PARTICIPANTS

Corporate Participants

Mark J. Tarr – President, Chief Executive Officer & Director, Encompass Health Corp.
Douglas E. Coltharp – Executive Vice President & Chief Financial Officer, Encompass Health Corp.

Other Participants

Matthew Dale Gillmor – Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Matthew Dale Gillmor, Analyst, Robert W. Baird & Co., Inc.

Good morning everyone. I think we are ready to get started. This is Matthew Gillmor with Baird. I cover healthcare, technology and all the stocks. We're very excited and pleased to have Encompass healthcare joining us at the conference this year. Encompass is as most of you know is one of the leading providers of post-acute services in the US, focusing on inpatient rehab, home health and hospice.

Representing the company today is the company CEO, Mark Tarr; Doug Coltharp, the CFO; and of course Crissy Carlisle, Vice President of Investor Relations. As far as the agenda goes, we're just going to pretty much jump right into Q&A. If you have questions you can submit them through the webcast portal and we will kind of work them in.

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QUESTION AND ANSWER SECTION

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: So with that, Mark and Doug we saw the 8-K you filed this morning and it provide us some details with respect to volume trends. And you've all been really generous to update us on volumes on a pretty much on a real time basis. But I thought I'll just turn it over to you to maybe just kind of gave us an update with respect to the volumes you're seeing and what some of the key takeaways were from the filing this morning, and I've got a couple of follow-ups on that topic as well.

<A – Mark Tarr – Encompass Health Corp.>: All right. Well, thanks Matt. Yeah, we're – first of all, we're very pleased with the volumes trends that we see for both of our operating segments as noted in the information that we released as part of the 8-K. Both our segments are virtually at or above pre-pandemic levels, which represent some very nice gains for us.

I think that we are seeing in both of the segments our marketplace is starting to return back to some sense of a normal referral pattern or referral process. Certainly, more and more patients are willing to go receive care, which was certainly different than what we saw back late in the first half and – of the – first half of second quarter and at the end of the first quarter. But we still have certain markets that we are challenged with COVID surge. It really varies from week to week.

The typical process is you'll see a surge start to increase, you will see the acute care hospital and referral sources start to slow down in terms of the patients who are referred to us. After a week, we can have – you'll see that start to turn back around. We'll get that market back to a normal volume level, then we'll have a breakout in a different marketplace. But overall, the demand for our services is very strong. We see COVID as just a temporary thing. We are very bullish in our service lines going forward and the long-term growth potential of both of our segments and all three of our service lines.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: All right. That's great. Thanks very much for that update. It's obviously helpful to see the continued progression. Maybe focusing on the IRF volumes. I wanted to ask about kind of some of the mix trends beneath the surface, and what was really noticeable in the second quarter result was the increase of Medicare Advantage volumes. So – and I just wanted to understand sort of how sustainable that is and whether MA plans were – have started to retighten some of the utilization management reviews. And is that's something that's – has this mix shift continue down on into the third quarter? If you have any kind of commentary there, that will be great.

<A – Mark Tarr – Encompass Health Corp.>: Sure. Sure. Well, their pre-authorization was waived by a number of MA plans there when the COVID surge first came out and then they – a number of the plans reissued that waiver as the surge kind of resurrected once again in the second quarter. So that certainly aided our conversion rate. Typically, those patients that were referred to us that we have a conversion rate in that 30% to 35% say in terms of the pre-authorization. Certainly, we saw a larger increase in that pre-authorization up to 55% level, which certainly aided the overall volume for MA plans.

As you've heard us talk about before, our value proposition that we like to talk about in terms of our clinical outcomes that we're able to achieve versus skilled nursing facilities, we think that there will be a future opportunity for us to take advantage of what we've seen here during this COVID period. We've done a terrific job with the outcomes for these patients that we've been able to treat. It has proven that there is a difference in terms of the various post-acute settings.

We think this has helped to elevate the differences that exist between IRF level of care and skilled nursing level of care. And then even among IRFs, we believe that our hospitals have stuck out from the competition. We decided early on that we were willing and capable of taking COVID patients

when many of the other post-acute providers were not willing to take them. And that has served us well, not only on the IRF side of our business but also in our home health agencies.

So, we think there's going to be an opportunity to maintain a portion of this MA business going forward, and we think that this has given us the chance to show what we can do from a quality perspective and ultimately cost effectiveness.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: All right. And just to make sure I understand the comment, I think what I heard you say was you've been able to really demonstrate the value properties of MA payers and so as the fee for service volumes naturally come back or hang on to the hopefully a good chunk of these sort of Medicare Advantage referrals and that will obviously benefit the business on a go forward basis.

<A – Mark Tarr – Encompass Health Corp.>: That's correct. We think that we will be able to maintain some of that, primarily due to the outcomes we've been able to achieve. So, if someone was a little bit undecided about what they'd expect in terms of outcomes from a skilled nursing facility versus an IRF, we think that we've made it very clear the benefits of sending these patients and improving them for IRF level care.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: And then when you – when you've seen some of these spikes in COVID in markets and then that will ultimately impact some of the referrals to your facilities, have they all kind of been sort of the same pattern where there's a spike, maybe there's a little bit of an impact on IRFs and it just naturally come back? Or is there any particular markets or areas to call out that have come back more slowly? I just sort of wanted to understand this is a pattern such that once we get through COVID, there's a high degree of confidence that the demand is there and there will be sort of permanent changes to how people look at IRFs on the [indiscernible] (00:07:40)?

<A – Mark Tarr – Encompass Health Corp.>: Yeah. We see no indication there's going to be any negative impact. If anything, we see this is a positive for the profile of Encompass Health IRFs and I have every reason to believe that the volumes will come back stronger than ever and that the demand for our services have existed throughout COVID. And we're seeing that as indicated in the volume trends you see here.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Yeah. Okay, great. Well, let me move to home health a little bit. I guess what we've observed is your home health volumes have obviously come back significantly from the lows. But it seems like they've come back at a little slower pace than some of the public peers. And I know it's difficult for you to talk about other people's experience, but I was curious if you could just help us think through some of the factors that would drive some of those divergences so we can sort of better understand the trends within your business.

<A – Mark Tarr – Encompass Health Corp.>: So I think the primary challenge for us has been in the geographic concentrations, particularly geographic concentration in the states of Texas and Florida, which represent a little bit over 40% of our business. And those are two states that have well known surges in many markets within those states. So, we have been impacted particularly more so on the home health side than the IRF side in those two states.

The good news is that both of those states seem to be on the other side of the worst part of their surge. We – each one of those states is now in their high 80s or low 90s in terms of percent pre-pandemic levels. So, we're seeing both of those states come back. And we also do a fair amount of business in assisted living facilities. So those states that have restrictions, our ability to enter into assisted living facilities because of COVID and restrictions on visitors, that has impacted us as well.

So, I would say that those are two of the larger factors. We do also have a slight higher percentage of business from elective surgeries, particularly musculoskeletal and that – I would say that is a

third factor that has impacted our home health volume. So once again, as you can see in the trending on the volume charts, we're digging out of those and we're seeing those two states particularly come back. And we would certainly expect for these volumes to continue on with the positive trend.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Yeah, fair enough. That's great. And then could you speak to home health volumes from a mix perspective? And obviously with the second quarter there was – like everybody, saw there was a bit of a drag with respect to just the mix of referral sources in fee-for-service versus Medicare Advantage and then some of the spike LUPA that was – is there anything to share with respect to kind of how those mix trends are shaping up here midway through the third quarter?

<A – Mark Tarr – Encompass Health Corp.>: Well first of all, I think it's important to note that our data generally only reflects the Medicare side of the business. So that is the area that we put our greatest focus on in terms of [ph] go back down and (00:11:13) trying to retrieve that volume that may have been impacted due to the – due to volume.

Certainly, the LUPA percentage has been a bit of a challenge and we spike at the 14% back in the [indiscernible] (00:11:28) of the worst part of COVID. We've been able to work that back down. We're now running around 9% and continue to work to make sure that patients feel comfortable receiving the care. And we're very focused on continuing to get the LUPA percentage back down to where it was pre-COVID.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Got it. And then maybe I don't speak to this metric. But just the community versus institutional, was there any shift there and is that sort of back to normal or still a little bit different versus pre-COVID?

<A – Mark Tarr – Encompass Health Corp.>: Well, it's still a little bit different. We're starting to see it come back. But certainly community versus institutional, having lack of access to the institutional has been a bit of a challenge. I think that longer term, you will start to see these referral patterns come back to where they were pre-COVID with accessibility to discharge planners and case managers and those that would be from an institutional side of things in a position to refer patients.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Got it. And then – so that – I think that gives us a really nice sort of view of what's going on from a top line perspective than the sequential improvement. Can we shift now to expenses and I was – Doug I think had mentioned the potential for some cost to run a little bit higher in the back half of the year. And could you maybe just sort of spike those out and give us – quantify them a little bit. I think some of that information was maybe in the 8-K as well, but just sort of help us think through some of the puts and takes from a cost perspective relative to the second half.

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. The key categories that are most impacted by the ongoing pandemic are our SWB and our supply costs. And within SWB, our ability to achieve our normalized levels which will improve beyond that label productivity in both business segments are impaired by the revised operating procedures we've been forced to implement to deal with the pandemic.

And so in the hospitals [ph] the convenient things (00:13:49) like having to administer more therapy on a one-on-one basis and having to administer some of that therapy in the patient's room, it can mean the inability to utilize our dining facilities in those hospitals to feed patients in quantity so instead we have to employ labor to deliver meals individually into patient room. And those things we anticipate are going to be ongoing. They may start diminishing a little bit if the pandemic starts wind down, but those are going to be ongoing through the course of the pandemic.

On the supply side, it's the increased utilization of PPE and the procurement costs of PPE, and we included some specific examples of that for each of our two business segments in the materials that we released this morning. These are going to be temporary restraints on our cost efficiency. We are asked frequently whether or not there are things we can do to offset those cost and that as you know we entered into the pandemic being by far the most efficient operator in each of our two business segments. So if there were costs available to us, we've historically already run those out.

And we don't believe that because we are not of the opinion that anything here has changed, the demand for our services, as Mark alluded to previously, has changed the prospects for businesses, we don't think we should respond to these temporary conditions by making wholesale cost reductions in these. In fact, as you've seen by the recent state of development announcements we've had on the IRF side, we're continuing to invest through this cycle of uncertainty because we had so much confidence that the demand is going to be there with significant tailwinds that we've discussed previously, including at the Investor Day that we hosted in early March, are going to be there and are potentially augmented by some of the things that will be residual from the pandemic.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Then, many are asking about some of the data in the 8-K. I think you mentioned that second quarter EBITDA was $162 million and then there is obviously the $43 million from the PTO and then some of the unusually low cost that you called out. So that would get you to just kind of $168 million in terms of a normalized EBITDA.

Is that a fair number to think about in terms of the run rate of the business? Or are there puts and takes to call out that with – presumably some of the costs you talked about in that number, but – and maybe there's not a fair way to be responsive to this, but just sort of trying to understand what the run rate is versus that $168 million number.

<A – Doug Coltharp – Encompass Health Corp.>: And it's a little hard to say specifically what the run rate is. I think that as you look at the second quarter and compare it to the third quarter, you had the heavy volume impact in the months of April and May with a recovery in June. But then we gained back some of that recovery in the month of July predominantly based on the surge in the activity in the states of Florida and Texas that Mark described previously. But it's also the case that we get the full benefit of the sequester of – the Medicare sequester suspension for the third quarter.

I think from an expense perspective that it probably is realistic in terms of trying to establish a run rate to normalize for those items that we just described. One of the reasons that we put out this information in the 8-K this morning is I think there was some confusion about the ability to perhaps just add back because it was – it intended to be onetime in nature the full amount of the special PTO benefit that we ran through in the Q2 P&L. And so we were just trying to point out that there were some of these favorable cost offsets that are likely to prove unsustainable as we move into the second half.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Got it. That's fair enough. But maybe looking at some bigger picture questions, there's been some discussion particularly amongst the home health companies about the fact that patients and caregivers and family members, there's maybe a little bit of hesitancy to go to a nursing home setting. And even though your volumes bounced back and home health volumes have bounced back nicely, it seems like occupancy rates in nursing homes are still lagging. And I was kind of curious what your reaction to this trend is, is this a major opportunity for Encompass or just how are you thinking about where those patients may end up, and your ability to capture some of that share shift.

<A – Mark Tarr – Encompass Health Corp.>: Yeah, Matt, we do think that this is a great opportunity for both of our segments relative to taking share from skilled nursing facilities. On the IRF side, certainly there are almost always a number of patients that are sent to skilled nursing facilities that could have really excel with the level of care and the intensity of care provided in an

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IRF setting. We see that quite often for instance with stroke population that patients aren't always put in a proper setting.

And then on the home health side, we also see maybe even a greater opportunity on the home health side. Our team have a history of treating chronic patients, patients with a significant number of comorbidity, so they're already able to handle a higher acuity patient in a home setting. And I think these are the types of patients that we have a really strong chance to go out and capture that share of those patients that historically may have been sent to a skilled nursing facility, where now because of COVID and because of the clear differentiation between different levels of care for different types of patients in post-acute I think our home health agencies will be able to take advantage of some of these patients that were historically sent to skilled nursing facilities but now referral sources or family members or the patients themselves will be reluctant to go down that path and would much rather receive care in a home setting.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: And are there any other actions that you wanted to take internally to make sure you are able to capture that share, either the way you market your services to referral sources – the referral sources you go after or maybe just your capacity to care for that type of patients or any sort of investments or actions that are underway that we should be thinking?

<A – Mark Tarr – Encompass Health Corp.>: Yeah. It's both, Matt. I think certainly we have always been an advocate of marketing our outcomes and bringing data that shows the outcomes that we achieved with our patients in various diagnostic categories. So, we've been doing that on both of the segments and we'll continue to do that, making sure that we are communicating with our referral sources both on the follow up information for patients and making sure that we collaborate on a smooth transition from one setting to the other whether that's from our IRF to our home health or in terms of working with our home health agencies on a smooth transition from the acute care hospital.

So, it is absolutely a time for us to show how we differentiate ourselves from either other levels, other settings in post-acute or other providers in post-acute. Because even among the home health agencies or the IRFs, they're not all created equal and we think we have superior outcomes to share about.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Okay. Well, let me try to ask about some of the kind of long-term sort of growth expectations. And at the very beginning of the COVID you all had an Investor Day and you talked about sort of expectations around discharge growth on both IRFs and home health, and I think also an EBITDA growth expectation of 7% to 9%. And I certainly appreciate you had to withdraw all those targets amid COVID.

But I just wanted to ask as you think about longer term, is the bit – coming out of COVID whenever we get to normal, I know the timing of that's uncertain, but just what are the – what are the drivers behind those types of growth rates and is the business still capable of those types of targets? And I'm not trying to get you to provide long-term targets here, but just I'm trying to get a sense for what drives the longer term confidence you have in the business.

<A – Mark Tarr – Encompass Health Corp.>: Yeah. So – yeah, Matt, you're referring to our Investor Day on March 4 which seems like it was light years ago now and little do we know what lay ahead. But we did – which are all now in our guidance that we drew the growth percentages, keeping in mind that 2020 was our base year for those growth percentages. It does nothing to diminish how positive we are on the growth opportunities going forward.

As matter of fact, we have maintained our growth targets when you think about on the IRF side, the 6 to 10 de novos per year. We have already announced eight in 2021 and eight in 2022, so we have advanced even beyond that March 4 day. We're going to add between 100 and 150 bed

additions per year starting in 2021. And then on the home health side, we remain committed to the $50 million to $100 million per year in acquisitions, and that is net of any larger scale acquisition.

And then we talked for a past number of years on – our focus on clinical collaboration and the ability to capture those patients that are being discharged that need home health services, discharged from the hospitals that we believe that we can achieve 45% all payer goal in that by 2025 with a larger percentage, maybe up to 60% longer term.

So, COVID does nothing to diminish our bullishness in terms of the business and the growth opportunities that we shared during that Investor Day and if anything, we think that COVID has provided a platform for us to advance our goodwill with the referral resources that we've taken care of during this COVID period and how we have differentiated ourselves versus other settings of care or our competition.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: And then, this is maybe the last question, maybe one more after this. I didn't want to talk through some of the election implications for you all. Maybe there are some, maybe there aren't. But this is certainly kind of the time of the election cycle where investors will start thinking through these dynamics. But in the event that we have a Joe Biden presidency and perhaps the Democrats take control of the Senate, are there any implications from that from your perspective? Or are there other sort of healthcare policy things that ought to be on our radar over the next sort of 6 to 12 months?

<A – Mark Tarr – Encompass Health Corp.>: Well, I think whoever ends up, whether it's the current administration or a Biden administration, either one would have to deal with these public health issues that we have right now that's going to take a while to dig out from. As you know, we're very active in Washington and have a full-time lobbyist there and spent a lot of time working with CMS and others. It's too early to tell what a Biden impact would look, how that will look, whether expanding Medicare or lowering the age of Medicare is 60. We don't think that would impact us a whole lot. Our average aged patient is 76 in our hospitals and 77 in home health.

So there really aren't enough details to know how things might change under a Biden administration or if there would be any near term changes from the existing administration, we don't think so. We think that they will continue to be focused on COVID, the public health challenges we have right now. And we've just not seen anything on the regulatory front that would indicate in the near term any radical changes or certainly negative impacts on either one of our segments.

Matthew Dale Gillmor, Analyst, Robert W. Baird & Co., Inc.

Okay. Well, I think we're just about out of time. We have one minute left. So I think this is a good place to leave it. So I really appreciate you guys [Abrupt End]

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