

Third Quarter
2019

Earnings Call

October 29, 2019
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 legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, cyber security, dividend strategies, repurchases of securities, effective tax rates, financial performance, financial assumptions, business model, balance sheet and cash flow plans, disintermediation, and shareholder value-enhancing transactions. These estimates, projections and other forward-looking information are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.

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 October 28, 2019 (the "Q3 Earnings Release Form 8-K"), the Form 10-K for the year ended Dec. 31, 2018, the Form 10-Q for the quarters ended March 31, 2019, June 30, 2019, and Sept. 30, 2019, 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 Q3 Earnings Release Form 8-K, to which the following presentation is attached as Exhibit 99.2, 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.

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Q3 2019 summary

(\$millions)	Q3			9 Months		
	2019	2018	Growth	2019	2018	Growth
Encompass Health Consolidated						
Net operating revenues	\$ 1,161.6	\$ 1,067.6	8.8 %	\$ 3,420.6	\$ 3,181.3	7.5%
Adjusted EBITDA	\$ 231.6	\$ 224.3	3.3 %	\$ 726.7	\$ 679.2	7.0%
Inpatient Rehabilitation Segment						
Net operating revenues	\$ 872.3	\$ 825.6	5.7 %	\$ 2,616.3	\$ 2,500.5	4.6%
Adjusted EBITDA	\$ 210.6	\$ 212.9	(1.1)%	\$ 674.5	\$ 660.2	2.2%
Home Health and Hospice Segment						
Net operating revenues	\$ 289.3	\$ 242.0	19.5 %	\$ 804.3	\$ 680.8	18.1%
Adjusted EBITDA	\$ 50.8	\$ 43.2	17.6 %	\$ 146.2	\$ 118.3	23.6%

Major takeaways:

- ▶ Strong revenue growth
 - Inpatient rehabilitation segment
 - ✓ Discharge growth of 5.5%; same store = 3.1%
 - ✓ Net revenue per discharge increase of 1.0%
 - Home health and hospice segment
 - ✓ Home health admissions growth of 22.7%; same store = 9.7%
 - ✓ Revenue per episode decrease of 0.5%
- ▶ Consolidated Adjusted EBITDA increased 3.3% to \$231.6 million; year-to-date increase of 7.0% to \$726.7 million
- ▶ Adjusted EPS of \$0.93 per diluted share increased 2.2% - see pages 12 and 13.
- ▶ Year-to-date adjusted free cash flow of \$379.6 million - see page 14.

Q3 2019 summary (cont.)

► Expansion activity (see page 23)

- Began operating a new 40-bed inpatient rehabilitation hospital in Boise, Idaho in July 2019, a joint venture with Saint Alphonsus Regional Medical Center
- Began operating a new 40-bed inpatient rehabilitation hospital in Katy, Texas in September 2019
- Added 31 beds to existing hospitals; added 112 beds to existing hospitals year to date
- Acquired Alacare Home Health and Hospice on July 1, 2019
 - ✓ 23 home health locations and 23 hospice locations in Alabama
 - ✓ \$217.5 million cash purchase price funded with cash on hand and borrowings under revolving credit facility
 - ✓ Three new IRF overlap markets
 - ✓ Income tax benefit with an estimated present value of ~\$30 million

► Balance sheet

- Leverage ratio of 3.6x at end of third quarter; 3.2x on a pro forma basis (see pages 28 and 29)
 - ✓ Issued \$500 million of 4.5% Senior Notes due 2028 and \$500 million of 4.75% Senior Notes due 2030 in September 2019; proceeds used to:
 - Fund the purchase of the home health rollover shares and exercise of SARs in Q3 2019 (see page 19)
 - Fund a call of \$400 million of 5.75% Senior Notes due 2024; will settle on November 1, 2019 (see pages 28 and 29)
 - Repay borrowings under revolving credit facility

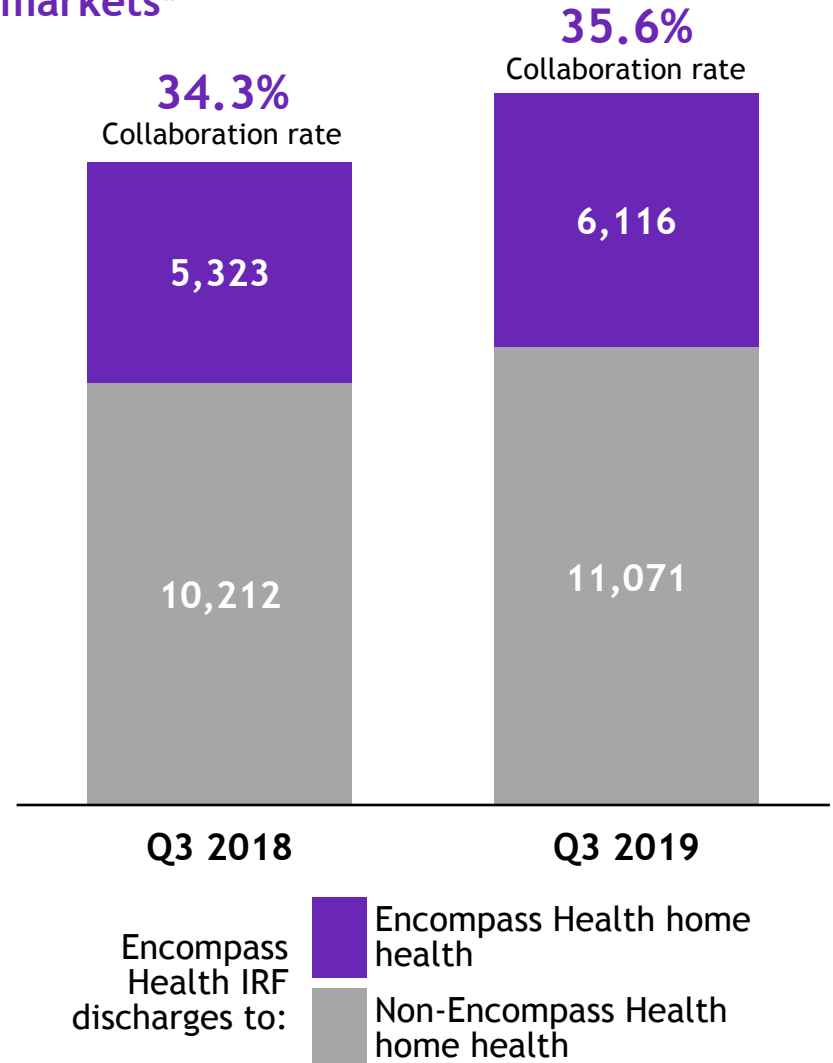
► Shareholder and other distributions

- Repurchased 35,364 shares of common stock for ~\$2 million⁽¹⁾
 - ✓ Year-to-date repurchases of 776,334 shares of common stock for ~\$46 million⁽¹⁾
 - ✓ average price of \$59.10 per share
- Paid quarterly cash dividend of \$0.27 per share in July 2019
- Declared a \$0.28 per share quarterly cash dividend in July 2019 (paid in October 2019)
- Declared a \$0.28 per share quarterly cash dividend in October 2019 (to be paid in January 2020)

The Company continues to improve the patient experience and outcomes through integrated care delivery.

Inpatient rehabilitation-home health clinical collaboration (all payors) overlap markets*

- ▶ As of September 30, 2019, Encompass Health had 88 overlap markets.*
- ▶ The clinical collaboration rate with Encompass Health's inpatient rehabilitation hospitals increased 130 basis points in Q3 2019 compared to Q3 2018.
- ▶ The clinical collaboration rate objective is 40% in the near term.
- ▶ The objectives of clinical collaboration are to improve the patient experience and outcomes and to reduce the total cost of care across a post-acute episode.
 - Coordination between our IRFs and home health teams is resulting in lower discharges to skilled nursing facilities, higher discharges to home and improved patient satisfaction.



* Overlap markets have an Encompass Health IRF and an Encompass Health home health location within an approximate 30-mile radius, excluding markets that have home health licensure barriers. Overlap markets are open for 12 months before inclusion in the clinical collaboration rate.

Inpatient rehabilitation segment - revenue

<i>(\$millions)</i>	Q3 2019	Q3 2018	Favorable/ (Unfavorable)
Net operating revenues:			
Inpatient	\$ 850.6	\$ 798.4	6.5%
Outpatient and other	21.7	27.2	(20.2%)
Total segment revenue	\$ 872.3	\$ 825.6	5.7%
<i>(Actual Amounts)</i>			
Discharges	46,669	44,230	5.5%
Same-store discharge growth			3.1%
Net patient revenue per discharge	\$ 18,226	\$ 18,051	1.0%
Revenue reserves related to bad debt as a percent of revenue	1.5%	1.3%	20 basis points

► Revenue growth was driven by volume and pricing growth.

- New-store discharge growth resulted from joint ventures in Murrells Inlet, SC (September 2018), Winston-Salem, NC (October 2018), Lubbock, TX (May 2019), and Boise, ID (July 2019) and a wholly owned hospital in Katy, TX (September 2019).
- New-store growth also resulted from a joint venture hospital in Yuma, Arizona changing from the equity method of accounting to a consolidated entity effective July 1, 2019.⁽²⁾
- Same-store discharge growth in Q3 2019 was negatively impacted by ~20 basis points due to the ongoing effects of Hurricane Michael on operations in the Panama City, Florida market.
- Growth in net patient revenue per discharge primarily resulted from increases in reimbursement rates.
- Other revenue in Q3 2018 included \$4.5 million of business interruption insurance recoveries related to the 2017 hurricanes.
- Revenue reserves related to bad debt as a percent of revenue increased 20 basis points to 1.5% primarily due to Targeted Probe and Educate, or TPE, reviews at certain hospitals (see page 24).

Inpatient rehabilitation segment - Adjusted EBITDA

(\$millions)	Q3 2019	% of Revenue	Q3 2018	% of Revenue
Net operating revenues	\$ 872.3		\$ 825.6	
Operating expenses:				
Salaries and benefits	(459.1)	52.6%	(423.6)	51.3%
Other operating expenses ^(a)	(131.3)	15.1%	(124.3)	15.1%
Supplies	(37.0)	4.2%	(33.6)	4.1%
Occupancy costs	(17.0)	1.9%	(15.9)	1.9%
Hospital operating expenses	(185.3)	21.2%	(173.8)	21.1%
Other income ^{(b)(c)}	1.8		1.8	
Equity in nonconsolidated affiliates	1.0		1.9	
Noncontrolling interests	(20.1)		(19.0)	
Segment Adjusted EBITDA	\$210.6		\$ 212.9	

Percent change (1.1)%

In arriving at Adjusted EBITDA, the following were excluded:

(a) Loss (gain) on disposal of assets	\$ 0.9	\$ (1.0)
(b) Change in fair market value of equity securities	\$ —	\$ 0.1
(c) Gain on consolidation of Yuma	\$ (19.2)	\$ —

► Segment Adjusted EBITDA for the quarter of \$210.6 million.

- All expense ratios were negatively impacted in 2019 by an increase in revenue reserves related to bad debt (see page 24).
- Expense ratios were positively impacted in 2018 by \$4.5 million of revenue from business interruption insurance recoveries related to the 2017 hurricanes.
- Salaries and benefits increased as a percent of revenue primarily due to:
 - ✓ the ramp up of new stores
 - ✓ ~\$2 million of training costs associated with the transition to the CARE Tool payment system
- Supplies increased as a percent of revenue due to a pharmacy inventory adjustment.

Home health and hospice segment - revenue

<i>(\$millions)</i>	Q3 2019	Q3 2018	Favorable/ (Unfavorable)
Net operating revenues:			
Home health revenue	\$ 238.9	\$ 209.2	14.2 %
Hospice revenue	50.4	32.8	53.7 %
Total segment revenue	\$ 289.3	\$ 242.0	19.5 %
<i>Home Health Metrics (Actual Amounts)</i>			
Admissions	42,174	34,364	22.7 %
Same-store admissions growth			9.7 %
Episodes	72,016	61,765	16.6 %
Same-store episode growth			3.8 %
Revenue per episode	\$ 2,980	\$ 2,995	(0.5)%

- ▶ Revenue growth was driven by volume growth.
 - New-store admissions growth included the acquisition of Alacare on July 1, 2019.
- ▶ Revenue per episode decreased 0.5% due primarily to the patient mix of the former Alacare locations.
- ▶ Hospice revenue increased primarily due to the acquisition of Alacare and same-store admissions growth of 5.8%.

Home health and hospice segment - Adjusted EBITDA

(\$millions)	Q3 2019	% of Revenue	Q3 2018	% of Revenue
Net operating revenues	\$ 289.3		\$ 242.0	
Cost of services	(136.4)	47.1%	(114.6)	47.4%
Support and overhead costs ^(a)	(99.6)	34.4%	(82.4)	34.0%
Operating expenses	(236.0)	81.6%	(197.0)	81.4%
Equity in net income of nonconsolidated affiliates	0.2		0.2	
Noncontrolling interests ^(b)	(2.7)		(2.0)	
Segment Adjusted EBITDA	\$ 50.8		\$ 43.2	
Percent change	17.6%			

In arriving at Adjusted EBITDA, the following were excluded:

(a) Payroll taxes on SARs exercise	\$ 0.8	\$ —
(b) SARs mark-to-market impact on noncontrolling interests (see page 19)	\$ (0.9)	\$ (0.3)

► Segment Adjusted EBITDA for the quarter of \$50.8 million.

- Included the acquisition of Alacare which closed on July 1, 2019
- Cost of services as a percent of revenue decreased primarily due to:
 - ✓ improvements in caregiver optimization and productivity in home health
 - ✓ partially offset by lower gross margin at the former Alacare locations.
- Support and overhead costs as a percent of revenue increased primarily due to the integration of Alacare.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA for the quarter of \$231.6 million

- ▶ General and administrative expenses decreased as a percent of consolidated revenue primarily due to expenses associated with the Company's rebranding and name change in 2018 and operating leverage resulting from revenue growth.

(\$millions)	Q3 2019	% of Consolidated Revenue	Q3 2018	% of Consolidated Revenue
Inpatient rehabilitation segment Adjusted EBITDA	\$ 210.6		\$ 212.9	
Home health and hospice segment Adjusted EBITDA	50.8		43.2	
General and administrative expenses*	(29.8)	2.6%	(31.8)	3.0%
Consolidated Adjusted EBITDA	\$ 231.6		\$ 224.3	
Percentage change	3.3%			

General and Administrative Expenses Associated with Rebranding and Name Change

(\$millions)	Q1	Q2	Q3	Q4	Year to Date
2019	\$ 0.8	\$ 0.2	\$ 0.3	TBD	\$ 1.3
2018	3.6	2.8	1.9	2.6	10.9
2017	0.5	1.7	1.5	2.5	6.2

See rebranding and name change information on page 22.

Earnings per share - as reported

(In Millions, Except Per Share Data)	Q3		9 Months	
	2019	2018	2019	2018
Consolidated Adjusted EBITDA	\$ 231.6	\$ 224.3	\$ 726.7	\$ 679.2
Depreciation and amortization	(55.1)	(51.2)	(160.3)	(146.8)
Interest expense and amortization of debt discounts and fees	(40.3)	(37.3)	(115.2)	(110.6)
Stock-based compensation expense	(21.7)	(18.1)	(87.0)	(65.6)
(Loss) gain on disposal of assets	(0.9)	1.0	(3.3)	(2.2)
	113.6	118.7	360.9	354.0
Certain items non-indicative of ongoing operating performance:				
Loss on early extinguishment of debt	—	—	(2.3)	—
Transaction costs	(1.0)	—	(2.0)	(1.0)
Gain on consolidation of Yuma ⁽²⁾	19.2	—	19.2	—
SARs mark-to-market impact on noncontrolling interests (see page 19)	0.9	0.3	4.3	2.2
Change in fair market value of equity securities	—	(0.1)	1.2	(1.1)
Payroll taxes on SARs exercise (see page 19)	(0.8)	—	(1.0)	—
Pre-tax income	131.9	118.9	380.3	354.1
Income tax expense	(34.3)	(30.2)	(88.6)	(89.5)
Income from continuing operations*	<u>\$ 97.6</u>	<u>\$ 88.7</u>	<u>\$ 291.7</u>	<u>\$ 264.6</u>
Diluted shares (see page 35)	99.4	100.0	99.5	99.7
Diluted earnings per share*	<u>\$ 0.98</u>	<u>\$ 0.89</u>	<u>\$ 2.94</u>	<u>\$ 2.65</u>

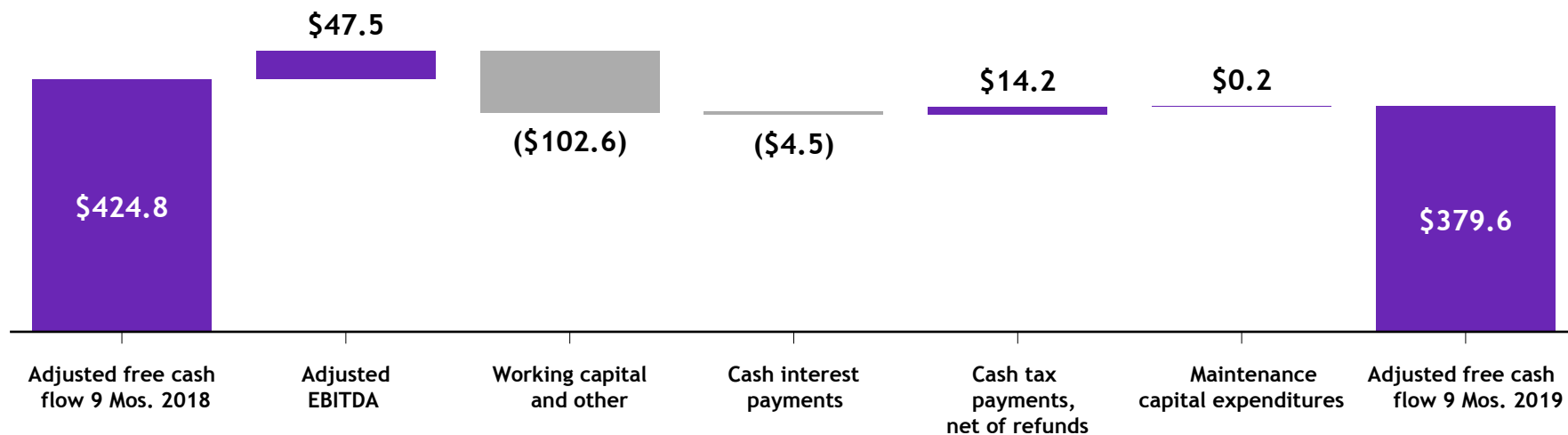
- ▶ Reported earnings per diluted share for Q3 2019 compared to Q3 2018 reflected an increase in Adjusted EBITDA and a gain on the consolidation of Yuma Rehabilitation Hospital⁽²⁾ offset by increases in depreciation and amortization, interest, and stock-based compensation. Reported earnings per diluted share for the YTD period of 2019 included a lower effective tax rate than the same period of 2018.
- ▶ Higher interest expense resulted from the funding of the Alacare acquisition and DOJ Settlement⁽³⁾ in Q2 2019.
- ▶ Stock-based compensation increased in 2019 due to higher SARs cost resulting from an increase in the applicable peer multiple and Adjusted EBITDA growth in the home health and hospice segment (see page 19).
- ▶ The loss on early extinguishment of debt resulted from the Company's redemption of \$100 million of its 5.75% Senior Notes due 2024 in Q2 2019.⁽⁴⁾
- ▶ The lower effective tax rate in YTD 2019 resulted primarily from the deductible portion of the DOJ Settlement⁽³⁾ and windfall tax benefits related to the vesting of share-based compensation.

Adjusted earnings per share⁽⁵⁾

	Q3		9 Months	
	2019	2018	2019	2018
Earnings per share, as reported	\$ 0.98	\$ 0.89	\$ 2.94	\$ 2.65
Adjustments, net of tax:				
Mark-to-market adjustment for stock appreciation rights (see page 19)	0.08	0.03	0.36	0.18
Transaction costs	0.01	—	0.02	0.01
Income tax adjustments	—	(0.01)	(0.13)	(0.01)
Loss on early extinguishment of debt ⁽⁴⁾	—	—	0.02	—
Change in fair market value of equity securities	—	—	(0.01)	0.01
Gain on consolidation of Yuma	(0.14)	—	(0.14)	—
Payroll taxes on SARs exercise	0.01	—	0.01	—
Adjusted earnings per share*	\$ 0.93	\$ 0.91	\$ 3.05	\$ 2.83

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

2019 Adjusted free cash flow⁽⁶⁾



- ▶ Adjusted free cash flow for year-to-date 2019 decreased as increased Adjusted EBITDA and lower cash taxes were offset by an increase in working capital.
 - Increased working capital primarily resulted from higher accounts receivable related to TPE reviews and the timing of payroll in both segments.

Guidance - affirmed as of October 28, 2019

2019 Full-Year Guidance

Net operating revenues

\$4,500 million to \$4,600 million

Adjusted EBITDA⁽⁷⁾

\$940 million to \$960 million

Adjusted earnings per share from continuing operations attributable to Encompass Health⁽⁵⁾

\$3.71 to \$3.85

2019 Guidance considerations

Inpatient rehabilitation

- ▶ Estimated 0% to 0.50% reimbursement rate change before bad debt for Q4 2019 (see page 26)
- ▶ Salary increase of approx. 3.5%*; benefits increase of approx. 6.0% to 8.0% (see page 27)
- ▶ Revenue reserve related to bad debt of 1.4% to 1.6% of net operating revenues
- ▶ Administrative costs related to transition to CARE Tool payment system

Home health and hospice

- ▶ Estimated 1.5% net Medicare pricing increase before reserves related to bad debt for Q4 2019 (see page 26)
- ▶ Salary increase of approx. 3.0%; benefits increase of approx. 6.0% to 8.0% (see page 27)
- ▶ Inclusive of up to \$50 million of home health and hospice acquisitions in 2019 and the acquisition of Alacare on July 1, 2019
- ▶ Inclusive of the reduction in noncontrolling interests related to the redemption of the rollover shares (see page 19)
- ▶ Administrative costs related to the Review Choice Demonstration program and preparation for PDGM

Consolidated

- ▶ Increased interest expense associated with funding the Alacare acquisition, DOJ settlement⁽³⁾, purchase of the home health rollover shares, and exercise of the stock appreciation rights (see page 19)
- ▶ Increased depreciation and amortization resulting from the acquisition of Alacare
- ▶ Investments of \$3 million to \$5 million in strategic initiatives, including post-acute solutions
- ▶ Ongoing effects of Hurricane Michael on operations in the Panama City, Florida market
- ▶ Diluted share count of ~100 million shares
- ▶ Tax rate of ~27%
- ▶ Adoption of new lease accounting standard resulted in a gross-up of assets and corresponding liabilities of ~\$350 million and will not have a material impact on our income statement or statement of cash flows.

Adjusted free cash flow⁽⁶⁾ assumptions

Certain cash flow items (millions)	9 Months 2018 Actual	9 Months 2019 Actual	2018 Actual	2019 Assumptions
Cash interest payments (net of amortization of debt discounts and fees)	\$107.6	\$112.1	\$143.3	\$155 to \$165
Cash payments for income taxes, net of refunds	\$82.4	\$68.2	\$114.8	\$95 to \$110
Working capital and other	\$(40.9)	\$61.7	\$(48.1)	\$40 to \$60
Maintenance CAPEX	\$105.3	\$105.1	\$152.9	\$160 to \$170
Adjusted free cash flow	\$424.8	\$379.6	\$538.1	\$435 to \$510

► Increased 2019 assumption for free cash flow due to a decrease in expected cash payments for income taxes partially offset by increased expectations for working capital; former range was \$425 million to \$505 million

Uses of free cash flow

		9 Months 2019 Actuals	2019 Assumptions	2018 Actuals
Growth in core business	IRF bed expansions	\$28.1	\$40 to \$50	\$22.3
	New IRFs			
	- De novos	87.6	85 to 115	76.4
	- Acquisitions	—	opportunistic	—
	- Replacement IRFs and other	56.2	90 to 110	24.5
	Home health and hospice acquisitions			
	- Alacare Home Health and Hospice	217.5	217.5	—
	- Camellia Healthcare	—	—	131.4
	- All other	13.7	up to 50	12.5
		<u>\$403.1</u>	<u>\$482 to \$543, excluding IRF acquisitions</u>	<u>\$267.1</u>
Debt reduction	Debt (borrowings) redemptions, net	\$(884.7)	\$ TBD	\$63.3
Shareholder and other distributions	Cash dividends on common stock ⁽⁸⁾	81.3	~108	100.8
	Purchase of Home Health Holdings rollover shares and exercise of SARs (see page 19)	231.4	231.4	69.4
	Common stock repurchases	45.9	opportunistic	—
		<u>\$(526.1)</u>	<u>\$TBD</u>	<u>\$233.5</u>

Quarterly cash dividend currently
set at \$0.28 per common share⁽⁸⁾

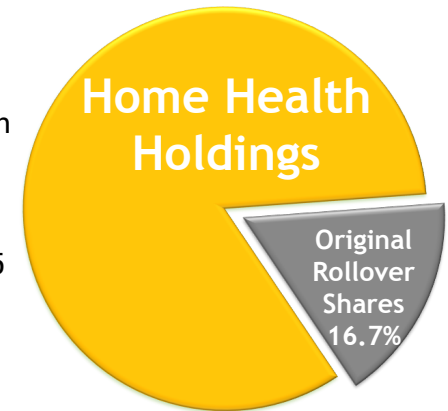
~\$204 million authorization as of
Sept. 30, 2019⁽¹⁾

Overview of rollover shares and SARs held by members of the home health and hospice management team

Background

In connection with the 2014 acquisition of Encompass Home Health and Hospice:

- Certain members of that management team rolled a portion of their pre-acquisition equity into the post-acquisition entity (“Home Health Holdings”) resulting in a 16.7% ownership interest (the “Rollover Shares”).
- The Company also granted stock appreciation rights (“SARs”) based on the fair value of the common stock of Home Health Holdings to certain members of that management team. Half of the SARs vested on Jan. 1, 2019, and the other half vest on Jan. 1, 2020. Once vested, they are exercisable until they expire on Dec. 31, 2024 or in connection with termination of employment.
- Home Health Holdings was capitalized with a promissory note to the parent company totaling ~\$385 million (equal to 5.5x the segment’s 2014 EBITDA). This was done to provide the opportunity for leveraged returns on the equity, thereby mimicking a private equity transaction structure.
- To the extent Home Health Holdings needs cash (e.g., acquisitions, capex, etc.), such amounts are added to the principal amount of the note(s). Cash generated from the operations of Home Health Holdings may be used to pay interest and principal on the note(s).



Options

Holder - The right (but not the obligation) to sell for cash up to 1/3 of the Rollover Shares to the parent after 1/1/18; 2/3 after 1/1/19; and all outstanding Rollover Shares after 1/1/20

Company - The right (but not the obligation) to purchase for cash all or any portion of the Rollover Shares after 1/1/20

Valuation

Fair value of the Rollover Shares and SARs is determined using the product of Home Health Holdings’ EBITDA for the trailing 12-month period and a median market price multiple based on a basket of public home health companies and recent transactions, less the current balance of the intracompany note(s) to the parent.

As of Sept. 30, 2019, the value of the remaining Rollover Shares was ~\$183 million and the value of the remaining SARs was ~\$82 million.

Activity

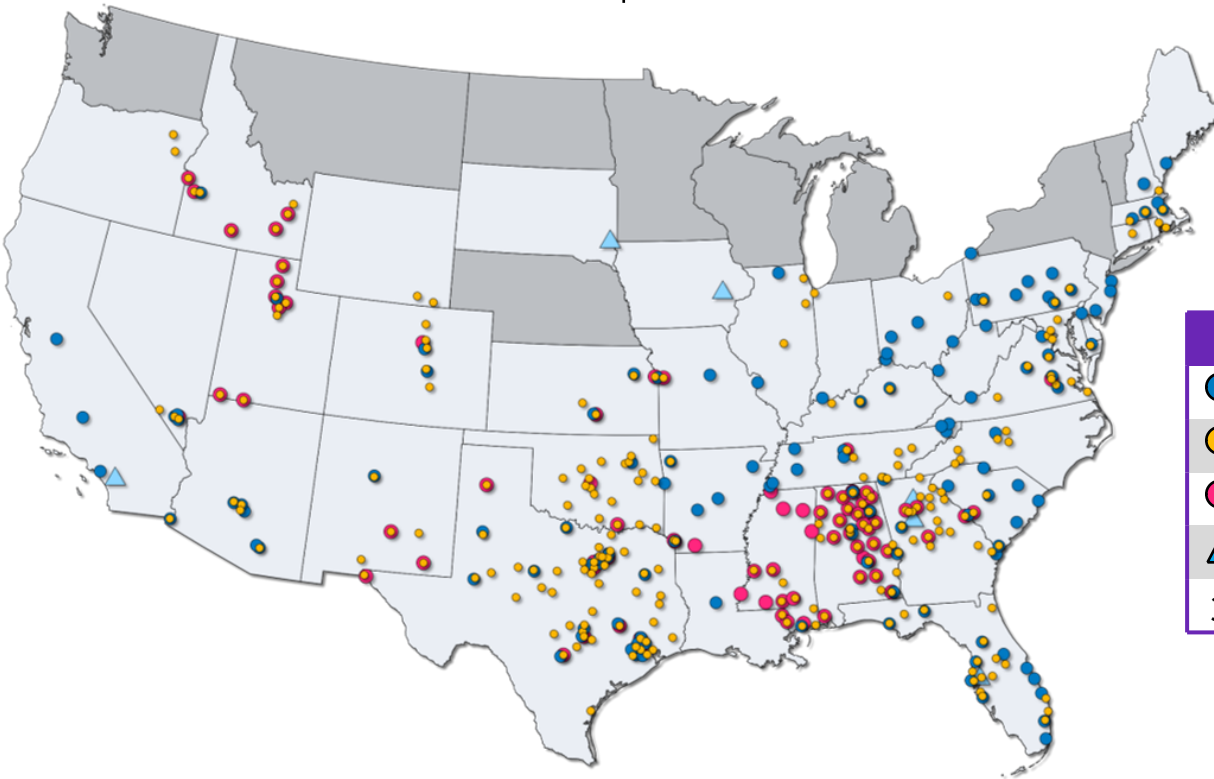
In February 2018 and July 2019, holders exercised their rights to sell their Rollover Shares to EHC. Each exercise represented ~5.6% of the outstanding common shares of Home Health Holdings. EHC settled the acquisition of the February 2018 and July 2019 exercises upon payment of ~\$65 million and ~\$163 million, respectively, in Q1 2018 and Q3 2019, respectively. As of Sept. 30, 2019, management’s ownership interest is ~5.6%.

In the first quarter of 2019, holders exercised a portion of their vested SARs for cash proceeds of ~\$13 million. In the third quarter of 2019, holders exercised the remaining portion of their vested SARs for cash proceeds of ~\$55 million.

Appendix

Encompass Health

a leading provider of inpatient rehabilitation and home-based care



Market overlap

88 of EHC's IRFs have an EHC home health location within the service area.*

Portfolio as of September 30, 2019

- Inpatient rehabilitation hospitals ("IRFs")
- Home health locations
- Hospice locations
- ▲ 6 Future IRFs**

37 States and Puerto Rico ~43,300 employees

Inpatient rehabilitation - 09/30/19

133	IRFs (47 are joint ventures)
33	States and Puerto Rico
~31,300	Employees
23%	of licensed beds [†]
31%	of Medicare patients served [†]
Key statistics - trailing 4 quarters	
184,455	Inpatient discharges
~\$3.5	Billion in revenue

Largest owner and operator of IRFs

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

Home health and hospice - 09/30/19

245	Home health locations
82	Hospice locations
31	States
~12,000	Employees
Key statistics - trailing 4 quarters	
153,097	Home health admissions
9,616	Hospice admissions
~\$1.1	Billion in revenue

* Excluding markets that have home health licensure barriers ** Previously announced under development [†] Based on 2017 and 2018 data

Note: Two of the 245 home health locations are nonconsolidated. These locations are accounted for using the equity method of accounting.

Rebranding and name change

The Company's rebranding and name change reinforce its existing strategy and position as an integrated provider of inpatient and home-based care.

JULY 2017

Announced
planned
name change

APRIL 2018

Phase 1 field asset
conversions

OCT. 2018

Phase 3 field asset
conversions

JAN. 2018

Legally changed
name and
stock ticker to
Encompass Health
Corporation (EHC)

JULY 2018

Phase 2 field asset
conversions

JAN. 2019

Phase 4 field asset
conversions;
transition complete



As of Jan. 1, 2019, all of the Company's hospitals and home health and hospice locations have been transitioned to the Encompass Health brand.

	2017	2018	2019	Total
Operating expenses*	~\$6 million	~\$11 million	~\$1 million	~\$18 million
Capital expenditures	~\$1 million	~\$3 million	~\$3 million	~\$7 million
Total rebranding investment	~\$7 million	~\$14 million	~\$4 million	~\$25 million

Expansion activity

Inpatient Rehabilitation Facilities - As of Sept. 30, 2019			
	# of New Beds		
	2019	2020	2021
De novo:			
Katy, TX	40	—	—
1 Murrieta, CA*	50	—	—
2 Sioux Falls, SD	—	40	—
3 Coralville, IA	—	40	—
4 Cumming, GA	—	50	—
5 Tampa Bay, FL	—	—	50
6 Henry County, GA	—	—	50
Joint ventures:			
Lubbock, TX	40	—	—
Boise, ID	40	—	—
Bed expansions, net**	~150	~100	~100
	~320	~230	~200

Home Health and Hospice Locations	
	# of Locations
Dec. 31, 2018	278
Acquisitions	48
Opening of new locations	2
Merging of locations	(1)
September 30, 2019	327

6 Previously announced IRF development projects underway as of September 30, 2019

3 New states

Q3 2019 expansion activity highlights:

- ▶ Began operating a new 40-bed inpatient rehabilitation hospital in Boise, Idaho in July 2019, a joint venture with Saint Alphonsus Regional Medical Center
- ▶ Began operating a new 40-bed inpatient rehabilitation hospital in Katy, Texas in September 2019
- ▶ Added 31 beds to existing hospitals

Q3 2019 expansion activity highlights:

- ▶ Acquired Alacare Home Health and Hospice on July 1, 2019
 - ✓ 23 home health and 23 hospice locations across Alabama

* Construction of Murrieta, CA hospital is expected to be completed in Q4 2019; however, there is uncertainty around the timing of its opening due to state regulatory requirements.

** Net bed expansions in each year may change due to the timing of certain regulatory approvals and/or construction delays.

Pre-payment claims denials - inpatient rehabilitation segment

Background

- For several years prior to 2018, under programs designated as “widespread probes,” certain Medicare Administrative Contractors (“MACs”) conducted pre-payment claim reviews and denied payment for certain diagnosis codes.
- Encompass Health appeals most denials. On claims it takes to an administrative law judge (“ALJ”), Encompass Health historically has experienced an approximate 70% success rate.
 - MACs identify medical documentation issues as a leading basis for denials.
 - Encompass Health’s investment in clinical information systems and its medical services department has further improved its documentation and reduced technical denials.
- By statute, ALJ decisions are due within 90 days of a request for hearing, but appeals are taking years. HHS has implemented rule changes to address the backlog of appeals, but their effect is uncertain.
- In November 2018, a federal court ordered HHS to reduce the backlog in the following increments: a 19% reduction by the end of FY 2019; a 49% reduction by the end of FY 2020; a 75% reduction by the end of FY 2021; and elimination of the backlog by the end of FY 2022.
- All Medicare providers continue to experience delays resulting in a growing backlog.
 - Currently, ALJs are hearing Encompass Health appeals from claims denied up to eight years ago.
- In late 2017, CMS implemented the Targeted Probe and Educate (“TPE”) initiative. For more information regarding TPE, see <https://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/Medicare-FFS-Compliance-Programs/Medical-Review/Targeted-Probe-and-EducateTPE.html>
- Effective February 2018, Palmetto GBA assumed responsibilities for Cahaba’s MAC jurisdiction. See announcement from CMS at <https://www.cms.gov/Medicare/Medicare-Contracting/Medicare-Administrative-Contractors/Downloads/JurisdictionJAwardFactSheet-09082017.pdf>

Encompass Health reserves pre-payment claim denials as a reduction of net operating revenues upon notice from a MAC a claim is under review.

Impact to Income Statement				
Period	New Denials	Collections of Previously Denied Claims	Revenue Reserve for New Denials	Update of Reserve for Prior Denials
(In Millions)				
Q3 2019	\$11.3	\$(6.1)	\$3.4	\$—
Q2 2019	3.5	(1.7)	1.1	—
Q1 2019	1.6	(2.5)	0.5	—
Q4 2018	4.6	(3.2)	1.4	—
Q3 2018	0.7	(1.3)	0.2	—
Q2 2018	1.8	(2.8)	0.5	—
Q1 2018	3.1	(6.8)	0.9	—
Q4 2017	0.7	(7.8)	0.2	—
Q3 2017	7.4	(6.2)	2.2	—
Q2 2017	16.5	(7.7)	4.9	—
Q1 2017	19.0	(5.9)	5.7	—
Q4 2016	17.8	(4.4)	5.4	0.5
Q3 2016	15.7	(8.5)	4.6	—

Impact to Balance Sheet			
	Sept. 30, 2019	Dec. 31, 2018	Dec. 31, 2017
(In Millions)			
Pre-payment claims denials	\$ 159.3	\$ 158.1	\$ 164.0
Recorded reserves	(47.8)	(47.4)	(49.2)
Net accounts receivable from pre-payment claims denials	\$ 111.5	\$ 110.7	\$ 114.8

Business outlook: 2019 to 2021

	2019	2020	2021
Key operational initiatives	- Enhance clinical collaboration between the Company's IRFs and home health locations - Build stroke market share (click here to view our Life After Stroke guide) - Develop and implement post-acute solutions - Implement changes to reimbursement models in both business segments		
		Implement Review Choice Demonstration	
Core growth	- Participate in alternative payment models - Same-store IRF growth - New-store IRF growth (de novos and acquisitions) - Same-store home health and hospice growth - New-store home health and hospice growth (acquisitions and de novos)		
Expansion of service offerings		Consider acquisitions of other complementary businesses	
Strong balance sheet	Maintain balance sheet flexibility		
Shareholder and other distributions	- Quarterly cash dividends on common stock - Opportunistic common stock repurchases - Purchases of Home Health Holdings rollover shares and exercises of SARs		

Business outlook 2019 to 2021: revenue assumptions

Volume (includes new stores)	Inpatient Rehabilitation* 3+% annual discharge growth			Home Health* 10+% annual admission growth		
Medicare Pricing <i>Amounts are approximations</i>	Approx. 72% of segment revenue			Approx. 85% of segment revenue		
	FY 2019 Q418-Q319 Final Rule	FY 2020 Q419-Q320 ⁽⁹⁾ Final Rule	FY 2021 Q420-Q321 Estimate [†]	CY 2019 Q119-Q419 Final Rule	CY 2020 Q120-Q420 ⁽¹⁰⁾ Proposed Rule	CY 2021 Q121-Q421 Estimate [†]
Market basket update	2.9%	2.9%	3.3%	3.0%	1.5%	3.2%
Healthcare reform reduction	(0.75%)	-	-	-	-	-
Legislative changes to the rural add-on program ⁽¹⁰⁾	-	-	-	(0.1%)	(0.2%)	(0.1%)
Change in outlier fixed-dollar loss ratio	-	-	-	0.1%	-	-
Healthcare reform productivity adjustment	(0.8%)	(0.4%)	(0.5%)	(0.8%)	-	(0.5%)
Net market basket update	1.35%	2.5%	2.8%	2.2%	1.3%	2.6%
Change in wage index and other labor adjustments	(0.1%)	(0.1%)	-	-	-	-
Change in CMG relative weights and average length of stay values ⁽⁹⁾	(0.1%)	(1.9%) to (2.4%)	-	Estimate based on an analysis of 2018 claims datasets made available in the 2020 Proposed Home Health Rule ⁽¹⁰⁾		
Change in outlier threshold	(0.0%)	(0.0%)	-			
Impact from case mix re-weighting	-	-	-	(0.7%)	-	-
Estimated impact to Encompass Health	1.2%	0% to 0.50%		1.5%	(1.0%)**	
Medicare Advantage and managed care pricing	Approx. 20% of revenue			Approx. 13% of revenue		
Expected increases	2-4%	1-3%	2-4%	0-2%	0-2%	0-2%

* Outpatient and hospice, which services accounted for 5.0% of total operating revenues for full-year 2018, are not included in the pricing assumptions.

** Estimated PDGM impact of (2.3%) plus 1.3% net market basket update; **excludes assumed behavioral change reduction of 8.0% to the base rate.**⁽¹⁰⁾

[†] Estimates are based on current CMS and Congressional Budget Office projections which do not include potential changes from legislation or the CMS rule-making process.

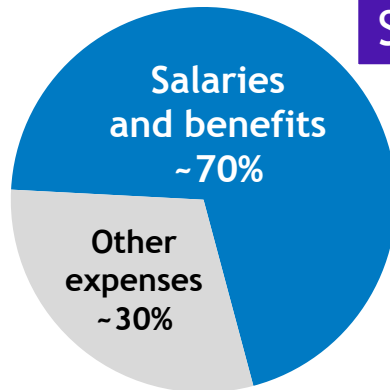
Refer to pages 48-49 for end notes.

Business outlook 2019 to 2021: labor and other expense assumptions

Inpatient Rehabilitation

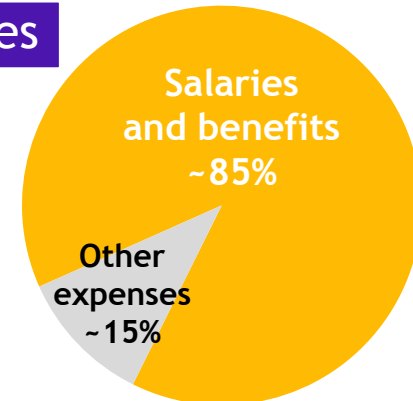
Salaries and Benefits	2019	2020	2021
Salary increases	3.00-3.50%*	2.75-3.25%	2.85-3.35%
Benefit costs increases	6-8%	5-10%	5-10%

Home Health and Hospice



Segment Operating Expenses

% of Salaries and Benefits	
Salaries	~90%
Benefits	~10%



IRF Expenses

- Other operating expenses and supply costs tracking with inflation

Home Health and Hospice Expenses

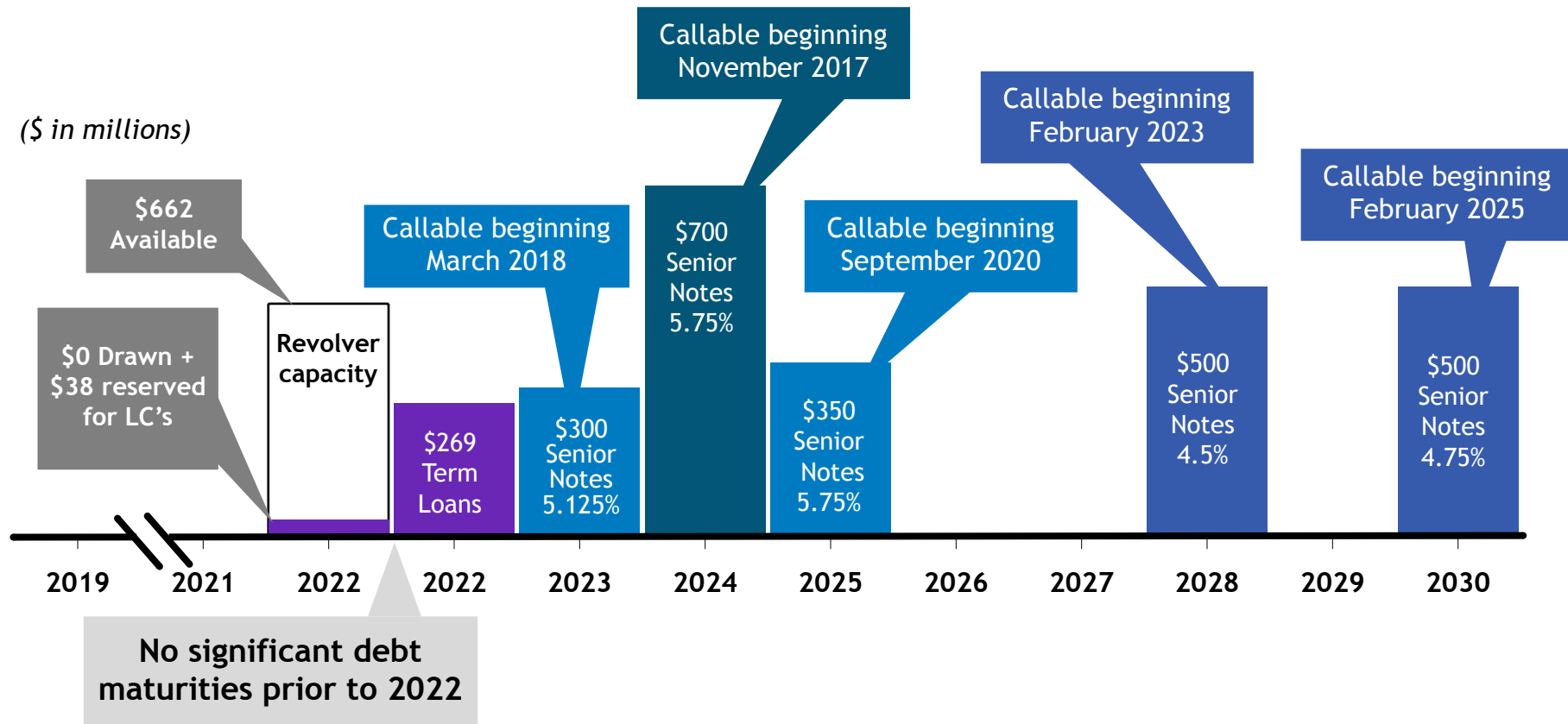
- Other operating expenses and supply costs tracking with inflation

Debt schedule

(\$millions)	Pro Forma			Change in
	September 30, 2019*	September 30, 2019	December 31, 2018	Debt vs. YE 2018
Advances under \$700 million revolving credit facility, September 2022 - LIBOR +150bps	\$ —	\$ —	\$ 30.0	\$ (30.0)
Term loan facility, September 2022 - LIBOR +150bps	269.1	269.1	280.1	(11.0)
Bonds Payable:				
5.125% Senior Notes due 2023	297.2	297.2	296.6	0.6
5.75% Senior Notes due 2024 ⁽⁴⁾ (see page 5)	695.6	1,095.6	1,194.7	(99.1)
5.75% Senior Notes due 2025	345.5	345.5	345.0	0.5
4.50% Senior Notes due 2028 (see page 5)	491.5	491.5	—	491.5
4.75% Senior Notes due 2030 (see page 5)	491.5	491.5	—	491.5
Other notes payable	44.9	44.9	104.2	(59.3)
Finance lease obligations	363.8	363.8	263.8	100.0
Long-term debt	\$ 2,999.1	\$ 3,399.1	\$ 2,514.4	\$ 884.7
Debt to Adjusted EBITDA	3.2x	3.6x	2.8x	

Debt maturity profile - face value

Pro Forma as of September 30, 2019*

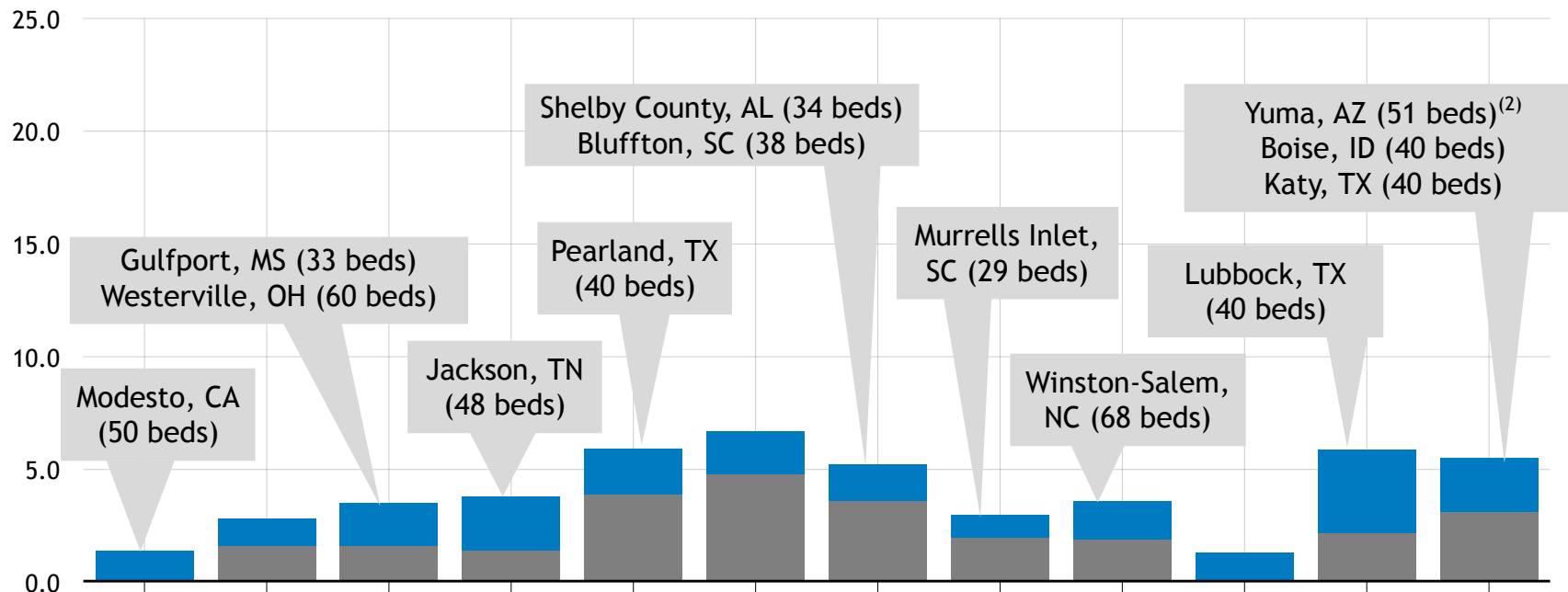


* After applying \$400 million of the 2028 and 2030 Notes offering proceeds included in cash on Sept. 30, 2019 to pay down the 2024 Notes

This chart does not include ~\$364 million of finance lease obligations or ~\$45 million of other notes payable.
See the debt schedule on page 28.

New-store/same-store growth

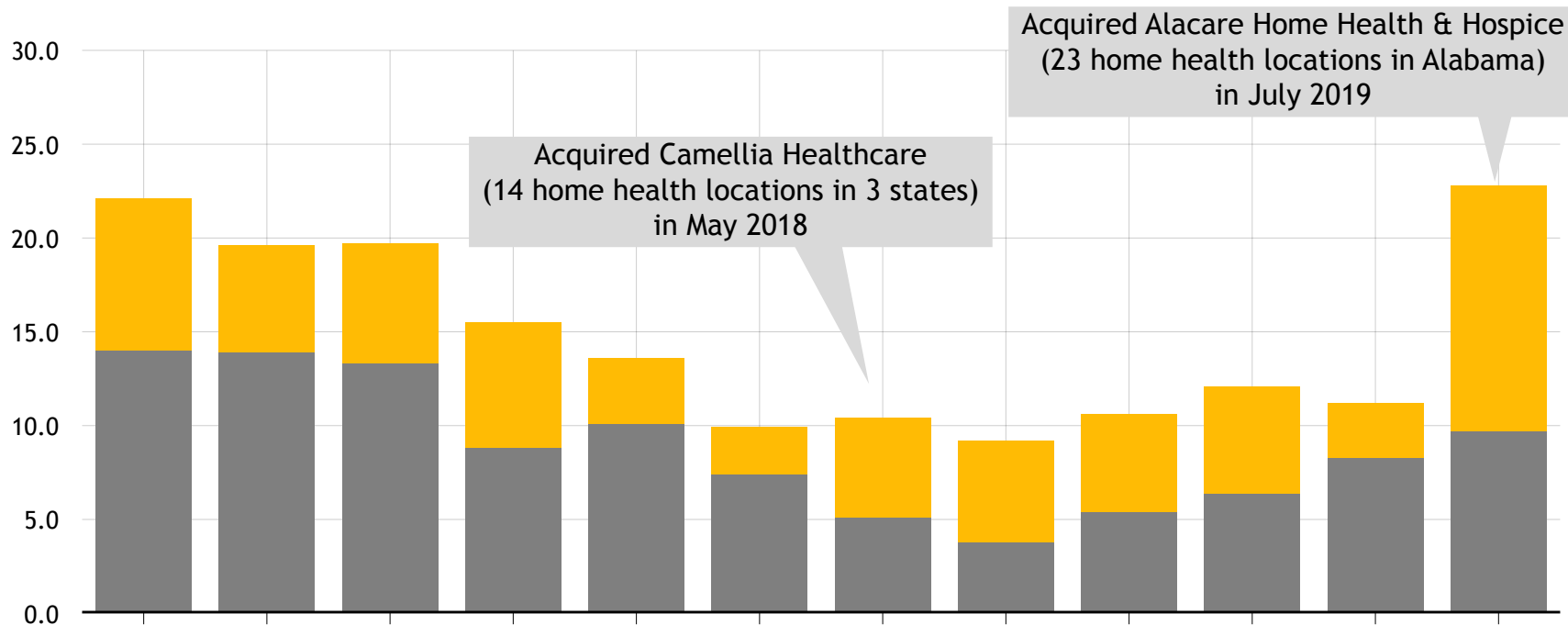
Inpatient Rehabilitation



Discharges	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
New store	1.3%	1.2%	1.9%	2.4%	2.0%	1.9%	1.6%	1.0%	1.7%	1.3%	1.5%	2.4%
Same store	0.1%	1.6%	1.6%	1.4%	3.9%	4.8%	3.6%	2.0%	1.9%	(0.2)%	2.2%	3.1%
Total by qtr.	1.4%	2.8%	3.5%	3.8%	5.9%	6.7%	5.2%	3.0%	3.6%	1.1%	3.7%	5.5%
Total by year	10.8%				4.0%				4.6%			
Same-store year*	1.7%				1.8%				2.8%			
Same-store year UDS ⁽¹¹⁾	(0.6)%				(0.5)%				1.1%			

* Includes consolidated inpatient rehabilitation hospitals classified as same store during each period
Refer to pages 48-49 for end notes.

New-store/same-store growth



- ▶ In 2016, the Company acquired or opened 10 home health locations.
- ▶ In 2017, the Company acquired or opened 15 home health locations.
- ▶ In 2018, the Company acquired or opened 23 home health locations.
- ▶ In 2019, the Company acquired or opened 26 home health locations.

Payment sources (percent of revenues)

	Inpatient Rehabilitation Segment		Home Health and Hospice Segment		Consolidated				
	Q3		Q3		Q3		9 Months		Full Year
	2019	2018	2019	2018	2019	2018	2019	2018	2018
Medicare	71.5%	72.8%	85.8%	85.0%	75.3%	75.4%	75.3%	75.8%	75.9%
Medicare Advantage	10.9%	9.1%	8.7%	9.4%	10.3%	9.2%	10.3%	9.1%	9.2%
Managed care	10.0%	10.3%	3.6%	3.6%	8.4%	8.8%	8.3%	8.9%	8.8%
Medicaid	3.2%	3.1%	1.7%	1.7%	2.8%	2.8%	2.8%	2.7%	2.6%
Other third-party payors	1.4%	1.4%	—%	—%	1.0%	1.1%	1.0%	1.1%	1.1%
Workers' compensation	0.8%	0.8%	0.1%	0.2%	0.6%	0.7%	0.7%	0.7%	0.7%
Patients	0.7%	0.6%	—%	—%	0.5%	0.5%	0.5%	0.5%	0.5%
Other income	1.5%	1.9%	0.1%	0.1%	1.1%	1.5%	1.1%	1.2%	1.2%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Inpatient rehabilitation operational and labor metrics

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Full Year
	2019	2019	2019	2018	2018	2018	2018	2018
(In Millions)								
Net patient revenue-inpatient	\$ 850.6	\$ 851.8	\$ 847.6	\$ 822.8	\$ 798.4	\$ 809.6	\$ 817.1	\$ 3,247.9
Net patient revenue-outpatient and other revenues	21.7	22.1	22.5	22.9	27.2	25.0	23.2	98.3
Net operating revenues	<u>\$ 872.3</u>	<u>\$ 873.9</u>	<u>\$ 870.1</u>	<u>\$ 845.7</u>	<u>\$ 825.6</u>	<u>\$ 834.6</u>	<u>\$ 840.3</u>	<u>\$ 3,346.2</u>
(Actual Amounts)								
Discharges ⁽¹²⁾	46,669	46,679	45,609	45,498	44,230	45,010	45,108	179,846
Net patient revenue per discharge	\$ 18,226	\$ 18,248	\$ 18,584	\$ 18,084	\$ 18,051	\$ 17,987	\$ 18,114	\$ 18,059
Outpatient visits	86,395	104,566	102,028	111,399	119,006	131,041	127,308	488,754
Average length of stay	12.6	12.5	12.8	12.5	12.7	12.5	12.7	12.6
Occupancy %	69.2%	70.6%	72.3%	68.8%	68.9%	70.1%	71.9%	69.3%
# of licensed beds	9,219	9,062	8,941	8,966	8,888	8,848	8,831	8,966
Occupied beds	6,380	6,398	6,464	6,169	6,124	6,202	6,349	6,213
Full-time equivalents (FTEs) ⁽¹³⁾	22,037	21,570	21,345	21,199	21,119	21,010	20,978	21,076
Contract labor	187	227	246	266	237	248	285	259
Total FTE and contract labor	<u>22,224</u>	<u>21,797</u>	<u>21,591</u>	<u>21,465</u>	<u>21,356</u>	<u>21,258</u>	<u>21,263</u>	<u>21,335</u>
EPOB ⁽¹⁴⁾	3.48	3.41	3.34	3.48	3.49	3.43	3.35	3.43

Home health and hospice operational metrics

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Full Year
	2019	2019	2019	2018	2018	2018	2018	2018
(In Millions)								
Net home health revenue	\$ 238.9	\$ 222.7	\$ 219.5	\$ 215.3	\$ 209.2	\$ 204.8	\$ 185.3	\$ 814.6
Net hospice revenue	50.4	38.4	34.4	35.0	32.8	28.3	20.4	116.5
Net operating revenues	\$ 289.3	\$ 261.1	\$ 253.9	\$ 250.3	\$ 242.0	\$ 233.1	\$ 205.7	\$ 931.1
Home Health: (Actual Amounts)								
Admissions ⁽¹⁵⁾	42,174	37,828	37,944	35,151	34,364	34,026	33,855	137,396
Recertifications	30,213	28,129	28,282	29,530	28,733	28,089	25,229	111,581
Episodes	72,016	66,881	63,626	64,037	61,765	61,238	56,658	243,698
Average revenue per episode	\$ 2,980	\$ 2,959	\$ 3,057	\$ 2,972	\$ 2,995	\$ 2,968	\$ 2,934	\$ 2,968
Episodic visits per episode	17.3	17.1	17.7	17.4	17.6	17.5	17.9	17.6
Total visits	1,425,323	1,325,362	1,308,610	1,285,150	1,259,055	1,240,490	1,174,950	4,959,645
Cost per visit	\$ 78	\$ 76	\$ 75	\$ 76	\$ 77	\$ 76	\$ 75	\$ 76
Hospice:								
Admissions ⁽¹⁶⁾	2,884	2,324	2,378	2,030	2,054	1,797	1,593	7,474
Patient days	353,549	259,501	239,022	231,515	223,834	192,404	143,231	790,984
Average daily census	3,843	2,852	2,656	2,516	2,433	2,114	1,591	2,167
Revenue per day	\$ 142	\$ 148	\$ 144	\$ 151	\$ 147	\$ 148	\$ 142	\$ 147

Share information

	Weighted Average for the Period						
	Q3		9 Months		Full Year		
	2019	2018	2019	2018	2018	2017	2016
Basic shares outstanding ⁽¹⁷⁾	97.8	98.0	98.1	97.9	97.9	93.7	89.1
Convertible senior subordinated notes ⁽¹⁷⁾	—	—	—	—	—	4.0	8.5
Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants	1.6	2.0	1.4	1.8	1.9	1.6	1.9
Diluted shares outstanding	99.4	100.0	99.5	99.7	99.8	99.3	99.5

	End of Period						
	Q3		9 Months		Full Year		
	2019	2018	2019	2018	2018	2017	2016
(Millions)							
Basic shares outstanding ⁽¹⁷⁾	97.8	98.0	97.8	98.0	98.0	97.6	88.3

Segment operating results

(In Millions)	Q3 2019				Q3 2018			
	IRF	Home Health and Hospice	Reclasses	Consolidated	IRF	Home Health and Hospice	Reclasses	Consolidated
Net operating revenues	\$ 872.3	\$ 289.3	\$ —	\$ 1,161.6	\$ 825.6	\$ 242.0	\$ —	\$ 1,067.6
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(459.1)	—	(200.9)	(660.0)	(423.6)	—	(168.7)	(592.3)
Other operating expenses ^(a)	(131.3)	—	(24.4)	(155.7)	(124.3)	—	(19.6)	(143.9)
Supplies	(37.0)	—	(5.9)	(42.9)	(33.6)	—	(5.0)	(38.6)
Occupancy	(17.0)	—	(4.8)	(21.8)	(15.9)	—	(3.7)	(19.6)
Home Health and Hospice:								
Cost of services sold (excluding depreciation and amortization)	—	(136.4)	136.4	—	—	(114.6)	114.6	—
Support and overhead costs ^(b)	—	(99.6)	99.6	—	—	(82.4)	82.4	—
	(644.4)	(236.0)	—	(880.4)	(597.4)	(197.0)	—	(794.4)
Other income ^{(c)(d)}	1.8	—	—	1.8	1.8	—	—	1.8
Equity in net income of nonconsolidated affiliates	1.0	0.2	—	1.2	1.9	0.2	—	2.1
Noncontrolling interests ^(e)	(20.1)	(2.7)	—	(22.8)	(19.0)	(2.0)	—	(21.0)
Segment Adjusted EBITDA	\$ 210.6	\$ 50.8	\$ —	261.4	\$ 212.9	\$ 43.2	\$ —	256.1
General and administrative expenses ^{(f)(g)}				(29.8)				(31.8)
Adjusted EBITDA				\$ 231.6				\$ 224.3
In arriving at Adjusted EBITDA, the following were excluded:								
(a) Loss (gain) on disposal of assets	\$ 0.9	\$ —	\$ —	\$ 0.9	\$ (1.0)	\$ —	\$ —	\$ (1.0)
(b) Payroll taxes on SARs exercise	\$ —	\$ 0.8	\$ —	\$ 0.8	\$ —	\$ —	\$ —	\$ —
(c) Change in fair market value of equity securities	\$ —	\$ —	\$ —	\$ —	\$ 0.1	\$ —	\$ —	\$ 0.1
(d) Gain on consolidation of Yuma	\$ (19.2)	\$ —	\$ —	\$ (19.2)	\$ —	\$ —	\$ —	\$ —
(e) SARs mark-to-market impact on noncontrolling interests (see page 19)	\$ —	\$ (0.9)	\$ —	\$ (0.9)	\$ —	\$ (0.3)	\$ —	\$ (0.3)
(f) Stock-based compensation	\$ —	\$ —	\$ —	\$ 21.7	\$ —	\$ —	\$ —	\$ 18.1
(g) Transaction costs	\$ —	\$ —	\$ —	\$ 1.0	\$ —	\$ —	\$ —	\$ —

Segment operating results

(In Millions)	Nine Months Ended September 30, 2019				Nine Months Ended September 30, 2018			
	IRF	Home Health and Hospice	Reclasses	Consolidated	IRF	Home Health and Hospice	Reclasses	Consolidated
Net operating revenues	\$ 2,616.3	\$ 804.3	\$ —	\$ 3,420.6	\$ 2,500.5	\$ 680.8	\$ —	\$ 3,181.3
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(1,347.7)	—	(555.8)	(1,903.5)	(1,264.3)	—	(476.4)	(1,740.7)
Other operating expenses ^(a)	(386.1)	—	(67.1)	(453.2)	(374.1)	—	(57.2)	(431.3)
Supplies	(109.3)	—	(15.4)	(124.7)	(104.2)	—	(13.6)	(117.8)
Occupancy	(49.1)	—	(12.6)	(61.7)	(47.4)	—	(10.3)	(57.7)
Home Health and Hospice:								
Cost of services sold (excluding depreciation and amortization)	—	(372.8)	372.8	—	—	(322.3)	322.3	—
Support and overhead costs ^(b)	—	(278.1)	278.1	—	—	(235.2)	235.2	—
	(1,892.2)	(650.9)	—	(2,543.1)	(1,790.0)	(557.5)	—	(2,347.5)
Other income ^{(c)(d)}	6.5	—	—	6.5	3.5	0.5	—	4.0
Equity in net income of nonconsolidated affiliates	4.5	1.0	—	5.5	5.5	0.9	—	6.4
Noncontrolling interests ^(e)	(60.6)	(8.2)	—	(68.8)	(59.3)	(6.4)	—	(65.7)
Segment Adjusted EBITDA	\$ 674.5	\$ 146.2	\$ —	820.7	\$ 660.2	\$ 118.3	\$ —	778.5
General and administrative expenses ^{(f)(g)}				(94.0)				(99.3)
Adjusted EBITDA				\$ 726.7				\$ 679.2
In arriving at Adjusted EBITDA, the following were excluded:								
(a) Loss (gain) on disposal of assets	\$ 3.4	\$ (0.1)	\$ —	\$ 3.3	\$ 2.2	\$ —	\$ —	\$ 2.2
(b) Payroll taxes on SARs exercise	\$ —	\$ 1.0	\$ —	\$ 1.0	\$ —	\$ —	\$ —	\$ —
(c) Change in fair market value of equity securities	\$ (1.2)	\$ —	\$ —	\$ (1.2)	\$ 1.1	\$ —	\$ —	\$ 1.1
(d) Gain on consolidation of Yuma	\$ (19.2)	\$ —	\$ —	\$ (19.2)	\$ —	\$ —	\$ —	\$ —
(e) SARs mark-to-market impact on noncontrolling interests (see page 19)	\$ —	\$ (4.3)	\$ —	\$ (4.3)	\$ —	\$ (2.2)	\$ —	\$ (2.2)
(f) Stock-based compensation	\$ —	\$ —	\$ —	\$ 87.0	\$ —	\$ —	\$ —	\$ 65.6
(g) Transaction costs	\$ —	\$ —	\$ —	\$ 2.0	\$ —	\$ —	\$ —	\$ 1.0

Segment operating results

Year Ended December 31, 2018

(In Millions)	Year Ended December 31, 2018			
	IRF	Home Health and Hospice	Reclasses	Consolidated
Net operating revenues	\$ 3,346.2	\$ 931.1	\$ —	\$ 4,277.3
Operating Expenses:				
Inpatient Rehabilitation:				
Salaries and benefits	(1,701.5)	—	(652.5)	(2,354.0)
Other operating expenses ^(a)	(502.3)	—	(77.1)	(579.4)
Supplies	(140.6)	—	(18.1)	(158.7)
Occupancy	(63.8)	—	(14.2)	(78.0)
Home Health and Hospice:				
Cost of services sold (excluding depreciation and amortization)	—	(438.4)	438.4	—
Support and overhead costs	—	(323.5)	323.5	—
	(2,408.2)	(761.9)	—	(3,170.1)
Other income ^(b)	3.6	0.5	—	4.1
Equity in net income of nonconsolidated affiliates	7.5	1.2	—	8.7
Noncontrolling interests ^(c)	(77.2)	(8.5)	—	(85.7)
Segment Adjusted EBITDA	\$ 871.9	\$ 162.4	\$ —	1,034.3
General and administrative expenses ^{(d)(e)}				(133.3)
Adjusted EBITDA				\$ 901.0

In arriving at Adjusted EBITDA, the following were excluded:				
(a) Loss on disposal of assets	\$ 5.7	\$ —	\$ —	\$ 5.7
(b) Change in fair market value of equity securities	\$ 1.9	\$ —	\$ —	\$ 1.9
(c) SARs mark-to-market impact on noncontrolling interests (see page 19)	\$ —	\$ (2.6)	\$ —	\$ (2.6)
(d) Stock-based compensation	\$ —	\$ —	\$ —	\$ 85.9
(e) Transaction costs	\$ —	\$ —	\$ —	\$ 1.0

Reconciliation of net income to Adjusted EBITDA⁽⁷⁾

(in millions, except per share data)	2019							
	Q1		Q2		Q3		9 Months	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	\$ 125.2		\$ 110.9		\$ 119.5		\$ 355.6	
Loss from disc ops, net of tax, attributable to Encompass Health	0.5		0.1		—		0.6	
Net income attributable to noncontrolling interests	(22.9)		(19.7)		(21.9)		(64.5)	
Income from continuing operations attributable to Encompass Health*	102.8	\$ 1.04	91.3	\$ 0.92	97.6	\$ 0.98	291.7	\$ 2.94
Provision for income tax expense	30.8		23.5		34.3		88.6	
Interest expense and amortization of debt discounts and fees	37.2		37.7		40.3		115.2	
Depreciation and amortization	52.5		52.7		55.1		160.3	
Loss on early extinguishment of debt	—		2.3		—		2.3	
Loss on disposal of assets	1.1		1.3		0.9		3.3	
Stock-based compensation expense	19.4		45.9		21.7		87.0	
Transaction costs	0.6		0.4		1.0		2.0	
Gain on consolidation of Yuma	—		—		(19.2)		(19.2)	
SARs mark-to-market impact on noncontrolling interests (see page 19)	(0.8)		(2.6)		(0.9)		(4.3)	
Change in fair market value of equity securities	(0.9)		(0.3)		—		(1.2)	
Payroll taxes on SARs exercise	0.2		—		0.8		1.0	
Adjusted EBITDA	<u>\$ 242.9</u>		<u>\$ 252.2</u>		<u>\$ 231.6</u>		<u>\$ 726.7</u>	
Weighted average common shares outstanding:								
Basic		<u>98.4</u>		<u>98.0</u>		<u>97.8</u>		<u>98.1</u>
Diluted		<u>99.7</u>		<u>99.3</u>		<u>99.4</u>		<u>99.5</u>

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 48-49 for end notes.

Reconciliation of net income to Adjusted EBITDA⁽⁷⁾

(in millions, except per share data)	2018									
	Q1		Q2		Q3		Q4		Full Year	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	\$ 105.2		\$ 113.2		\$ 109.3		\$ 47.7		\$ 375.4	
Loss (income) from disc ops, net of tax, attributable to Encompass Health	0.5		(0.2)		0.1		(1.5)		(1.1)	
Net income attributable to noncontrolling interests	(21.4)		(21.4)		(20.7)		(19.6)		(83.1)	
Income from continuing operations attributable to Encompass Health*	84.3	\$ 0.85	91.6	\$ 0.92	88.7	\$ 0.89	26.6	\$ 0.26	291.2	\$ 2.92
Gov't, class action, and related settlements	—		—		—		52.0		52.0	
Provision for income tax expense	30.0		29.3		30.2		29.4		118.9	
Interest expense and amortization of debt discounts and fees	35.6		37.7		37.3		36.7		147.3	
Depreciation and amortization	45.9		49.7		51.2		52.9		199.7	
Loss (gain) on disposal of assets	0.8		2.4		(1.0)		3.5		5.7	
Stock-based compensation expense	26.1		21.4		18.1		20.3		85.9	
Transaction costs	1.0		—		—		—		1.0	
SARs mark-to-market impact on noncontrolling interests (see page 19)	(1.0)		(0.9)		(0.3)		(0.4)		(2.6)	
Change in fair market value of equity securities	0.6		0.4		0.1		0.8		1.9	
Adjusted EBITDA	<u>\$ 223.3</u>		<u>\$ 231.6</u>		<u>\$ 224.3</u>		<u>\$ 221.8</u>		<u>\$ 901.0</u>	
Weighted average common shares outstanding:										
Basic		<u>97.8</u>		<u>97.9</u>		<u>98.0</u>		<u>98.0</u>		<u>97.9</u>
Diluted		<u>99.4</u>		<u>99.6</u>		<u>100.0</u>		<u>100.0</u>		<u>99.8</u>

Net cash provided by operating activities reconciled to Adjusted EBITDA⁽⁷⁾

(In Millions)	Q3		9 Months		Full Year
	2019	2018	2019	2018	2018
Net cash provided by operating activities	\$ 114.4	\$ 198.5	\$ 419.7	\$ 584.0	\$ 762.4
Interest expense and amortization of debt discounts and fees	40.3	37.3	115.2	110.6	147.3
Equity in net income of nonconsolidated affiliates	1.2	2.1	5.5	6.4	8.7
Net income attributable to noncontrolling interests in continuing operations	(21.9)	(20.7)	(64.5)	(63.5)	(83.1)
Amortization of debt-related items	(1.1)	(1.0)	(3.1)	(3.0)	(4.0)
Distributions from nonconsolidated affiliates	(0.2)	(2.0)	(4.8)	(5.5)	(8.3)
Current portion of income tax expense	14.1	34.6	67.8	97.5	128.0
Change in assets and liabilities	83.7	(24.8)	185.4	(47.1)	(46.0)
Cash used in (provided by) operating activities of discontinued operations	0.1	0.1	4.6	0.7	(0.8)
Transaction costs	1.0	—	2.0	1.0	1.0
SARs mark-to-market impact on noncontrolling interests (see page 19)	(0.9)	(0.3)	(4.3)	(2.2)	(2.6)
Payroll taxes on SARs exercise	0.8	—	1.0	—	—
Change in fair market value of equity securities	—	0.1	(1.2)	1.1	1.9
Other	0.1	0.4	3.4	(0.8)	(3.5)
Adjusted EBITDA	<u>\$ 231.6</u>	<u>\$ 224.3</u>	<u>\$ 726.7</u>	<u>\$ 679.2</u>	<u>\$ 901.0</u>

Reconciliation of segment Adjusted EBITDA to income from continuing operations before income tax expense

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2019	2018	2019	2018	2018
	(In Millions)				
Total segment Adjusted EBITDA	\$ 261.4	\$ 256.1	\$ 820.7	\$ 778.5	\$ 1,034.3
General and administrative expenses	(52.5)	(49.9)	(183.0)	(165.9)	(220.2)
Depreciation and amortization	(55.1)	(51.2)	(160.3)	(146.8)	(199.7)
(Loss) gain on disposal of assets	(0.9)	1.0	(3.3)	(2.2)	(5.7)
Government, class action, and related settlements	—	—	—	—	(52.0)
Loss on early extinguishment of debt	—	—	(2.3)	—	—
Interest expense and amortization of debt discounts and fees	(40.3)	(37.3)	(115.2)	(110.6)	(147.3)
Net income attributable to noncontrolling interests	21.9	20.7	64.5	63.5	83.1
SARs mark-to-market impact on noncontrolling interests (see page 19)	0.9	0.3	4.3	2.2	2.6
Change in fair market value of equity securities	—	(0.1)	1.2	(1.1)	(1.9)
Gain on consolidation of Yuma	19.2	—	19.2	—	—
Payroll taxes on SARs exercise	(0.8)	—	(1.0)	—	—
Income from continuing operations before income tax expense	\$ 153.8	\$ 139.6	\$ 444.8	\$ 417.6	\$ 493.2

Reconciliation of net cash provided by operating activities to adjusted free cash flow⁽⁶⁾

	Q3		9 Months		Full Year
(In Millions)	2019	2018	2019	2018	2018
Net cash provided by operating activities	\$ 114.4	\$ 198.5	\$ 419.7	\$ 584.0	\$ 762.4
Impact of discontinued operations	0.1	0.1	4.6	0.7	(0.8)
Net cash provided by operating activities of continuing operations	114.5	198.6	424.3	584.7	761.6
Capital expenditures for maintenance	(41.0)	(33.2)	(105.1)	(105.3)	(152.9)
Distributions paid to noncontrolling interests of consolidated affiliates	(21.1)	(21.3)	(57.6)	(56.5)	(75.4)
Items non-indicative of ongoing operating performance:					
Cash paid for government, class action, and related settlements	—	—	46.4	—	—
Transaction costs and related assumed liabilities	1.0	(0.7)	2.0	(2.4)	0.5
Cash paid for SARs exercise (inclusive of payroll taxes)	56.2	—	69.6	4.3	4.3
Adjusted free cash flow	\$ 109.6	\$ 143.4	\$ 379.6	\$ 424.8	\$ 538.1
Cash dividends on common stock	\$ 26.4	\$ 24.5	\$ 81.3	\$ 74.4	\$ 100.8

Adjusted EPS⁽⁵⁾ - Q3 2019

For the Three Months Ended September 30, 2019

	Adjustments						
	As Reported	Mark-to-Market Adjustment for Stock Comp. Expense	Income Tax Adjustments	Transaction Costs	Gain on Consolidation of Yuma	Payroll Taxes on SARs Exercise	As Adjusted
(In Millions, Except Per Share Amounts)							
Adjusted EBITDA	\$ 231.6	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 231.6
Depreciation and amortization	(55.1)	—	—	—	—	—	(55.1)
Interest expense and amortization of debt discounts and fees	(40.3)	—	—	—	—	—	(40.3)
Stock-based compensation	(21.7)	12.0	—	—	—	—	(9.7)
Loss on disposal of assets	(0.9)	—	—	—	—	—	(0.9)
Transaction costs	(1.0)	—	—	1.0	—	—	—
SARs mark-to-market impact on noncontrolling interests (see page 19)	0.9	(0.9)	—	—	—	—	—
Gain on consolidation of Yuma	19.2	—	—	—	(19.2)	—	—
Payroll taxes on SARs exercise	(0.8)	—	—	—	—	0.8	—
Income from continuing operations before income tax expense	131.9	11.1	—	1.0	(19.2)	0.8	125.6
Provision for income tax expense	(34.3)	(3.0)	(0.2)	(0.2)	5.2	(0.2)	(32.7)
Income from continuing operations attributable to Encompass Health	\$ 97.6	\$ 8.1	\$ (0.2)	\$ 0.8	\$ (14.0)	\$ 0.6	\$ 92.9
Diluted earnings per share from continuing operations*	\$ 0.98	\$ 0.08	\$ —	\$ 0.01	\$ (0.14)	\$ 0.01	\$ 0.93
Diluted shares used in calculation	99.4						

Adjusted EPS⁽⁵⁾ - Q3 2018

For the Three Months Ended September 30, 2018

	As Reported	Mark-to- Market Adjustment on Stock Compensation Expense	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)				
Adjusted EBITDA	\$ 224.3	\$ —	\$ —	\$ —	\$ 224.3
Depreciation and amortization	(51.2)	—	—	—	(51.2)
Interest expense and amortization of debt discounts and fees	(37.3)	—	—	—	(37.3)
Stock-based compensation	(18.1)	4.2	—	—	(13.9)
Gain on disposal of assets	1.0	—	—	—	1.0
SARs mark-to-market impact on noncontrolling interests (see page 19)	0.3	(0.3)	—	—	—
Change in fair market value of equity securities	(0.1)	—	—	0.1	—
Income from continuing operations before income tax expense	118.9	3.9	—	0.1	122.9
Provision for income tax expense	(30.2)	(1.1)	(0.7)	—	(32.0)
Income from continuing operations attributable to Encompass Health	\$ 88.7	\$ 2.8	\$ (0.7)	\$ 0.1	\$ 90.9
Diluted earnings per share from continuing operations*	\$ 0.89	\$ 0.03	\$ (0.01)	\$ —	\$ 0.91
Diluted shares used in calculation	100.0				

Adjusted EPS⁽⁵⁾ - YTD 2019

For the Nine Months Ended September 30, 2019

	Adjustments								As Adjusted
	As Reported	Mark-to-Market Adjustment for Stock Comp. Expense	Loss on Early Extng. of Debt	Income Tax Adjustments	Transaction Costs	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Yuma	Payroll Taxes on SARs Exercise	
	(In Millions, Except Per Share Amounts)								
Adjusted EBITDA	\$ 726.7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 726.7
Depreciation and amortization	(160.3)	—	—	—	—	—	—	—	(160.3)
Loss on early extinguishment of debt ^(x)	(2.3)	—	2.3	—	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(115.2)	—	—	—	—	—	—	—	(115.2)
Stock-based compensation	(87.0)	53.0	—	—	—	—	—	—	(34.0)
Loss on disposal of assets	(3.3)	—	—	—	—	—	—	—	(3.3)
Transaction costs	(2.0)	—	—	—	2.0	—	—	—	—
SARs mark-to-market impact on noncontrolling interests (see page 19)	4.3	(4.3)	—	—	—	—	—	—	—
Change in fair market value of equity securities	1.2	—	—	—	—	(1.2)	—	—	—
Gain on consolidation of Yuma	19.2	—	—	—	—	—	(19.2)	—	—
Payroll taxes on SARs exercise	(1.0)	—	—	—	—	—	—	1.0	—
Income from continuing operations before income tax expense	380.3	48.7	2.3	—	2.0	(1.2)	(19.2)	1.0	413.9
Provision for income tax expense	(88.6)	(13.2)	(0.6)	(12.6)	(0.5)	0.3	5.2	(0.2)	(110.2)
Income from continuing operations attributable to Encompass Health	\$ 291.7	\$ 35.5	\$ 1.7	\$ (12.6)	\$ 1.5	\$ (0.9)	\$ (14.0)	\$ 0.8	\$ 303.7
Diluted earnings per share from continuing operations*	\$ 2.94	\$ 0.36	\$ 0.02	\$ (0.13)	\$ 0.02	\$ (0.01)	\$ (0.14)	\$ 0.01	\$ 3.05
Diluted shares used in calculation	99.5								

Adjusted EPS⁽⁵⁾ - YTD 2018

For the Nine Months Ended September 30, 2018

	As Reported	Mark-to- Market Adjustment on Stock Compensation Expense	Income Tax Adjustments	Transaction Costs	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)					
Adjusted EBITDA	\$ 679.2	\$ —	\$ —	\$ —	\$ —	\$ 679.2
Depreciation and amortization	(146.8)	—	—	—	—	(146.8)
Interest expense and amortization of debt discounts and fees	(110.6)	—	—	—	—	(110.6)
Stock-based compensation	(65.6)	26.6	—	—	—	(39.0)
Loss on disposal of assets	(2.2)	—	—	—	—	(2.2)
Transaction costs	(1.0)	—	—	1.0	—	—
SARs mark-to-market impact on noncontrolling interests (see page 19)	2.2	(2.2)	—	—	—	—
Change in fair market value of equity securities	(1.1)	—	—	—	1.1	—
Income from continuing operations before income tax expense	354.1	24.4	—	1.0	1.1	380.6
Provision for income tax expense	(89.5)	(6.8)	(1.4)	(0.3)	(0.3)	(98.3)
Income from continuing operations attributable to Encompass Health	\$ 264.6	\$ 17.6	\$ (1.4)	\$ 0.7	\$ 0.8	\$ 282.3
Diluted earnings per share from continuing operations*	\$ 2.65	\$ 0.18	\$ (0.01)	\$ 0.01	\$ 0.01	\$ 2.83
Diluted shares used in calculation	99.7					

End notes

- (1) 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 Sept. 30, 2019, the remaining repurchase authorization was ~\$204 million.
- (2) As a result of negotiations with our partner to amend the joint venture agreement related to Yuma Rehabilitation Hospital, the accounting for this hospital changed from the equity method of accounting to a consolidated entity effective July 1, 2019. We accounted for this change in control as a business combination and consolidated this entity using the acquisition method. As a result of our consolidation of this hospital and the remeasurement of our previously held equity interest at fair value, we recorded a \$19.2 million gain as part of other income in the third quarter of 2019.
- (3) As previously disclosed, from 2013 to 2019, the Company cooperated with an investigation of alleged improper or fraudulent Medicare and Medicaid claims. The investigation, under the direction of DOJ, produced no evidence of fraud, falsity or wrongdoing. However, based on discussions with DOJ, and having considered the burdens and distractions associated with continuing the investigation and the likely costs of future litigation, the Company estimated a settlement value of \$48 million and accrued a loss contingency in that amount in the fourth quarter of 2018. Following further discussions, the Company entered into an agreement effective as of June 21, 2019 to settle the DOJ investigation, together with related *qui tam* or "whistleblower" lawsuits, for a cash payment of \$48 million.
- (4) In June 2019, the Company redeemed \$100 million of its 5.75% Senior Notes due 2024 at a price of 101.917%, which resulted in a total cash outlay of ~\$102 million. The redemption was funded using cash on hand and funding under the Company's revolving credit facility. As a result of the redemption, the Company recorded a \$2.3 million loss on early extinguishment of debt in the second quarter of 2019.
- (5) 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.*
- (6) Definition of adjusted free cash flow, which is a non-GAAP measure, is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, dividends paid on preferred stock, distributions to noncontrolling interests, and certain other items deemed to be non-indicative of ongoing 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.
- (7) Adjusted EBITDA is a non-GAAP financial measure. The Company's leverage ratio (total consolidated debt to Adjusted EBITDA for the trailing four quarters) is, likewise, a non-GAAP measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure and the leverage ratio as a liquidity measure on an ongoing basis. These measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance or liquidity. In evaluating Adjusted EBITDA, the reader should be aware that in the future the Company may incur expenses similar to the adjustments set forth.
- (8) On July 20, 2017, the board of directors approved a \$0.01 per share, or 4.2%, increase to the quarterly cash dividend on the Company's common stock, bringing the quarterly cash dividend to \$0.25 per common share. On July 24, 2018, the board of directors approved a \$0.02 per share, or 8.0%, increase to the quarterly cash dividend on the Company's common stock, bringing the quarterly cash dividend to \$0.27 per common share. On July 23, 2019, the board of directors approved a \$0.01 per share, or 3.7%, increase to the quarterly cash dividend on the Company's common stock, bringing the quarterly cash dividend to \$0.28 per common share.

End notes, con't.

- (9) On July 31, 2019, the Centers for Medicare and Medicaid Services (“CMS”) released its notice of final rule making for fiscal year 2020 under the inpatient rehabilitation facility prospective payment system (the “2020 Final IRF Rule”). Based on its analysis of the adjustments included in the final rule and other factors, including the acuity of the Company’s patients over the three-month period ended Sept. 30, 2019, the Company currently estimates its Medicare payment rates for its inpatient rehabilitation segment will be flat to up 50 basis points in fiscal year 2020 (effective October 1, 2019). Beginning in FY 2020 (October 1, 2019), CMS will implement new case mix groupings, relative weights and length of stay values to reflect incorporation of CARE Tool assessment data. These changes will impact payment under the IRF-PPS.
- (10) On July 11, 2019, CMS released its notice of proposed rulemaking for calendar year 2020 (the “2020 Proposed HH Rule”) for home health agencies under the home health prospective payment system (the “HH-PPS”). The 2020 Proposed HH Rule would implement a net 1.3% market basket increase (market basket update of 1.5% reduced by 0.2% for an extension of the rural payment add-on factor) in 2020. Additionally, pursuant to the requirements of The Bipartisan Budget Act (“BBA”) of 2018, the 2020 Proposed HH Rule sets out significant changes to the HH-PPS, including a new payment system, referred to as the Patient-Driven Groupings Model (“PDGM”), that uses 30-day payment periods and relies more heavily on clinical characteristics and other patient information (such as principal diagnosis, functional level, referral source, and timing), rather than the current therapy service-use thresholds, to set payments. CMS also proposed an 8.0% reduction in the base payment rate for 2020 intended to offset the provider behavioral changes that CMS assumes PDGM will drive. The 2020 Proposed HH Rule would also eliminate by 2021 the process known as Request for Anticipated Payments (“RAPs”) which allows providers to seek reimbursement of either 50% or 60% of the estimated base payment for the full care episode at the beginning of that episode. As part of eliminating RAPs, CMS proposed that home health agencies would be required to submit certain documentation and information, through a notice of admission (“NOA”) within five days of initiating a care episode, with a payment penalty for failing to timely submit the NOA. CMS also proposed to adopt additional quality reporting measures and significantly increase the standardized patient assessment data elements collected by providers. Based on 2018 data and assuming no change in the foregoing and other factors, which are subject to potentially significant change, we estimate an approximate 1.0% incremental reduction (after the 1.3% net market basket update) in Medicare payments for 2020 assuming the PDGM is implemented on a budget neutral basis.
- (11) Data provided by Uniform Data System for Medical Rehabilitation, a division of UB Foundation Activities, Inc., a data gathering and analysis organization for the rehabilitation industry; represents ~80% of industry, including Encompass Health inpatient rehabilitation sites
- (12) Represents discharges from 133 consolidated hospitals in Q3 2019; 130 consolidated hospitals in Q2 2019; 129 consolidated hospitals in Q1 2019 and Q4 2018; 128 consolidated hospitals in Q3 2018; 127 consolidated hospitals in Q2 2018; and 126 consolidated hospitals in Q1 2018
- (13) Full-time equivalents included in the table represent Encompass Health employees who participate in or support the operations of our hospitals and include an estimate of full-time equivalents related to contract labor.
- (14) Employees per occupied bed, or “EPOB,” is calculated by dividing the number of full-time equivalents, including an estimate of full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period. The number of occupied beds is determined by multiplying the number of licensed beds by the Company’s occupancy percentage.
- (15) Represents home health admissions from 243 consolidated locations in Q3 2019; 220 consolidated locations in Q2 2019; 219 consolidated locations in Q1 2019; 218 consolidated locations in Q4 2018; 214 consolidated locations in Q3 2018; 213 consolidated locations in Q2 2018; and 196 consolidated locations in Q1 2018
- (16) Represents hospice admissions from 82 locations in Q3 2019; 59 locations in Q2 and Q1 2019; 58 locations in Q4 2018; 57 locations in Q3 2018 and Q2 2018; and 38 locations in Q1 2018
- (17) In November 2013, the Company closed separate, privately negotiated exchanges in which it issued \$320 million of 2.0% Convertible Senior Subordinated Notes due 2043 in exchange for 257,110 shares of its 6.5% Series A Convertible Perpetual Preferred Stock. The Company recorded ~\$249 million as debt and ~\$71 million as equity. In May 2017, the Company provided notice of its intent to redeem all \$320 million of outstanding convertible notes. In lieu of receiving the redemption price, the holders had the right to convert their notes into shares of the Company’s common stock at a conversion rate of 27.2221 shares per \$1,000 principal amount of Notes, which rate was increased by a make-whole premium. In the aggregate, holders of \$319.4 million in principal elected to convert, which resulted in the Company issuing 8,895,483 shares of common stock (approximately 8.6 million shares were previously included in the diluted share count). The remaining \$0.6 million of principal was redeemed by cash payment.