



2023 Fourth Quarter Earnings Call

February 8, 2024
Supplemental information



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, guidance and growth targets, value drivers, 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 and considerations, balance sheet and cash flow plans, market share capture, 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 earnings release attached as Exhibit 99.1 to the Company's Form 8-K dated February 7, 2024 (the "Q4 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2022, the Form 10-Q for the quarter ended September 30, 2023, the Form 10-K for the year ended December 31, 2023, when filed, 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. 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 Q4 Earnings Release Form 8-K 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.

Table of contents

Q4 2023 Financial summary	4
Key takeaways	5
Revenue	6
Adjusted EBITDA	7
Earnings per share	8-9
2023 Year in review	10
Adjusted free cash flow	11
2024 Guidance and guidance considerations	12-13
Adjusted free cash flow assumptions	14
Uses of free cash flow	15
Appendix	
Map of locations	17
Growth targets, fundamentals and value drivers	18
De novo activity	19
Contract labor and sign-on and shift bonus trends	20
Debt maturity profile and schedule	21-22
New-store/same-store growth	23
Payment sources	24
Operational metrics	25
Share information	26
Reconciliations to GAAP	27-33
End notes	34-35

Q4 2023 Financial summary

(\$ in millions, except per share data)	Q4			Full Year		
	2023	2022	% Δ	2023	2022	% Δ
Encompass Health						
Net operating revenue	\$1,246.8	\$1,137.3	9.6 %	\$4,801.2	\$4,348.6	10.4 %
Adjusted EBITDA	\$ 255.0	\$ 232.7	9.6 %	\$ 971.1	\$ 819.3	18.5 %
Adjusted EPS	\$ 0.95	\$ 0.88	8.0 %	\$ 3.64	\$ 2.85	27.7 %
Adjusted free cash flow	\$ 93.5	\$ 46.0	103.3 %	\$ 525.7	\$ 340.1	54.6 %

Encompass Health’s historical results reflect Enhabit Home Health and Hospice (“Enhabit”) as discontinued operations.

Q4 2023 Key takeaways

▶ Revenue

- Net operating revenue growth of 9.6%
 - ✓ Discharge growth of 8.3% (5.3% same store)

▶ Adjusted EBITDA

- Adjusted EBITDA growth of 9.6%
 - ✓ Contract labor plus sign-on and shift bonuses of \$30.6 million vs. \$35.4 million in Q4 2022
 - ✓ De novo hospitals contributed \$1.0 million in positive Adjusted EBITDA compared to an expected \$2.5 million to \$4.5 million net cost.

▶ Balance sheet

- Q4 net leverage of 2.7x compared to 3.4x at year-end 2022

▶ Capacity additions

- Opened 2 de novos with 96 beds; added 5 beds to existing hospitals

▶ Shareholder distributions

- Paid a \$0.15 per share quarterly cash dividend in October 2023
- Declared a \$0.15 per share quarterly cash dividend in October 2023 (paid in January 2024)

Revenue

(\$ in millions)	Q4 2023	Q4 2022	% Change*
Net operating revenue:			
Inpatient	\$ 1,216.8	\$ 1,113.0	9.3%
Outpatient and other	30.0	24.3	23.5%
Total revenue	\$ 1,246.8	\$ 1,137.3	9.6%

(Actual Amounts)

Discharges	59,247	54,700	8.3%
New-store discharge growth			3.0%
Same-store discharge growth			5.3%
Net patient revenue per discharge	\$ 20,538	\$ 20,347	0.9%
Revenue reserves related to bad debt as a percent of revenue	4.1 %	2.4 %	170 bps

- ▶ Net operating revenue growth of 9.6% driven primarily by volume growth
- ▶ Net patient revenue per discharge growth of 0.9% driven by price increases offset in part by an increase in reserves related to bad debt
- ▶ Revenue reserves related to bad debt as a percent of revenue increased 170 bps to 4.1% as a result of an approximately \$22 million reserve related to appeals pending before the Departmental Appeals Board (DAB) and various federal district courts⁽¹⁾.
 - These appeals relate primarily to claims denied prior to 2018.

Adjusted EBITDA⁽²⁾

(\$ in millions)	Q4 2023	% of Revenue	Q4 2022	% of Revenue
Net operating revenue	\$1,246.8		\$ 1,137.3	
Operating expenses:				
Salaries and benefits	(676.3)	54.2 %	(614.4)	54.0 %
Other operating expenses ^(a)	(178.7)	14.3 %	(167.7)	14.7 %
Supplies	(58.6)	4.7 %	(53.9)	4.7 %
Occupancy costs	(14.0)	1.1 %	(13.1)	1.2 %
Hospital operating expenses	(251.3)	20.2 %	(234.7)	20.6 %
General and administrative expenses ^(b)	(36.9)	3.0 %	(32.7)	2.9 %
Other income ^(c)	3.3		5.0	
Equity in nonconsolidated affiliates	0.9		0.3	
Noncontrolling interests in continuing operations	(31.5)		(28.1)	
Adjusted EBITDA	\$ 255.0		\$ 232.7	
Percent change		9.6 %		

- Salaries and benefits reflects a 2.2% increase in SWB per FTE driven by a 4.9% increase in salaries and wages per FTE (excluding premium labor) partly offset by a 13.6% decrease in contract labor plus sign-on and shift bonuses and a 9.6% decrease in benefits per FTE.
- Decrease in benefits per FTE was primarily due to positive group medical and workers' compensation trends.

(\$ in millions)	Q4 2023	Q4 2022
In arriving at Adjusted EBITDA, the following were excluded:		
(a) Loss on disposal or impairment of assets	\$ 6.1	\$ 2.4
(b) Stock-based compensation and the change in fair market value of the non-qualified deferred comp plan	\$ 16.2	\$ 10.1
(c) Change in fair market value of equity securities and the non-qualified deferred comp plan	\$ (5.6)	\$ (3.4)

Earnings per share - as reported

(\$ in millions, except per share data)	Q4		Year Ended	
	2023	2022	2023	2022
Adjusted EBITDA	\$ 255.0	\$ 232.7	\$ 971.1	\$ 819.3
Depreciation and amortization ⁽³⁾	(70.1)	(63.3)	(273.9)	(243.6)
Interest expense and amortization of debt discounts and fees ⁽⁴⁾	(34.9)	(37.5)	(143.5)	(175.7)
Stock-based compensation	(13.4)	(8.1)	(50.6)	(29.2)
Loss on disposal or impairment of assets	(6.1)	(2.4)	(9.8)	(4.8)
	130.5	121.4	493.3	366.0
Items not indicative of ongoing operating performance:				
Loss on early extinguishment of debt ⁽⁵⁾⁽⁶⁾	—	—	—	(1.4)
State regulatory change impact on noncontrolling interests ⁽³⁾	—	—	2.2	—
Change in fair market value of equity securities	2.8	1.4	0.7	(7.4)
Pre-tax income	133.3	122.8	496.2	357.2
Income tax expense	(37.2)	(31.9)	(132.2)	(100.1)
Income from continuing operations*	<u>\$ 96.1</u>	<u>\$ 90.9</u>	<u>\$ 364.0</u>	<u>\$ 257.1</u>
Diluted shares (see page 26)	101.5	100.8	101.3	100.4
Diluted earnings per share*	<u>\$ 0.94</u>	<u>\$ 0.90</u>	<u>\$ 3.59</u>	<u>\$ 2.56</u>

► EPS increased primarily due to growth of Adjusted EBITDA partly offset by higher depreciation and amortization, income tax expense, and performance-based stock compensation.

Adjusted earnings per share⁽⁷⁾

	Q4		Year Ended	
	2023	2022	2023	2022
Diluted earnings per share, as reported	\$ 0.94	\$ 0.90	\$ 3.59	\$ 2.56
Adjustments, net of tax:				
Bondholder consent fees associated with Enhabit distribution ⁽⁴⁾	—	—	—	0.15
Income tax adjustments	0.03	(0.01)	0.03	0.07
State regulatory change impact ⁽³⁾	—	—	0.03	—
Loss on early extinguishment of debt ⁽⁵⁾⁽⁶⁾	—	—	—	0.01
Change in fair market value of equity securities	(0.02)	(0.01)	—	0.05
Adjusted earnings per share*	\$ 0.95	\$ 0.88	\$ 3.64	\$ 2.85

▶ Adjusted earnings per share removes from GAAP earnings per share the impact of items the Company believes are not indicative of its ongoing operating performance.

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 30-33.

2023 Year in review

▶ Financial performance

- Net operating revenue growth of 10.4%
 - ✓ Discharge growth of 8.7% (4.8% same store)
 - ✓ Net revenue per discharge increase of 1.6%
- Adjusted EBITDA increase of 18.5%
 - ✓ Contract labor plus sign-on and shift bonuses decreased by \$67.3 million (-32.9%).
- Adjusted free cash flow increased 54.6% to \$525.7 million.

▶ Capacity additions

- Opened 8 de novos (395 beds) and added 46 beds to existing hospitals
 - ✓ De novo pre-opening and ramp-up costs of \$6.6 million compared to an expected \$10 million to \$12 million

▶ Balance sheet

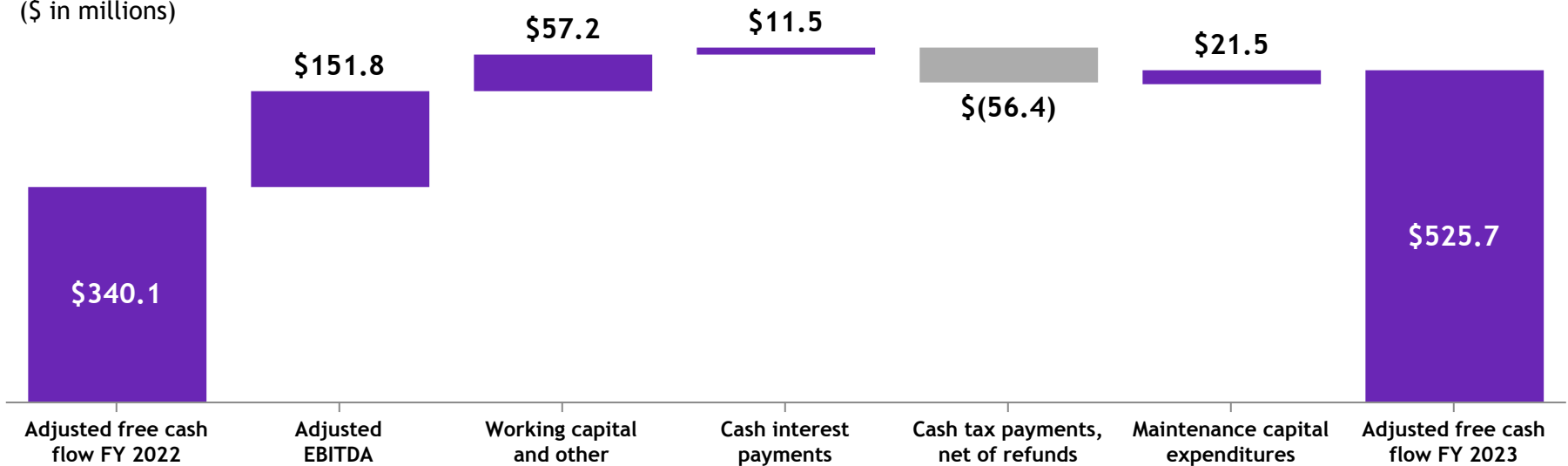
- Year-end net leverage of 2.7x compared to 3.4x at year-end 2022

▶ Shareholder distributions

- Paid cash dividends totaling \$0.60 per share

2023 Adjusted free cash flow⁽⁸⁾

(\$ in millions)



- ▶ 2023 Adjusted free cash flow increased \$185.6 million primarily due to increased Adjusted EBITDA and a favorable change in working capital partly offset by higher cash tax payments.

2024 Guidance

	2023 Actuals	2024 Guidance
(\$ in millions, except per share data)		
Net Operating Revenue	\$4,801.2	\$5,200 to \$5,300
Adjusted EBITDA ⁽²⁾	\$971.1	\$1,015 to \$1,055
Adjusted earnings per share from continuing operations attributable to Encompass Health ⁽⁷⁾	\$3.64	\$3.77 to \$4.06

2024 Guidance considerations

▶ Pricing

- Medicare pricing increase of 3.3% for Q1 through Q3 and an estimated 2.5% to 3.0% for Q4
- Managed Care pricing increase of 2% to 3%
- Bad debt reserves of 2.0% to 2.4% of net operating revenue

▶ Labor

- SWB per FTE (including contract labor, sign-on and shift bonuses) increase of 4% to 5%

▶ Capacity additions

- 6 de novos with 280 beds
 - ✓ De novo net pre-opening and ramp-up costs of \$15 million to \$18 million (inclusive of costs associated with 2025 de novos incurred in 2024)
- Approximately 150 beds to existing hospitals
 - ✓ Inclusive of a 40-bed freestanding satellite hospital

▶ Corporate

- Tax rate of approximately 26%
- Diluted share count of approximately 102 million shares

Adjusted free cash flow⁽⁸⁾ assumptions

Certain cash flow items (\$ in millions)	2023 Actuals	2024 Assumptions	
Cash interest payments (net of amortization of debt discounts and fees)	\$134.0	\$130 to \$140	
Cash payments for income taxes, net of refunds	\$106.6	\$145 to \$165	Increased cash taxes due to higher net income and phase-out of bonus depreciation; 2023 cash taxes benefited from \$11 million overpayment in 2022 applied to 2023
Working capital and other	\$(12.1)	\$30 to \$50	Increased working capital due to growth in accounts receivable and the timing of payroll and payroll tax liabilities
Maintenance CAPEX	\$216.9	\$185 to \$195	Investment in new equipment, renovations/improvements, and ongoing maintenance of existing hospitals
Adjusted free cash flow	\$525.7	\$465 to \$565	

Uses of free cash flow

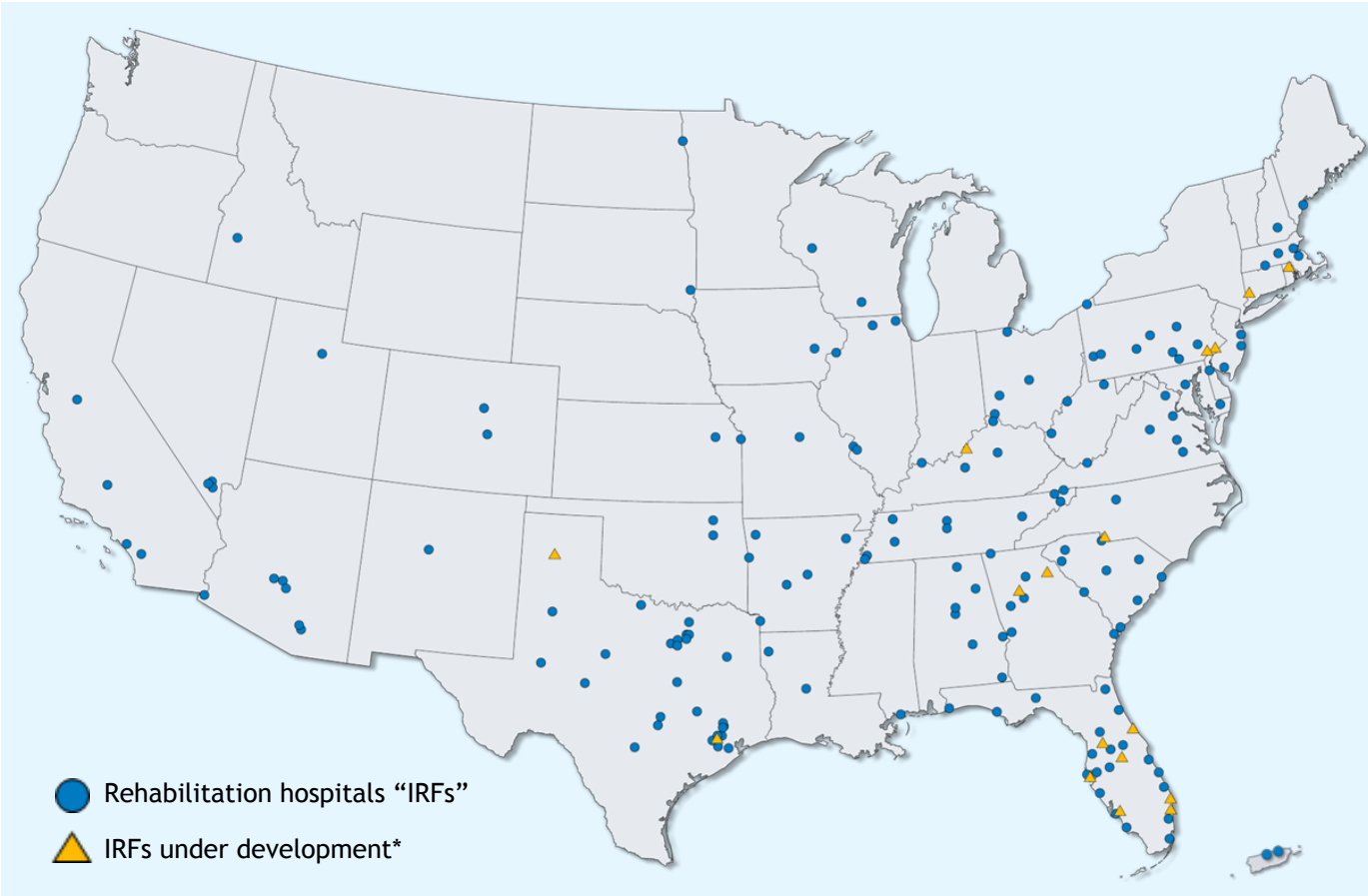
(\$ in millions)		2023 Actuals	2024 Assumptions
Growth in core business	IRF bed expansions	\$41.8	\$105 to \$115
	New IRFs		
	- De novos	321.6	290 to 300
	- Replacement IRFs and other ⁽⁹⁾	24.2	—
		<u>\$387.6</u>	<u>\$395 to \$415</u>
Debt reduction	Debt redemptions (borrowings), net	\$54.4	TBD
Shareholder distributions	Cash dividends on common stock	\$60.4	TBD
	Common stock repurchases	\$—	TBD

- ~\$198 million remaining under current authorization as of December 31, 2023⁽¹⁰⁾

Appendix

Encompass Health

Largest owner and operator of rehabilitation hospitals



Company profile as of
12/31/23

161

Rehabilitation hospitals
"IRFs"

63 are joint ventures

17

IRFs under
development*

37

States and
Puerto Rico

25%

of Licensed beds[†]

33%

of Medicare
patients served[†]

Key statistics
trailing four quarters

~229,500

patient discharges

~\$4.8

Billion in
revenue



Fortune Magazine

World's Most Admired Companies

~38,100
employees

Modern Healthcare
**Best Places
to Work 2022**[™]

Growth targets, fundamentals and value drivers

▶ 2023 - 2027 Growth targets

- 6 to 10 de novos per year
- 80 to 120 bed additions per year
- 6% to 8% discharge CAGR

▶ Large, under penetrated, and growing inpatient rehabilitation market

- Large addressable market indicated by low conversion rate of presumptively eligible inpatient rehabilitation patients
- Favorable demographics driving increased demand for rehabilitation services
- Unparalleled clinical expertise for treating inpatient rehabilitation conditions with consistent delivery of high-quality, cost-effective care
- De novo and bed addition strategy delivers attractive financial returns
- Cash flow and capital availability to fund capacity additions
- Fragmented sector presents unit acquisition and joint venture opportunities
- Significant barriers to entry and economies of scale
- Resilient business model with focus on non-discretionary conditions occurring predominantly in an aging population

▶ Shareholder distributions

- Cash dividend (currently \$0.15 per share per quarter)
- Approximately \$198 million remaining under current stock repurchase authorization

De novo activity

17

IRF development projects announced and underway

Inpatient Rehabilitation Hospitals opened or under development					
		Joint venture	# of new beds		
			2024	2025	2026
De novo projects*					
1	Kissimmee, FL		50	—	—
2	Atlanta, GA	✓	40	—	—
3	Johnston, RI		50	—	—
4	Fort Mill, SC		39	—	—
5	Louisville, KY	✓	40	—	—
6	Houston, TX		61	—	—
7	Daytona Beach, FL		—	50	—
8	Fort Myers, FL	✓	—	60	—
9	Lake Worth, FL		—	50	—
10	Concordville, PA		—	50	—
11	Norristown, PA		—	50	—
12	Wildwood, FL		—	50	—
13	Athens, GA	✓	—	40	—
14	St. Petersburg, FL		—	50	—
15	Palm Beach Gardens, FL		—	—	50
16	Amarillo, TX		—	—	50
17	Danbury, CT		—	—	40
Bed expansions, net*			~150 [†]	~80	~80
*All dates are tentative and subject to change			430	480	220

2023 De novo activity highlights

Q1 2023	# of beds	JV
• Eau Claire, WI	36	✓
• Knoxville, TN**	73	✓
• Owasso, OK	40	✓
Q2 2023		
• Clermont, FL	50	
• Bowie, MD	60	✓
Q3 2023		
• Columbus, GA	40	✓
Q4 2023		
• Prosper, TX	40	
• Fitchburg, WI	56	

[†] Inclusive of 40-bed freestanding satellite hospital

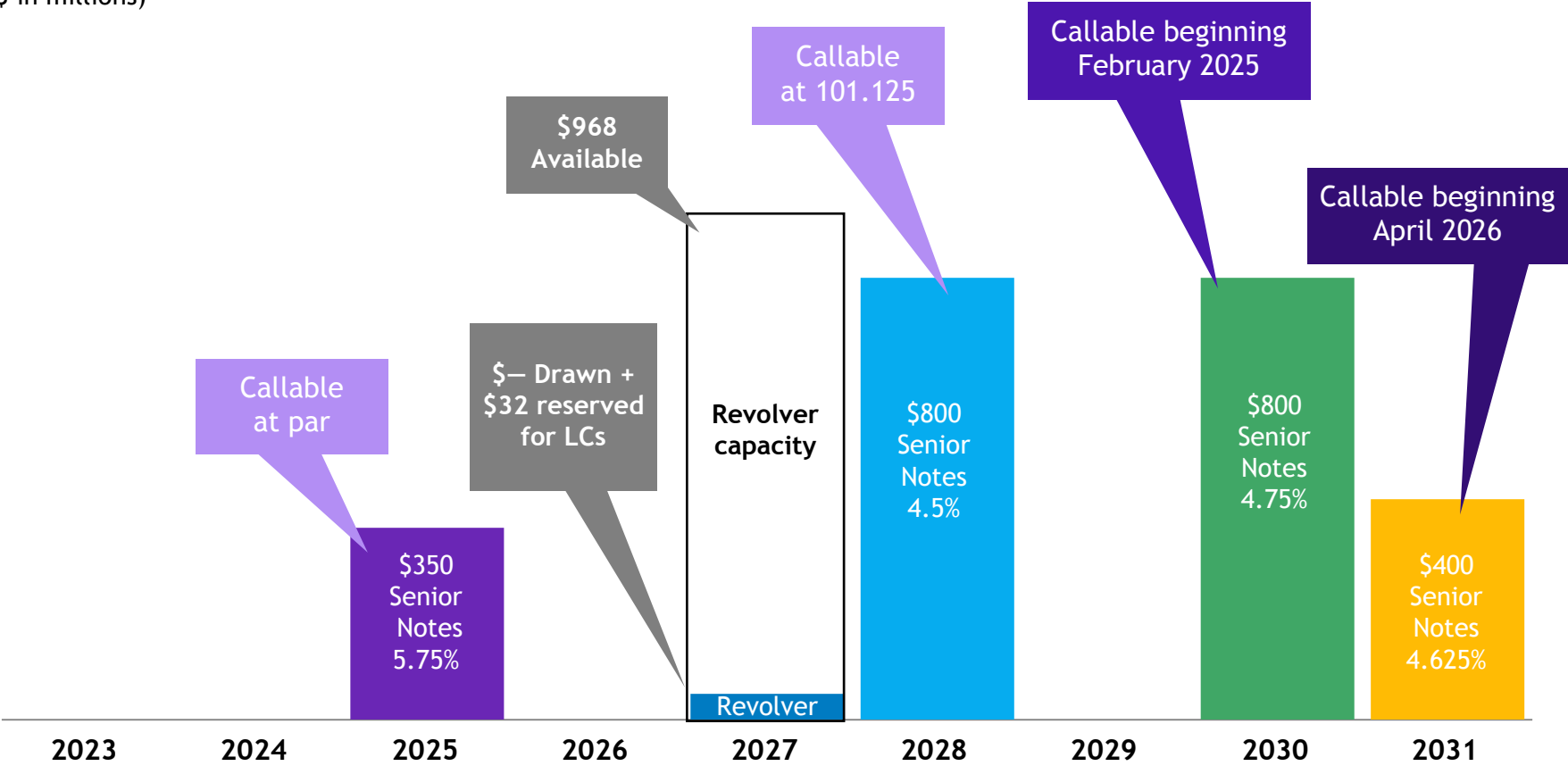
Contract labor and sign-on and shift bonus trends

	2021		2022				FY	2023				FY
	Q4	FY	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Contract labor and sign-on and shift bonus expense trends (\$ in millions)												
Sign-on/shift bonus	\$ 21.3	\$ 59.8	\$ 21.1	\$ 21.8	\$ 24.2	\$ 15.7	\$ 82.8	\$ 16.3	\$ 14.0	\$ 14.4	\$ 12.9	\$ 57.6
Contract labor	30.0	74.4	41.9	35.1	24.8	19.7	121.5	20.7	22.1	18.9	17.7	79.4
Total	\$ 51.3	\$134.2	\$ 63.0	\$ 56.9	\$ 49.0	\$ 35.4	\$204.3	\$ 37.0	\$ 36.1	\$ 33.3	\$ 30.6	\$137.0
Contract labor FTE trends (\$ in thousands)												
Contract labor FTEs	516	359	706	633	481	369	547	459	476	388	378	425
<i>as a % of total FTEs</i>	2.2%	1.5%	2.9%	2.6%	1.9%	1.5%	2.2%	1.8%	1.8%	1.5%	1.4%	1.6%
Contract labor rate/FTE	\$230.7	\$207.1	\$240.4	\$222.6	\$204.6	\$211.5	\$222.0	\$182.7	\$186.0	\$192.7	\$186.2	\$187.1
Net same-store RN hires	46	329	127	149	183	(32)	427	54	202	202	55	513

Debt maturity profile - face value

As of December 31, 2023*

(\$ in millions)

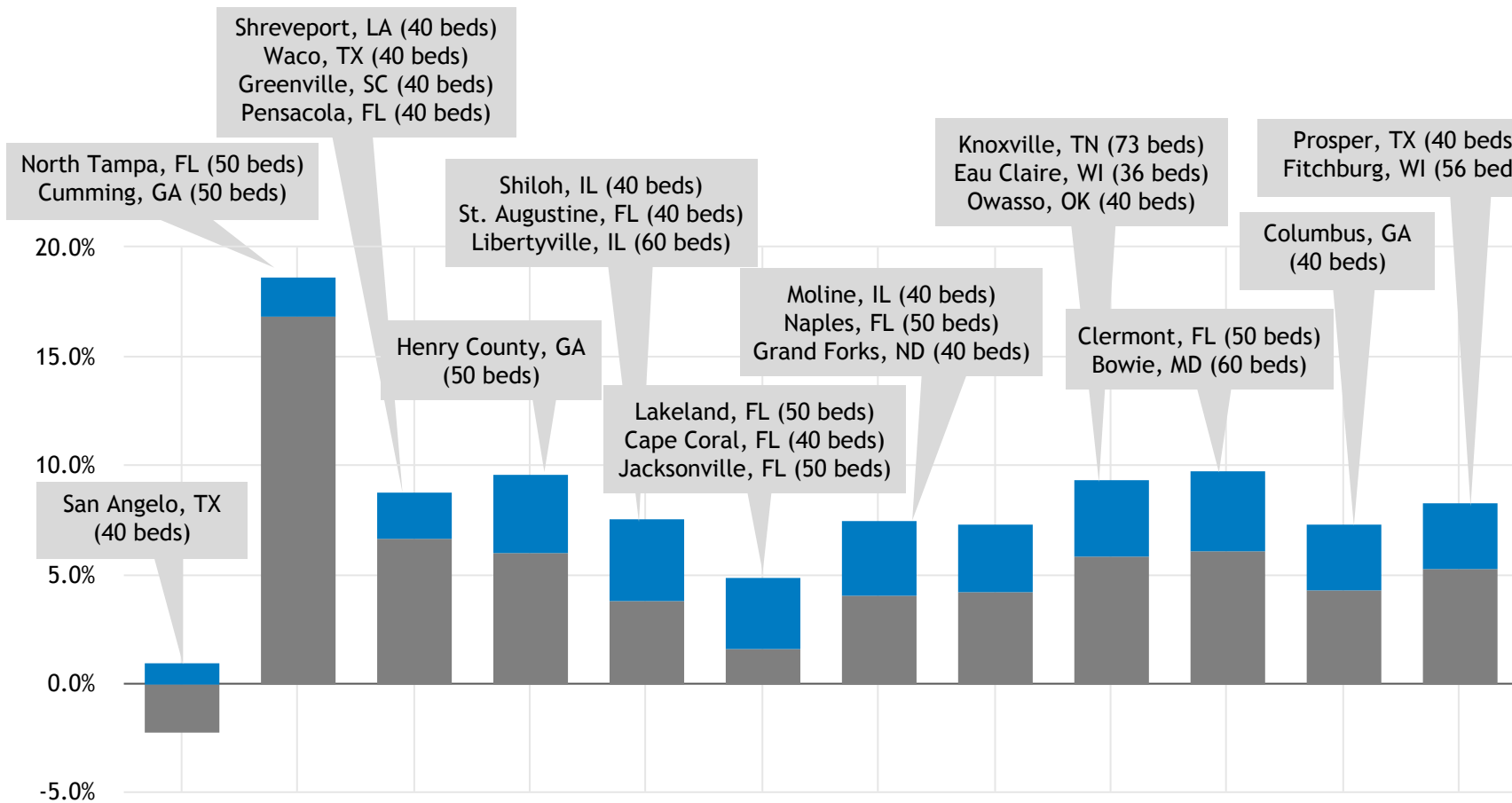


Debt schedule

(\$ in millions)	December 31, 2023	December 31, 2022	Change in Debt vs. YE 2022
Advances under \$1 billion revolving credit facility	\$ —	\$ 55.0	\$ (55.0)
Bonds Payable:			
5.75% Senior Notes due 2025	348.5	347.7	0.8
4.50% Senior Notes due 2028	785.0	781.8	3.2
4.75% Senior Notes due 2030	781.5	779.0	2.5
4.625% Senior Notes due 2031	391.5	390.6	0.9
Other notes payable	66.0	53.1	12.9
Finance lease obligations	340.1	359.8	(19.7)
Long-term debt	\$ 2,712.6	\$ 2,767.0	\$ (54.4)
Debt to Adjusted EBITDA	2.8 x	3.4 x	
Leverage net of cash and cash equivalents	2.7 x	3.4 x	

The leverage ratio for 2023 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 3.2x
The leverage ratio for 2022 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 3.9x

New-store/same-store growth



Discharges	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
New store	1.0%	1.8%	2.0%	3.6%	3.8%	3.3%	3.4%	3.1%	3.5%	3.6%	3.0%	3.0%
Same store*	(2.2)%	16.9%	6.7%	6.0%	3.8%	1.6%	4.1%	4.2%	5.9%	6.2%	4.3%	5.3%
Total by quarter	(1.2)%	18.7%	8.7%	9.6%	7.6%	4.9%	7.5%	7.3%	9.4%	9.8%	7.3%	8.3%
Total by year				8.7%				6.8%				8.7%
Same store by year*				6.2%				3.1%				4.8%

Payment sources (percent of revenues)

	Q4		Full Year	
	2023	2022	2023	2022
Medicare	65.7 %	66.2 %	65.0 %	65.3 %
Medicare Advantage	16.0 %	15.3 %	16.2 %	15.1 %
Managed care	10.8 %	10.9 %	11.1 %	11.6 %
Medicaid	3.6 %	4.1 %	4.0 %	4.2 %
Other third-party payors	0.8 %	0.9 %	0.9 %	0.9 %
Workers' compensation	0.5 %	0.5 %	0.5 %	0.6 %
Patients	0.4 %	0.3 %	0.3 %	0.4 %
Other income	2.2 %	1.8 %	2.0 %	1.9 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

Operational metrics

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Full Year	
									2023	2022
	(\$ in millions)									
Net patient revenue- inpatient	\$1,216.8	\$1,180.5	\$1,162.3	\$1,134.2	\$1,113.0	\$1,064.6	\$1,037.8	\$1,036.2	\$4,693.8	\$4,251.6
Net patient revenue- outpatient and other revenues	30.0	26.4	24.8	26.2	24.3	24.9	24.7	23.1	107.4	97.0
Net operating revenues	<u>\$1,246.8</u>	<u>\$1,206.9</u>	<u>\$1,187.1</u>	<u>\$1,160.4</u>	<u>\$1,137.3</u>	<u>\$1,089.5</u>	<u>\$1,062.5</u>	<u>\$1,059.3</u>	<u>\$4,801.2</u>	<u>\$4,348.6</u>
	(Actual Amounts)									
Discharges ⁽¹¹⁾	59,247	57,665	57,011	55,557	54,700	53,743	51,902	50,771	229,480	211,116
Net patient revenue per discharge	\$ 20,538	\$ 20,472	\$ 20,387	\$ 20,415	\$ 20,347	\$ 19,809	\$ 19,995	\$ 20,409	\$ 20,454	\$ 20,139
Outpatient visits	29,627	28,604	30,752	31,852	33,138	34,348	35,929	35,229	120,835	138,644
Average length of stay	12.3	12.4	12.3	12.5	12.5	12.7	12.6	13.0	12.4	12.7
Occupancy %	73.4 %	72.8 %	72.4 %	73.4 %	71.7 %	71.4 %	70.7 %	73.1 %	72.1 %	70.9 %
# of licensed beds	10,778	10,677	10,611	10,510	10,356	10,356	10,206	10,028	10,778	10,356
Occupied beds	7,911	7,773	7,682	7,714	7,425	7,394	7,216	7,330	7,771	7,342
Full-time equivalents (FTEs) - internal	26,713	26,112	25,453	25,122	24,777	24,580	23,649	23,313	25,850	24,080
Contract labor FTEs	378	388	476	459	369	481	633	706	425	547
Total FTEs ⁽¹²⁾	<u>27,091</u>	<u>26,500</u>	<u>25,929</u>	<u>25,581</u>	<u>25,146</u>	<u>25,061</u>	<u>24,282</u>	<u>24,019</u>	<u>26,275</u>	<u>24,627</u>
EPOB ⁽¹³⁾	3.42	3.41	3.38	3.32	3.39	3.39	3.37	3.28	3.38	3.35

Share information

	Weighted Average for the Period				
	Q4		Full Year		
	2023	2022	2023	2022	2021
(in millions)					
Basic shares outstanding	99.5	99.3	99.5	99.2	99.0
Restricted stock awards, dilutive stock options, and restricted stock units	2.0	1.5	1.8	1.2	1.2
Diluted shares outstanding	101.5	100.8	101.3	100.4	100.2

	End of Period				
	Q4		Full Year		
	2023	2022	2023	2022	2021
(in millions)					
Basic shares outstanding	100.3	99.8	100.3	99.8	99.5

Net cash provided by operating activities reconciled to Adjusted EBITDA⁽²⁾

(\$ in millions)	Q4		Full Year	
	2023	2022	2023	2022
Net cash provided by operating activities	\$ 201.0	\$ 172.2	\$ 850.8	\$ 705.8
Interest expense and amortization of debt discounts and fees ⁽⁴⁾	34.9	37.5	143.5	175.7
Gain (loss) on sale of investments, excluding impairments	5.5	1.0	4.6	(15.5)
Equity in net income of nonconsolidated affiliates	0.9	0.3	3.2	2.9
Net income attributable to noncontrolling interests in continuing operations	(31.5)	(28.1)	(111.0)	(93.6)
Amortization of debt-related items	(2.4)	(2.3)	(9.5)	(9.7)
Distributions from nonconsolidated affiliates	(1.0)	(0.3)	(1.6)	(4.0)
Current portion of income tax expense	30.4	(3.7)	128.3	72.2
Change in assets and liabilities	8.6	53.9	(50.3)	30.4
Cash used in (provided by) operating activities of discontinued operations	11.4	3.7	16.0	(52.3)
State regulatory change impact on noncontrolling interests ⁽³⁾	—	—	(2.2)	—
Change in fair market value of equity securities	(2.8)	(1.4)	(0.7)	7.4
Other	—	(0.1)	—	—
Adjusted EBITDA	\$ 255.0	\$ 232.7	\$ 971.1	\$ 819.3

Reconciliation of net income to Adjusted EBITDA⁽²⁾

(\$ in millions)	Q4		Full Year	
	2023	2022	2023	2022
Net income	\$ 119.1	\$ 117.5	\$ 463.0	\$ 365.9
Loss (income) from discontinued operations, net of tax, attributable to Encompass Health	8.5	1.5	12.0	(15.2)
Net income attributable to noncontrolling interests included in continuing operations	(31.5)	(28.1)	(111.0)	(93.6)
Provision for income tax expense	37.2	31.9	132.2	100.1
Interest expense and amortization of debt discounts and fees ⁽⁴⁾	34.9	37.5	143.5	175.7
Depreciation and amortization ⁽³⁾	70.1	63.3	273.9	243.6
Loss on early extinguishment of debt ⁽⁵⁾⁽⁶⁾	—	—	—	1.4
Loss on disposal or impairment of assets	6.1	2.4	9.8	4.8
Stock-based compensation	13.4	8.1	50.6	29.2
State regulatory change impact on noncontrolling interests ⁽³⁾	—	—	(2.2)	—
Change in fair market value of equity securities	(2.8)	(1.4)	(0.7)	7.4
Adjusted EBITDA	<u>\$ 255.0</u>	<u>\$ 232.7</u>	<u>\$ 971.1</u>	<u>\$ 819.3</u>

Reconciliation of net cash provided by operating activities to adjusted free cash flow⁽⁸⁾

(\$ in millions)	Q4		Full Year	
	2023	2022	2023	2022
Net cash provided by operating activities	\$ 201.0	\$ 172.2	\$ 850.8	\$ 705.8
Impact of discontinued operations	11.4	3.7	16.0	(52.3)
Net cash provided by operating activities of continuing operations	212.4	175.9	866.8	653.5
Capital expenditures for maintenance	(87.1)	(110.8)	(216.9)	(238.4)
Distributions paid to noncontrolling interests of consolidated affiliates	(22.8)	(28.4)	(114.7)	(96.6)
Items not indicative of ongoing operating performance:				
Transaction costs and related liabilities	(9.0)	9.3	(9.5)	21.6
Adjusted free cash flow	\$ 93.5	\$ 46.0	\$ 525.7	\$ 340.1
Cash dividends on common stock	\$ 14.9	\$ 14.9	\$ 60.4	\$ 99.0

Adjusted EPS⁽⁷⁾ - Q4 2023

For the Three Months Ended December 31, 2023

	Adjustments			
	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(\$ in millions, except per share amounts)			
Adjusted EBITDA	\$ 255.0	\$ —	\$ —	\$ 255.0
Depreciation and amortization	(70.1)	—	—	(70.1)
Interest expense and amortization of debt discounts and fees	(34.9)	—	—	(34.9)
Stock-based compensation	(13.4)	—	—	(13.4)
Loss on disposal or impairment of assets	(6.1)	—	—	(6.1)
Change in fair market value of equity securities	2.8	—	(2.8)	—
Income from continuing operations before income tax expense	133.3	—	(2.8)	130.5
Provision for income tax expense	(37.2)	2.9	0.7	(33.6)
Income from continuing operations attributable to Encompass Health	\$ 96.1	\$ 2.9	\$ (2.1)	\$ 96.9
Diluted earnings per share from continuing operations*	\$ 0.94	\$ 0.03	\$ (0.02)	\$ 0.95
Diluted shares used in calculation	101.5			

Adjusted EPS⁽⁷⁾ - Q4 2022

For the Three Months Ended December 31, 2022

	Adjustments			As Adjusted
	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	
	(\$ in millions, except per share amounts)			
Adjusted EBITDA	\$ 232.7	\$ —	\$ —	\$ 232.7
Depreciation and amortization	(63.3)	—	—	(63.3)
Interest expense and amortization of debt discounts and fees	(37.5)	—	—	(37.5)
Stock-based compensation	(8.1)	—	—	(8.1)
Loss on disposal or impairment of assets	(2.4)	—	—	(2.4)
Change in fair market value of equity securities	1.4	—	(1.4)	—
Income from continuing operations before income tax expense	122.8	—	(1.4)	121.4
Provision for income tax expense	(31.9)	(1.1)	0.4	(32.6)
Income from continuing operations attributable to Encompass Health	<u>\$ 90.9</u>	<u>\$ (1.1)</u>	<u>\$ (1.0)</u>	<u>\$ 88.8</u>
Diluted earnings per share from continuing operations*	<u>\$ 0.90</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ 0.88</u>
Diluted shares used in calculation	<u>100.8</u>			

Adjusted EPS⁽⁷⁾ - 2023

For the Year Ended December 31, 2023

Adjustments

	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	\$ 971.1	\$ —	\$ —	\$ —	\$ 971.1
Depreciation and amortization ⁽³⁾	(273.9)	6.1	—	—	(267.8)
Interest expense and amortization of debt discounts and fees	(143.5)	—	—	—	(143.5)
Stock-based compensation	(50.6)	—	—	—	(50.6)
Loss on disposal or impairment of assets	(9.8)	—	—	—	(9.8)
State regulatory change impact on noncontrolling interests ⁽³⁾	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	0.7	—	—	(0.7)	—
Income from continuing operations before income tax expense	496.2	3.9	—	(0.7)	499.4
Provision for income tax expense	(132.2)	(1.0)	2.8	0.2	(130.2)
Income from continuing operations attributable to Encompass Health	\$ 364.0	\$ 2.9	\$ 2.8	\$ (0.5)	\$ 369.2
Diluted earnings per share from continuing operations*	\$ 3.59	\$ 0.03	\$ 0.03	\$ —	\$ 3.64
Diluted shares used in calculation	101.3				

Adjusted EPS⁽⁷⁾ - 2022

For the Year Ended December 31, 2022

	Adjustments					As Adjusted
	As Reported	Loss on Early Exting. of Debt	Income Tax Adjustments	Bondholder Consent Fees Associated with Enhabit Distribution	Change in Fair Market Value of Equity Securities	
	(\$ in millions, except per share amounts)					
Adjusted EBITDA	\$ 819.3	\$ —	\$ —	\$ —	\$ —	\$ 819.3
Depreciation and amortization	(243.6)	—	—	—	—	(243.6)
Interest expense and amortization of debt discounts and fees ⁽⁴⁾	(175.7)	—	—	20.5	—	(155.2)
Stock-based compensation	(29.2)	—	—	—	—	(29.2)
Loss on disposal or impairment of assets	(4.8)	—	—	—	—	(4.8)
Loss on early extinguishment of debt ⁽⁵⁾⁽⁶⁾	(1.4)	1.4	—	—	—	—
Change in fair market value of equity securities	(7.4)	—	—	—	7.4	—
Income from continuing operations before income tax expense	357.2	1.4	—	20.5	7.4	386.5
Provision for income tax expense	(100.1)	(0.4)	7.4	(5.3)	(1.9)	(100.3)
Income from continuing operations attributable to Encompass Health	\$ 257.1	\$ 1.0	\$ 7.4	\$ 15.2	\$ 5.5	\$ 286.2
Diluted earnings per share from continuing operations*	\$ 2.56	\$ 0.01	\$ 0.07	\$ 0.15	\$ 0.05	\$ 2.85
Diluted shares used in calculation	100.4					

End notes

- (1) During Q4 2023, we recorded an additional reserve totaling approximately \$22 million related to appeals pending before the Departmental Appeals Board (DAB) and several federal district courts. The increase in reserve was driven primarily by an increase in unfavorable adjudication outcomes experienced at the DAB during the second half of 2023 and largely offsets the remaining net carrying value of these claims. These appeals relate to claims denied primarily prior to 2018. This adjustment does not impact our reserve methodology for ongoing claims audit programs, including Targeted Probe and Educate (“TPE”) and Review Choice Demonstration (“RCD”) programs. We will continue to pursue ongoing appeals before the DAB and federal district courts where economically beneficial. The impact of the reserve on Q4 2023 Adjusted EBITDA was approximately \$16 million, net of noncontrolling interest expense.
- (2) 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 the Company may incur expenses similar to the adjustments set forth.
- (3) In May of 2023, the governor of South Carolina signed into law S.164, which repealed the requirement of certain healthcare providers to obtain and/or maintain a certificate of need (“CON”). As a result of this repeal, in Q2 2023 we accelerated amortization of approximately \$6 million in remaining carrying value of our South Carolina CON assets, increasing depreciation and amortization expense by approximately \$6 million and reducing noncontrolling interest in continuing operations by approximately \$2 million (related to our joint venture partner’s share of income at one impacted location). The impact of these adjustments have been excluded from the calculation of adjusted EBITDA and adjusted earnings per share in the second quarter of 2023 given the non-recurring nature of the CON repeal (Florida is the only other state in recent history to repeal its CON law) is not indicative of ongoing operating performance.
- (4) In the second quarter of 2022, the Company paid \$20.5 million as a consent solicitation fee to bondholders related to the spin off of Enhabit.
- (5) In the first quarter of 2022, the Company redeemed the remaining \$100 million of its 5.125% Senior Notes due 2023. The redemption was completed at 100% of par using drawings under the Company’s revolving credit facility. As a result of the redemption, the Company recorded a \$0.3 million loss on early extinguishment of debt in the first quarter of 2022.
- (6) In the second quarter of 2022, the Company redeemed approximately \$236 million of its term loan due 2024 and fully repaid the \$250 million outstanding balance on its revolving credit facility. The redemption was completed using proceeds which were dividended from Enhabit. As a result of the redemption, the Company recorded a \$1.1 million loss on early extinguishment of debt in the second quarter of 2022.
- (7) The Company is providing adjusted earnings per share from continuing operations attributable to Encompass Health (“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 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, settlements of income tax claims and windfall tax benefits), items related to corporate and facility restructurings, and certain other items deemed to be non-indicative of 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 generally accepted accounting principles in the United States as the items excluded from it are significant components in understanding and assessing financial performance. Because adjusted earnings per share is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, it may not be comparable as presented to other similarly titled measures of other companies.

End notes (continued)

- (8) The 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, distributions to noncontrolling interests, and certain items deemed to be non-indicative of ongoing operating performance. Common stock dividends are not included in the calculation of adjusted free cash flow. Because this measure is not determined in accordance with GAAP and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies.
- (9) In September 2023, we purchased our Treasure Coast hospital (Vero Beach, Florida) real estate from Ocean Health Associates, LTD. (“Ocean Health”) for \$21.4 million. Prior to the purchase, we leased the real estate from Ocean Health. The \$21.4 million payment is included in Principal payments under finance lease obligations on the consolidated statement of cash flows for the twelve months ended December 31, 2023.
- (10) On Oct. 28, 2013, the Company announced its board of directors authorized the repurchase of up to \$200 million of its common stock. On Feb. 14, 2014, the Company's board approved an increase in this common stock repurchase authorization from \$200 million to \$250 million. As of June 30, 2018, the remaining repurchase authorization was approximately \$58 million. On July 24, 2018, the Company's board approved resetting the aggregate common stock repurchase authorization to \$250 million. As of December 31, 2023, the remaining repurchase authorization was approximately \$198 million.
- (11) Represents discharges from 161 consolidated hospitals in Q4 2023; 159 consolidated hospitals in Q3 2023; 158 consolidated hospitals in Q2 2023; 156 consolidated hospitals in Q1 2023; 153 consolidated hospitals in Q4 2022 and Q3 2022; 150 consolidated hospitals in Q2 2022; and 147 consolidated hospitals in Q1 2022.
- (12) Total full-time equivalents included in the table represent Encompass Health employees who participate in or support the operations of our hospitals and include full-time equivalents related to contract labor.
- (13) Employees per occupied bed, or “EPOB,” is calculated by dividing the number of total full-time equivalents, including full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period.