



2024 First Quarter Earnings Call

April 25, 2024
Supplemental information



Forward-looking statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect Encompass Health's current outlook, views and plans with respect to future events, including the business outlook, guidance and growth targets, value drivers, labor availability and costs, legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, such as the de novo pipeline, costs, growth and timelines, operational initiatives, dividend strategies, leverage, repurchases of securities, effective tax rates, financial performance, financial assumptions and considerations, balance sheet and cash flow plans, market share capture, and addressable market size. These estimates, projections and other forward-looking information are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.

There can be no assurance any estimates, projections or forward-looking information will be realized.

All such estimates, projections and forward-looking information speak only as of the date hereof. Encompass Health undertakes no duty to publicly update or revise the information contained herein.

You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the earnings release attached as Exhibit 99.1 to the Company's Form 8-K dated April 24, 2024 (the "Q1 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2023, the Form 10-Q for the quarter ended March 31, 2024, 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 Q1 Earnings Release Form 8-K provides further explanation and disclosure regarding Encompass Health's use of non-GAAP financial measures and should be read in conjunction with this supplemental information.

Table of contents

Q1 2024 Financial summary	4
Key takeaways	5
Revenue	6
Adjusted EBITDA	7
Earnings per share	8-9
Adjusted free cash flow	10
2024 Guidance and guidance considerations	11-12
Adjusted free cash flow assumptions	13
Uses of free cash flow	14
Appendix	
Map of locations	16
Growth targets, fundamentals and value drivers	17
De novo activity	18
Debt maturity profile and schedule	19-20
New-store/same-store growth	21
Payment sources	22
Operational metrics	23
Share information	24
Reconciliations to GAAP	25-30
End notes	31-32

Q1 2024 Financial summary

(\$ in millions, except per share data)	Q1		
	2024	2023	% Δ
Encompass Health			
Net operating revenue	\$1,316.0	\$1,160.4	13.4 %
Adjusted EBITDA	\$ 273.0	\$ 229.0	19.2 %
Adjusted EPS	\$ 1.12	\$ 0.88	27.3 %
Adjusted free cash flow	\$ 167.6	\$ 158.7	5.6 %

Q1 2024 Key takeaways

▶ Revenue

- Net operating revenue growth of 13.4%
 - ✓ Discharge growth of 10.0% (6.7% same store)

▶ Adjusted EBITDA

- Adjusted EBITDA growth of 19.2%

▶ Balance sheet

- Net leverage of 2.5x

▶ Capacity additions

- Added 51 beds to existing hospitals

▶ Shareholder distributions

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

Revenue

(\$ in millions)	Q1 2024	Q1 2023	% Change*
Net operating revenue:			
Inpatient	\$ 1,282.7	\$ 1,134.2	13.1%
Outpatient and other	33.3	26.2	27.1%
Total revenue	\$ 1,316.0	\$ 1,160.4	13.4%

(Actual Amounts)

Discharges	61,111	55,557	10.0%
New-store discharge growth			3.3%
Same-store discharge growth			6.7%
Net patient revenue per discharge	\$ 20,990	\$ 20,415	2.8%
Revenue reserves related to bad debt as a percent of revenue	2.2 %	2.4 %	(20) bps

- ▶ Outpatient and other revenue includes a \$6.9 million increase in provider tax revenues (primarily based on payments related to prior periods).

Adjusted EBITDA⁽¹⁾

(\$ in millions)	Q1 2024	% of Revenue	Q1 2023	% of Revenue
Net operating revenue	\$1,316.0		\$ 1,160.4	
Operating expenses:				
Salaries and benefits	(711.6)	54.1 %	(629.0)	54.2 %
Other operating expenses ^(a)	(190.2)	14.5 %	(177.2)	15.3 %
Supplies	(58.5)	4.4 %	(53.8)	4.6 %
Occupancy costs	(14.0)	1.1 %	(13.8)	1.2 %
Hospital operating expenses	(262.7)	20.0 %	(244.8)	21.1 %
General and administrative expenses ^(b)	(38.9)	3.0 %	(34.2)	2.9 %
Other income ^(c)	3.1		1.8	
Equity in nonconsolidated affiliates	0.7		0.4	
Noncontrolling interests in continuing operations ^(d)	(33.6)		(25.6)	
Adjusted EBITDA	\$ 273.0		\$ 229.0	
Percent change		19.2 %		

► Other operating expenses as a percent of revenue decreased 80 basis points primarily due to the favorable impact from the implementation of on-site dialysis and efficiencies in recruiting.

(\$ in millions)	Q1 2024	Q1 2023
In arriving at Adjusted EBITDA, the following were excluded:		
(a) Loss on disposal or impairment of assets ⁽²⁾	\$ 13.7	\$ 0.7
(b) Stock-based compensation and the change in fair market value of the non-qualified deferred comp plan	\$ 11.3	\$ 9.2
(c) Change in fair market value of equity securities and the non-qualified deferred comp plan	\$ (2.3)	\$ (1.8)
(d) Asset impairment impact on noncontrolling interests ⁽²⁾	\$ (7.3)	\$ —

Earnings per share - as reported

(\$ in millions, except per share data)	Q1	
	2024	2023
Adjusted EBITDA	\$ 273.0	\$ 229.0
Depreciation and amortization	(70.3)	(63.9)
Interest expense and amortization of debt discounts and fees	(35.2)	(36.4)
Stock-based compensation	(9.3)	(7.9)
Loss on disposal or impairment of assets	(13.7)	(0.7)
	144.5	120.1
Items not indicative of ongoing operating performance:		
Change in fair market value of equity securities	0.3	0.5
Asset impairment impact on noncontrolling interests ⁽²⁾	7.3	—
Pre-tax income	152.1	120.6
Income tax expense	(38.3)	(31.9)
Income from continuing operations*	\$ 113.8	\$ 88.7
Diluted shares (see page 24)	102.2	100.9
Diluted earnings per share*	\$ 1.11	\$ 0.88

Adjusted earnings per share⁽⁴⁾

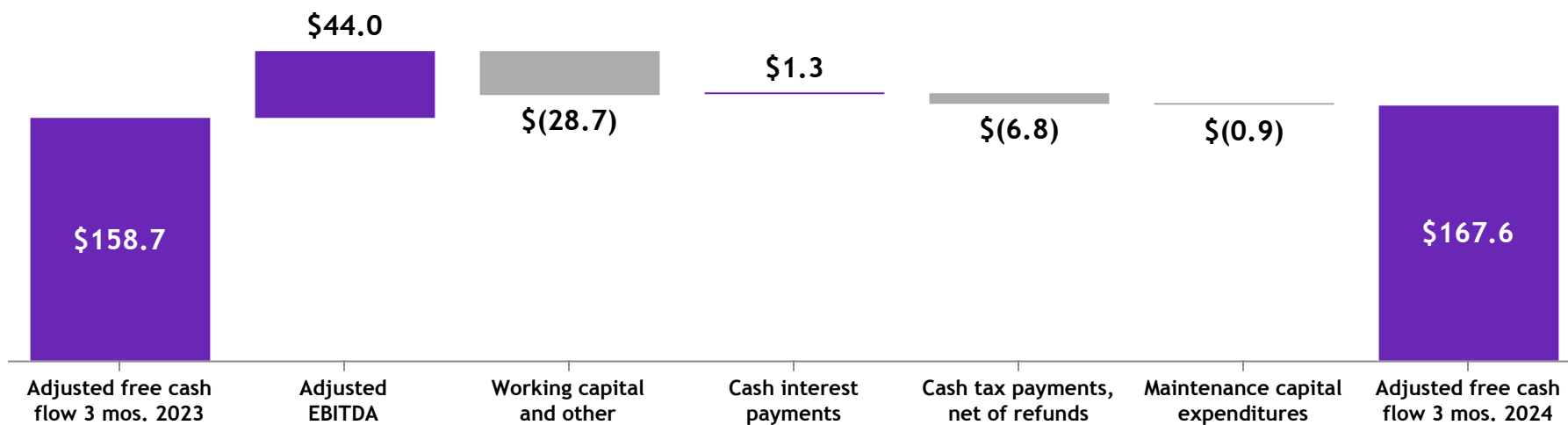
	Q1	
	2024	2023
Diluted earnings per share, as reported	\$ 1.11	\$ 0.88
Adjustments, net of tax:		
Asset impairment impact ⁽²⁾	0.02	—
Income tax adjustments	(0.01)	—
Adjusted earnings per share*	\$ 1.12	\$ 0.88

- ▶ Adjusted earnings per share removes from GAAP earnings per share the impact of items the Company believes are not indicative of its ongoing operating performance.
- ▶ Asset impairment related to the closure of Rehabilitation Hospital of Western Wisconsin (Eau Claire).

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 28-30.

Q1 2024 Adjusted free cash flow⁽⁵⁾

(\$ in millions)



2024 Guidance - Updated as of April 24, 2024

	Previous 2024 Guidance	Updated 2024 Guidance
(\$ in millions, except per share data)		
Net Operating Revenue	\$5,200 to \$5,300	\$5,250 to \$5,325
Adjusted EBITDA ⁽¹⁾	\$1,015 to \$1,055	\$1,030 to \$1,065
Adjusted earnings per share from continuing operations attributable to Encompass Health ⁽⁴⁾	\$3.77 to \$4.06	\$3.86 to \$4.11

2024 Guidance considerations

► Pricing

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

► Labor

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

► Capacity additions

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

► Corporate

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

Adjusted free cash flow⁽⁵⁾ assumptions

Certain cash flow items (\$ in millions)	3 Months 2024 Actuals	2023 Actuals	2024 Assumptions
Cash interest payments (net of amortization of debt discounts and fees)	\$32.8	\$134.0	\$130 to \$140
Cash payments for income taxes, net of refunds	\$6.6	\$106.6	\$150 to \$170
Working capital and other	\$27.3	\$(12.1)	\$30 to \$50
Maintenance CAPEX	\$38.7	\$216.9	\$185 to \$195
Adjusted free cash flow	\$167.6	\$525.7	\$475 to \$570

Increased cash taxes due to higher net income and phase-out of bonus depreciation; 2023 cash taxes benefited from \$11 million overpayment in 2022 applied to 2023

Increased working capital due to growth in accounts receivable and the timing of payroll and payroll tax liabilities

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

Uses of free cash flow

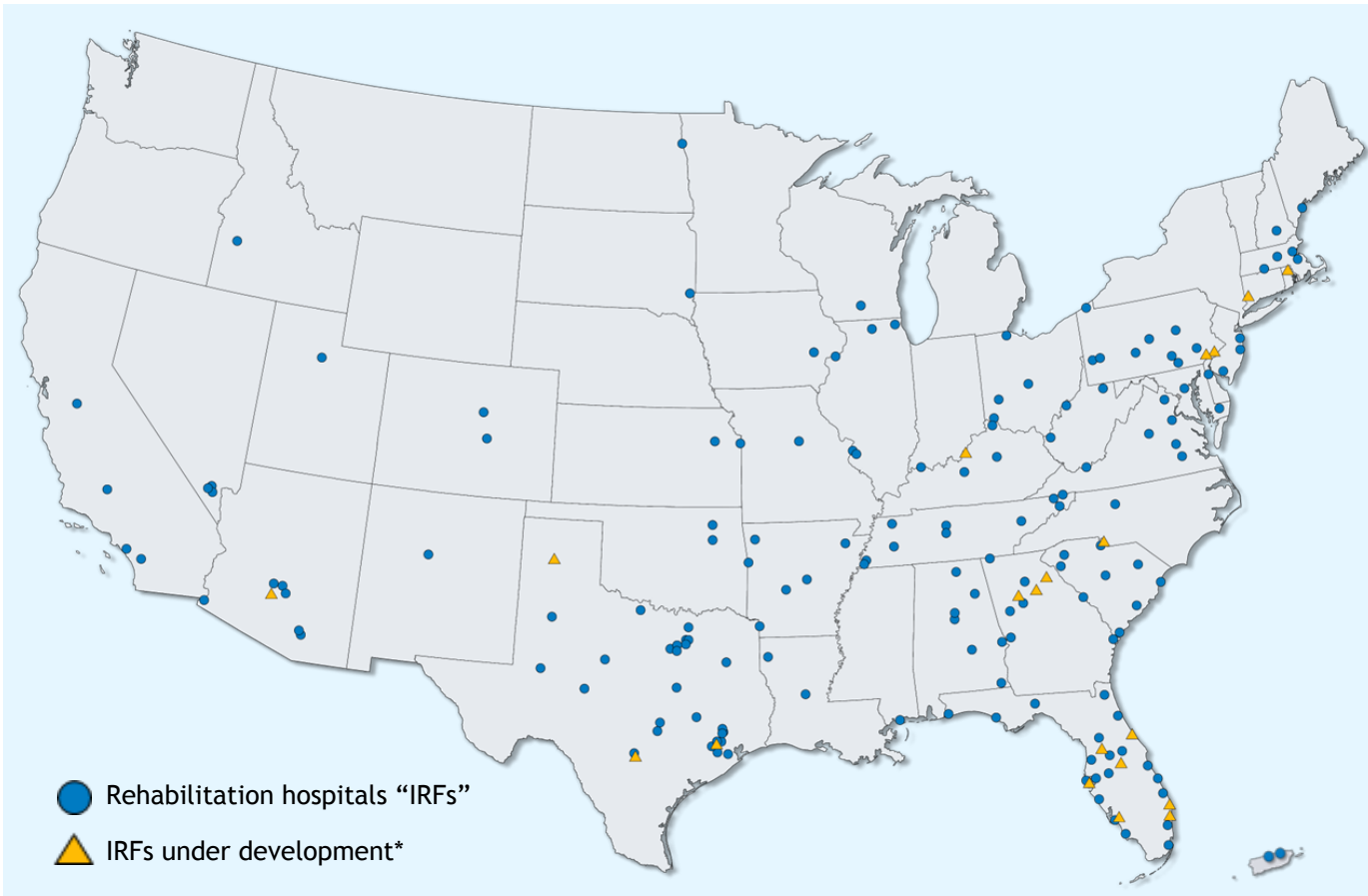
(\$ in millions)		3 Months 2024 Actuals	2023 Actuals	2024 Assumptions
Growth in core business	IRF bed expansions	\$19.9	\$41.8	\$105 to \$115
	New IRFs			
	- De novos	80.8	321.6	290 to 300
	- Replacement IRFs and other ⁽⁶⁾	—	24.2	—
		<u>\$100.7</u>	<u>\$387.6</u>	<u>\$395 to \$415</u>
Debt reduction	Debt redemptions (borrowings), net	\$4.4	\$54.4	TBD
Shareholder distributions	Cash dividends on common stock	\$15.9	\$60.4	TBD
	Common stock repurchases	\$—	\$—	TBD

- ~\$198 million remaining under current authorization as of March 31, 2024⁽⁷⁾

Appendix

Encompass Health

Largest owner and operator of rehabilitation hospitals



Company profile as of
03/31/24

160

Rehabilitation hospitals
“IRFs”

62 are joint ventures

20

IRFs under
development*

37

States and
Puerto Rico

25%

of Licensed beds[†]

34%

of Medicare
patients served[†]

Key statistics
trailing four quarters

~235,000

patient discharges

~\$5.0

Billion in
revenue



Fortune Magazine

World's Most Admired Companies

~38,500
employees

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

Growth targets, fundamentals and value drivers

► 2023 - 2027 Growth targets

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

► Large, under penetrated, and growing inpatient rehabilitation market

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

► Shareholder distributions

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

De novo activity

Inpatient Rehabilitation Hospitals opened or under development					
		Joint venture	# of new beds		
			2024	2025	2026
De novo projects*					
1	Kissimmee, FL		50	—	—
2	Atlanta, GA	✓	40	—	—
3	Johnston, RI		50	—	—
4	Fort Mill, SC		39	—	—
5	Louisville, KY	✓	40	—	—
6	Houston, TX		61	—	—
7	Daytona Beach, FL		—	50	—
8	Fort Myers, FL	✓	—	60	—
9	Lake Worth, FL		—	50	—
10	Concordville, PA		—	50	—
11	Norristown, PA		—	50	—
12	Wildwood, FL (in The Villages, FL)		—	50	—
13	Athens, GA	✓	—	40	—
14	St. Petersburg, FL		—	50	—
15	Palm Beach Gardens, FL		—	—	50
16	Amarillo, TX		—	—	50
17	Danbury, CT		—	—	40
18	Avondale, AZ		—	—	60
19	Loganville, GA	✓	—	—	40
20	San Antonio, TX		—	—	50
Bed expansions, net*			~150 †	~80	~80
*All dates are tentative and subject to change			430	480	370

[†] Inclusive of 40-bed freestanding satellite hospital

20

IRF development projects
announced and underway

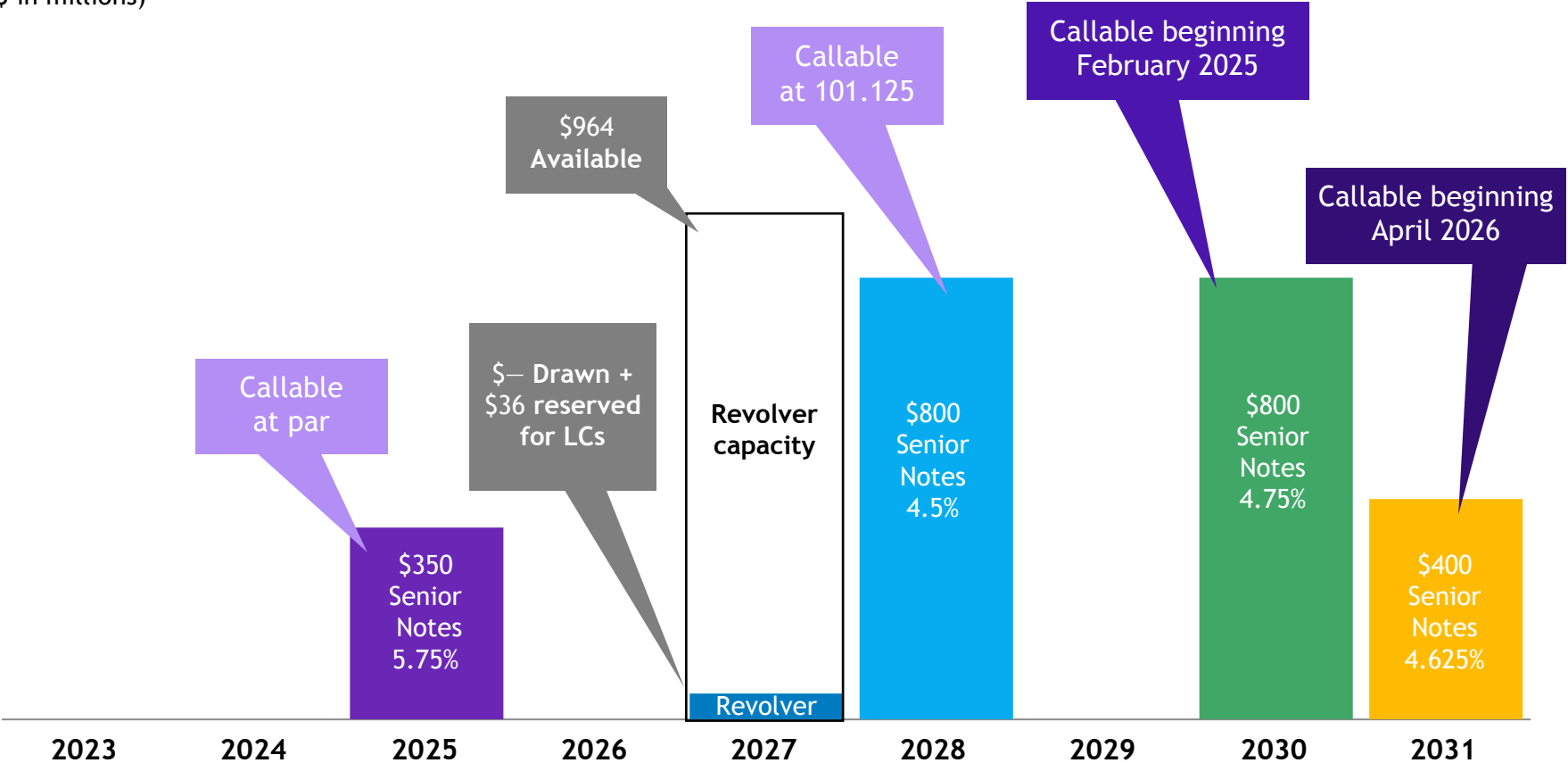
1Q 2024 De novo activity highlights

Announced de novo	# of beds	JV
• Avondale, AZ	60	
• Loganville, GA	40	✓

Debt maturity profile - face value

As of March 31, 2024*

(\$ in millions)

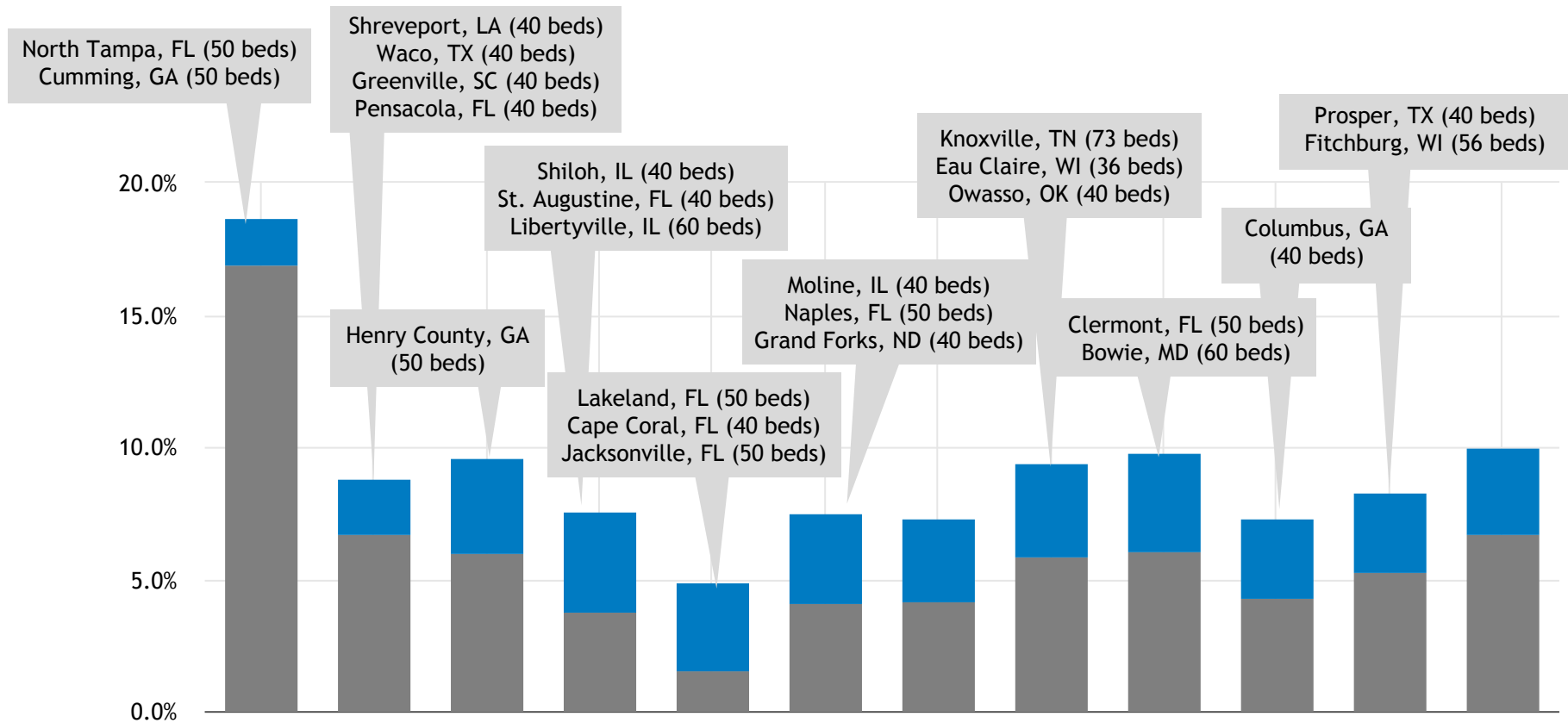


Debt schedule

(\$ in millions)	March 31, 2024	December 31, 2023	Change in Debt vs. YE 2023
Advances under \$1 billion revolving credit facility	\$ —	\$ —	\$ —
Bonds Payable:			
5.75% Senior Notes due 2025	348.7	348.5	0.2
4.50% Senior Notes due 2028	785.9	785.0	0.9
4.75% Senior Notes due 2030	782.2	781.5	0.7
4.625% Senior Notes due 2031	391.8	391.5	0.3
Other notes payable	64.8	66.0	(1.2)
Finance lease obligations	334.8	340.1	(5.3)
Long-term debt	\$ 2,708.2	\$ 2,712.6	\$ (4.4)
Debt to Adjusted EBITDA	2.7 x	2.8 x	
Leverage net of cash and cash equivalents	2.5 x	2.7 x	

The leverage ratio for 1Q24 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 3.1x
The leverage ratio for 2023 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 3.2x

New-store/same-store growth



Discharges	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
New store	1.8%	2.0%	3.6%	3.8%	3.3%	3.4%	3.1%	3.5%	3.6%	3.0%	3.0%	3.3%
Same store*	16.9%	6.7%	6.0%	3.8%	1.6%	4.1%	4.2%	5.9%	6.2%	4.3%	5.3%	6.7%
Total by quarter	18.7%	8.7%	9.6%	7.6%	4.9%	7.5%	7.3%	9.4%	9.8%	7.3%	8.3%	10.0%
Total by year			8.7%				6.8%				8.7%	
Same store by year*			6.2%				3.1%				4.8%	

Payment sources (percent of revenues)

	Q1		Full Year
	2024	2023	2023
Medicare	64.9 %	65.3 %	65.0 %
Medicare Advantage	17.0 %	16.0 %	16.2 %
Managed care	10.9 %	11.0 %	11.1 %
Medicaid	3.4 %	4.1 %	4.0 %
Other third-party payors	0.7 %	0.9 %	0.9 %
Workers' compensation	0.5 %	0.5 %	0.5 %
Patients	0.3 %	0.2 %	0.3 %
Other income	2.3 %	2.0 %	2.0 %
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Operational metrics

	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Full Year 2023
Net patient revenue-inpatient	\$1,282.7	\$1,216.8	\$1,180.5	\$1,162.3	\$1,134.2	\$4,693.8
Net patient revenue-outpatient and other revenues	33.3	30.0	26.4	24.8	26.2	107.4
Net operating revenues	<u>\$1,316.0</u>	<u>\$1,246.8</u>	<u>\$1,206.9</u>	<u>\$1,187.1</u>	<u>\$1,160.4</u>	<u>\$4,801.2</u>
Discharges ⁽⁸⁾	61,111	59,247	57,665	57,011	55,557	229,480
Net patient revenue per discharge	\$ 20,990	\$ 20,538	\$ 20,472	\$ 20,387	\$ 20,415	\$ 20,454
Outpatient visits	29,744	29,627	28,604	30,752	31,852	120,835
Average length of stay	12.3	12.3	12.4	12.3	12.5	12.4
Occupancy %	76.7 %	73.4 %	72.8 %	72.4 %	73.4 %	72.1 %
# of licensed beds	10,781	10,778	10,677	10,611	10,510	10,778
Occupied beds	8,269	7,911	7,773	7,682	7,714	7,771
Full-time equivalents (FTEs) - internal	27,209	26,713	26,112	25,453	25,122	25,850
Contract labor FTEs	434	378	388	476	459	425
Total FTEs ⁽⁹⁾	<u>27,643</u>	<u>27,091</u>	<u>26,500</u>	<u>25,929</u>	<u>25,581</u>	<u>26,275</u>
EPOB ⁽¹⁰⁾	3.34	3.42	3.41	3.38	3.32	3.38

Share information

(in millions)	Weighted Average for the Period				
	Q1		Full Year		
	2024	2023	2023	2022	2021
Basic shares outstanding	99.8	99.4	99.5	99.2	99.0
Restricted stock awards, dilutive stock options, and restricted stock units	2.4	1.5	1.8	1.2	1.2
Diluted shares outstanding	102.2	100.9	101.3	100.4	100.2

(in millions)	End of Period				
	Q1		Full Year		
	2024	2023	2023	2022	2021
Basic shares outstanding	100.7	100.2	100.3	99.8	99.5

Net cash provided by operating activities reconciled to Adjusted EBITDA⁽¹⁾

(\$ in millions)	Q1		Full Year
	2024	2023	2023
Net cash provided by operating activities	\$ 238.8	\$ 227.9	\$ 850.8
Interest expense and amortization of debt discounts and fees	35.2	36.4	143.5
Gain on sale of investments, excluding impairments	1.3	1.7	4.6
Equity in net income of nonconsolidated affiliates	0.7	0.4	3.2
Net income attributable to noncontrolling interests in continuing operations	(26.3)	(25.6)	(111.0)
Amortization of debt-related items	(2.4)	(2.3)	(9.5)
Distributions from nonconsolidated affiliates	(0.8)	(0.1)	(1.6)
Current portion of income tax expense	31.8	27.9	128.3
Change in assets and liabilities	1.6	(37.9)	(50.3)
Cash used in operating activities of discontinued operations	0.7	1.3	16.0
State regulatory change impact on noncontrolling interests ⁽³⁾	—	—	(2.2)
Asset impairment impact on noncontrolling interests ⁽²⁾	(7.3)	—	—
Change in fair market value of equity securities	(0.3)	(0.5)	(0.7)
Other	—	(0.2)	—
Adjusted EBITDA	\$ 273.0	\$ 229.0	\$ 971.1

Reconciliation of net income to Adjusted EBITDA⁽¹⁾

(\$ in millions)	Q1		Full Year
	2024	2023	2023
Net income	\$ 138.8	\$ 113.3	\$ 463.0
Loss from discontinued operations, net of tax, attributable to Encompass Health	1.3	1.0	12.0
Net income attributable to noncontrolling interests included in continuing operations	(26.3)	(25.6)	(111.0)
Provision for income tax expense	38.3	31.9	132.2
Interest expense and amortization of debt discounts and fees	35.2	36.4	143.5
Depreciation and amortization ⁽³⁾	70.3	63.9	273.9
Loss on disposal or impairment of assets	13.7	0.7	9.8
Stock-based compensation	9.3	7.9	50.6
State regulatory change impact on noncontrolling interests ⁽³⁾	—	—	(2.2)
Change in fair market value of equity securities	(0.3)	(0.5)	(0.7)
Asset impairment impact on noncontrolling interests ⁽²⁾	(7.3)	—	—
Adjusted EBITDA	<u>\$ 273.0</u>	<u>\$ 229.0</u>	<u>\$ 971.1</u>

Reconciliation of net cash provided by operating activities to adjusted free cash flow⁽⁵⁾

(\$ in millions)	Q1		Full Year
	2024	2023	2023
Net cash provided by operating activities	\$ 238.8	\$ 227.9	\$ 850.8
Impact of discontinued operations	0.7	1.3	16.0
Net cash provided by operating activities of continuing operations	239.5	229.2	866.8
Capital expenditures for maintenance	(38.7)	(37.8)	(216.9)
Distributions paid to noncontrolling interests of consolidated affiliates	(24.7)	(31.8)	(114.7)
Items not indicative of ongoing operating performance:			
Transaction costs and related liabilities	(8.5)	(0.9)	(9.5)
Adjusted free cash flow	\$ 167.6	\$ 158.7	\$ 525.7
Cash dividends on common stock	\$ 15.9	\$ 15.6	\$ 60.4

Adjusted EPS⁽⁴⁾ - Q1 2024

	For the Three Months Ended March 31, 2024				
	Adjustments				
	As Reported	Asset Impairment Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(\$ in millions, except per share amounts)				
Adjusted EBITDA	\$ 273.0	\$ —	\$ —	\$ —	\$ 273.0
Depreciation and amortization	(70.3)	—	—	—	(70.3)
Interest expense and amortization of debt discounts and fees	(35.2)	—	—	—	(35.2)
Stock-based compensation	(9.3)	—	—	—	(9.3)
Loss on disposal or impairment of assets ⁽²⁾	(13.7)	10.4	—	—	(3.3)
Change in fair market value of equity securities	0.3	—	—	(0.3)	—
Asset impairment impact on noncontrolling interests ⁽²⁾	7.3	(7.3)	—	—	—
Income from continuing operations before income tax expense	152.1	3.1	—	(0.3)	154.9
Provision for income tax expense	(38.3)	(1.3)	(0.6)	0.1	(40.1)
Income from continuing operations attributable to Encompass Health	\$ 113.8	\$ 1.8	\$ (0.6)	\$ (0.2)	\$ 114.8
Diluted earnings per share from continuing operations*	\$ 1.11	\$ 0.02	\$ (0.01)	\$ —	\$ 1.12
Diluted shares used in calculation	102.2				

Adjusted EPS⁽⁴⁾ - Q1 2023

	For the Three Months Ended March 31, 2023			
	Adjustments			
	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(\$ in millions, except per share amounts)			
Adjusted EBITDA	\$ 229.0	\$ —	\$ —	\$ 229.0
Depreciation and amortization	(63.9)	—	—	(63.9)
Interest expense and amortization of debt discounts and fees	(36.4)	—	—	(36.4)
Stock-based compensation	(7.9)	—	—	(7.9)
Loss on disposal or impairment of assets	(0.7)	—	—	(0.7)
Change in fair market value of equity securities	0.5	—	(0.5)	—
Income from continuing operations before income tax expense	120.6	—	(0.5)	120.1
Provision for income tax expense	(31.9)	0.3	0.1	(31.5)
Income from continuing operations attributable to Encompass Health	\$ 88.7	\$ 0.3	\$ (0.4)	\$ 88.6
Diluted earnings per share from continuing operations*	\$ 0.88	\$ —	\$ —	\$ 0.88
Diluted shares used in calculation	100.9			

Adjusted EPS⁽⁴⁾ - 2023

	For the Year Ended December 31, 2023				
	Adjustments				As Adjusted
	As Reported	State Regulatory Change Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	
		(\$ in millions, except per share amounts)			
Adjusted EBITDA	\$ 971.1	\$ —	\$ —	\$ —	\$ 971.1
Depreciation and amortization ⁽³⁾	(273.9)	6.1	—	—	(267.8)
Interest expense and amortization of debt discounts and fees	(143.5)	—	—	—	(143.5)
Stock-based compensation	(50.6)	—	—	—	(50.6)
Loss on disposal or impairment of assets	(9.8)	—	—	—	(9.8)
State regulatory change impact on noncontrolling interests ⁽³⁾	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	0.7	—	—	(0.7)	—
Income from continuing operations before income tax expense	496.2	3.9	—	(0.7)	499.4
Provision for income tax expense	(132.2)	(1.0)	2.8	0.2	(130.2)
Income from continuing operations attributable to Encompass Health	\$ 364.0	\$ 2.9	\$ 2.8	\$ (0.5)	\$ 369.2
Diluted earnings per share from continuing operations*	\$ 3.59	\$ 0.03	\$ 0.03	\$ —	\$ 3.64
Diluted shares used in calculation	101.3				

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 January 2024, we received notice that our joint venture partner, Hospital Sisters Health System, intended to close its acute-care hospital, Sacred Heart Hospital in Eau Claire, WI, in which our joint venture inpatient rehabilitation hospital is located. We closed that joint venture hospital in February 2024 and incurred a one-time impairment charge of \$10.4 million. The impact to net income attributable to Encompass Health during the three months ended March 31, 2024 resulting from the impairment was \$1.8 million after reductions for net income attributable to noncontrolling interests of \$7.3 million and the provision for income tax expense of \$1.3 million.
- (3) In May of 2023, the governor of South Carolina signed into law S.164, which repealed the requirement of certain healthcare providers to obtain and/or maintain a certificate of need ("CON"). As a 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.
- (4) The Company is providing adjusted earnings per share from continuing operations attributable to Encompass Health ("adjusted earnings per share"), which is a non-GAAP measure. The Company believes the presentation of adjusted earnings per share provides useful additional information to investors because it provides better comparability of ongoing operating performance to prior periods given that it excludes the impact of government, class action, and related settlements, professional fees - accounting, tax, and legal, mark-to-market adjustments for stock appreciation rights, gains or losses related to hedging and equity instruments, loss on early extinguishment of debt, adjustments to its income tax provision (such as valuation allowance adjustments, settlements of income tax claims and windfall tax benefits), items related to corporate and facility restructurings, and certain other items deemed to be non-indicative of ongoing operating performance. It is reasonable to expect that one or more of these excluded items will occur in future periods, but the amounts recognized can vary significantly from period to period and may not directly relate to the Company's ongoing operating performance. Accordingly, they can complicate comparisons of the Company's results of operations across periods and comparisons of the Company's results to those of other healthcare companies. Adjusted earnings per share should not be considered as a measure of financial performance under generally accepted accounting principles in the United States as the items excluded from it are significant components in understanding and assessing financial performance. Because adjusted earnings per share is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, it may not be comparable as presented to other similarly titled measures of other companies.

End notes (continued)

- (5) 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.
- (6) In September 2023, we purchased our Treasure Coast hospital (Vero Beach, Florida) real estate from Ocean Health Associates, LTD. (“Ocean Health”) for \$21.4 million. Prior to the purchase, we leased the real estate from Ocean Health. The \$21.4 million payment is included in Principal payments under finance lease obligations on the consolidated statement of cash flows for the twelve months ended December 31, 2023.
- (7) 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 March 31, 2024, the remaining repurchase authorization was approximately \$198 million.
- (8) Represents discharges from 160 consolidated hospitals in Q1 2024; 161 consolidated hospitals in Q4 2023; 159 consolidated hospitals in Q3 2023; 158 consolidated hospitals in Q2 2023; and 156 consolidated hospitals in Q1 2023.
- (9) 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.
- (10) 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.