Encompass Health

2018 J.P. Morgan Healthcare Conference

Mark Tarr, President and Chief Executive Officer
January 9, 2018

Forward-Looking Statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect Encompass Health'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, disintermediation, and shareholder value-enhancing transactions. These estimates, projections and other forward-looking information are based on assumptions the Company 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.

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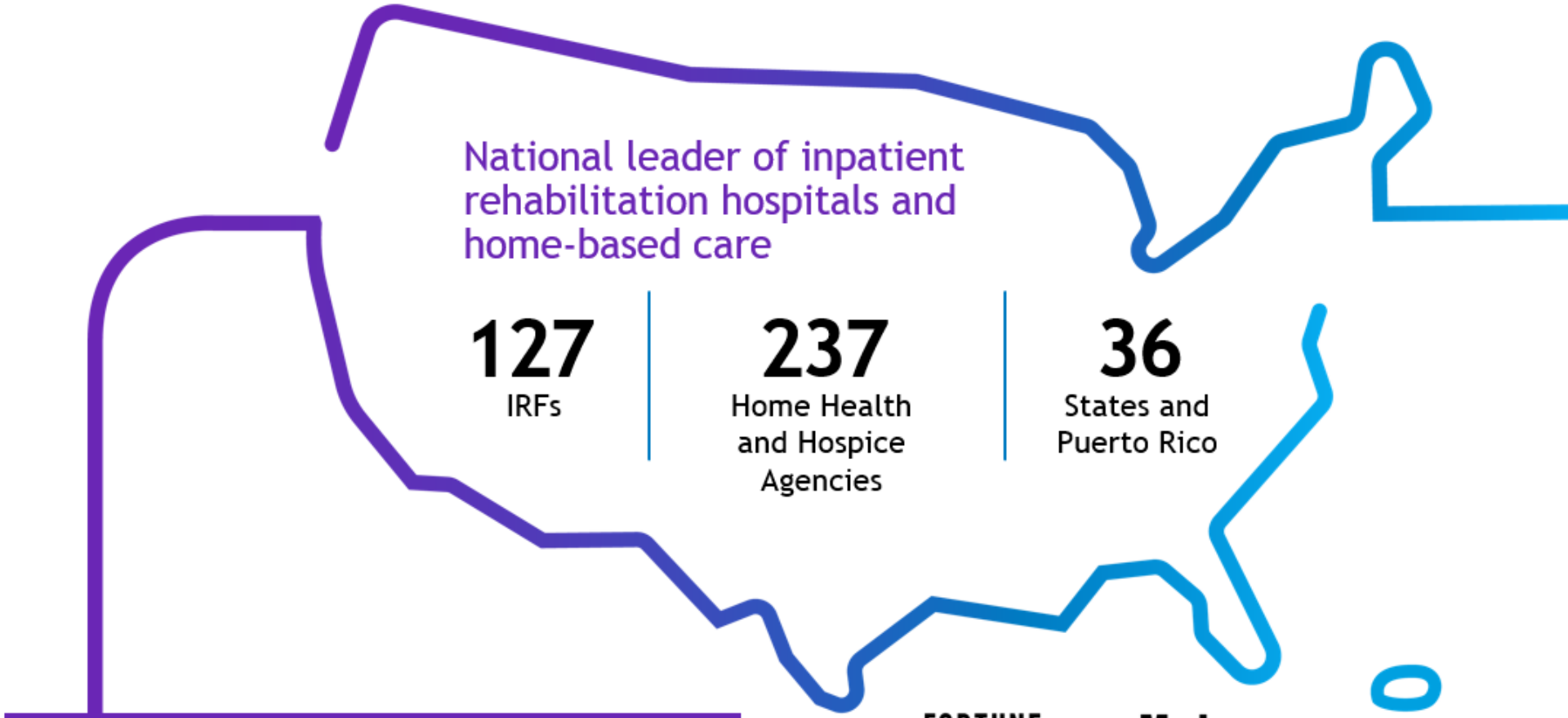
You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the Form 10-K for the year ended December 31, 2016, Form 10-Q for the quarters ended March 31, 2017, June 30, 2017, and September 30, 2017, and in other documents Encompass Health previously filed with the SEC, many of which are beyond Encompass Health'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. The Company's Form 8-K, dated January 8, 2018, to which the following presentation is attached as Exhibit 99.1, provides further explanation and disclosure regarding Encompass Health's use of non-GAAP financial measures and should be read in conjunction with this presentation. Schedules 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 are included in that Form 8-K.

Company Overview



National leader of inpatient rehabilitation hospitals and home-based care

127
IRFs

237
Home Health and Hospice Agencies

36
States and Puerto Rico

Committed to delivering high-quality, cost-effective care across the post-acute continuum

FORTUNE 100 BEST COMPANIES TO WORK FOR 2017

Modern Healthcare BEST PLACES TO WORK 2017

Company Overview - Inpatient Rehabilitation

Largest owner and operator of IRFs



of Licensed beds



of Medicare patients served

31
States and Puerto Rico

127
Inpatient Rehabilitation Hospitals

42
Operate as joint ventures with acute care hospitals

105
Inpatient rehabilitation hospitals hold one or more disease-specific certifications

~29,400
employees

~169,500
patients

~$3.1 billion
revenues

Company Overview - Home Health and Hospice

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

200
Home Health locations

37
Hospice locations

28
States

97%
Home health agencies ≥3 stars for quality of care

99%
Home health agencies ≥3 stars in patient satisfaction

~8,700
employees

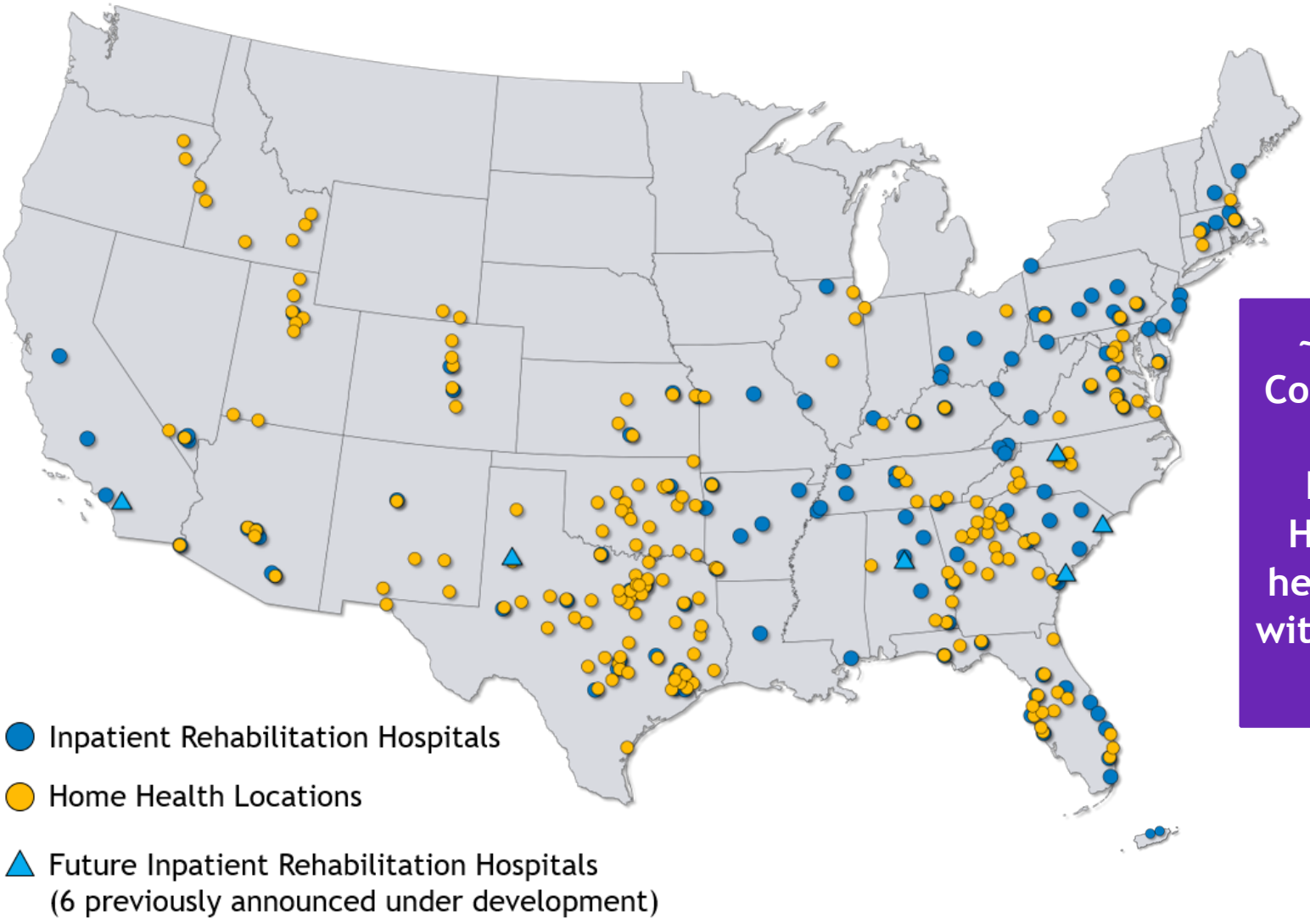
~121,000
home health admissions

~4,500
hospice admissions

~$760 million
revenues

Market Overlap

Inpatient Rehabilitation and Home Health



~60% of the Company's IRFs have an Encompass Health home health location within a 30-mile radius.

Investment Thesis

Encompass Health is positioned to become the nation's leading provider of integrated post-acute services.

The healthcare industry is evolving toward integrated delivery models and value-based care.

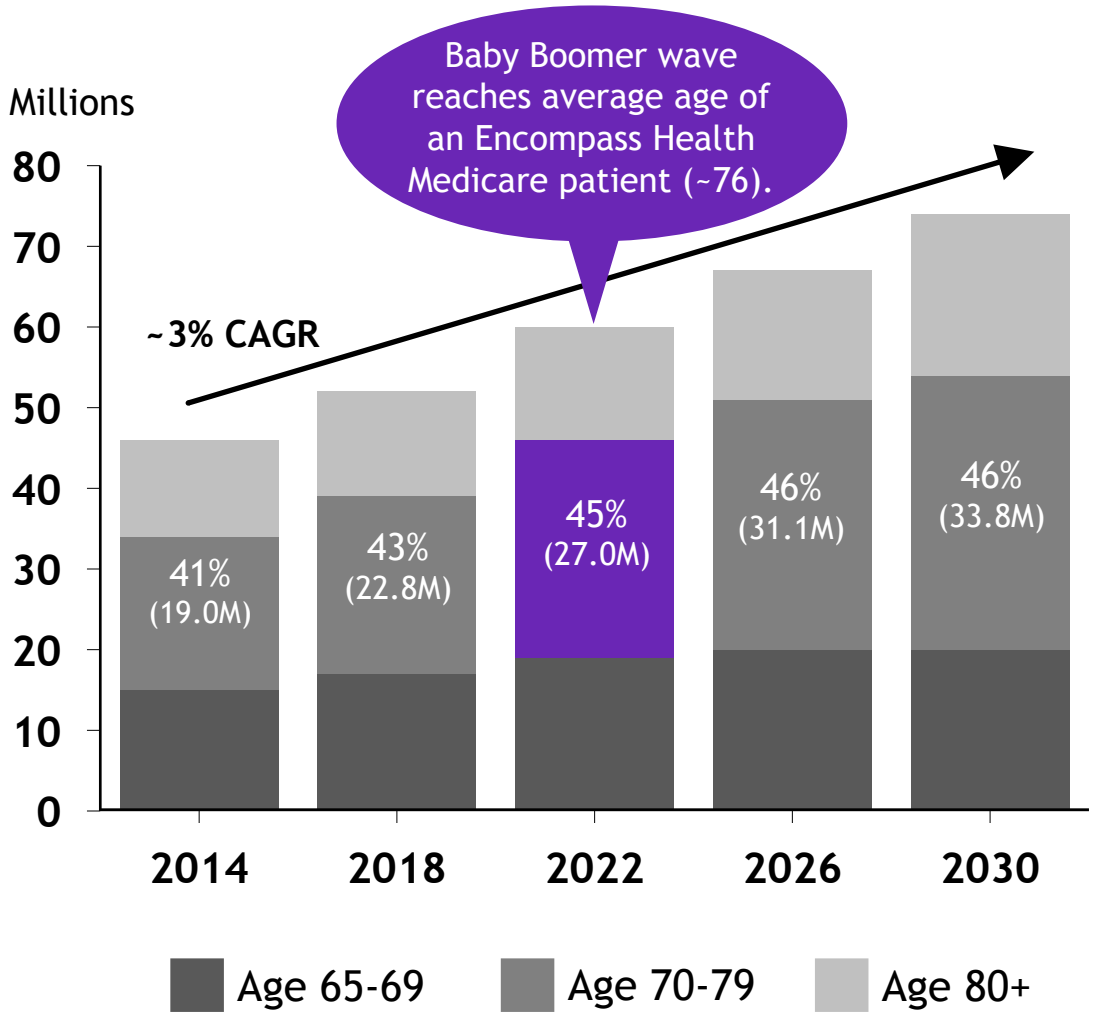
- **Change Agility**
- **Strategic Relationships**
- **Quality of Patient Outcomes**
- **Cost Effectiveness**
- **Growth**



Superior Performance

Both Segments Benefit from a Demographic Tailwind: Growth in the Medicare Beneficiary Population

Projected Population of Age 65+



CAGR (Population Growth by Age)			
Age	2014 to 2018	2018 to 2022	2022 to 2026
70-74	5.1%	3.8%	2.6%
75-79	4.1%	5.1%	5.0%

Strategy

The Company's strategy is to expand its network of inpatient rehabilitation hospitals and home health and hospice agencies, further strengthen its relationships with healthcare systems, provider networks, and payors in order to connect patient care across the healthcare continuum, and to deliver superior outcomes.

Elements of Strategy



Clinical Expertise and High-Quality Outcomes



Financial Resources



Advanced Technology



Sustained Growth



Post-Acute Innovation

2017 Summary

GROWTH

- 4 New Hospitals
- Expanded Existing Hospitals by 166 Beds
- Acquired or Opened 15 Home Health Agencies

OPERATIONAL INITIATIVES

- Completed TEAMWORKS Clinical Collaboration
- Piloted Use of Enhanced Predictive Analytics
- Finalized Installation of Clinical Information System (ACE-IT)
- Formed Post-Acute Innovation Center

CAPITAL STRUCTURE

- Reduced Leverage
- Increased Liquidity
- Continued Shareholder Distributions

2018 Priorities

GROWTH

Hospitals	Home Health Agencies	Hospice Agencies

CONTINUED GROWTH
organic | de novas | acquisitions

OPERATIONAL INITIATIVES

Rebranding and Name Change	Post-Acute Patient Navigation Tools	Clinical Collaboration	Predictive Data Analytics	Alternative Payment Models

CAPITAL STRUCTURE

Opportunistic Refinancings	Continued Shareholder Distributions

Guidance

2017 Guidance The Company currently expects to be in the upper half of these ranges.	2018 Preliminary Guidance
Net Operating Revenues $3,900 million to $3,950 million	Net Operating Revenues $4,150 million to $4,250 million
Adjusted EBITDA $810 million to $820 million	Adjusted EBITDA $830 million to $850 million
Adjusted Earnings per Share from Continuing Operations Attributable to Encompass Health $2.67 to $2.73	Adjusted Earnings per Share from Continuing Operations Attributable to Encompass Health $3.25 to $3.40

2018 Guidance Considerations

Inpatient Rehabilitation

- Estimated 0.8% increase in Medicare pricing for Q1 through Q3; ~1.25% for Q4
- Salary increase of ~3.0%; benefits increase of ~8.0% to 10.0%
- Bad debt expense of 1.6% to 1.9% of net operating revenues

Home Health and Hospice

- Estimated 1.0% net Medicare pricing reduction for CY 2018
- Salary increase of ~3.0%; benefits increase of ~8.0% to 10.0%
- Inclusive of home health and hospice acquisitions in 2018

Consolidated

- Includes approximately $11 million to $13 million of operating expenses (included in corporate general and administrative expenses) associated with the rebranding and name change
- Diluted share count of ~99.3 million shares
- Tax rate of ~28% (includes impact from Tax Cuts and Jobs Act)

Adjusted Free Cash Flow Assumptions

Certain Cash Flow Items (millions)	2017 Estimates	2018 Assumptions
• Cash interest expense (net of amortization of debt discounts and fees)	~$148	$140 to $150
• Cash payments for taxes, net of refunds	~$100	$125 to $150
• Working Capital and Other	$0 to $25	$50 to $70
• Maintenance CAPEX	$140 to $150	$130 to $150
• Adjusted Free Cash Flow	$387 to $432	$310 to $405

Free Cash Flow Priorities

2018 Assumptions (In Millions)	
Growth in Core Business	
IRF bed expansions	$30 to $40
New IRFs	
- De novos	80 to 110
- Acquisitions	opportunistic
- Replacement IRFs and other	40 to 50
New home health and hospice acquisitions	50 to 100
	$200 to $300, excluding IRF acquisitions
Debt Reduction	
Debt redemptions (borrowings), net	opportunistic
Shareholder Distributions	
Cash dividends on common stock	~$100
Common stock repurchases	opportunistic

Strong and Sustainable Business Fundamentals

- Attractive Healthcare Sectors
- Industry Leading Positions
- Cost-Effectiveness
- Real Estate Ownership
- Financial Strength
- Growth Opportunities



Encompass Health



Committed to Delivering High-Quality, Cost-Effective Care Across the Post-Acute Continuum