

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): September 27, 2023

Encompass Health Corporation

(Exact name of Registrant as specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

001-10315

(Commission File Number)

63-0860407

(IRS Employer Identification No.)

9001 Liberty Parkway, Birmingham, Alabama 35242
(Address of Principal Executive Offices, Including Zip Code)

(205) 967-7116

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934. Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	EHC	New York Stock Exchange

ITEM 7.01. Regulation FD Disclosure.

Encompass Health Corporation (the “Company” or “Encompass Health”) will hold an investor meeting in New York City on September 27, 2023. Members of management will be presenting on the Company’s strategy and business outlook beginning at 8:30 a.m. ET in the Rainbow Room using the slides attached to this Current Report on Form 8-K as Exhibit 99.1 (the “Investor Day Slides”). The presentations will be webcast live and the Investor Day Slides will be available at <https://investor.encompasshealth.com>.

During the presentation, management will affirm as of the date hereof five-year targets for *de novo* openings, bed additions and discharge growth. Specifically, the Company continues to expect, for the years 2023 through 2027, to open 6 to 10 *de novos* per year, add 80 to 120 beds to existing hospitals per year, and generate 6% to 8% compound annual discharge growth. Management will also provide the following observations from the third quarter:

- We are pleased with our volume trends in this quarter.
- Although it is very early, our initial results in Medicare’s Review Choice Demonstration for inpatient rehabilitation facilities (“RCD”) are highly encouraging. Recall that the affirmation rate target under RCD is 80% of claims submitted during the first six months. Through September 10th, or less than a month after initiation of RCD in Alabama, we have submitted approximately 440 records and our affirmation rate is above 95%.

Consistent with prior practice, the Company will not be commenting further on financial guidance or operating performance at this point in the current quarter.

The information contained herein is being furnished pursuant to Item 7.01 of Form 8-K, “Regulation FD Disclosure.” This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The furnishing of this information will not be deemed an admission as to the materiality of any information contained herein.

Note Regarding Presentation of Non-GAAP Financial Measures

The financial data contained in the investor day presentations include Adjusted EBITDA and adjusted earnings per share, non-GAAP financial measures.

Excluding net operating revenues, the Company does not provide guidance on a generally accepted accounting principles in the United States (“GAAP”) basis because it is unable to predict, with reasonable certainty, the future impact of items that are deemed to be outside the control of the Company or otherwise non-indicative of its ongoing operating performance. Such items include 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 and equity 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 the Company believes to be non-indicative of its ongoing operating performance. These items cannot be reasonably predicted, will depend on several factors, including industry and market conditions, and could be material to the Company’s results computed in accordance with GAAP.

However, the following reasonably estimable GAAP measures for 2023 would be included in a reconciliation for Adjusted EBITDA if the other reconciling GAAP measures could be reasonably predicted:

- Interest expense and amortization of debt discounts and fees - estimate of \$145 million to \$155 million
 - Amortization of debt-related items - approximately \$10 million
-

The Company is providing adjusted earnings per share from continuing operations attributable to Encompass Health (“adjusted earnings per share”). The Company believes the presentation of adjusted earnings per share provides useful additional information to investors because it provides better comparability of ongoing operating 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 and equity 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 the Company believes to be non-indicative of its ongoing operating performance. 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 operating performance. 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 GAAP 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. The Company reconciles adjusted earnings per share to earnings per share below.

For the Six Months Ended June 30, 2023					
As Reported	Adjustments			As Adjusted	
	State Regulatory Change Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities		
(In Millions, Except Per Share Amounts)					
Adjusted EBITDA	\$ 478.6	\$ —	\$ —	\$ —	\$ 478.6
Depreciation and amortization	(136.5)	6.1	—	—	(130.4)
Interest expense and amortization of debt discounts and fees	(72.7)	—	—	—	(72.7)
Stock-based compensation	(23.5)	—	—	—	(23.5)
Loss on disposal or impairment of assets	(1.5)	—	—	—	(1.5)
State regulatory change impact on noncontrolling interests	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	(0.6)	—	—	0.6	—
Income from continuing operations before income tax expense	246.0	3.9	—	0.6	250.5
Provision for income tax expense	(64.7)	(1.0)	0.4	(0.2)	(65.5)
Income from continuing operations attributable to Encompass Health	\$ 181.3	\$ 2.9	\$ 0.4	\$ 0.4	\$ 185.0
Diluted earnings per share from continuing operations*	\$ 1.79	\$ 0.03	\$ —	\$ —	\$ 1.83
Diluted shares used in calculation	101.0				

* Adjusted EPS may not sum across due to rounding.

The Company uses Adjusted EBITDA on a consolidated basis as a liquidity measure. The Company believes this financial measure on a consolidated basis is important in analyzing its liquidity because it is the key component of certain material covenants contained within the Company’s credit agreement, which is discussed in more detail in Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, “Liquidity and Capital Resources,” and Note 10, *Long-term Debt*, to the consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Form 10-K”). These covenants are material terms of the credit agreement. Noncompliance with these financial covenants under the credit agreement—its interest coverage ratio and its leverage ratio—could result in the Company’s lenders requiring the Company to immediately repay all amounts borrowed. If the Company anticipated a potential covenant violation, it would seek relief from its lenders, which would have some cost to the Company, and such relief might be on terms less favorable to those in the Company’s existing credit agreement. In addition, if the Company cannot satisfy these financial covenants, it would be prohibited under the credit agreement from engaging in certain

activities, such as incurring additional indebtedness, paying common stock dividends, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to the Company's assessment of its liquidity.

In general terms, the credit agreement definition of Adjusted EBITDA, therein referred to as "Adjusted Consolidated EBITDA," allows the Company to add back to consolidated net income interest expense, income taxes, and depreciation and amortization and then add back to consolidated net income (1) all unusual or nonrecurring items reducing consolidated net income (of which only up to \$10 million in a year may be cash expenditures), (2) any losses from discontinued operations, (3) non-ordinary course fees, costs and expenses incurred with respect to any litigation or settlement, (4) share-based compensation expense, (5) costs and expenses associated with changes in the fair value of marketable securities, (6) costs and expenses associated with the issuance or prepayment of debt, and acquisitions, and (7) any restructuring charges and certain pro-forma cost savings and synergies related to transactions and initiatives, which in the aggregate are not in excess of 25% of Adjusted Consolidated EBITDA. The Company also subtracts from consolidated net income all unusual or nonrecurring items to the extent they increase consolidated net income.

The calculation of Adjusted EBITDA under the credit agreement does not require us to deduct net income attributable to noncontrolling interests or gains on fair value adjustments of hedging and equity instruments, disposal of assets, and development activities. It also does not allow us to add back losses on fair value adjustments of hedging instruments or unusual or nonrecurring cash expenditures in excess of \$10 million. These items and amounts, in addition to the items falling within the credit agreement's "unusual or nonrecurring" classification, may occur in future periods, but can vary significantly from period to period and may not directly relate to, or be indicative of, the Company's ongoing liquidity or operating performance. Accordingly, the Adjusted EBITDA calculation presented here includes adjustments for them.

Adjusted EBITDA is not a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for net income or cash flows from operating, investing, or financing activities. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements accompanying the 2022 Form 10-K.

Below is a reconciliation of Adjusted EBITDA to net cash provided by operating activities for the six months ended June 30, 2023 and June 30, 2022 as those numbers are a component of a growth percentage discussed in the investor day presentation.

	Six Months Ended June 30,	
	2023	2022
	(In Millions)	
Net cash provided by operating activities	\$ 434.6	\$ 463.5
Interest expense and amortization of debt discounts and fees	72.7	100.0
Gain (loss) on sale of investments, excluding impairments	1.8	(11.9)
Equity in net income of nonconsolidated affiliates	1.3	1.9
Net income attributable to noncontrolling interests in continuing operations	(51.4)	(43.9)
Amortization of debt-related items	(4.7)	(4.8)
Distributions from nonconsolidated affiliates	(0.2)	(2.9)
Current portion of income tax expense	64.4	52.9
Change in assets and liabilities	(41.4)	(93.4)
Cash used in (provided by) operating activities of discontinued operations	2.9	(75.9)
State regulatory change impact on noncontrolling interests	(2.2)	—
Change in fair market value of equity securities	0.6	5.7
Other	0.2	0.1
Adjusted EBITDA	\$ 478.6	\$ 391.3

Forward-Looking Statements

Statements contained in this Form 8-K and the Investor Day Slides which are not historical facts, such as those relating to business outlook, growth targets and guidance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, Encompass Health, through its senior management, may from time to time make forward-looking public statements concerning the matters described herein. All such estimates, projections, and forward-looking information speak only as of the date hereof, and Encompass Health undertakes no duty to publicly update or revise such forward-looking information, whether as a result of new information, future events, or otherwise. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. Actual events or results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors which could cause actual events or results to differ materially from those estimated by Encompass Health include, but are not limited to, an infectious disease outbreak, including the speed, depth, geographic reach and duration of its spread, which could decrease our patient volumes and revenues and lead to staffing and supply shortages and associated cost increases; the legal, regulatory and administrative developments that occur at the federal, state and local levels; Encompass Health's infectious disease prevention and control efforts; the demand for Encompass Health's services, including based on any downturns in the economy, consumer confidence, or the capital markets; potential disruptions, breaches, or other incidents affecting the proper operation, availability, or security of Encompass Health's or its vendors' or partners' information systems, including unauthorized access to or theft of patient, business associate, or other sensitive information or inability to provide patient care because of system unavailability as well as unforeseen issues, if any, related to integration of acquired systems; the ability to successfully integrate acquired operations, including realization of anticipated tax benefits, revenues, and cost savings, minimizing the negative impact on margins arising from the changes in staffing and other operating practices, and avoidance of unforeseen exposure to liabilities; Encompass Health's ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with its growth strategy; changes, delays in (including in connection with resolution of Medicare payment reviews or appeals), or suspension of reimbursement for Encompass Health's services by governmental or private payors; changes in the regulation of the healthcare industry at either or both of the federal and state levels, including as part of national healthcare reform and deficit reduction and Encompass Health's ability to adapt operations to those changes; Encompass Health's ability to control costs, particularly labor and employee benefit costs, including group medical expenses; Encompass Health's ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages, which may be worsened by infectious disease outbreaks, and the impact on Encompass Health's labor expenses from potential union activity, staffing shortages, and competitive compensation practices; general conditions in the economy and capital markets, including any instability or uncertainty related to armed conflict or an act of terrorism, governmental impasse over approval of the United States federal budget, an increase in the debt ceiling, or an international sovereign debt crisis; any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings involving Encompass Health, including any matters related to yet undiscovered issues, if any, in acquired operations; Encompass Health's ability to realize construction time and cost savings from prefabrication of hospitals; increases in Medicare audit activity, including increased use of sampling and extrapolation, resulting in additional unpaid reimbursement claims and an increase in the backlog of appealed claims denials; competitive pressures in the healthcare industry and Encompass Health's response thereto; changes in the Medicare regulations specific to inpatient rehabilitation, including the review choice demonstration project and the transfer pricing policies; and other factors which may be identified from time to time in Encompass Health's SEC filings and other public announcements, including Encompass Health's Form 10-K for the year ended December 31, 2022 and the Company's quarterly reports on Form 10-Q for the quarterly period ended March 31, 2023 and June 30, 2023.

ITEM 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Investor Day Slides of Encompass Health Corporation used in connection with its September 27, 2023 presentation at its investor meeting in New York City.
104	Cover Page Interactive Data File - the cover page iXBRL tags are embedded within the Inline XBRL document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

ENCOMPASS HEALTH CORPORATION

By: /s/ DOUGLAS E. COLTHARP

Name: Douglas E. Coltharp

Title: Executive Vice President and Chief Financial Officer

Dated: September 27, 2023



2023 Investor Day

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 the business outlook and guidance, labor availability and costs, legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, such as the de novo pipeline, costs, growth and timelines, operational initiatives, dividend strategies, leverage, repurchases of securities, effective tax rates, financial performance, financial assumptions, business model, balance sheet and cash flow plans, and addressable market size. 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.

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. Encompass Health 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, 2022, the Form 10-Q for the quarter ended March 31, 2023, the Form 10-Q for the quarter ended June 30, 2023, and in other documents Encompass Health filed and to be 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. 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. The Q2 Earnings Release Form 8-K, which can be found at <https://investor.encompasshealth.com>, provides further explanation and disclosure regarding Encompass Health's use of non-GAAP financial measures and should be read in conjunction with this supplemental information.

Encompass Health



2023 Investor Day

2023 YTD Performance



Growth - first half of 2023



Guidance as of August 1, 2023

Net operating revenue	\$4,750 to \$4,810
Adjusted EBITDA	\$920 to \$950
Adjusted EPS	\$3.31 to \$3.53

\$ in millions, except per share data

Investments since 2009



Clinical and information technology

\$250+ million

- Large data sets
- Predictive modeling
- Industry leading clinical outcomes
- High-quality care at a lower cost compared to peers

De novo and bed expansions

\$1.8+ billion

- Opened 51 de novo hospitals
- Added more than 1,200 beds to existing hospitals

Culture of continuous improvement

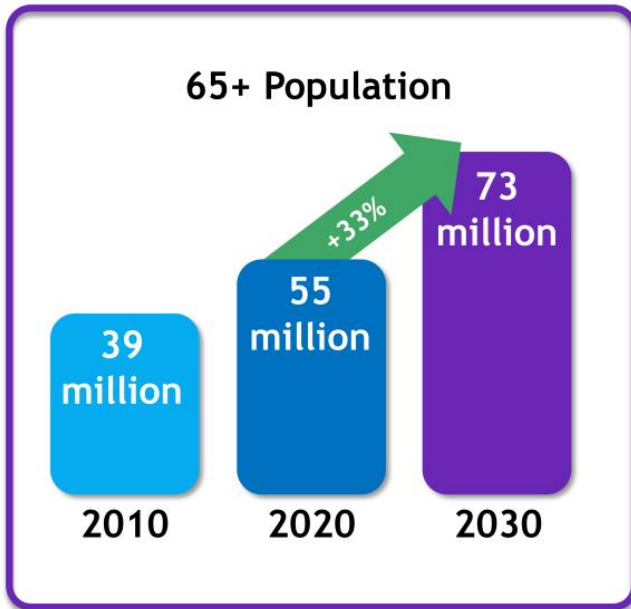


 Managing shift to Medicare Advantage

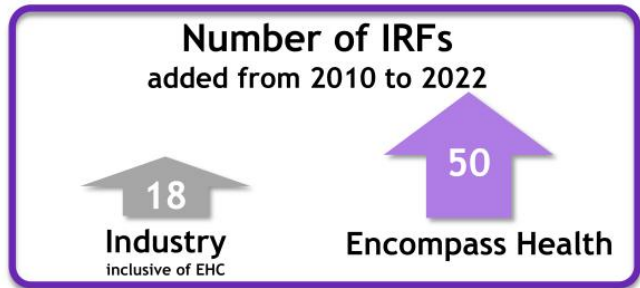
 Enhanced recruiting and retention

 Strong culture of compliance

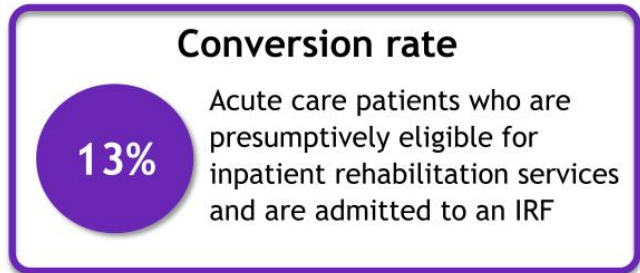
Growing demand for inpatient rehabilitation services



Sources: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2010 & 2020. U.S. Census Bureau, International Database: World Population Estimates and Projections, updated August 2023.



Sources: MedPAC March 2018 Report to Congress, page 277. CMS 'Inpatient Rehabilitation Facility - General Information' dataset.



The conversion rate of inpatient rehabilitation eligible patients is based on patients who are discharged from acute-care hospitals with one or more of 13 specified medical conditions that CMS ties to IRF eligibility based on Medicare fee-for-service data, which is the only publicly available data on the subject.

The central tenets of our strategy remain to:



Add capacity via de novos and bed expansions to address an underserved and growing demand for inpatient rehabilitation services



Continue to provide high quality outcomes for medically complex patients and to do so in a cost-effective manner



Generate strong returns for our shareholders

De novos



Speakers

Doug Coltharp
EVP, Chief Financial Officer

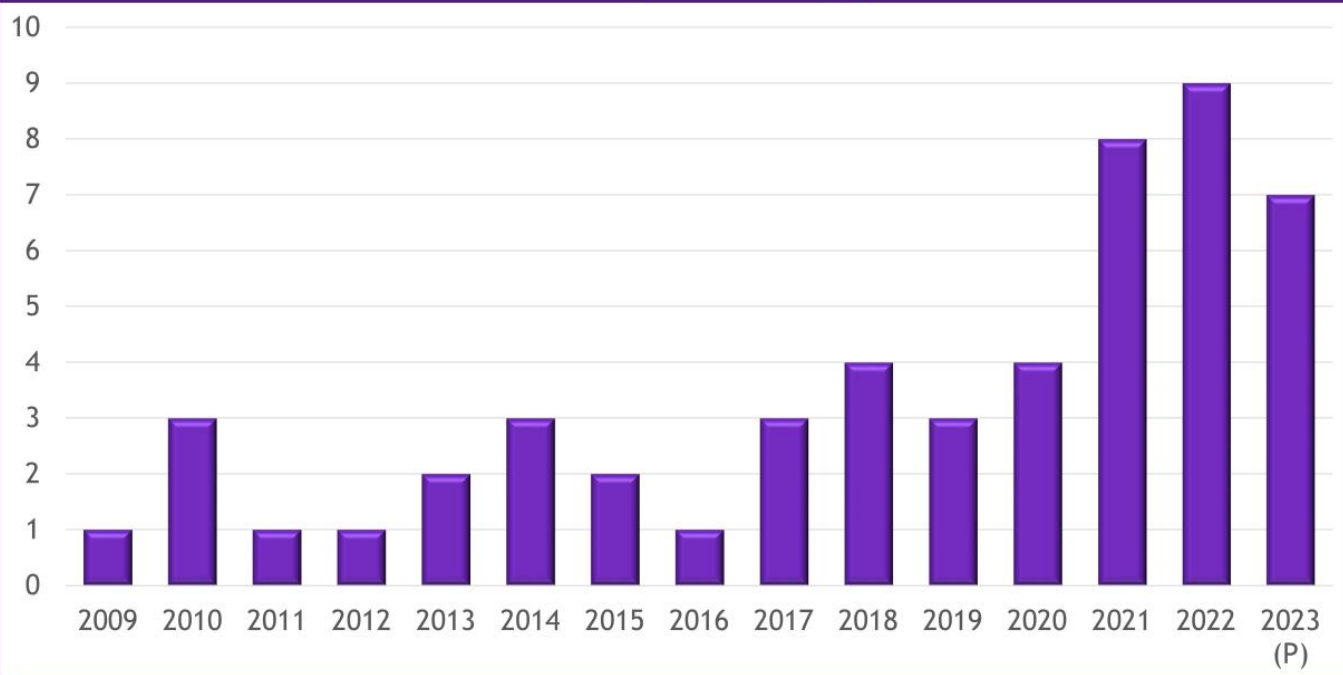
Melanie Lewis
SVP, Chief Business
Development Officer

Tom Boyle
SVP, Chief Design &
Construction Officer

A Brief History & ROIC Discussion

Doug Coltharp
EVP, Chief Financial Officer

De novos opened by year



De novo growth acceleration



Market Selection

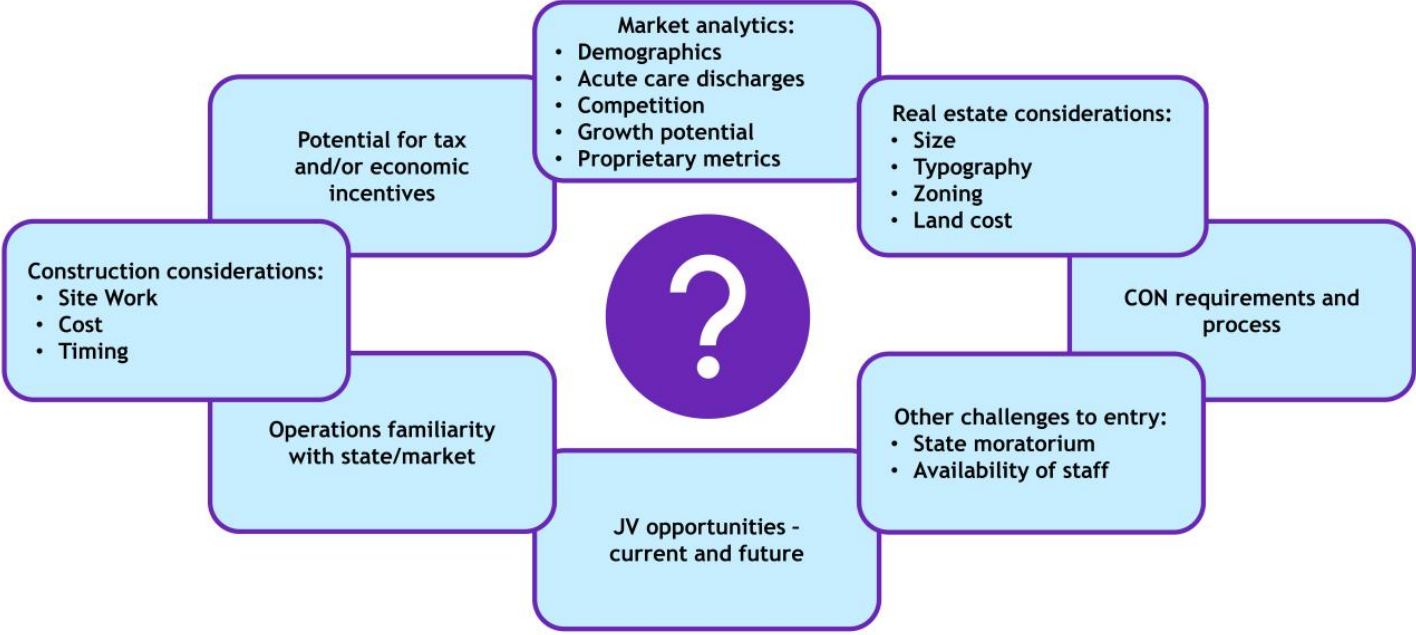
Melanie Lewis

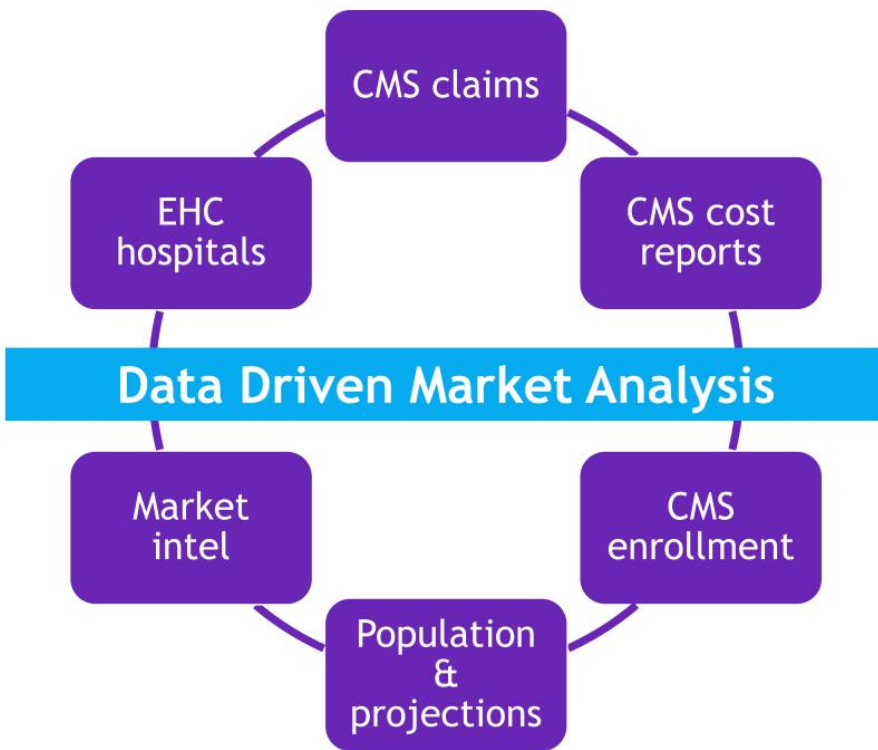
SVP, Chief Business Development Officer



Encompass Health uses a **custom-built, data-driven, metrics-based model** and ranking system incorporating metrics highly correlated to successful extant Encompass Health hospitals.

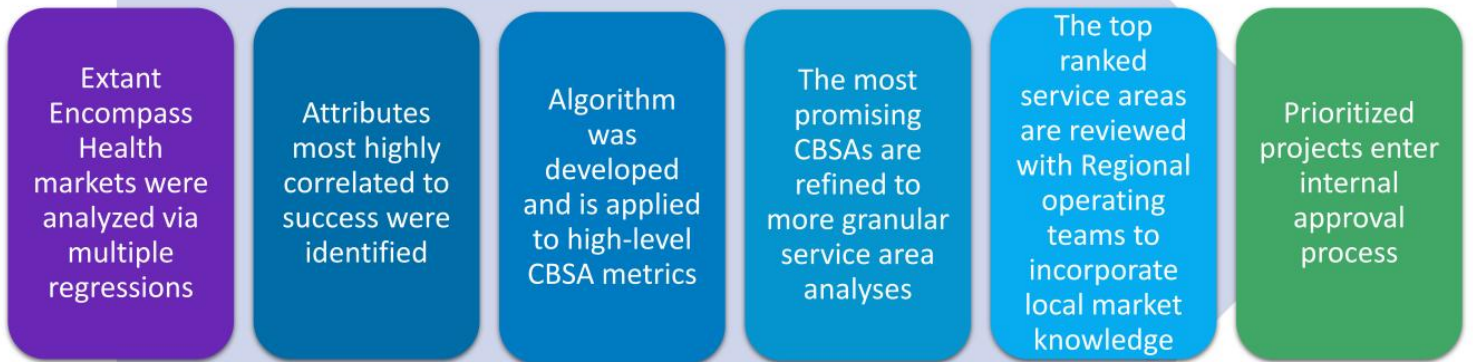
Factors to consider in identifying potentially attractive markets for incremental IRF capacity





- Multiple sources of data utilized
- Data is combined to calculate meaningful metrics
- Metric-based model and rank developed to score markets
- Markets sortable based on metrics and model scoring

Target Market Identification Process



Market (geography) Initially Defined as a CBSA

CBSA (Core Based Statistical Area)

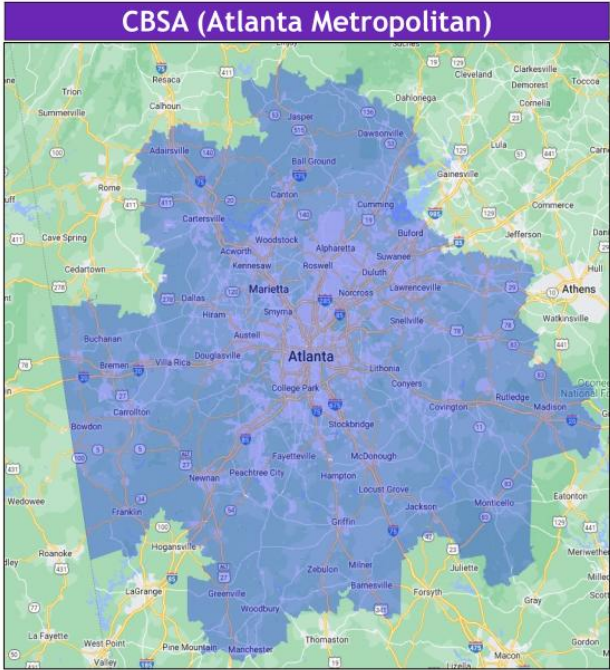
Includes one or more urbanized counties (a county within a metropolitan area that has a pop. of 200,000 or more)

Metropolitan area is one with a population of 50,000 or more

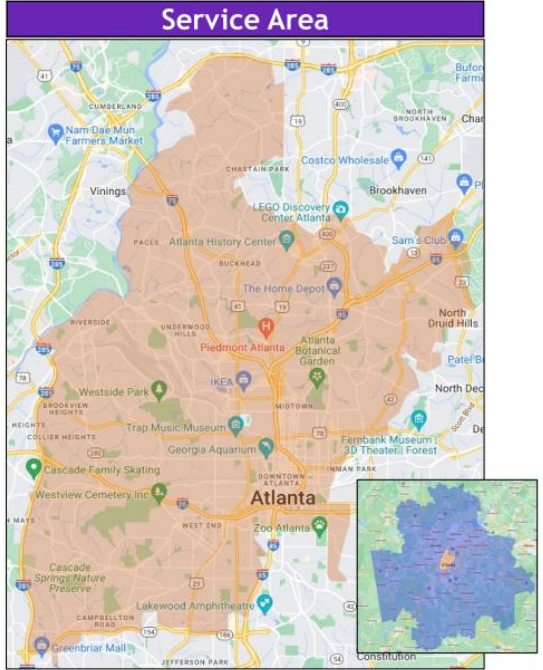
Micropolitan area is one with a population of 10,000 or more but less than 50,000

There are 1,916 CBSAs in the United States

Source: [census.gov](https://www.census.gov) Metropolitan and Micropolitan Statistical Areas of the United States and Puerto Rico March 2020



- Metrics Considered**
- Demographics
 - Acute Care Discharges
 - Competition
 - Growth Potential
 - Proprietary Metrics



Design & Construction Strategy

Tom Boyle

SVP, Chief Design & Construction Officer

Design & Construction overview



6-10

De novos

6-10

Hospital bed addition projects

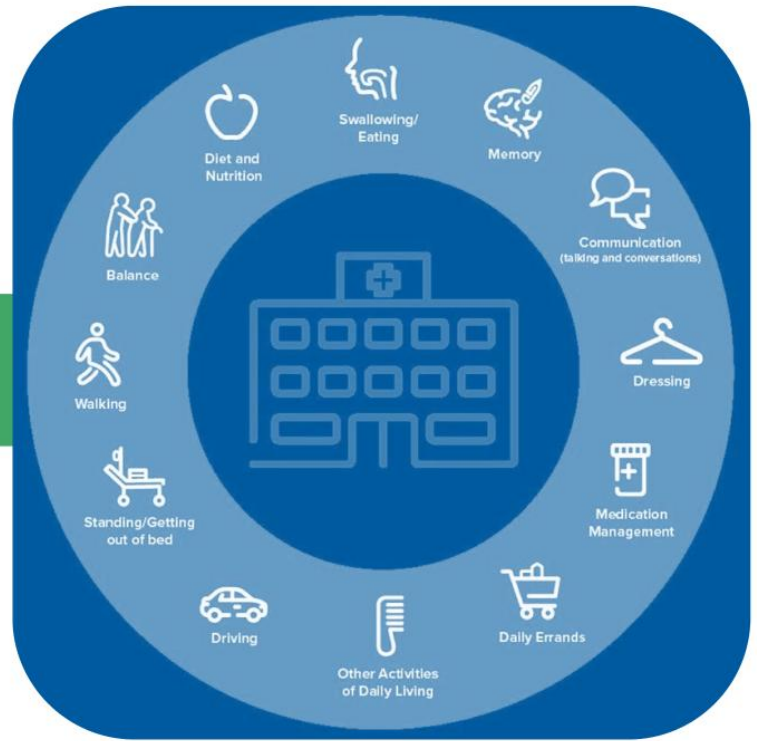
4-8

Major renovations

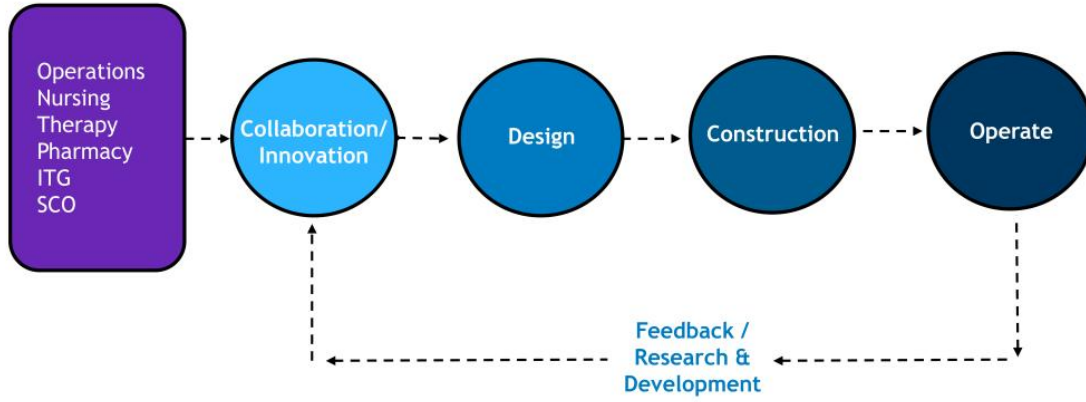
Many

Infrastructure programs

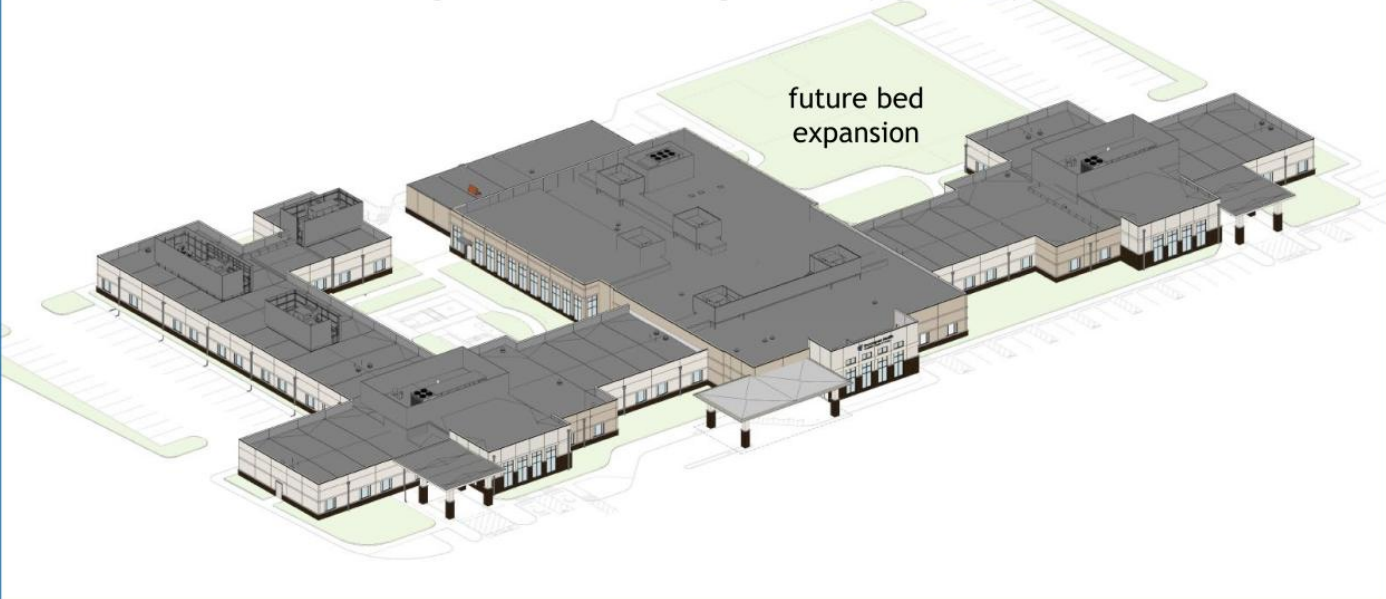
Designing & Constructing for patient care



Design & Construction process

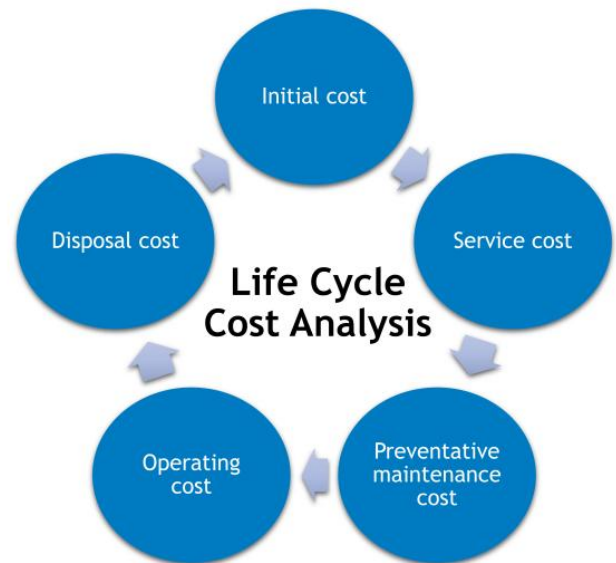


Encompass Health prototype layout

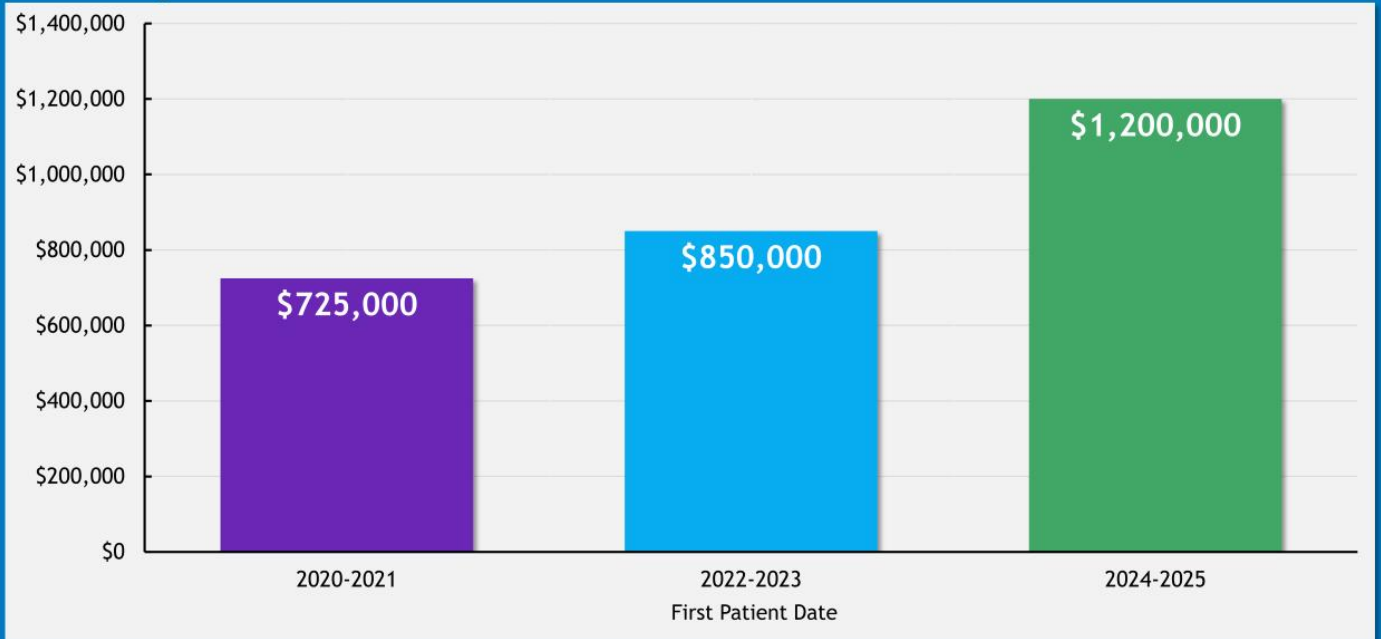


Proactive Maintenance Approach

- Focused asset replacement
- Yearly evaluation/prioritization
- Establish preventative maintenance plans
- Involvement from hospital, region, & Home Office



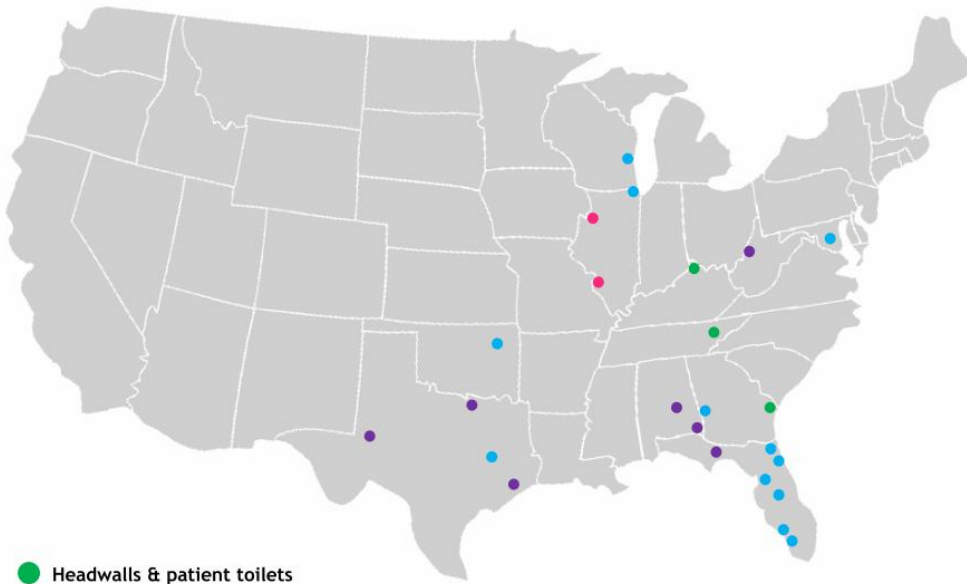
Average Cost Per Bed*



* Average cost per bed inclusive of land, construction and related costs, equipment, and pre-opening expenses.



Prefabrication utilization location map



- Headwalls & patient toilets
- Patient room modules
- Headwalls & exterior wall panels
- Headwalls, patient toilets and exterior panels

Waco, TX	2021
Montgomery, AL	
Shiloh, IL	45 patient rooms
Libertyville, IL	
St Augustine, FL	
Lakeland, FL	
Cape Coral, FL	
Katy, TX	
Jacksonville, FL	
Moline, IL	
Naples, FL	
Dothan, AL	
Edgewood, KY	2022
Knoxville, TN	
Bowie, MD	425 patient rooms
Parkersburg, WV	
Owasso, OK	
Clermont, FL	
Midland, TX	
Tallahassee, FL	
Savannah, GA	
Columbus, GA	
Prosper, TX	
	421 patient rooms



Prefabricated patient wing project
Katy, Texas - completed 20 bed expansion

BLOX prefabrication process



De novo project process

Full prefabrication time to completion benefits



Full prefabrication time to completion benefits:

- 33% reduction (8 months) compared to conventional construction
- 27% reduction (6 months) compared to conventional construction with some elements of prefabrication

Advantages of Prefabrication of Buildings



Clinical Innovation



Speakers

Rusty Yeager
Chief Information Officer

Elissa Charbonneau, D.O., M.S.
Chief Medical Officer

Cheryl Miller, OTR/L, DrOT
VP, Therapy Operations

**Mary Ellen Hatch, MSN, RN,
CRRN, FARN**
VP, Nursing Operations

IT as a Strategic Enabler

Rusty Yeager
Chief Information Officer

Our digital health strategy leverages:

- Clinical expertise
- Large post-acute datasets
- Business/technology partners
- Proven capabilities in
 - Enterprise EMR technologies
 - Data integration
 - Data analytics/predictive analytics



An integrated electronic medical record



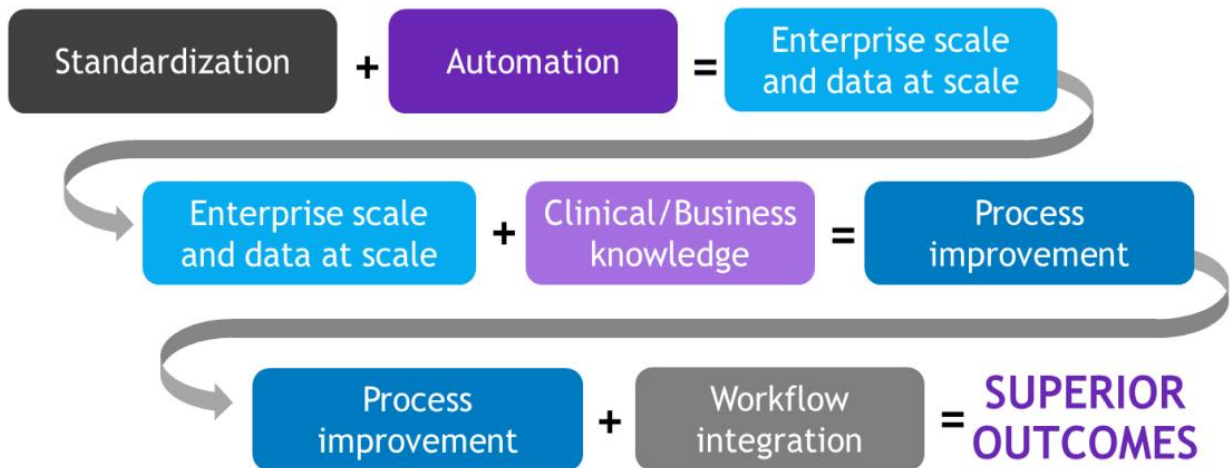
Patient outcomes and safety

Operational efficiencies

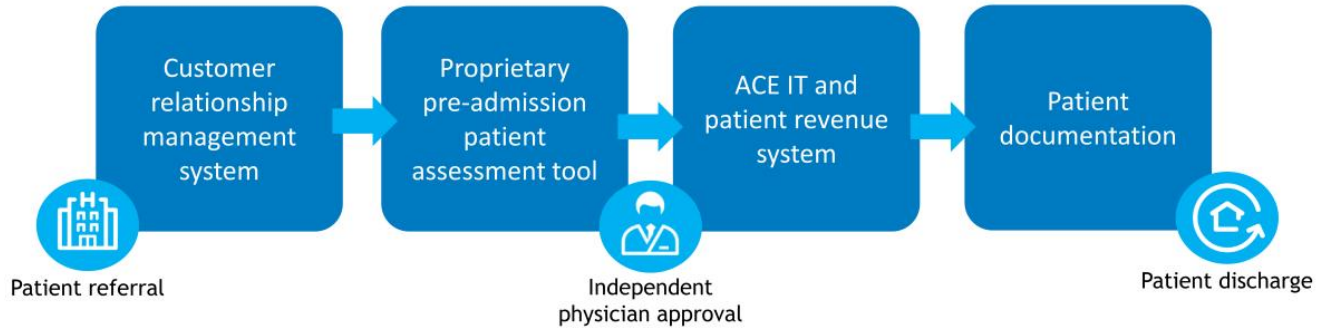
Cost effectiveness

Change agility

Shifting from technology to strategy



Digital patient journey: patient referral to patient discharge





Enterprise scalability

~50 analytic applications

Internal benchmarking

Data-driven decision making

Information delivery &
data transparency

Predictive modeling



First model



- Identify patients at risk to be transferred to an acute care hospital
- Implemented the model in 2017
- ~40 clinical variables considered
- Increased data set in 2022 to enhance accuracy



REACT™



Encompass Health's
proprietary technology is a
competitive advantage

Clinical Integration of Technologies

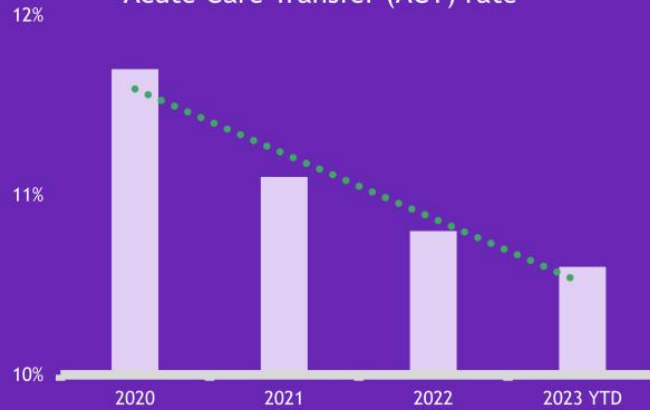
Elissa Charbonneau, D.O., M.S.
Chief Medical Officer

Model + Core Practice Strategies = Results



REACT™

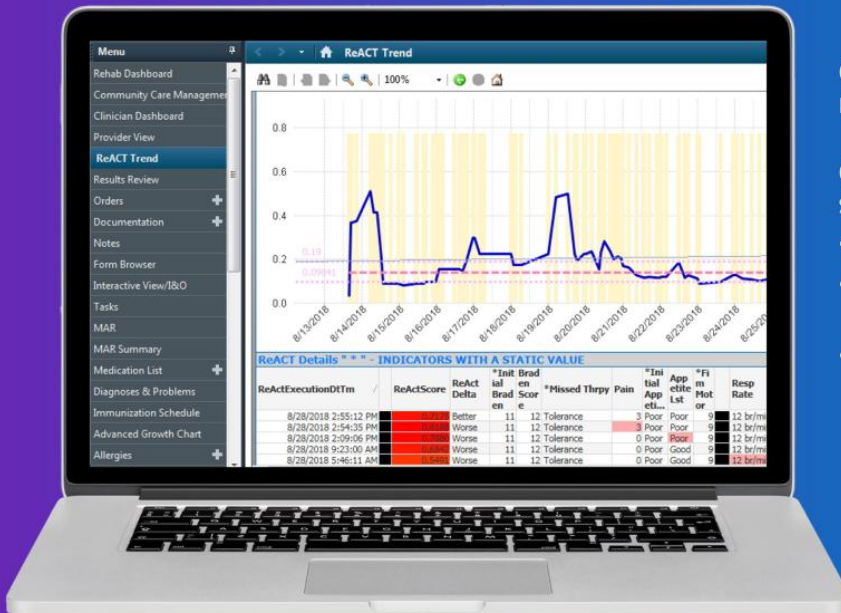
Acute Care Transfer (ACT) rate



ACT Rate is the number of acute care discharges as a percent of total discharges.

- REACT implemented in 2017
- REACT 2.0 implemented in 2022
- Consistent reduction in acute care transfers

ACT risk model identifies risk of readmission during the inpatient rehab stay



Clinicians have the ability to see a patient's risk score and the related predictors

Complimentary tools and workflow strategies include the following:

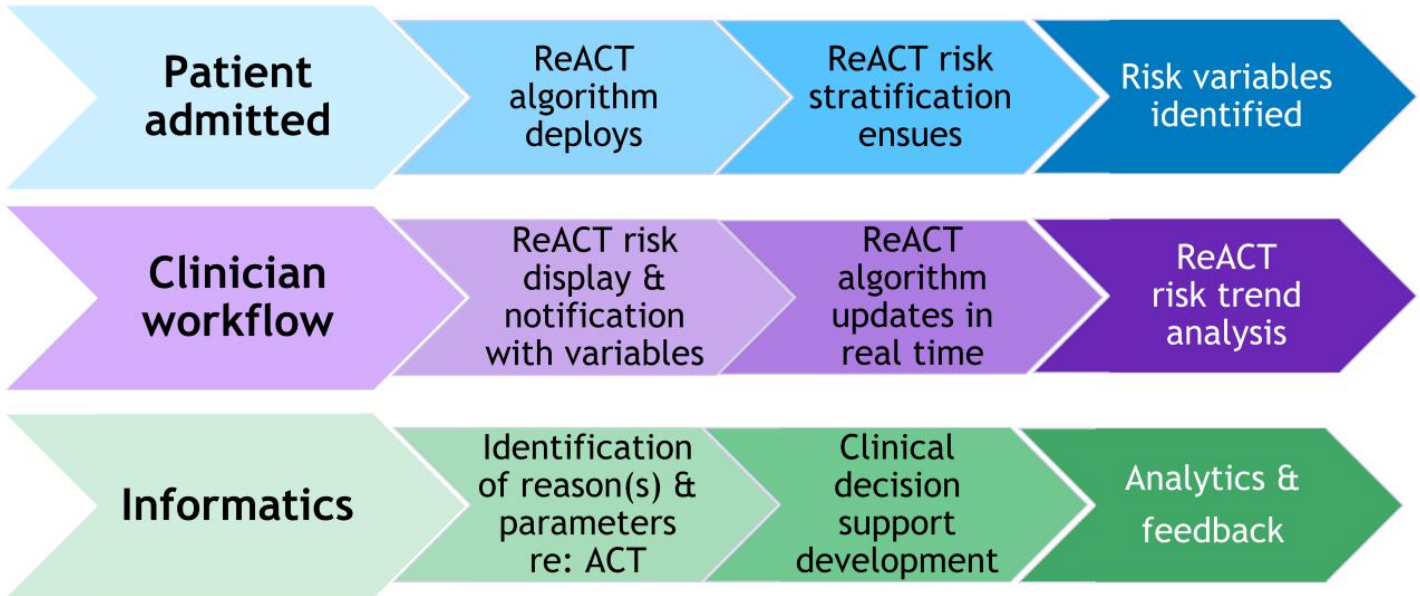
- Physician and nurse notifications
- Automated workflow tasks created if patient escalates to very high risk
- Trending view of risk score utilized in daily interdisciplinary workflow and communication process



REACT™

REACT™

general workflow



Readmission Prevention Program

Readmission risk model

Relies on datasets from 400,000+ patients

Monitors 40+ clinical elements

Risk score updates daily

Focus of our Case Managers

Intervention strategies

Transition of care documentation

Secured 4-day follow-up appointment

Medication reconciliation ~24 hours before discharge

24 hour and 5-day follow-up calls

Fall prevention model



Identify risk

- Upon admission - high risk
- Risk model + initial assessments & evaluations guide how to establish unique plan for the patient



Establish care plan and customize precautions

- High precautions are automated upon admission
- Suggested care plan will be initiated and individualized on all patients

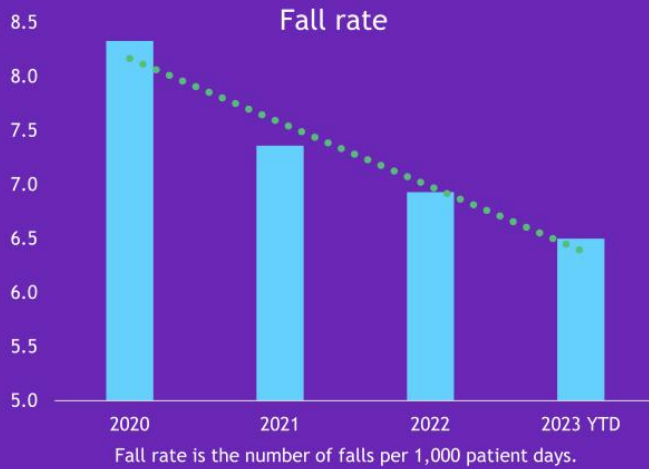


Collaborate & re-evaluate

- Day 3 reminder for nursing & therapy
- Weekly reminder with Team Conference
- Documentation of re-evaluation of risk and precautions

Model + Core Practice Strategies = Results

Fall prevention model

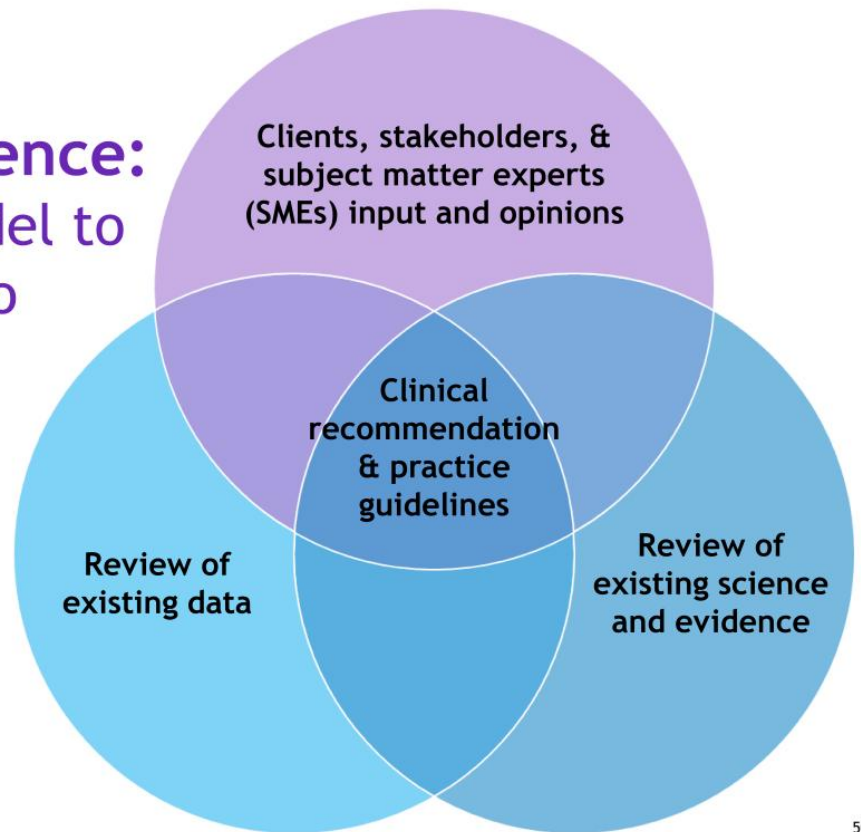


- Fall prevention model was initiated in 2021 with full implementation in 2022
- 50+ metrics included in the model
- Consistent reduction in patient falls

Therapy Technologies

Cheryl Miller, OTR/L, DrOT
Vice President, Therapy Operations

Implementation science: Encompass Health model to implement science into practice



Therapy Innovations Model





Therapy Innovations Committee

ENCOMPASS
HEALTH

Our mission is to assess and select innovative solutions to be adopted by Encompass Health. The committee uses standard criteria to implement therapy innovations that aligns with our values and promotes the use of safe, effective, state-of-art therapy technology.

The Committee assesses:

- Impact to patients
- Clinician and physician opinions
- Application to our population, ease of use, safety
- Pricing and ROI

Implemented technologies

Body-weight support gait technologies

LiteGait® System
Vector

Dysphasia

Ambu® aScope™
Synchrony 4.0
AmpCare ESP™
VitalStim®

Cognitive therapy

Bioness®
Integrated
Therapy System
(BITS)

Specialty therapy

Barihab™ XKS
Treatment and
Assessment
Platform

Burt®

LiteGait® System



Vector



Dysphagia: risks and assessment

Risks

- Difficulty with eating and drinking
- High risk of readmission due to food or liquids passing into lungs
- Most common in elderly and rehabilitation patients
- Potential severe medical complications

Assessment

Encompass Health offers instrumental assessments for each patient using the Ambu® aScope™, a flexible endoscope with a tiny camera and light used in the fiber optic evaluation of swallowing (FEES)



Dysphagia: oral motor intervention technologies

Synchrony 4.0

Designed specifically for speech-language pathologists to help patients visualize swallow activity using virtual reality for better outcomes

AmpCare ESP™

A portable, non-invasive, dual-channel electrotherapy system which emits electrical current to stimulate nerves that correspond to inactive or atrophied swallowing muscles, which leads to improved swallow function

VitalStim®

Technology that electrically stimulates swallow function. This is useful in retraining patients with dysphagia, a condition that causes difficulties when swallowing, especially when associated with brain injury

Cognitive therapy technologies

Bioness® Integrated Therapy System (BITS)



Interactive touchscreen to help individuals with traumatic injuries and movement disorders improve coordination, balance, recall, reaction time and cognitive abilities.

Bioness® Integrated Therapy System (BITS)



Specialty therapy intervention technologies

Barihab™ XKS treatment and assessment platform

Mat table designed to provide physical therapy for patients that exceed 500 pounds. The lifting capacity makes it possible to provide group and concurrent therapy. Critical in the treatment of patients of size or bariatric patients.





In-house Dialysis

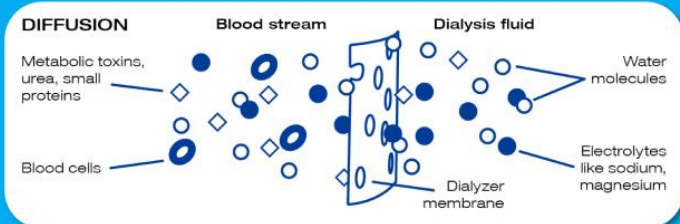
Mary Ellen Hatch, MSN, RN, CRRN, FARN
Vice President, Nursing Operations

Dialysis and Tablo

Dialysis is a complex process that affects every system in the body

- Also affects nutrition, medications, and social support.

The dialyzer uses tiny hollow filters that look like microscopic straws called a semi-permeable membrane. As blood moves through these tubes, it encounters a solution called dialysate (an electrolyte solution), an acid solution, and a bicarbonate.



In-house dialysis infrastructure



Dialysis team:

- Nephrologist oversees the program
- Dialysis experienced RN staff
- Dialysis nursing staff involved with the patient's overall care plan

Benefits of in-house dialysis

- ✓ Better coordination of therapy and dialysis
- ✓ Recovery time from dialysis is shorter using Tablo, 2-3 hours versus 24 hours with traditional HD
- ✓ Hospital's clinical team can take a complete holistic approach to care
- ✓ Eliminates patient transport to/from dialysis center allowing for more rest and less therapy interruption
- ✓ Dedicated dialysis staff on site for ongoing patient and family education

\$300
cost benefit per
treatment

72 sites

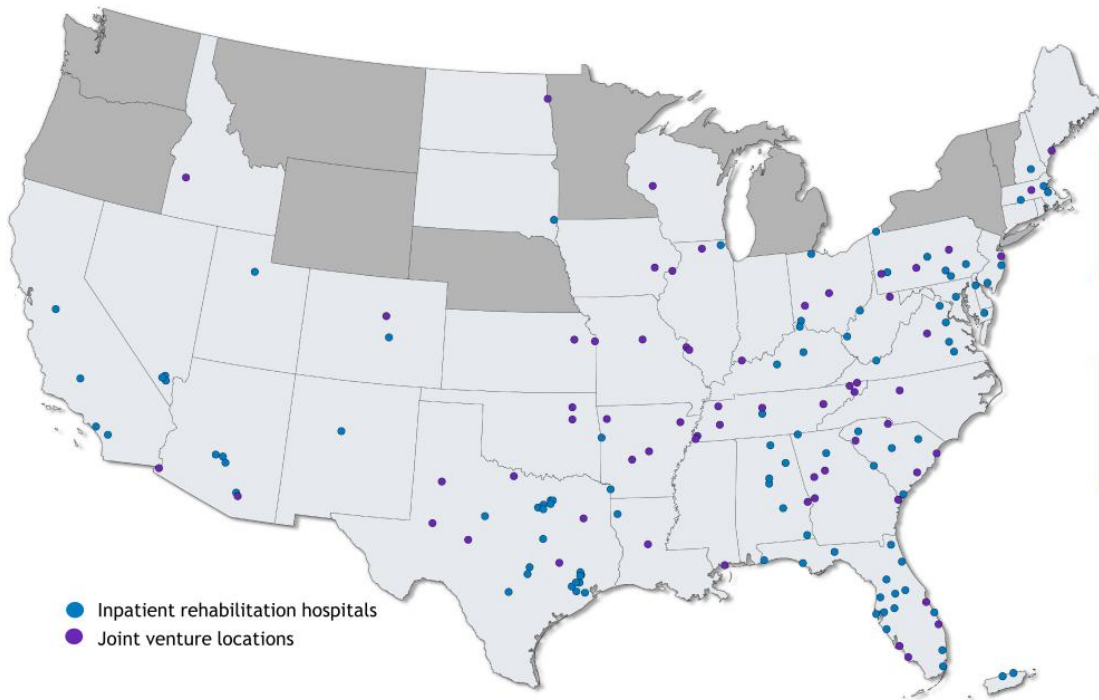
**> 21,000
treatments**

2022 through August 2023

Joint ventures



Joint venture partnerships



32 years of operating joint ventures

62 current joint ventures

Operations panel



Panelists

Lori Bedard
Southeast Region President

Troy Dedecker
Central Region President

Julie Duck
SVP, Financial Operations

Brad Kennedy
South Central Region President

Pat Tuer
Northeast Region President

Operations panel

- Scale
- Standardization
- Best practices



Operations panel discussion

Moderator	Regional President	Regional President	SVP, Financial Operations	Group President	Group President
					
Mark Tarr President and CEO	Lori Bedard Southeast Region	Troy Dedecker Central Region	Julie Duck Home Office	Brad Kennedy South Central Region	Pat Tuer Northeast Region
Years at Encompass Health					
30 years	26 years	10 years	26 years	13 years	5 years

Encompass Health's 8 regions

West region
 18 total hospitals
 0 future hospitals

Southwest region
 19 total hospitals
 2 future hospitals

South Central region
 27 total hospitals
 1 future hospital

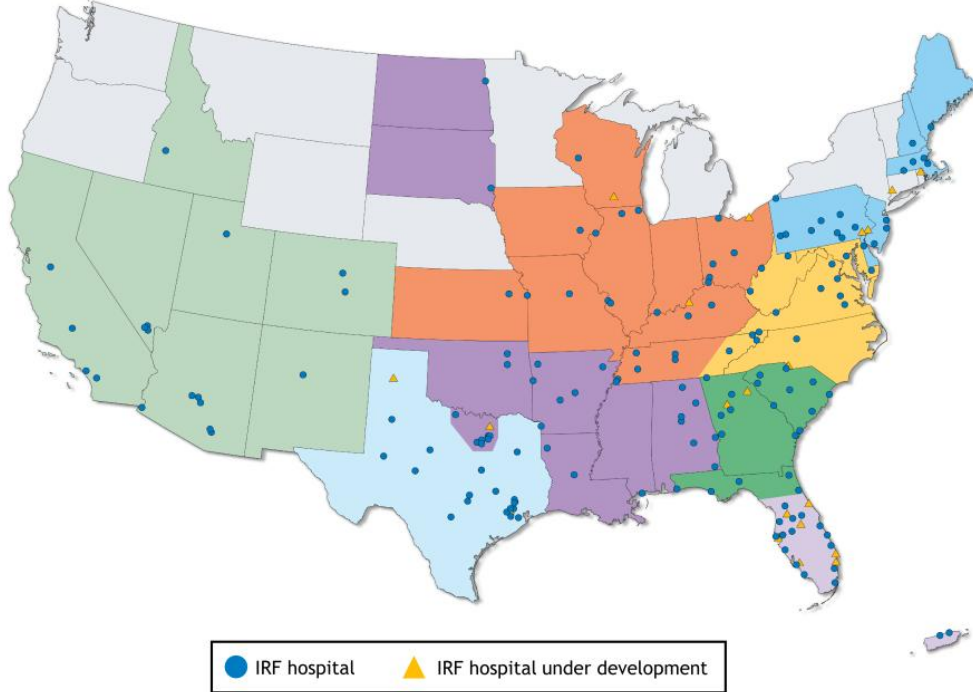
Central region
 24 total hospitals
 3 future hospitals

Northeast region
 19 total hospitals
 4 future hospitals

Midatlantic region
 17 total hospitals
 0 future hospitals

South Atlantic region
 18 total hospitals
 3 future hospitals

Southeast region
 17 total hospitals
 7 future hospitals



Data as of September 21, 2023

Management bench strength

Staff seek out opportunities for career upward mobility and/or geographic preference

Southeast region hospital	CEO	Business Development Director	Chief Nursing Officer	Director of Therapy Operations
Lakeland		✓	✓	✓
Cape Coral	✓	✓		✓
Naples	✓	✓		
Clermont	DFCEO	✓		✓

✓ Internal transfer from another EHC location or return to EHC after leaving



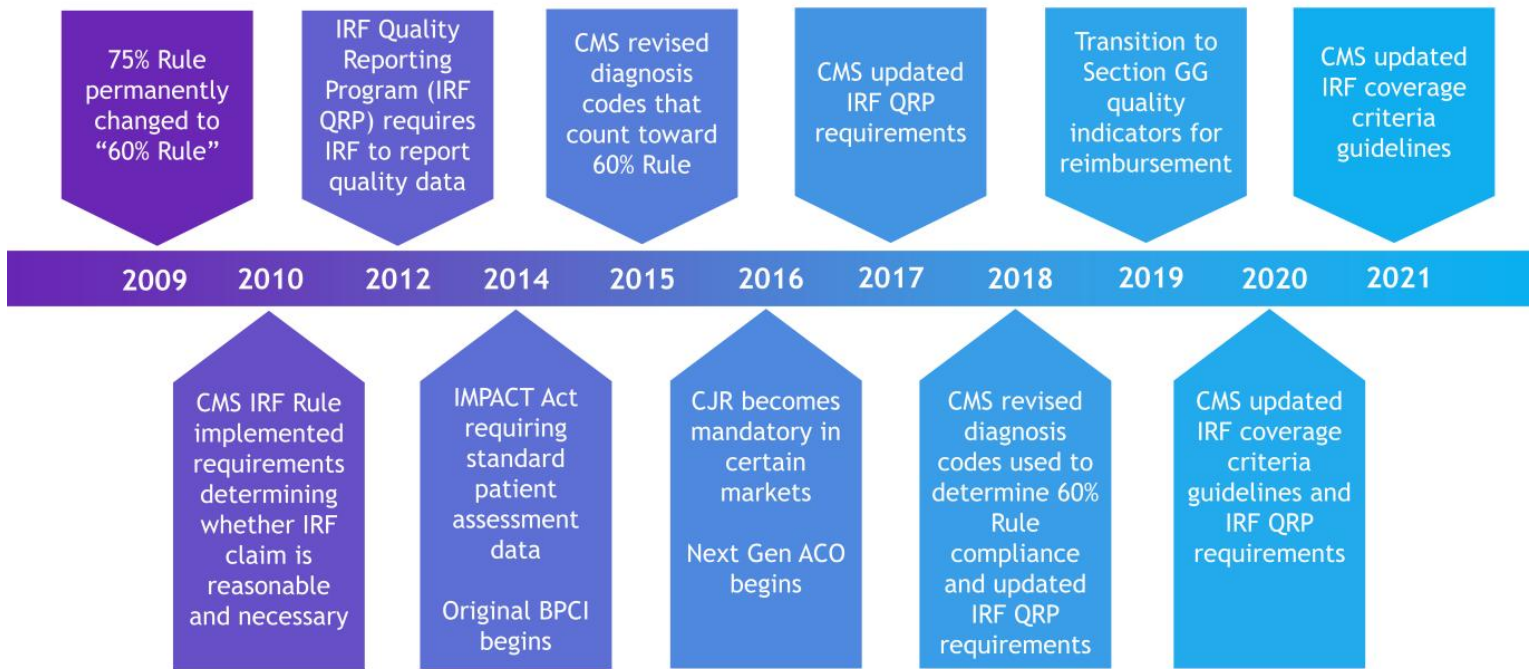
Leadership Development
Developing Future CEOs
ENCOMPASS HEALTH

Overview of opening a new hospital

A standardized approach with consistent tasks and timeframes helps to guide the project



Proven record of adapting to regulatory changes



Recent Regulatory Updates

IRF-PAI

- The IMPACT Act requires collection and reporting of quality measures
- Currently a 30-page assessment

Implementation

- Completed training in 3Q22, for implementation on October 1, 2022.
- Over 20 hours of training for the critical positions impacted by IRF PAI update
- Other positions had 2 - 5 hours of training depending on position

Impacts to Encompass Health

- Existing workflows updated in ACE IT to accommodate changes.
- If an IRF is out of compliance with the IRF QRP, there is a 2% payment penalty imposed.

Review Choice Demonstration

RCD

- 100% pre-claim/post-claim review of Medicare FFS claims for select IRFs.
- After 6 months, if 80% affirmation is attained, an IRF can move to a spot check (~5% of claims).

Implementation

- Pilot began in Alabama on August 21, 2023.
- States next on the rollout list include Pennsylvania, Texas and California. Timing not finalized.

Impacts to Encompass Health

- TBD

Staffing model for a 50-Bed de novo



~11
FTEs

Hospital management

~18
FTEs

Therapy staff

~38
FTEs

Nursing staff

~33
FTEs

Support staff

Investment case



Speaker

Doug Coltharp
EVP, Chief Financial Officer

Inpatient rehabilitation industry

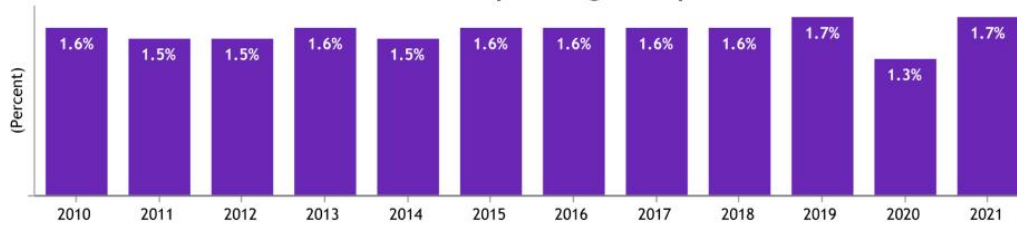
	Traditional Medicare	All payors	
Current market size	\$8.5 B	\$14.5 B	
Number of discharges	~380,000	~745,000	
Estimated addressable market size	\$17 B to \$25 B	\$29 B to \$44 B	Conservative estimate based on low conversion rate of presumptively IRF-eligible patients

Sources: MedPAC, Medicare Payment Policy, March 2023; MedPAC Health Care Spending and the Medicare Program, July 2022. The conversion rate of IRF eligible patients is based on patients who are discharged from acute care hospitals with one or more of 13 specified medical conditions that CMS ties to IRF eligibility based on Medicare FFS data, which is the only publicly available data on this subject.

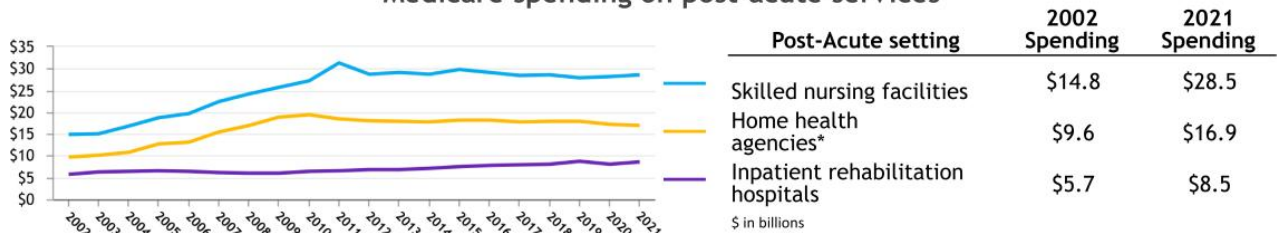
Medicare spending on post-acute services

Medicare spent ~ \$54 billion on post-acute services in 2021 (IRF, SNF, HH)

Percent of total Medicare FFS spending on inpatient rehabilitation



Medicare spending on post-acute services



* Not all home health spending occurs as a post-acute service.

Sources: MedPAC, Medicare Payment Policy, March 2023 - pages 203, 237 and 259 Centers for Medicare and Medicaid Services, Medicare Trustees' Report 2022 - page 12.

IRF qualifying conditions

CMS requires that 60% of an IRF's admissions must have at least one medical diagnosis or functional impairment from a list of 13 compliant conditions ("CMS-13").

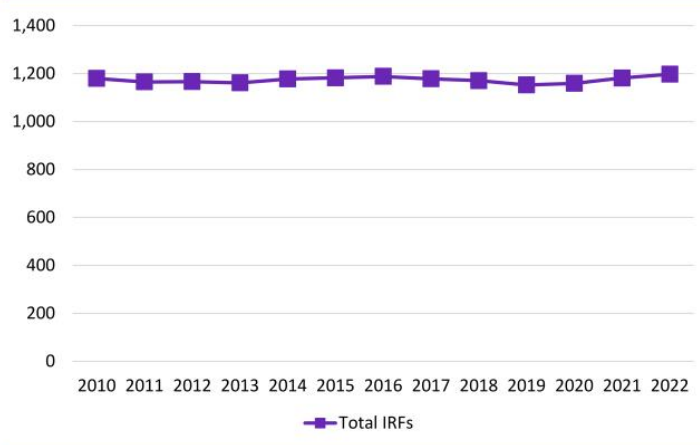
CMS-13 qualifying conditions	Other IRF qualification requirements at the time of a patient's admission
<ol style="list-style-type: none">1 Stroke2 Brain injury3 Amputation4 Spinal cord5 Fracture of the femur6 Neurological disorder7 Multiple trauma8 Congenital deformity9 Burns10 Osteoarthritis (after less intensive setting)11 Rheumatoid arthritis (after less intensive setting)12 Joint replacement<ul style="list-style-type: none">- Bilateral- Age \geq 85- Body mass index > 5013 Systemic vasculidities (after less intensive setting)	<ul style="list-style-type: none">✓ Physician approval of preadmission screen and admission✓ Patient requires the active and ongoing therapeutic intervention of multiple therapy disciplines, one of which must be physical or occupational therapy✓ Patient can reasonably be expected to actively participate in, and benefit from, an intensive interdisciplinary rehabilitation therapy program of 3 hours of therapy a day, 5 days a week✓ Requires supervision by a physician through face-to-face visits at least three days per week during the patient's stay to assess the patient both medically and functionally, as well as to modify the course of treatment as needed

Medicare levels of service required - IRF vs. SNF

Industry averages			
		IRF	SNF
Quality metrics	FFS average length of stay	12.9 days	34.5 days
	Discharge to community rate	67.6%	43.5%
CMS requirements for IRFs vs. SNFs			
		IRF	SNF
Regulatory	Facility must satisfy regulatory and policy requirements for hospitals, including Medicare hospital conditions of participation	Yes	No
	At a minimum, face-to-face rehabilitation physician visits must occur no fewer than 3 times per week during the course of the patient's stay	Yes	No
Patient care	All patients must need and generally receive a minimum of three hours a day of intensive therapy, five days a week	Yes	No
	Nursing care is required 24 hours, 7 days a week by registered nurses	Yes	No
	A weekly team meeting, led by the physician and includes a rehabilitation nurse, a case manager, and a licensed therapist from each therapy discipline	Yes	No
Admission requirements	All patients must be admitted by a physician	Yes	No
	Stringent admission and coverage policies are required and carefully documented for each admission; further restricted in number and type of patients (e.g., 60% Rule)	Yes	No

IRF supply

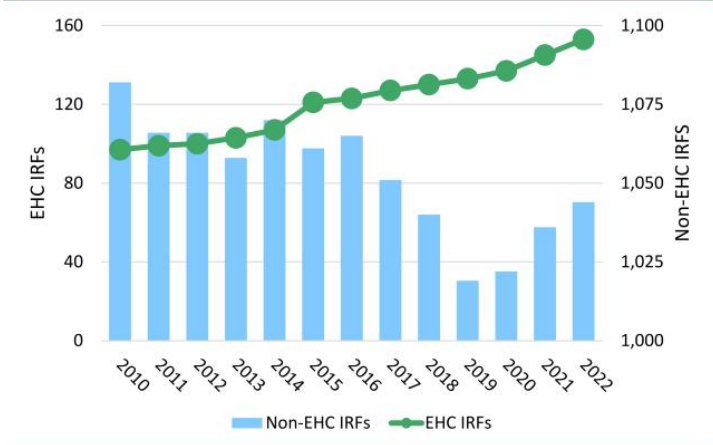
Number of IRFs - Industry



IRF industry supply has grown slightly since 2010:

- 1,179 IRFs in 2010
- 1,197 IRFs in 2022 (1.5% increase)

Number of IRFs - EHC vs. Non-EHC



Encompass Health growth since 2010:

- Opened 50 de novos
- Added 1,143 beds to existing hospitals

Growth Strategy

- De novo growth
- Bed additions
- Disintermediate SNFs
- Increase MA conversion rates
- Increase share of high acuity patients

Growth Targets 2023 - 2027



Number of de novos per year

6 to 10



Bed additions per year

80 to 120



Discharge CAGR

6% to 8%



Encompass
Health

