(16.8)	
Segment Adjusted EBITDA	**$ 205.4**		**$ 196.9**	
Percent change	4.3%			
In arriving at Adjusted EBITDA, the following were excluded:				
(a) (Gain) loss on disposal or impairment of assets	$ (0.4)		$ 0.5	

Segment Adjusted EBITDA for the quarter of $205.4 million

- Salaries and benefits increased as a percent of revenue due primarily to an increase in full-time equivalents (staffing increases at the former Reliant hospitals since their acquisition on October 1, 2015, a planned investment in additional clinical staff due to increased regulatory reporting requirements, and new stores).

- Other operating expenses increased as a percent of revenue due to expenses associated with various consulting projects, including the TeamWorks clinical collaboration initiative.

- Occupancy costs decreased as a percent of revenue due to increased revenue.

- Bad debt expense as a percent of revenue decreased primarily due to the resolution of the administrative payment delays that impacted 2016 collections; pre-payment claim denials in Q1 2017 were relatively consistent with recent history (see page 20).

Reconciliations to GAAP provided on pages 34-40

Home Health and Hospice Segment - Revenue

($millions)	Q1 2017	Q1 2016	Favorable/ (Unfavorable)
Net operating revenues:			
Home health revenue	$ 165.3	$ 150.9	9.5 %
Hospice revenue	17.0	9.7	75.3 %
Total segment revenue	**$ 182.3**	**$ 160.6**	13.5 %
(Actual Amounts)			
Admissions	30,810	25,763	19.6 %
Same-store admissions growth			13.9 %
Episodes	49,260	43,844	12.4 %
Same-store episode growth			8.4 %
Revenue per episode	$ 2,991	$ 3,035	(1.4)%

- **Revenue growth was driven by strong same-store and new-store volume growth.**
  - **Approximately 290 basis points of same-store admission growth resulted from clinical collaboration with HealthSouth's IRFs.**
- **Decrease in revenue per episode resulted from Medicare reimbursement rate cuts partially offset by changes in patient mix (including a higher percentage of therapy patients).**

Home Health and Hospice Segment - Adjusted EBITDA

($millions)	Q1 2017	% of Revenue	Q1 2016	% of Revenue
Net operating revenues	$ 182.3		$ 160.6	
Less: Provision for doubtful accounts	(1.7)	0.9%	(0.9)	0.6%
Net operating revenues less provision for doubtful accounts	180.6		159.7	
Operating expenses:[(a)]				
Cost of services	(89.0)	48.8%	(78.4)	48.8%
Support and overhead costs	(66.8)	36.6%	(57.0)	35.5%
	(155.8)	85.5%	(135.4)	84.3%
Equity in net income of nonconsolidated affiliates	0.2		0.2	
Noncontrolling interests	(1.1)		(1.9)	
Segment Adjusted EBITDA	**$ 23.9**		**$ 22.6**	
Percent change	5.8%			
In arriving at Adjusted EBITDA, the following was excluded:				
(a) Gain on disposal or impairment of assets	(0.1)		(0.3)	

Segment Adjusted EBITDA for the quarter of $23.9 million.

- Operating expenses as a percent of net operating revenues increased due to Medicare reimbursement rate cuts, higher cost per visit (driven by an increased percentage of therapy patients), and salary and benefit cost increases.

Reconciliations to GAAP provided on pages 34-40

Earnings per Share - As Reported

(In Millions, Except Per Share Data)	Q1 2017	Q1 2016
Inpatient rehabilitation segment Adjusted EBITDA	$ 205.4	$ 196.9
Home health and hospice segment Adjusted EBITDA	23.9	22.6
General and administrative expenses	(28.5)	(27.4)
Consolidated Adjusted EBITDA	200.8	192.1
Interest expense and amortization of debt discounts and fees	(41.3)	(44.6)
Depreciation and amortization	(45.2)	(42.4)
Stock-based compensation expense	(8.0)	(4.5)
Noncash gain (loss) on disposal or impairment of assets	0.5	(0.2)
	106.8	100.4
Certain items non-indicative of ongoing operations:		
Loss on early extinguishment of debt	—	(2.4)
Professional fees — accounting, tax, and legal	—	(0.2)
Pre-tax income	106.8	97.8
Income tax expense[1]	(39.7)	(39.7)
Income from continuing operations*	$ 67.1	$ 58.1
Interest and amortization on 2.0% Convertible Senior Subordinated Notes (net of tax)[2]	2.5	2.4
Diluted shares (see page 31)	99.0	99.4
Diluted earnings per share*[2]	**$ 0.70**	**$ 0.61**

- **The increase in EPS for Q1 2017 resulted primarily from increased Adjusted EBITDA.**
  - Interest expense was lower due to the redemptions of the 7.75% Senior Notes due 2022 in 2016.
  - Depreciation and amortization was higher due to acquisitions and capital investments.
  - Stock-based compensation expense was higher due to the mark-to-market adjustment for stock appreciation rights[3].
  - Lower effective income tax rate resulted from windfall tax benefits[4] from vesting of share-based compensation and certain federal and state income tax settlements.
  - Lower share count resulted from stock repurchases in 2016 and the first quarter of 2017.
- **EPS for Q1 2016 was impacted by the loss on early extinguishment of debt associated with the redemptions of the 7.75% Senior Notes due 2022.**

* Earnings per share are determined using income from continuing operations attributable to HealthSouth.
Refer to pages 41-43 for end notes.

Adjusted Earnings per Share[5]

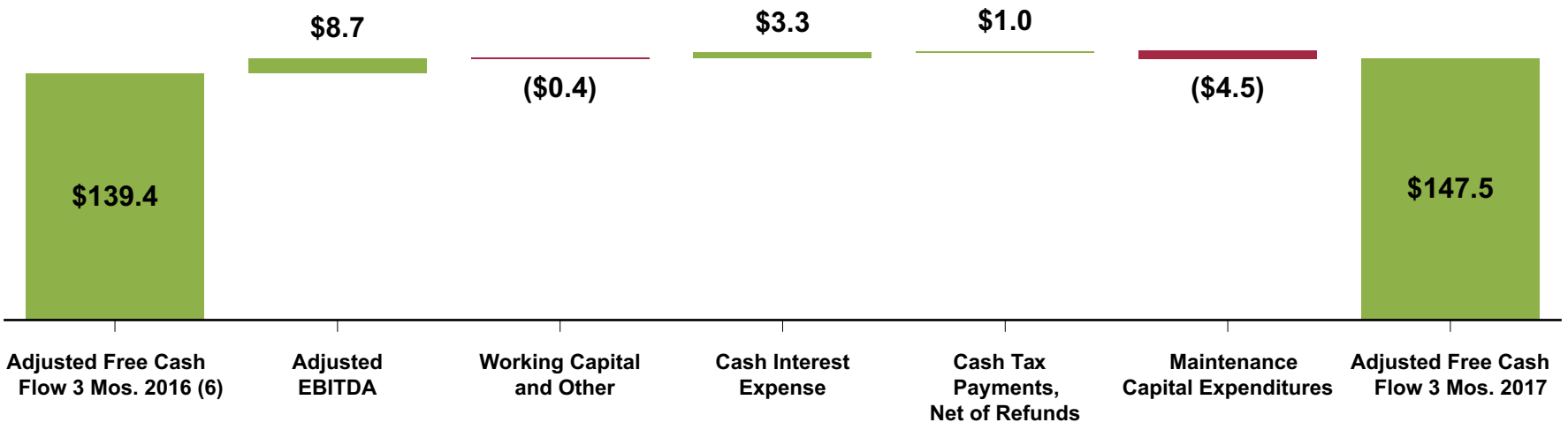
	Q1	
	2017	2016
Earnings per share, as reported	**$ 0.70**	**$ 0.61**
Adjustments, net of tax:		
Mark-to-market adjustment for stock appreciation rights[3]	0.02	(0.01)
Income tax adjustments[4] and settlements	(0.03)	—
Loss on early extinguishment of debt	—	0.01
Adjusted earnings per share*	**$ 0.70**	**$ 0.61**

Adjusted earnings per share removes from the GAAP earnings per share calculation the impact of items the Company believes are non-indicative of its ongoing operations.

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 39-40.

Refer to pages 41-43 for end notes.

2017 Adjusted Free Cash Flow[(6)]



- Adjusted free cash flow in Q1 2017 grew 5.8% primarily as a result of increased Adjusted EBITDA.
  - Increased maintenance capital expenditures resulted from growth in the IRF segment, an enhanced hospital maintenance program, and refurbishments at larger hospitals.
  - Cash interest expense decreased due to the redemptions of the 7.75% Senior Notes due 2022 in 2016.
  - Working capital was relatively flat as improved collection of accounts receivable was offset by the timing of payroll-related liabilities.

Reconciliations to GAAP provided on pages 34-40

Refer to pages 41-43 for end notes.

Guidance (Reiterated as of April 27, 2017)

2016 Actuals		2017 Guidance	
Net Operating Revenues	$3,707.2 million	Net Operating Revenues	$3,850 million to $3,950 million
Adjusted EBITDA[7]	$793.6 million	Adjusted EBITDA[7]	$800 million to $820 million
Adjusted Earnings per Share from Continuing Operations Attributable to HealthSouth[5]	$2.67	Adjusted Earnings per Share from Continuing Operations Attributable to HealthSouth[5]	$2.61 to $2.73

Refer to pages 41-43 for end notes.

Guidance Considerations

Inpatient Rehabilitation

- Estimated 1.9% increase in Medicare pricing for Q1 through Q3; ~1.0% for Q4 (see page 23)
- Salary increase of ~3.0% (see page 24)
- 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 23)
- Salary increase of ~3.0% (see page 24)
- Estimated incremental cost of $1.0 million to $1.5 million for the pre-claim review demonstration (implementation of continued rollout delayed by at least 30 days)
- Inclusive of home health and hospice acquisitions in 2017 (see page 17)
- 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[(6)] and Tax Assumptions

Certain Cash Flow Items (millions)	3 Months 2017 Actual	2017 Assumptions	2016 Actual
• **Cash interest expense** (net of amortization of debt discounts and fees)	$37.8	$150 to $160	$158.4
• **Cash payments for taxes, net of refunds**	$(0.3)	$95 to $115	$31.9
• **Working Capital and Other**	$(6.4)	$50 to $70	$24.6
• **Maintenance CAPEX**	$22.2	$130 to $150	$104.2
• **Adjusted Free Cash Flow**	$147.5	$305 to $395	$474.5

- Increased cash payments for taxes due to exhaustion of federal NOL in Q1 2017
  - In March 2017, the IRS approved the Company's request for a tax accounting method change related to billings denied under pre-payment claims reviews.[(8)]
    - ✓ Replenished gross federal NOL by ~$130 million, which resulted in ~$54 million of additional tax benefits
    - ✓ Decreased estimate for cash payments for taxes in 2017 from a range of $120 to $175 million to a range of $95 to $115 million (assumed to be paid ratably in Q2 through Q4)

- 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)

Reconciliations to GAAP provided on pages 34-40

Refer to pages 41-43 for end notes.

Free Cash Flow Priorities

Highest Priority

Growth in Core Business

	(In Millions)		
	3 Months 2017 Actuals	2017 Assumptions	2016 Actuals
IRF bed expansions	$3.5	$30 to $40	$19.1
New IRF's			
- De novos	18.6	85 to 105	72.6
- Acquisitions	10.9	TBD	—
- Replacement hospitals and other	0.6	10 to 20	11.1
New home health and hospice acquisitions	5.5	50 to 100	48.1
	$39.1	$175 to $265, excluding IRF acquisitions	$150.9

Debt Reduction

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

	3 Months 2017 Actuals	2017 Assumptions	2016 Actuals
Debt (borrowings) redemptions, net	$63.0	$TBD	$155.1

Shareholder Distributions

Quarterly cash dividend currently set at $0.24 per common share

Cash dividends on common stock[9]	22.2	~$87	83.8
Common stock repurchases	18.1	TBD	65.6
	$103.3	$TBD	$304.5

~$78 million authorization remaining as of March 31, 2017

Contractual debt repayment obligations in 2017 include ~$15 million of capital lease payments and ~$1 million of other notes payable. See the debt schedule on page 25. Refer to pages 41-43 for end notes.

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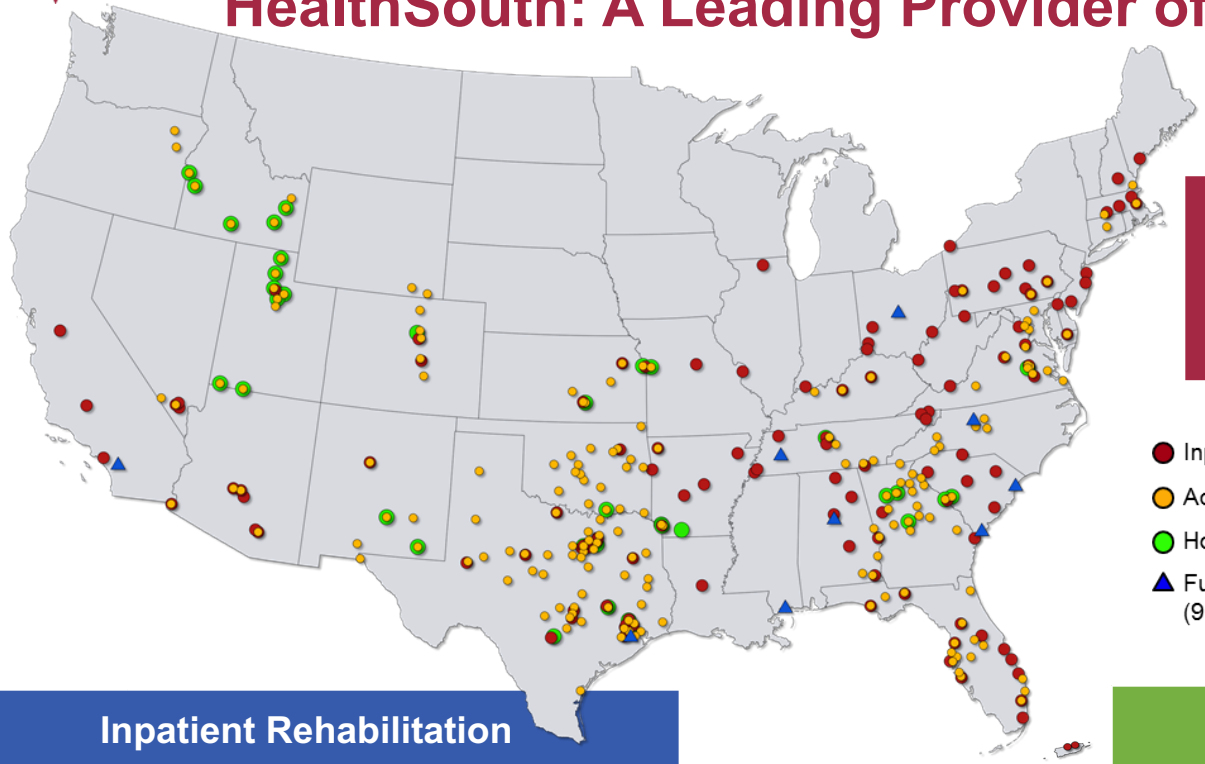
Appendix

HealthSouth: A Leading Provider of Post-Acute Care



61% of HealthSouth's IRFs are located within a 30-mile radius of an Encompass location.

Inpatient Rehabilitation

Portfolio - As of March 31, 2017	
123	Inpatient Rehabilitation Hospitals • 37 operate as joint ventures with acute care hospitals
30	Number of States (plus Puerto Rico)
~ 28,500	Employees

Key Statistics - Trailing 4 Quarters	
~ $3.1 Billion	Revenue
166,466	Inpatient Discharges
630,507	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 March 31, 2017	
193	Home Health Locations
35	Hospice Locations
25	Number of States
~ 8,000	Employees

Key Statistics - Trailing 4 Quarters	
~ $708 million	Revenue
191,153	Home Health Episodes
3,741	Hospice Admissions

Note: One of the 123 IRFs and two of the 193 adult home health locations are nonconsolidated. These locations are accounted for using the equity method of accounting.

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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 for IRFs during 2014 and 2015 due to a widespread review of neurological billing codes and expansion of ongoing lower extremity code denials.
- HealthSouth appeals most 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.
  - However, MACs and other HHS contractors continue to issue denials without regulatory basis.
- By statute, ALJ decisions are due within 90 days of a request for hearing, but appeals are taking years. HHS has proposed rule changes to address the backlog of appeals, but their effect is uncertain.
- Last year, a federal court ordered HHS to eliminate the backlog by the end of calendar year 2020. HHS has appealed the order.
- All Medicare providers continue to experience delays. The backlog is growing because the ALJs receive one year's worth of appeals every four to six weeks, according to HHS.
  - Currently, ALJs are hearing HealthSouth appeals from claims denied up to seven years ago.

HealthSouth reserves for pre-payment claim denials via the provision for doubtful accounts upon notice from a MAC that a claim is under review.

Impact to Income Statement

Period	New Denials	Collections of Previously Denied Claims	Bad Debt Expense for New Denials	Update of Reserve for Prior Denials
		(In Millions)		
Q1 2017	$19.0	$(5.9)	$5.7	$—
Q4 2016	17.8	(4.4)	5.4	0.5
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	—

Impact to Balance Sheet

	March 31, 2017	Dec. 31, 2016	Dec. 31, 2015
		(In Millions)	
Pre-payment claims denials	$ 171.4	$ 159.7	$ 114.8
Recorded reserves	(51.9)	(47.9)	(31.2)
Net accounts receivable from pre-payment claims denials	**$ 119.5**	**$ 111.8**	**$ 83.6**

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Expansion Activity

Inpatient Rehabilitation Facilities	# of New Beds		
	2017	2018	2019
De Novo:			
1 Pearland, TX	40	—	—
2 Shelby County, AL	—	34	—
3 Hilton Head, SC	—	38	—
4 Murrieta, CA	—	50	—
Joint Ventures:			
5 Gulfport, MS*	33	—	—
6 Westerville, OH*	60	—	—
7 Jackson, TN	48	—	—
8 Murrells Inlet, SC	—	29	—
9 Winston-Salem, NC	—	68	—
Bed Expansions, net**	156	~100	~100
	337	319	100

Q1 2017 expansion activity highlights:

- **Expanded existing hospitals by 24 beds**

9 **IRF Development Projects Underway**

2 **New States**

Home Health and Hospice	# of locations
December 31, 2016	223
Acquisitions	4
Opening of new locations	1
March 31, 2017	228

Q1 2017 acquisition highlights:

- **Acquired 2 home health locations in Maryland**
- **Acquired 2 home health locations in Kentucky**
- **Opened 1 home health location in Massachusetts**

* Became operational in April 2017.

** Operating a unit in place (22 beds) while completing a de novo (40 beds) for a net increase of 18 beds in 2017. Net bed expansions in each year may change due to the timing of certain regulatory approvals and/or construction delays.

Business Outlook 2017 to 2019*

Business Model

- *Adjusted EBITDA CAGR: 5% - 9%***
- *Strong free cash flow generation*

Strategy Component

	2017	2018	2019
Shareholder Distributions	• *Quarterly cash dividends* • *Opportunistic repurchases* - *(~$78 million authorization remaining as of March 31, 2017)*		
Strong Balance Sheet	• *Target leverage of 3.5x to 3.8x by year end, subject to opportunities for creating shareholder value*	• *Target leverage of 3.5x or less, subject to opportunities for creating shareholder value*	
Core Growth	• *Same-store IRF growth* • *New-store IRF growth (de novos and acquisitions)* • *Same-store home health and hospice growth* • *New-store home health and hospice growth (acquisitions)*		
Opportunistic Growth		• *Consider acquisitions of other complementary businesses*	
Key Operational Initiatives	• *Develop and implement risk sharing strategies* • *Enhance clinical collaboration between HealthSouth and Encompass* • *Refine and expand clinical data analytics utilization to further improve patient outcomes* • *Leverage clinical expertise to increase stroke admissions* • *Complete installation of EMR and enhance utilization via continuous in-service upgrades*		

* If legislation affecting Medicare is passed, HealthSouth will evaluate its effect on its business model.
** This is a multi-year CAGR; annual results may fall outside the range.

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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. 84% of Revenue**		
	FY 2017 Q416-Q317	**FY 2018 Q417-Q318[10]**	**FY 2019 Q418-Q319 Mgmt. Estimate**	**CY 2017 Q117-Q417**	**CY 2018 Q118-Q418[10]**	**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[11]	1.9%			(3.6%)		
Medicare Advantage & Managed Care Pricing	**Approx. 20% of Revenue**			**Approx. 14% of Revenue**		
Expected Increases	2-4%	2-4%	2-4%	0-2%	0-2%	0-2%

Refer to pages 41-43 for end notes.

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Business Outlook 2017 to 2019: Labor and Other Expense Assumptions

Inpatient Rehabilitation

Salaries and Benefits	2017	2018	2019
Salary increases	2.75-3.25%	2.75-3.25%	2.75-3.25%
Benefit costs increases	5-10%	5-10%	5-10%



Percent of Salaries & Benefits	
Salaries	~ 90%
Benefits	~10%



Home Health and Hospice

Hospital Expenses

- Other operating expenses and supply costs tracking with inflation

Home Health Expenses

- Other operating expenses and supply costs tracking with inflation

Debt Schedule

($millions)	March 31, 2017	Dec. 31, 2016	Change in Debt vs. YE 2016
Advances under $600 million revolving credit facility, July 2020 - LIBOR +200bps	$ 85.0	$ 152.0	$ (67.0)
Term loan facility, July 2020 - LIBOR +200bps	415.7	421.2	(5.5)
Bonds Payable:			
5.125% Senior Notes due 2023	295.4	295.3	0.1
5.75% Senior Notes due 2024	1,193.4	1,193.2	0.2
5.75% Senior Notes due 2025	344.0	343.9	0.1
2.0% Convertible Senior Subordinated Notes due 2043	278.2	275.7	2.5
Other notes payable	63.1	55.8	7.3
Capital lease obligations	278.6	279.3	(0.7)
Long-term debt	**$ 2,953.4**	**$ 3,016.4**	$ (63.0)
Debt to Adjusted EBITDA	**3.7x**	**3.8x**	

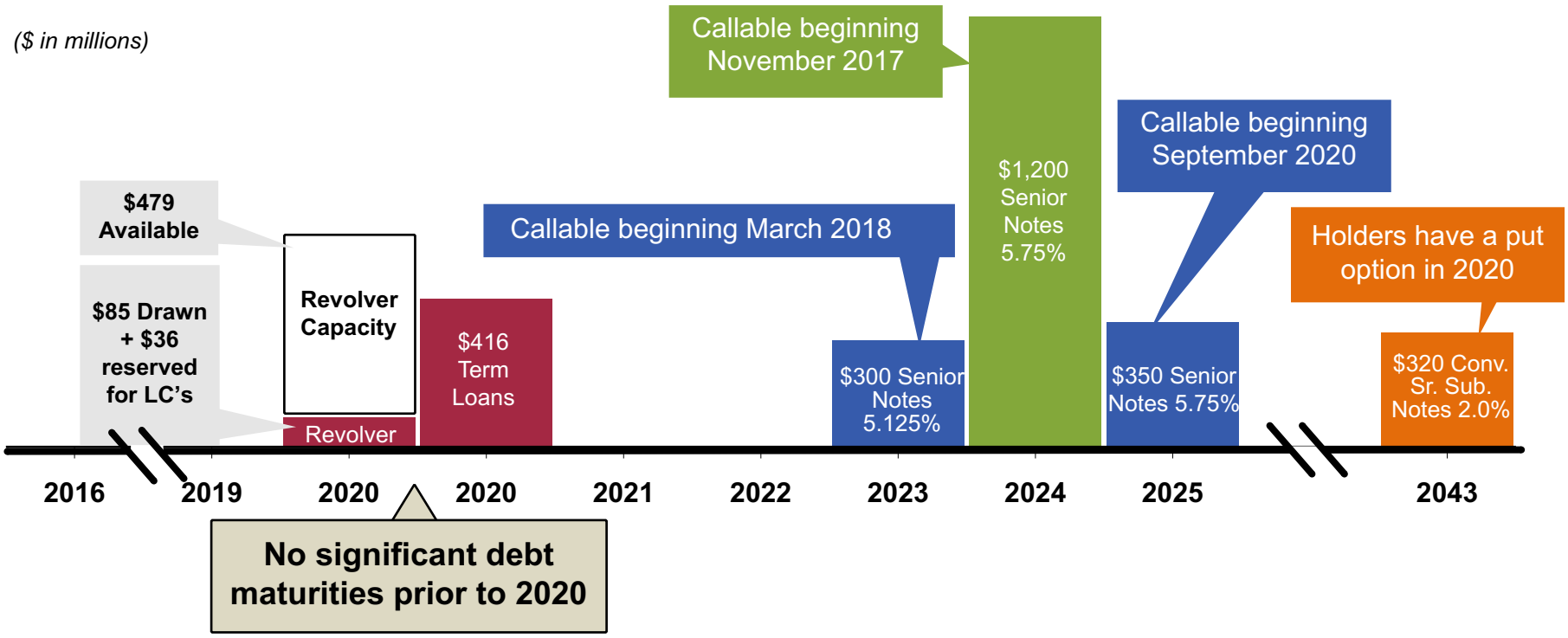
Reconciliations to GAAP provided on pages 34-40

Debt Maturity Profile - Face Value

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

As of March 31, 2017*

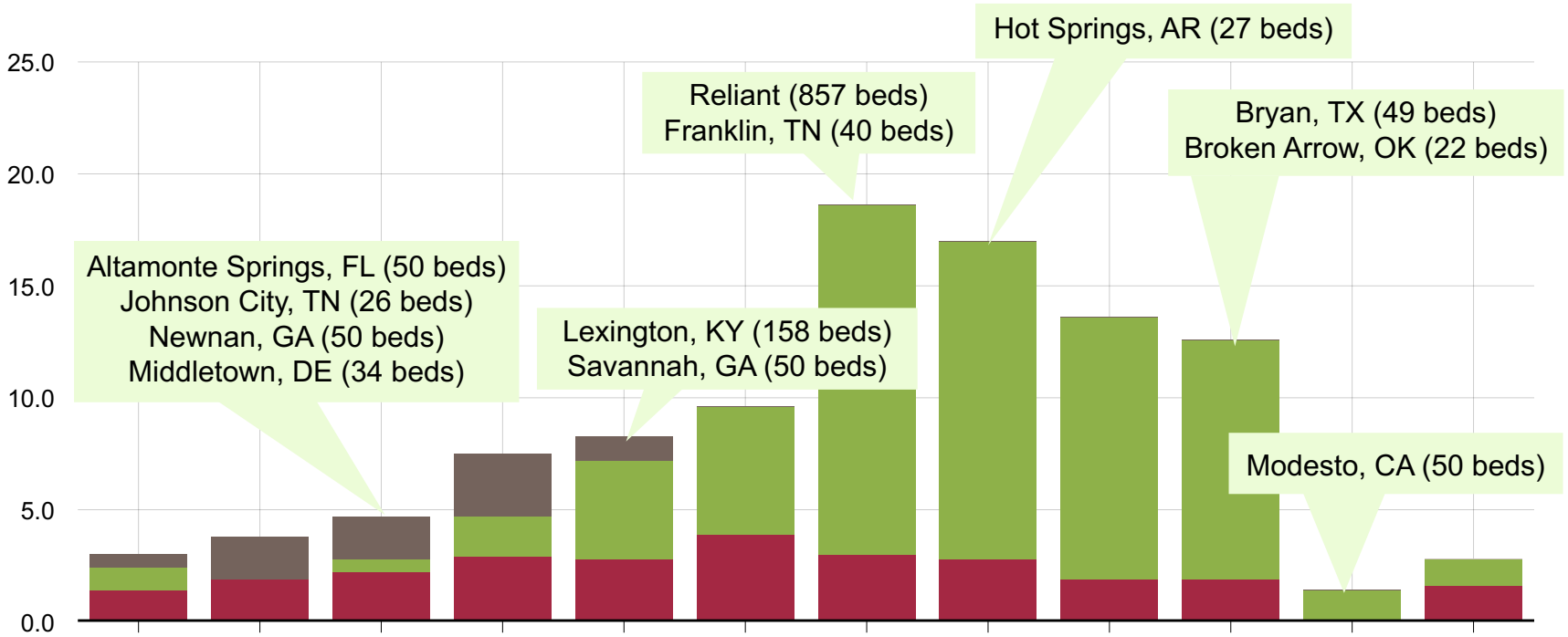
($ in millions)



* This chart does not include ~$279 million of capital lease obligations or ~$63 million of other notes payable. See the debt schedule on page 25.

HEALTHSOUTH

New-Store/Same-Store IRF Growth



	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Fairlawn[12]	0.6%	1.9%	1.9%	2.0%	1.1%							
New Store	1.0%	—%	0.6%	1.8%	4.4%	5.7%	15.6%	14.2%	11.7%	10.7%	1.3%	1.2%
Same Store*	1.4%	1.9%	2.2%	2.9%	2.8%	3.9%	3.0%	2.8%	1.9%	1.9%	0.1%	1.6%
Total by Qtr.	3.0%	3.8%	4.7%	6.7%	8.3%	9.6%	18.6%	17.0%	13.6%	12.6%	1.4%	2.8%
Total by Year			3.5%				10.9%				10.8%	
Same-Store Year*			1.3%				3.2%				1.7%	
Same-Store Year UDS[13]			(0.2)%				1.3%				(0.6)%	

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

Refer to pages 41-43 for end notes.

HEALTHSOUTH

Payment Sources (Percent of Revenues)

	Inpatient Rehabilitation Segment		Home Health and Hospice Segment		Consolidated		
	Q1		Q1		Q1		Full Year
	2017	2016	2017	2016	2017	2016	2016
Medicare	73.3%	73.8%	84.1%	83.5%	75.2%	75.4%	75.2%
Medicare Advantage	8.5%	7.6%	10.3%	8.7%	8.8%	7.8%	7.9%
Managed care	11.2%	11.0%	4.0%	2.7%	9.9%	9.5%	9.8%
Medicaid	2.8%	3.0%	1.4%	4.9%	2.6%	3.4%	3.2%
Other third-party payors	1.5%	1.6%	—%	—%	1.2%	1.4%	1.4%
Workers' compensation	0.9%	1.1%	—%	—%	0.8%	0.9%	0.8%
Patients	0.6%	0.6%	0.1%	0.1%	0.5%	0.5%	0.5%
Other income	1.2%	1.3%	0.1%	0.1%	1.0%	1.1%	1.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Inpatient Rehabilitation Operational and Labor Metrics

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Full Year 2016
			(In Millions)			
Net patient revenue-inpatient	$ 766.2	$ 740.9	$ 724.1	$ 721.2	$ 719.4	$ 2,905.5
Net patient revenue-outpatient and other revenues	26.3	26.7	27.6	31.4	29.8	115.6
Net operating revenues	$ 792.5	$ 767.6	$ 751.7	$ 752.6	$ 749.2	$ 3,021.1
			(Actual Amounts)			
Discharges[14]	42,259	41,474	41,368	41,365	41,098	165,305
Net patient revenue per discharge	$ 18,131	$ 17,864	$ 17,504	$ 17,435	$ 17,505	$ 17,577
Outpatient visits	152,454	154,311	158,981	164,761	162,649	640,702
Average length of stay	12.9	12.8	12.7	12.6	12.9	12.8
Occupancy %	71.0%	67.8%	67.8%	68.2%	68.9%	67.8%
# of licensed beds*	8,528	8,504	8,441	8,430	8,481	8,504
Occupied beds	6,055	5,766	5,723	5,749	5,843	5,766
Full-time equivalents (FTEs)[15]	20,254	19,930	19,663	19,503	19,352	19,612
Contract labor	260	245	241	205	194	221
Total FTE and contract labor	20,514	20,175	19,904	19,708	19,546	19,833
EPOB[16]	3.39	3.50	3.48	3.43	3.35	3.44

* 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 41-43 for end notes.

Home Health and Hospice Operational Metrics

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Full Year 2016
			(In Millions)			
Net home health revenue	$ 165.3	$ 165.2	$ 162.0	$ 157.1	$ 150.9	$ 635.2
Net hospice and other revenue	17.0	17.1	13.1	11.0	9.7	50.9
Net operating revenues	$ 182.3	$ 182.3	$ 175.1	$ 168.1	$ 160.6	$ 686.1
Home Health:			(Actual Amounts)			
Admissions[17]	30,810	27,957	27,239	25,753	25,763	106,712
Recertifications	20,546	21,422	20,888	20,432	19,453	82,195
Episodes	49,260	49,253	46,866	45,774	43,844	185,737
Average revenue per episode	$ 2,991	$ 3,023	$ 3,032	$ 3,033	$ 3,035	$ 3,031
Episodic visits per episode	18.7	18.4	19.0	18.9	19.1	18.8
Total visits	1,070,356	1,033,502	1,001,021	967,968	937,804	3,940,295
Cost per visit	$ 75	$ 76	$ 75	$ 73	$ 73	$ 74
Hospice:						
Admissions[18]	1,128	996	832	785	724	3,337
Patient days	108,717	104,183	83,628	71,277	63,431	322,519
Revenue per day	$ 157	$ 164	$ 157	$ 154	$ 153	$ 158

Refer to pages 41-43 for end notes.

Share Information

	Weighted Average for the Period				
	Q1		Full Year		
(Millions)	2017	2016	2016	2015	2014
Basic shares outstanding[19]	88.8	89.5	89.1	89.4	86.8
Convertible perpetual preferred stock[19]	—	—	—	1.0	3.2
Convertible senior subordinated notes[20]	8.6	8.4	8.5	8.3	8.2
Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants[21]	1.6	1.5	1.9	2.3	2.5
Diluted shares outstanding	99.0	99.4	99.5	101.0	100.7

	End of Period				
	Q1		Full Year		
(Millions)	2017	2016	2016	2015	2014
Basic shares outstanding[19]	88.8	89.4	88.3	89.3	86.6

	Date	Approx. Conversion Rate	Approx. Conversion Price
Convertible senior subordinated notes[20]	4/3/17	27.2221	$36.74

Refer to pages 41-43 for end notes.

Segment Operating Results

	Q1 2017				Q1 2016			
	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated
Net operating revenues	$ 792.5	$ 182.3	$ —	$ 974.8	$ 749.2	$ 160.6	$ —	$ 909.8
Less: Provision for doubtful accounts	(14.7)	(1.7)	—	(16.4)	(15.6)	(0.9)	—	(16.5)
	777.8	180.6	—	958.4	733.6	159.7	—	893.3
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(398.2)	—	(131.9)	(530.1)	(369.9)	—	(116.2)	(486.1)
Other operating expenses[(a)]	(111.8)	—	(17.8)	(129.6)	(104.8)	—	(14.2)	(119.0)
Supplies	(33.7)	—	(3.3)	(37.0)	(32.4)	—	(2.6)	(35.0)
Occupancy	(15.1)	—	(2.8)	(17.9)	(15.6)	—	(2.4)	(18.0)
Home Health and Hospice:								
Cost of services sold (excluding depreciation and amortization)	—	(89.0)	89.0	—	—	(78.4)	78.4	—
Support and overhead costs	—	(66.8)	66.8	—	—	(57.0)	57.0	—
	(558.8)	(155.8)	—	(714.6)	(522.7)	(135.4)	—	(658.1)
Other income	1.0	—	—	1.0	0.6	—	—	0.6
Equity in net income of nonconsolidated affiliates	1.9	0.2	—	2.1	2.2	0.2	—	2.4
Noncontrolling interest	(16.5)	(1.1)	—	(17.6)	(16.8)	(1.9)	—	(18.7)
Segment Adjusted EBITDA	**$ 205.4**	**$ 23.9**	**$ —**	**229.3**	**$ 196.9**	**$ 22.6**	**$ —**	**219.5**
General and administrative expenses[(b)]				(28.5)				(27.4)
Adjusted EBITDA				**$ 200.8**				**$ 192.1**
In arriving at Adjusted EBITDA, the following were excluded:								
(a) (Gain) loss on disposal or impairment of assets	$ (0.4)	$ (0.1)	$ —	$ (0.5)	$ 0.5	$ (0.3)	$ —	$ 0.2
(b) Stock-based compensation	—	—	—	8.0	—	—	—	4.5

Reconciliations to GAAP provided on pages 34-40

Segment Operating Results

	Year Ended December 31, 2016			
	IRF	Home Health and Hospice	Reclasses	HealthSouth Consolidated
Net operating revenues	$ 3,021.1	$ 686.1	$ —	$ 3,707.2
Less: Provision for doubtful accounts	(57.0)	(4.2)	—	(61.2)
	2,964.1	681.9	—	3,646.0
Operating Expenses:				
Inpatient Rehabilitation:				
Salaries and benefits	(1,493.4)	—	(492.5)	(1,985.9)
Other operating expenses[a]	(431.5)	—	(59.9)	(491.4)
Supplies	(128.8)	—	(11.2)	(140.0)
Occupancy	(61.2)	—	(10.1)	(71.3)
Home Health and Hospice:				
Cost of services sold (excluding depreciation and amortization)	—	(336.5)	336.5	—
Support and overhead costs	—	(237.2)	237.2	—
	(2,114.9)	(573.7)	—	(2,688.6)
Other income	2.9	—	—	2.9
Equity in net income of nonconsolidated affiliates	9.1	0.7	—	9.8
Noncontrolling interest	(64.0)	(6.5)	—	(70.5)
Segment Adjusted EBITDA	**$ 797.2**	**$ 102.4**	**$ —**	**899.6**
General and administrative expenses[b]				(106.0)
Adjusted EBITDA				**$ 793.6**
In arriving at Adjusted EBITDA, the following were excluded:				
(a) Loss (gain) on disposal or impairment of assets	$ 4.3	$ (3.6)	$ —	$ 0.7
(b) Stock-based compensation expense	—	—	—	27.4

Reconciliations to GAAP provided on pages 34-40

Reconciliation of Net Income to Adjusted EBITDA[(7)]

	2017 Q1	
(in millions, except per share data)	Total	Per Share
Net Income	$ 84.4	
Loss from disc ops, net of tax, attributable to HealthSouth	0.3	
Net income attributable to noncontrolling interests	(17.6)	
Income from continuing operations attributable to HealthSouth*	67.1	$ 0.70
Provision for income tax expense	39.7	
Interest expense and amortization of debt discounts and fees	41.3	
Depreciation and amortization	45.2	
Net noncash gain on disposal or impairment of assets	(0.5)	
Stock-based compensation expense	8.0	
Adjusted EBITDA	$ 200.8	
Weighted average common shares outstanding:		
Basic		88.8
Diluted		99.0

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 41-43 for end notes.

Reconciliation of Net Income to Adjusted EBITDA[(7)]

(in millions, except per share data)	2016 Q1 Total	2016 Q1 Per Share	2016 Q2 Total	2016 Q2 Per Share	2016 Q3 Total	2016 Q3 Per Share	2016 Q4 Total	2016 Q4 Per Share	2016 Full Year Total	2016 Full Year Per Share
Net Income	$ 76.7		$ 81.2		$ 78.1		$ 82.1		$ 318.1	
Loss (income) 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)		(16.8)		(70.5)	
Income from continuing operations attributable to HealthSouth*	58.1	$ 0.61	62.7	$ 0.65	61.8	$ 0.64	65.0	$ 0.68	247.6	$ 2.59
Pro fees — acct, tax, and legal	0.2		1.7		—		—		1.9	
Provision for income tax expense	39.7		42.4		42.1		39.7		163.9	
Interest expense and amortization of debt discounts and fees	44.6		43.4		42.5		41.6		172.1	
Depreciation and amortization	42.4		42.9		43.5		43.8		172.6	
Loss on early extinguishment of debt	2.4		2.4		2.6		—		7.4	
Net noncash gain (loss) on disposal or impairment of assets	0.2		0.2		1.6		(1.3)		0.7	
Stock-based compensation expense	4.5		8.6		4.3		10.0		27.4	
Adjusted EBITDA	$ 192.1		$ 204.3		$ 198.4		$ 198.8		$ 793.6	
Weighted average common shares outstanding:										
Basic		89.5		89.3		89.1		88.6		89.1
Diluted		99.4		99.4		99.4		99.2		99.5

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 41-43 for end notes.

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Net Cash Provided by Operating Activities Reconciled to Adjusted EBITDA

(Millions)	Q1 2017	Q1 2016	Full Year 2016
Net cash provided by operating activities	$ 180.8	$ 169.6	$ 634.4
Provision for doubtful accounts	(16.4)	(16.5)	(61.2)
Professional fees — accounting, tax, and legal	—	0.2	1.9
Interest expense and amortization of debt discounts and fees	41.3	44.6	172.1
Equity in net income of nonconsolidated affiliates	2.1	2.4	9.8
Net income attributable to noncontrolling interests in continuing operations	(17.6)	(18.7)	(70.5)
Amortization of debt-related items	(3.5)	(3.4)	(13.8)
Distributions from nonconsolidated affiliates	(2.1)	(1.7)	(8.5)
Current portion of income tax (benefit) expense	(9.3)	5.0	31.0
Change in assets and liabilities	24.6	8.4	91.3
Net premium paid on bond transactions	—	1.9	5.8
Cash used in operating activities of discontinued operations	0.4	0.2	0.7
Other	0.5	0.1	0.6
Adjusted EBITDA	$ 200.8	$ 192.1	$ 793.6

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

	Three Months Ended March 31,		Year Ended December 31,
	2017	2016	2016
	In Millions		
Total segment Adjusted EBITDA	**$ 229.3**	**$ 219.5**	**$ 899.6**
General and administrative expenses	(36.5)	(31.9)	(133.4)
Depreciation and amortization	(45.2)	(42.4)	(172.6)
Gain (loss) on disposal or impairment of assets	0.5	(0.2)	(0.7)
Professional fees — accounting, tax, and legal	—	(0.2)	(1.9)
Loss on early extinguishment of debt	—	(2.4)	(7.4)
Interest expense and amortization of debt discounts and fees	(41.3)	(44.6)	(172.1)
Net income attributable to noncontrolling interests	17.6	18.7	70.5
Income from continuing operations before income tax expense	**$ 124.4**	**$ 116.5**	**$ 482.0**

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

($millions)	Q1 2017	Q1 2016	Full-Year 2016
Net cash provided by operating activities	$ 180.8	$ 169.6	$ 634.4
Impact of discontinued operations	0.4	0.2	0.7
Net cash provided by operating activities of continuing operations	181.2	169.8	635.1
Capital expenditures for maintenance	(22.2)	(17.7)	(104.2)
Distributions paid to noncontrolling interests of consolidated affiliates	(11.5)	(15.6)	(64.9)
Items non-indicative of ongoing operations:			
Cash paid for professional fees — accounting, tax, and legal	—	0.2	1.9
Transaction costs and related assumed liabilities	—	0.8	0.8
Net premium on bond issuance/repayment	—	1.9	5.8
Adjusted free cash flow	**$ 147.5**	**$ 139.4**	**$ 474.5**
Cash dividends on common stock	**$ 22.2**	**$ 21.3**	**$ 83.8**

Refer to pages 41-43 for end notes.

Adjusted EPS[5] - Q1 2017

	For the Three Months Ended March 31, 2017			
		Adjustments		
	As Reported	Mark-to-Market Adjustment for Stock Appreciation Rights	Income Tax Adjustments[4] and Settlements	As Adjusted
	(In Millions, Except Per Share Amounts)			
Adjusted EBITDA	**$ 200.8**	**$ —**	**$ —**	**$ 200.8**
Depreciation and amortization	(45.2)	—	—	(45.2)
Interest expense and amortization of debt discounts and fees	(41.3)	—	—	(41.3)
Stock-based compensation	(8.0)	3.3	—	(4.7)
Gain on disposal or impairment of assets	0.5	—	—	0.5
Income from continuing operations before income tax expense	106.8	3.3	—	110.1
Provision for income tax expense	(39.7)	(1.3)	(2.6)	(43.6)
Income from continuing operations attributable to HealthSouth	**$ 67.1**	**$ 2.0**	**$ (2.6)**	**$ 66.5**
Add: Interest on convertible debt, net of tax	2.5			2.5
Numerator for diluted earnings per share	**$ 69.6**			**$ 69.0**
Diluted earnings per share from continuing operations*	**$ 0.70**	**$ 0.02**	**$ (0.03)**	**$ 0.70**
Diluted shares used in calculation	**99.0**			

* Adjusted EPS may not sum across due to rounding.
Refer to pages 41-43 for end notes.

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Adjusted EPS[5] - Q1 2016

	For the Three Months Ended March 31, 2016				
		Adjustments			
	As Reported	Professional Fees — Accounting, Tax, & Legal	Mark-to-Market Adjustment for Stock Appreciation Rights	Loss on Early Extinguishment of Debt	As Adjusted
	(In Millions, Except Per Share Amounts)				
Adjusted EBITDA	**$ 192.1**	**$ —**	**$ —**	**$ —**	**$ 192.1**
Depreciation and amortization	(42.4)	—	—	—	(42.4)
Professional fees — accounting, tax, and legal	(0.2)	0.2	—	—	—
Loss on early extinguishment of debt	(2.4)	—	—	2.4	—
Interest expense and amortization of debt discounts and fees	(44.6)	—	—	—	(44.6)
Stock-based compensation	(4.5)	—	(2.4)	—	(6.9)
Loss on disposal or impairment of assets	(0.2)	—	—	—	(0.2)
Income from continuing operations before income tax expense	97.8	0.2	(2.4)	2.4	98.0
Provision for income tax expense	(39.7)	(0.1)	1.0	(1.0)	(39.8)
Income from continuing operations attributable to HealthSouth	**$ 58.1**	**$ 0.1**	**$ (1.4)**	**$ 1.4**	**$ 58.2**
Add: Interest on convertible debt, net of tax	2.4				2.4
Numerator for diluted earnings per share	**$ 60.5**				**$ 60.6**
Diluted earnings per share from continuing operations*	**$ 0.61**	**$ —**	**$ (0.01)**	**$ 0.01**	**$ 0.61**
Diluted shares used in calculation	**99.4**				

* Adjusted EPS may not sum across due to rounding.
Refer to pages 41-43 for end notes.

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End Notes

(1) Current income tax (benefit) expense was ($9.3) million and $5.0 million for Q1 2017 and Q1 2016, respectively.

(2) 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.

(3) 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.

(4) New guidance in ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," requires entities to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement. Historically, HealthSouth recorded such tax effects to equity.

(5) 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.*

(6) 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.

Note: Adjusted free cash flow for prior periods has been recast to conform to the new guidance in ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." HealthSouth's stock-based compensation plans permit shares to be withheld to pay the employee's tax withholding obligations incurred in connection with the vesting of a stock award. HealthSouth then remits the value of those withheld shares in cash to the applicable tax authority on the employee's behalf. Under the new guidance, all cash payments made to taxing authorities on employees' behalf for shares withheld should be presented as a financing activity in the statement of cash flows. Historically, HealthSouth presented such payments as an operating activity.

Adjusted Free Cash Flow			
	As Previously Reported	Payroll Taxes Paid Reclassified to Financing Activities	As Currently Reported
Q1 2016	$ 129.5	$ 9.9	$ 139.4
Q2 2016	115.3	—	115.3
Q3 2016	139.8	—	139.8
Q4 2016	78.3	1.7	80.0
FY 2016	**$ 462.9**	**$ 11.6**	**$ 474.5**
FY 2015	**$ 389.0**	**$ 17.2**	**$ 406.2**

* Reconciliations to GAAP provided on pages 34-40

End Notes, con't.

(7) 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.

(8) In March 2017, the Internal Revenue Service approved HealthSouth's request for a tax accounting method change related to billings denied under pre-payment claims reviews conducted by certain of its Medicare Administrative Contractors. This approval resulted in approximately $54 million of additional tax benefits to the Company through March 31, 2017. Approximately $39 million of this amount represents pre-payment claims denials received in years prior to and including the year ended December 31, 2015. These benefits are expected to reverse as pre-payment claims denials are settled or collected.

(9) 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.

(10) 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.

(11) 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.

(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 122 consolidated hospitals in Q1 2017 and Q4 2016; 121 consolidated hospitals in Q3 2016; 120 consolidated hospitals in Q2 2016; and 121 consolidated hospitals in Q1 2016

(15) Excludes approximately 430 full-time equivalents in Q1 2017 and approximately 420 full-time equivalents in the 2016 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 191 consolidated locations in Q1 2017; 186 consolidated locations in Q4 2016; 188 consolidated locations in Q3 2016; 187 consolidated locations in Q2 2016; and 184 consolidated locations in Q1 2016

(18) Represents hospice admissions from 35 locations in Q1 2017 and Q4 2016; 33 locations in Q3 2016; 29 locations in Q2 2016; and 27 locations in Q1 2016

(19) 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 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.

End Notes, con't.

(20) 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 ($44.09) 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.

(21) 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 (expired 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 full-year 2016 and full-year 2014, zero shares related to the warrants were included in the diluted share count due to antidilution based on the stock price. In full-year 2015, 80,814 shares related to the warrants were included in the diluted share count using the treasury stock method.