Encompass Health

2023 Second Quarter

Earnings Call

August 2, 2023

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 and guidance, labor availability and costs, legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, such as the de novo pipeline, costs, growth and timelines, operational initiatives, dividend strategies, leverage, repurchases of securities, effective tax rates, financial performance, financial assumptions, business model, balance sheet and cash flow plans, and market share. 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 August 1, 2023 (the "Q2 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2022, the Form 10-Q for the quarter ended March 31, 2023, the Form 10-Q for the quarter ended June 30, 2023, 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 Q2 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.

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Q2 2023 Financial summary

($ in millions)	Q2 2023	Q2 2022	Q2 % △	6 Months 2023	6 Months 2022	6 Months % △
Encompass Health						
Net operating revenue	$1,187.1	$1,062.5	11.7 %	$2,347.5	$2,121.8	10.6 %
Adjusted EBITDA	$ 249.6	$ 196.4	27.1 %	$ 478.6	$ 391.3	22.3 %
Adjusted EPS	$ 0.95	$ 0.63	50.8 %	$ 1.83	$ 1.30	40.8 %
Adjusted free cash flow*	$ 124.2	$ 144.3	(13.9)%	$ 282.9	$ 267.5	5.8 %

Encompass Health's historical results reflect Enhabit Home Health and Hospice ("Enhabit") as discontinued operations.

*Refer to page 10 for a discussion of year-to-year change.
Reconciliations to GAAP provided on pages 27-34.

Q2 2023 Key takeaways

Revenue

- Net operating revenue growth of 11.7%
  - ✓ Discharge growth of 9.8% (6.2% same store)

Adjusted EBITDA

- Adjusted EBITDA growth of 27.1%
  - ✓ Contract labor plus sign-on and shift bonuses of $36.1 million vs. $56.9 million in Q2 2022
  - ✓ De novo hospital net pre-opening and ramp up costs of $4.3 million vs. $9.1 million in Q2 2022

Expansion activity

- Opened 2 de novos with a total of 110 beds; added 10 beds to existing hospitals

Guidance

- Increased full-year 2023 guidance

Shareholder distributions

- Paid a $0.15 per share quarterly cash dividend in April 2023
- Declared a $0.15 per share quarterly cash dividend in May 2023 (paid in July 2023)

Revenue

($ in millions)	Q2 2023	Q2 2022	Favorable/ (Unfavorable)
Net operating revenue:			
Inpatient	$ 1,162.3	$ 1,037.8	12.0%
Outpatient and other	24.8	24.7	0.4%
Total revenue	**$ 1,187.1**	**$ 1,062.5**	11.7%
(Actual Amounts)			
Discharges	57,011	51,902	9.8%
New-store discharge growth			3.6%
Same-store discharge growth			6.2%
Net patient revenue per discharge	$ 20,387	$ 19,995	2.0%
Revenue reserves related to bad debt as a percent of revenue	1.9 %	2.2 %	-30 bps

- Net operating revenue growth of 11.7% driven by volume growth
- Net patient revenue per discharge growth of 2.0% due to price increases and lower bad debt as a percent of revenue, partly offset by sequestration and patient mix
- Revenue reserves related to bad debt as a percent of revenue decreased 30 bps to 1.9%.
  - Supplemental Medical Review Contractor (SMRC) audit results trending favorable compared to previously established reserves
  - Lower aging-based reserves in Q2 2023 due to increased collections

Adjusted EBITDA[1]

($ in millions)	Q2 2023	% of Revenue	Q2 2022	% of Revenue
Net operating revenue	$1,187.1		$ 1,062.5	
Operating expenses:				
Salaries and benefits	(636.2)	53.6 %	(585.9)	55.1 %
Other operating expenses[a]	(171.9)	14.5 %	(166.5)	15.7 %
Supplies	(52.0)	4.4 %	(47.3)	4.5 %
Occupancy costs	(14.3)	1.2 %	(13.8)	1.3 %
Hospital operating expenses	(238.2)	20.1 %	(227.6)	21.4 %
General and administrative expenses[b]	(38.3)	3.2 %	(32.5)	3.1 %
Other income[c]	2.3		0.8	
Equity in nonconsolidated affiliates	0.9		1.0	
Noncontrolling interests in continuing operations[2][d]	(28.0)		(21.9)	
Adjusted EBITDA	**$ 249.6**		**$ 196.4**	
Percent change	27.1 %			

- Salary and benefits in Q2 2023 includes $36.1 million in contract labor and sign-on and shift bonuses vs. $56.9 million in Q2 2022.
- Other operating expenses as a percent of revenue declined due to efficiencies associated with volume growth.

($ in millions)		Q2 2023	Q2 2022
	In arriving at Adjusted EBITDA, the following were excluded:		
(a)	Loss on disposal or impairment of assets	$ 0.8	$ 2.8
(b)	Stock-based compensation and the change in fair market value of the non-qualified 401k plan	$ 17.1	$ 3.7
(c)	Change in fair market value of equity securities and the non-qualified 401k plan	$ (0.4)	$ 7.2
(d)	State regulatory change impact on noncontrolling interests[2]	$ (2.2)	$ —

Reconciliations to GAAP provided on pages 27-34.
Refer to page 35-36 for end notes.

Earnings per share - as reported

($ in millions, except per share data)	Q2 2023	Q2 2022	6 Months 2023	6 Months 2022
Adjusted EBITDA	$ 249.6	$ 196.4	$ 478.6	$ 391.3
Depreciation and amortization[(2)]	(72.6)	(60.5)	(136.5)	(118.2)
Interest expense and amortization of debt discounts and fees[(3)]	(36.3)	(60.4)	(72.7)	(100.0)
Stock-based compensation	(15.6)	(7.7)	(23.5)	(13.8)
Loss on disposal or impairment of assets	(0.8)	(2.8)	(1.5)	(3.5)
	124.3	65.0	244.4	155.8
Items not indicative of ongoing operating performance:				
Loss on early extinguishment of debt[(4)(5)]	—	(1.1)	—	(1.4)
State regulatory change impact on noncontrolling interests[(2)]	2.2	—	2.2	—
Change in fair market value of equity securities	(1.1)	(3.2)	(0.6)	(5.7)
Pre-tax income	125.4	60.7	246.0	148.7
Income tax expense	(32.8)	(22.8)	(64.7)	(46.4)
Income from continuing operations*	$ 92.6	$ 37.9	$ 181.3	$ 102.3
Basic shares	99.5	99.2	99.5	99.2
Diluted shares (see page 26)	101.1	100.3	101.0	100.2
Basic earnings per share*	**$ 0.92**	**$ 0.38**	**$ 1.81**	**$ 1.03**
Diluted earnings per share*	**$ 0.91**	**$ 0.38**	**$ 1.79**	**$ 1.02**

- EPS increased primarily due to growth of Adjusted EBITDA.
- Depreciation and amortization increased due to recent growth in capital expenditures and the accelerated amortization of certificates of need in South Carolina (excluded from Adjusted EBITDA and Adjusted EPS).
- Interest expense decreased due to debt repayment with July 1, 2022 distribution from Enhabit.

* Earnings per share are determined using income from continuing operations attributable to Encompass Health.

Refer to page 35-36 for end notes.

Adjusted earnings per share[6]

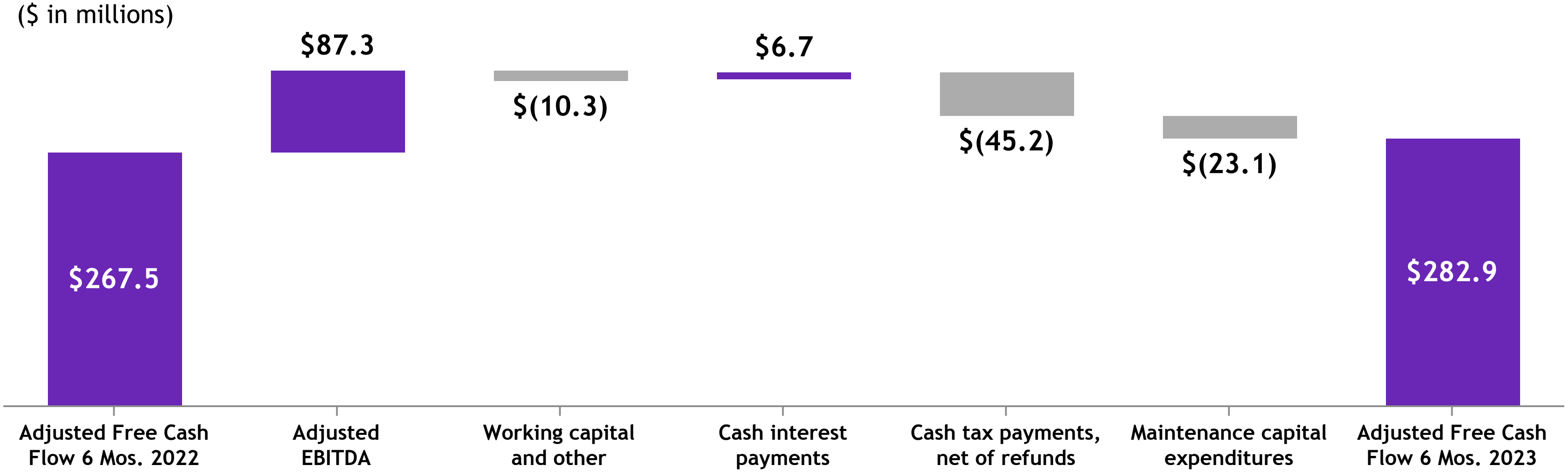
	Q2		6 Months	
	2023	2022	2023	2022
Diluted earnings per share, as reported	$ 0.91	$ 0.38	$ 1.79	$ 1.02
Adjustments, net of tax:				
Bondholder consent fees associated with Enhabit distribution	—	0.15	—	0.15
Income tax adjustments	—	0.07	—	0.07
State regulatory change impact[2]	0.03	—	0.03	—
Loss on early extinguishment of debt[4][5]	—	0.01	—	0.01
Change in fair market value of equity securities	0.01	0.02	—	0.04
Adjusted earnings per share*	$ 0.95	$ 0.63	$ 1.83	$ 1.30

- Adjusted earnings per share removes from the GAAP earnings per share calculation 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.

Refer to page 35-36 for end notes.

2023 YTD Adjusted free cash flow[7]



- Adjusted free cash flow in the first six months of 2023 increased $15.4 million as growth of Adjusted EBITDA was partly offset by higher cash tax payments, maintenance capital expenditures, and working capital.

Reconciliations to GAAP provided on pages 27-34.
Refer to page 35-36 for end notes.

2023 Guidance - Updated as of August 1, 2023

($ in millions, except per share data)	Prior 2023 Guidance *issued 4/27/23*	Updated 2023 Guidance *issued 8/1/23*
Net Operating Revenue	$4,700 to $4,770	$4,750 to $4,810
Adjusted EBITDA[(1)]	$870 to $910	$920 to $950
Adjusted earnings per share from continuing operations attributable to Encompass Health[(6)]	$2.94 to $3.23	$3.31 to $3.53

Refer to page 35-36 for end notes.

2023 Guidance considerations*

Pricing

- Medicare pricing increase of 4% for the third quarter of 2023 and <u>3.3%</u> for the fourth quarter of 2023
- Managed Care pricing increase of 2% to 3%

Labor

- SWB per FTE (including contract labor, sign-on and shift bonuses) increase of approximately <u>2.0%</u>
  - ✓ Increase of approximately <u>4.5% to 5.0%</u> for salaries and wages and <u>4%</u> for benefits
  - ✓ Year-over-year decrease in contract labor expense and sign-on and shift bonuses
- Employees per occupied bed expected to be approximately 3.40 for Q3-Q4 2023

De novos

- Net pre-opening and ramp-up costs of approximately $10 million to $12 million

Bad debt

- Bad debt reserves of 2.0% to 2.4% of net operating revenue

Corporate

- Tax rate of approximately 26%
- Diluted share count of approximately 101 million shares

*Changes from previous guidance considerations are underlined.

Adjusted free cash flow[7] assumptions

Certain cash flow items ($ in millions)	6 Months 2023 Actuals	2022	2023 Assumptions
Cash interest payments (net of amortization of debt discounts and fees)	$68.0	$145.5	$135 to $145
Cash payments for income taxes, net of refunds	$46.9	$50.2	$95 to $110
Working capital and other	$(13.7)	$45.1	$30 to $50
Maintenance CAPEX	$94.5	$238.4	$230 to $240
Adjusted free cash flow	**$282.9**	**$340.1**	**$375 to $460**

Cash interest payments expected to decrease modestly due to full-year impact of debt repayment with July 1, 2022 distribution from Enhabit

Lower payments in 2022 due to application of overpayments from 2021

2022 includes Q4 payment of deferred payroll taxes resulting from CARES Act and recovery of $12.5 million of previously denied Medicare claims[8]

Investment in new equipment, renovations/improvements, and ongoing maintenance to existing hospitals

Refer to page 35-36 for end notes.

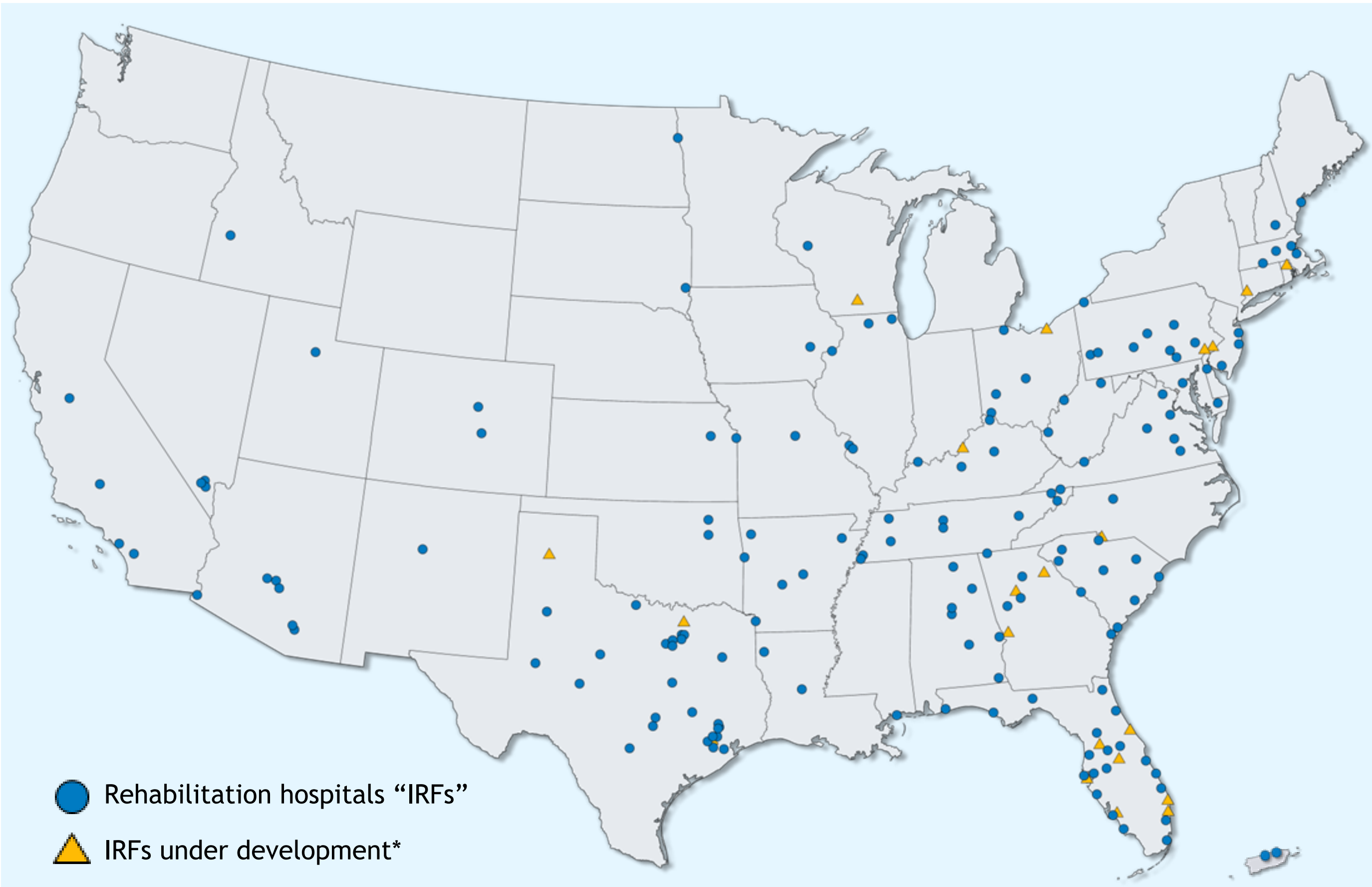
Uses of free cash flow

($ in millions)		6 Months 2023 Actuals	2022	2023 Assumptions
Growth in core business	IRF bed expansions	$12.4	$52.7	$60 to $70
	New IRFs			
	- De novos	112.1	276.6	275 to 295
	- Acquisitions	—	—	—
	- Replacement IRFs and other	2.7	16.5	TBD
		$127.2	$345.8	$335 to $365
Debt reduction	Debt redemptions (borrowings), net	$46.6	$511.3	TBD
Shareholder distributions	Cash dividends on common stock	$30.5	$99.0	~$60
	Common stock repurchases	—	—	—

- ~$198 million remaining under current authorization as of June 30, 2023[9]

Appendix

Encompass Health | Largest owner and operator of rehabilitation hospitals



Company profile as of 6/30/23

158 Rehabilitation hospitals "IRFs"

61 are joint ventures

21 IRFs under development*

37 States and Puerto Rico

25% of Licensed beds †

33% of Medicare patients served †

Key statistics trailing four quarters

~221,000 patient discharges

~$4.6 Billion in revenue

Fortune Magazine
World's Most Admired Companies

~36,900 employees

Modern Healthcare
Best Places to Work 2022™

* IRFs under development - previously announced under development as of July 31, 2023
† Based on 2022 and 2021 data

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

Poised to capture incremental market share

- 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

Inpatient Rehabilitation Hospitals Opened or Under Development

		Joint venture	# of new beds 2023	2024	2025	2026
De novo projects*						
	Eau Claire, WI	✓	36	–	–	–
	Knoxville, TN**	✓	73	–	–	–
	Owasso, OK	✓	40	–	–	–
	Clermont, FL		50	–	–	–
	Bowie, MD	✓	60	–	–	–
1	Columbus, GA	✓	40	–	–	–
2	Prosper, TX		40	–	–	–
3	Fitchburg, WI		–	56	–	–
4	Kissimmee, FL		–	50	–	–
5	Atlanta, GA	✓	–	40	–	–
6	Johnston, RI		–	50	–	–
7	Fort Mill, SC		–	39	–	–
8	Louisville, KY	✓	–	40	–	–
9	Houston, TX		–	61	–	–
10	Daytona Beach, FL		–	–	50	–
11	Fort Myers, FL	✓	–	–	60	–
12	Lake Worth, FL		–	–	50	–
13	Concordville, PA		–	–	50	–
14	Norristown, PA		–	–	50	–
15	Wildwood, FL		–	–	50	–
16	Athens, GA	✓	–	–	40	–
17	St. Petersburg, FL		–	–	50	–
18	Palm Beach Gardens, FL		–	–	–	50
19	Amarillo, TX		–	–	–	50
20	Strongsville, OH		–	–	–	40
21	Danbury, CT		–	–	–	40

*All dates are tentative and subject to change

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IRF development projects announced and underway

Q2 2023 De novo activity highlights

	JV
▶ Opened 2 rehabilitation hospitals	
• Clermont, FL	
• Bowie, MD	✓
▶ Announced de novos	
• 40-bed hospital in Danbury, CT	
• 50-bed hospital in Concordville, PA	

**Knoxville, TN opened a 22-bed hospital-in-hospital unit and a 51-bed free-standing hospital.

Contract labor and sign-on and shift bonus trends

	2021				2022					2023	
	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2
Contract labor and sign-on and shift bonus expense trends ($ in millions)											
Sign-on/shift bonus	$12.7	$15.0	$21.3	**$59.8**	$21.1	$21.8	$24.2	$15.7	**$82.8**	$16.3	$14.0
Contract labor	16.0	18.3	30.0	**74.4**	41.9	35.1	24.8	19.7	**121.5**	20.7	22.1
Total	$28.7	$33.3	$51.3	**$134.2**	$63.0	$56.9	$49.0	$35.4	**$204.3**	$37.0	$36.1
Contract labor FTE trends ($ in thousands)											
Contract labor FTEs	318	383	516	**359**	706	633	481	369	**547**	459	476
as a % of total FTEs	*1.4 %*	*1.6 %*	*2.2 %*	***1.5 %***	*2.9 %*	*2.6 %*	*1.9 %*	*1.5 %*	***2.2 %***	*1.8 %*	*1.8 %*
Contract labor rate/FTE	$201.3	$189.5	$230.7	**$207.1**	$240.4	$222.6	$204.6	$211.5	**$222.0**	$182.7	$186.0
Net same-store RN hires	5	166	46	**329**	127	149	183	(32)	**427**	54	202

Pre-payment and post-payment claims denials

- Encompass Health establishes a reserve upon notice that a claim is under review.
- Acting through various contractors and programs, CMS regularly reviews and denies Medicare claims. HHS provides an appeals process through its Administrative Law Judges ("ALJs"). We regularly appeal denials to ALJs when we believe the claim is valid and the denial is in error.
- Appeals prior to 2018 became part of a nationwide backlog of cases at the ALJ level that a federal judge ordered HHS to clear by the end of 2022. By December 31, 2022, we cleared substantially all of the backlog at the ALJ level.
- We have appealed certain adverse ALJ rulings to the Department Appeals Boards ("DAB"), the final level of administrative review. As of June 30, 2023, approximately $49 million in claims are awaiting review at the DAB.(8) In addition, we have appealed approximately $6 million in claims denied by the DAB to several United States District Courts, all of which are pending review as of June 30, 2023.
- New claims review activity continued in Q2 2023 as all of our CMS contractors have resumed claim audits under the Targeted Probe and Educate ("TPE") program* following the temporary suspension of audit activity during the public health emergency.
- During the first quarter of 2023, a Supplemental Medical Review Contractor initiated a review of claims from March 2020 through December 2020 totaling approximately $21 million. We have received initial results for the claims under review and approximately 82% of these have been approved with approximately $4 million under appeal.

Pre-payment Claims Reviews

Period	New Denials	Collections of Previously Denied Claims	Revenue Reserve for New Denials	Update of Reserve for Prior Denials
		($ in millions)		
Q2 2023	$19.4	$(18.8)	$1.9	$—
Q1 2023	34.8	(31.2)	3.5	—
Q4 2022	35.1	(13.7)	3.6	—
Q3 2022	10.5	(10.0)	1.1	—
Q2 2022	12.5	(6.5)	1.4	—
Q1 2022	1.1	(5.6)	0.3	—
Q4 2021	1.4	(8.1)	0.4	—
Q3 2021	(0.5)	(9.7)	—	—
Q2 2021	0.1	(6.3)	—	—
Q1 2021	(0.2)	(5.2)	—	—
Q4 2020	(0.4)	(7.2)	—	4.5
Q3 2020	(0.6)	(6.3)	—	—
Q2 2020	(1.5)	(3.5)	—	—
Q1 2020	4.2	(5.0)	1.3	—

Pre-payment and Post-payment Claims Receivables

	Jun. 30, 2023	Dec. 31, 2022	Dec. 31, 2021
		($ in millions)	
Gross claims denials	$ 90.8	$ 93.2	$ 105.7
Recorded reserves	(24.5)	(19.9)	(28.3)
Net accounts receivable from claims denials	**$ 66.3**	**$ 73.3**	**$ 77.4**

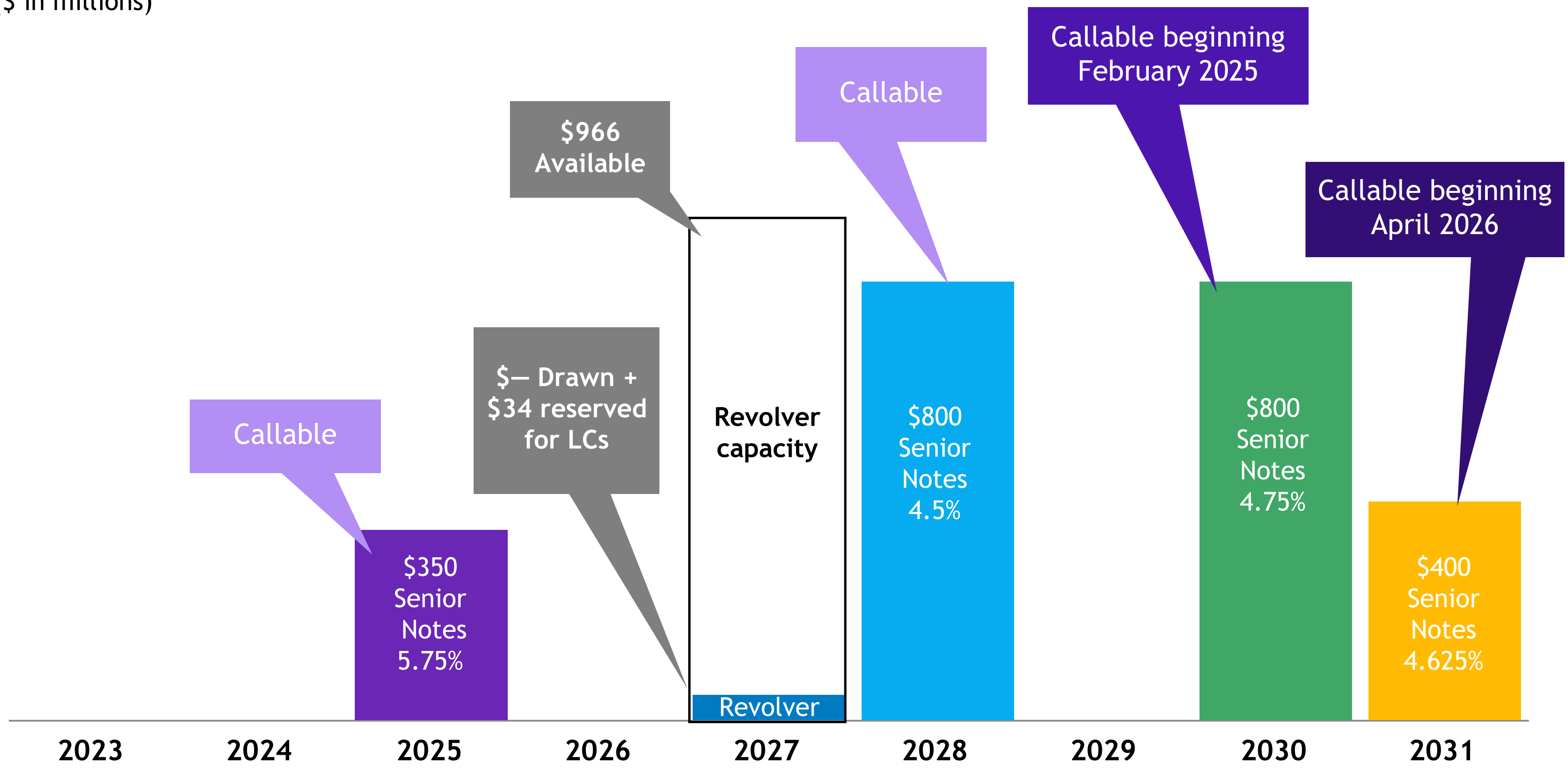
* For more information regarding TPE, see https://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/Medicare-FFS-Compliance-Programs/Medical-Review/Targeted-Probe-and-EducateTPE.html

Refer to page 35-36 for end notes.

Debt maturity profile - face value

As of June 30, 2023*

($ in millions)



* This chart does not include ~$350 of finance lease obligations or ~$67 of other notes payable.
See the debt schedule on page 22.

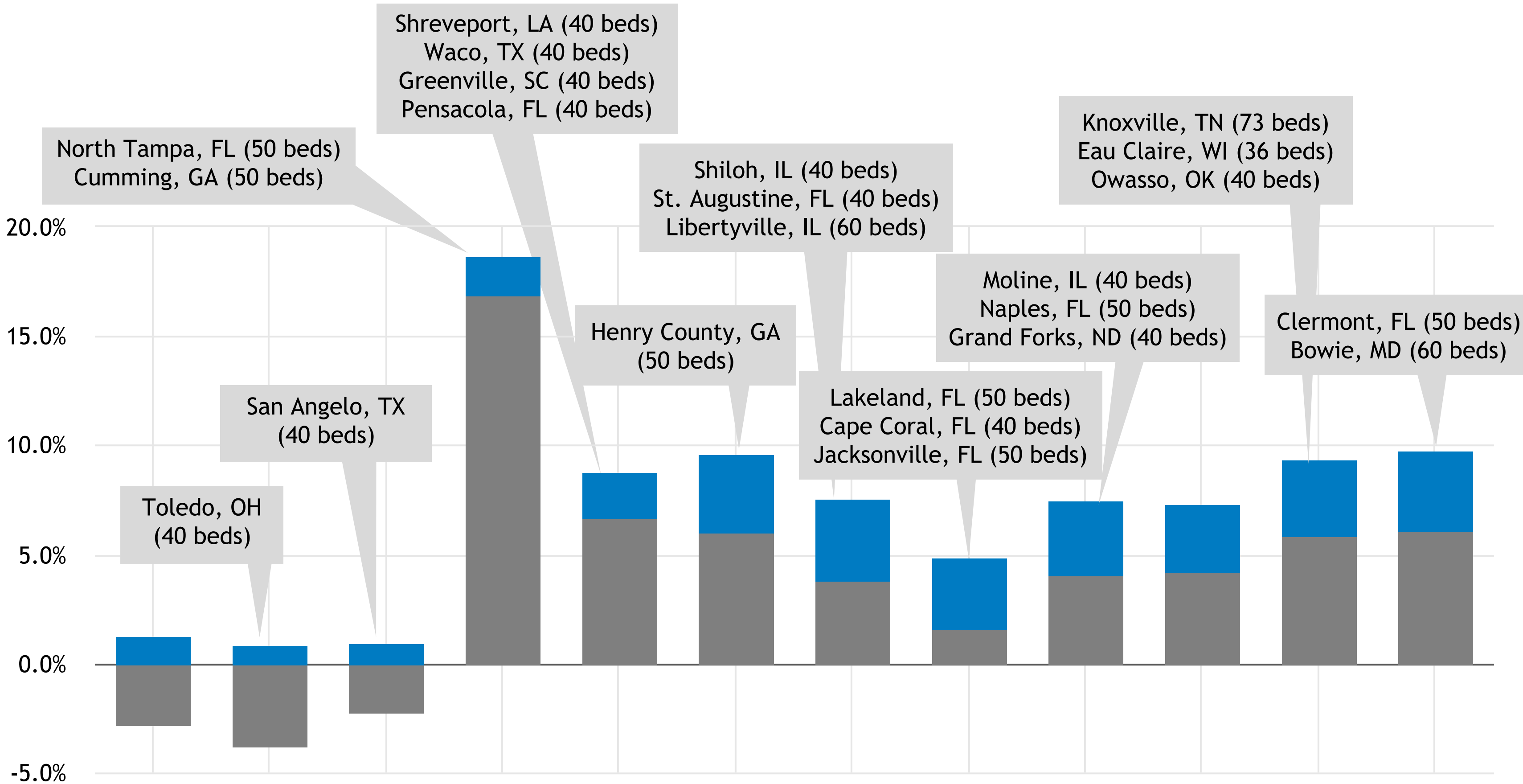
Debt schedule

($ in millions)	June 30, 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	348.1	347.7	0.4
4.50% Senior Notes due 2028	783.4	781.8	1.6
4.75% Senior Notes due 2030	780.2	779.0	1.2
4.625% Senior Notes due 2031	391.0	390.6	0.4
Other notes payable	67.4	53.1	14.3
Finance lease obligations	350.3	359.8	(9.5)
Long-term debt	**$ 2,720.4**	**$ 2,767.0**	$ (46.6)
Debt to Adjusted EBITDA	**3.0 x**	**3.4 x**	
Leverage net of cash on balance sheet	**2.9 x**	**3.4 x**	

The leverage ratio for 2Q23 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 4.0x
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

Reconciliations to GAAP provided on pages 27-34.

New-store/same-store growth



Discharges	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
New store	1.3%	0.9%	1.0%	1.8%	2.0%	3.6%	3.8%	3.3%	3.4%	3.1%	3.5%	3.6%
Same store*	(2.8)%	(3.8)%	(2.2)%	16.9%	6.7%	6.0%	3.8%	1.6%	4.1%	4.2%	5.9%	6.2%
Total by quarter	(1.5)%	(2.9)%	(1.2)%	18.7%	8.7%	9.6%	7.6%	4.9%	7.5%	7.3%	9.4%	9.8%
Total by year		(2.6)%				8.7%				6.8%		
Same-store year*		(4.4)%				6.2%				3.1%		

* Includes inpatient rehabilitation hospitals classified as same store during each period

Payment sources (percent of revenues)

	Q2		6 Months		Full Year
	2023	2022	2023	2022	2022
Medicare	64.4 %	64.9 %	64.7 %	65.1 %	65.3 %
Medicare Advantage	16.7 %	15.1 %	16.4 %	14.9 %	15.1 %
Managed care	11.2 %	11.6 %	11.1 %	12.0 %	11.6 %
Medicaid	4.1 %	4.5 %	4.1 %	4.2 %	4.2 %
Other third-party payors	0.9 %	0.9 %	0.9 %	0.9 %	0.9 %
Workers' compensation	0.6 %	0.6 %	0.6 %	0.6 %	0.6 %
Patients	0.3 %	0.4 %	0.3 %	0.4 %	0.4 %
Other income	1.8 %	2.0 %	1.9 %	1.9 %	1.9 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Operational metrics

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Full Year 2022
			($ in millions)				
Net patient revenue-inpatient	$ 1,162.3	$ 1,134.2	$ 1,113.0	$ 1,064.6	$ 1,037.8	$ 1,036.2	$ 4,251.6
Net patient revenue-outpatient and other revenues	24.8	26.2	24.3	24.9	24.7	23.1	97.0
Net operating revenues	$ 1,187.1	$ 1,160.4	$ 1,137.3	$ 1,089.5	$ 1,062.5	$ 1,059.3	$ 4,348.6
			(Actual Amounts)				
Discharges[10]	57,011	55,557	54,700	53,743	51,902	50,771	211,116
Net patient revenue per discharge	$ 20,387	$ 20,415	$ 20,347	$ 19,809	$ 19,995	$ 20,409	$ 20,139
Outpatient visits	30,752	31,852	33,138	34,348	35,929	35,229	138,644
Average length of stay	12.3	12.5	12.5	12.7	12.6	13.0	12.7
Occupancy %	72.4 %	73.4 %	71.7 %	71.4 %	70.7 %	73.1 %	70.9 %
# of licensed beds	10,611	10,510	10,356	10,356	10,206	10,028	10,356
Occupied beds	7,682	7,714	7,425	7,394	7,216	7,330	7,342
Full-time equivalents (FTEs) - internal	25,453	25,122	24,777	24,580	23,649	23,313	24,080
Contract labor FTEs	476	459	369	481	633	706	547
Total FTEs[11]	25,929	25,581	25,146	25,061	24,282	24,019	24,627
EPOB[12]	3.38	3.32	3.39	3.39	3.37	3.28	3.35

Refer to page 35-36 for end notes.

Share information

	Weighted Average for the Period						
	Q2		6 Months		Full Year		
(in millions)	2023	2022	2023	2022	2022	2021	2020
Basic shares outstanding	99.5	99.2	99.5	99.2	99.2	99.0	98.6
Restricted stock awards, dilutive stock options, and restricted stock units	1.6	1.1	1.5	1.0	1.2	1.2	1.2
Diluted shares outstanding	101.1	100.3	101.0	100.2	100.4	100.2	99.8

	End of Period						
	Q2		6 Months		Full Year		
(in millions)	2023	2022	2023	2022	2022	2021	2020
Basic shares outstanding	100.2	99.8	100.2	99.8	99.8	99.5	99.4

Net cash provided by operating activities reconciled to Adjusted EBITDA[1]

($ in millions)	Q2 2023	Q2 2022	6 Months 2023	6 Months 2022	Full Year 2022
Net cash provided by operating activities	$ 206.7	$ 244.6	$ 434.6	$ 463.5	$ 705.8
Interest expense and amortization of debt discounts and fees[3]	36.3	60.4	72.7	100.0	175.7
Gain (loss) on sale of investments, excluding impairments	0.1	(7.3)	1.8	(11.9)	(15.5)
Equity in net income of nonconsolidated affiliates	0.9	1.0	1.3	1.9	2.9
Net income attributable to noncontrolling interests in continuing operations	(25.8)	(21.9)	(51.4)	(43.9)	(93.6)
Amortization of debt-related items	(2.4)	(2.5)	(4.7)	(4.8)	(9.7)
Distributions from nonconsolidated affiliates	(0.1)	(1.9)	(0.2)	(2.9)	(4.0)
Current portion of income tax expense	36.5	31.6	64.4	52.9	72.2
Change in assets and liabilities	(3.5)	(71.4)	(41.4)	(93.4)	30.4
Cash used in (provided by) operating activities of discontinued operations	1.6	(39.5)	2.9	(75.9)	(52.3)
State regulatory change impact on noncontrolling interests[2]	(2.2)	—	(2.2)	—	—
Change in fair market value of equity securities	1.1	3.2	0.6	5.7	7.4
Other	0.4	0.1	0.2	0.1	—
Adjusted EBITDA	$ 249.6	$ 196.4	$ 478.6	$ 391.3	$ 819.3

Refer to page 35-36 for end notes.

Reconciliation of net income to Adjusted EBITDA[1]

($ in millions)	Q2 2023	Q2 2022	6 Months 2023	6 Months 2022	Full Year 2022
Net income	$ 117.2	$ 71.3	$ 230.5	$ 181.4	$ 365.9
Loss (income) from discontinued operations, net of tax, attributable to Encompass Health	1.2	(11.5)	2.2	(35.2)	(15.2)
Net income attributable to noncontrolling interests included in continuing operations	(25.8)	(21.9)	(51.4)	(43.9)	(93.6)
Provision for income tax expense	32.8	22.8	64.7	46.4	100.1
Interest expense and amortization of debt discounts and fees[3]	36.3	60.4	72.7	100.0	175.7
Depreciation and amortization[2]	72.6	60.5	136.5	118.2	243.6
Loss on early extinguishment of debt[4][5]	—	1.1	—	1.4	1.4
Loss on disposal or impairment of assets	0.8	2.8	1.5	3.5	4.8
Stock-based compensation	15.6	7.7	23.5	13.8	29.2
State regulatory change impact on noncontrolling interests[2]	(2.2)	—	(2.2)	—	—
Change in fair market value of equity securities	1.1	3.2	0.6	5.7	7.4
Adjusted EBITDA	$ 249.6	$ 196.4	$ 478.6	$ 391.3	$ 819.3

Refer to page 35-36 for end notes.

Reconciliation of net cash provided by operating activities to adjusted free cash flow[7]

($ in millions)	Q2 2023	Q2 2022	6 Months 2023	6 Months 2022	Full Year 2022
Net cash provided by operating activities	$ 206.7	$ 244.6	$ 434.6	$ 463.5	$ 705.8
Impact of discontinued operations	1.6	(39.5)	2.9	(75.9)	(52.3)
Net cash provided by operating activities of continuing operations	208.3	205.1	437.5	387.6	653.5
Capital expenditures for maintenance	(56.7)	(39.2)	(94.5)	(71.4)	(238.4)
Distributions paid to noncontrolling interests of consolidated affiliates	(27.6)	(25.1)	(59.4)	(45.9)	(96.6)
Items not indicative of ongoing operating performance:					
Transaction costs and related liabilities	0.2	3.5	(0.7)	(2.8)	21.6
Adjusted free cash flow	**$ 124.2**	**$ 144.3**	**$ 282.9**	**$ 267.5**	**$ 340.1**
Cash dividends on common stock	**$ 14.9**	**$ 27.8**	**$ 30.5**	**$ 56.3**	**$ 99.0**

Refer to page 35-36 for end notes.

Adjusted EPS[6] - Q2 2023

	For the Three Months Ended June 30, 2023				
		Adjustments			
	As Reported	State Regulatory Change Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	($ in millions, except per share amounts)				
Adjusted EBITDA	**$ 249.6**	**$ —**	**$ —**	**$ —**	**$ 249.6**
Depreciation and amortization[2]	(72.6)	6.1	—	—	(66.5)
Interest expense and amortization of debt discounts and fees	(36.3)	—	—	—	(36.3)
Stock-based compensation	(15.6)	—	—	—	(15.6)
Loss on disposal or impairment of assets	(0.8)	—	—	—	(0.8)
State regulatory change impact on noncontrolling interests [2]	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	(1.1)	—	—	1.1	—
Income from continuing operations before income tax expense	125.4	3.9	—	1.1	130.4
Provision for income tax expense	(32.8)	(1.0)	0.1	(0.3)	(34.0)
Income from continuing operations attributable to Encompass Health	**$ 92.6**	**$ 2.9**	**$ 0.1**	**$ 0.8**	**$ 96.4**
Diluted earnings per share from continuing operations*	**$ 0.91**	**$ 0.03**	**$ —**	**$ 0.01**	**$ 0.95**
Diluted shares used in calculation	**101.1**				

* Adjusted EPS may not sum across due to rounding.
Refer to page 35-36 for end notes.

Adjusted EPS[6] - Q2 2022

	For the Three Months Ended June 30, 2022					
		Adjustments				
	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	As Adjusted
	($ in millions, except per share amounts)					
Adjusted EBITDA	$ 196.4	$ —	$ —	$ —	$ —	$ 196.4
Depreciation and amortization	(60.5)	—	—	—	—	(60.5)
Interest expense and amortization of debt discounts and fees[3]	(60.4)	—	—	20.5	—	(39.9)
Stock-based compensation	(7.7)	—	—	—	—	(7.7)
Loss on disposal or impairment of assets	(2.8)	—	—	—	—	(2.8)
Loss on early extinguishment of debt[5]	(1.1)	1.1	—	—	—	—
Change in fair market value of equity securities	(3.2)	—	—	—	3.2	—
Income from continuing operations before income tax expense	60.7	1.1	—	20.5	3.2	85.5
Provision for income tax expense	(22.8)	(0.3)	7.0	(5.3)	(0.9)	(22.3)
Income from continuing operations attributable to Encompass Health	$ 37.9	$ 0.8	$ 7.0	$ 15.2	$ 2.3	$ 63.2
Diluted earnings per share from continuing operations*	$ 0.38	$ 0.01	$ 0.07	$ 0.15	$ 0.02	$ 0.63
Diluted shares used in calculation	100.3					

* Adjusted EPS may not sum across due to rounding.
Refer to page 35-36 for end notes.

Adjusted EPS[6] - YTD Q2 2023

	For the Six Months Ended June 30, 2023				
		Adjustments			
	As Reported	State Regulatory Change Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	($ in millions, except per share amounts)				
Adjusted EBITDA	**$ 478.6**	**$ —**	**$ —**	**$ —**	**$ 478.6**
Depreciation and amortization[2]	(136.5)	6.1	—	—	(130.4)
Interest expense and amortization of debt discounts and fees	(72.7)	—	—	—	(72.7)
Stock-based compensation	(23.5)	—	—	—	(23.5)
Loss on disposal or impairment of assets	(1.5)	—	—	—	(1.5)
State regulatory change impact on noncontrolling interests [2]	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	(0.6)	—	—	0.6	—
Income from continuing operations before income tax expense	246.0	3.9	—	0.6	250.5
Provision for income tax expense	(64.7)	(1.0)	0.4	(0.2)	(65.5)
Income from continuing operations attributable to Encompass Health	**$ 181.3**	**$ 2.9**	**$ 0.4**	**$ 0.4**	**$ 185.0**
Diluted earnings per share from continuing operations*	**$ 1.79**	**$ 0.03**	**$ —**	**$ —**	**$ 1.83**
Diluted shares used in calculation	**101.0**				

* Adjusted EPS may not sum across due to rounding.
Refer to page 35-36 for end notes.

Adjusted EPS[6] - YTD Q2 2022

	For the Six Months Ended June 30, 2022					
		Adjustments				
	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	As Adjusted
	($ in millions, except per share amounts)					
Adjusted EBITDA	**$ 391.3**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 391.3**
Depreciation and amortization	(118.2)	—	—	—	—	(118.2)
Interest expense and amortization of debt discounts and fees[3]	(100.0)	—	—	20.5	—	(79.5)
Stock-based compensation	(13.8)	—	—	—	—	(13.8)
Loss on disposal or impairment of assets	(3.5)	—	—	—	—	(3.5)
Loss on early extinguishment of debt[4][5]	(1.4)	1.4	—	—	—	—
Change in fair market value of equity securities	(5.7)	—	—	—	5.7	—
Income from continuing operations before income tax expense	148.7	1.4	—	20.5	5.7	176.3
Provision for income tax expense	(46.4)	(0.4)	7.2	(5.3)	(1.5)	(46.4)
Income from continuing operations attributable to Encompass Health	**$ 102.3**	**$ 1.0**	**$ 7.2**	**$ 15.2**	**$ 4.2**	**$ 129.9**
Diluted earnings per share from continuing operations*	**$ 1.02**	**$ 0.01**	**$ 0.07**	**$ 0.15**	**$ 0.04**	**$ 1.30**
Diluted shares used in calculation	**100.2**					

* Adjusted EPS may not sum across due to rounding.
Refer to page 35-36 for end notes.

Adjusted EPS[6] - 2022

	For the Year Ended December 31, 2022					
		Adjustments				
	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	As Adjusted
	($ 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[3]	(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[4][5]	(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					

* Adjusted EPS may not sum across due to rounding.
Refer to page 35-36 for end notes.

End notes

(1) 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.

(2) 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 results 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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

Reconciliations to GAAP provided on pages 27-34.

End notes (continued)

(8) In December 2017, the Company received notice of a Uniform Program Integrity Contractor (“UPIC”) audit at one of our hospitals. The UPIC sampled 100 claims and challenged the propriety of a subset of the sample representing $1.3 million in previously paid claims. The UPIC extrapolated the alleged error rate to all claims from that hospital during a period of approximately four years, resulting in an alleged overpayment of $33.9 million. Our Medicare Administrative Contractor (“MAC”) later reduced the determination of overpayment to $30.5 million, which it collected through recoupment of current claims during 2019. We appealed the overpayment determination to an Administrative Law Judge (“ALJ”), who heard the appeal in August 2021. In October 2022, the ALJ overturned $12.5 million of the overpayment determination. We received payment of this amount, plus $3.2 million in interest, in December 2022. We have appealed the remaining $18.0 million of the overpayment determination to the next level of administrative appeal, challenging both the denials and the improper use of extrapolation. It is not possible to predict when this matter will be resolved or the ultimate outcome.

(9) 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 June 30, 2023, the remaining repurchase authorization was approximately $198 million.

(10) Represents discharges from 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.

(11) 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.

(12) 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. The number of occupied beds is determined by multiplying the number of licensed beds by the Company’s occupancy percentage.