



2024 Fourth Quarter Earnings Call

February 7, 2025
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, 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, outstanding shares of common stock, effective tax rates, financial performance, financial assumptions and considerations, balance sheet and cash flow plans, market barriers to entry, and addressable market size. These estimates, projections and other forward-looking information are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.

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

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

You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the earnings release attached as Exhibit 99.1 to the Company's Form 8-K dated February 6, 2025 (the "Q4 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2023, the Forms 10-Q for the quarters ended March 31, 2024, June 30, 2024, and September 30, 2024, the Form 10-K for the year ended December 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 Q4 Earnings Release Form 8-K provides further explanation and disclosure regarding Encompass Health's use of non-GAAP financial measures and should be read in conjunction with this supplemental information.

Table of contents

Summary	4
Revenue	5
Adjusted EBITDA	6
Earnings per share	7-8
Adjusted free cash flow	9
2025 Guidance and guidance considerations	10-11
Adjusted free cash flow assumptions	12
Uses of free cash flow	13
Appendix	
Map of locations	15
Growth targets, fundamentals and value drivers	16
Development activity	17
Debt maturity profile and schedule	18-19
New-store/same-store growth	20
Payment sources	21
Operational metrics	22
Share information	23
Reconciliations to GAAP	24-30
End notes	31-32

Summary

(\$ in millions, except per share data)	Q4			Full Year		
	2024	2023	% Δ	2024	2023	% Δ
Encompass Health						
Net operating revenue	\$1,405.0	\$1,246.8	12.7 %	\$5,373.2	\$4,801.2	11.9 %
Adjusted EBITDA	\$ 289.6	\$ 255.0	13.6 %	\$1,103.7	\$ 971.1	13.7 %
Adjusted EPS	\$ 1.17	\$ 0.95	23.2 %	\$ 4.43	\$ 3.64	21.7 %
Adjusted free cash flow	\$ 190.5	\$ 93.5	103.7 %	\$ 690.3	\$ 525.7	31.3 %

2024 Year in review

► Capacity additions

- Opened 6 de novo hospitals with a total of 280 beds and a 40-bed satellite hospital
 - ✓ Net pre-opening and ramp up costs of \$15.6 million
- Added 107 beds to existing hospitals

► Balance sheet

- Net leverage of 2.2x compared to 2.7x at year-end 2023
- Redeemed \$250 million of 5.75% Senior Notes due 2025

► Shareholder distributions

- Paid cash dividends totaling \$0.62 per share
- Repurchased 358,837 shares of common stock for \$31.1 million

Revenue

(\$ in millions)	Q4 2024	Q4 2023	% Change*
Net operating revenue:			
Inpatient	\$ 1,366.1	\$ 1,216.8	12.3%
Outpatient and other	38.9	30.0	29.7%
Total revenue	\$ 1,405.0	\$ 1,246.8	12.7%

(Actual Amounts)

Discharges	63,839	59,247	7.8%
New-store discharge growth			2.0%
Same-store discharge growth			5.8%
Net patient revenue per discharge	\$ 21,399	\$ 20,538	4.2%
Revenue reserves related to bad debt as a percent of revenue	2.1 %	4.1 %	(200) bps

- ▶ Outpatient and other revenue includes an \$8.7 million increase in provider tax revenues.⁽¹⁾
- ▶ Revenue reserves related to bad debt decreased 200 basis points due to strong collections of previously reviewed claims in Q4-24 and elevated bad debt in Q4-23.
 - Q4-23 bad debt included an approximately \$22 million reserve related to appeals pending before the Departmental Appeals Board (DAB) and various federal courts.⁽²⁾ These appeals primarily related to claims denied prior to 2018.

Adjusted EBITDA⁽³⁾

(\$ in millions)	Q4 2024	% of Revenue	Q4 2023	% of Revenue
Net operating revenue	\$ 1,405.0		\$ 1,246.8	
Operating expenses:				
Salaries and benefits	(756.8)	53.9 %	(676.3)	54.2 %
Other operating expenses ^(a)	(200.3)	14.3 %	(178.7)	14.3 %
Supplies	(62.3)	4.4 %	(58.6)	4.7 %
Occupancy costs	(14.7)	1.0 %	(14.0)	1.1 %
Hospital operating expenses	(277.3)	19.7 %	(251.3)	20.2 %
General and administrative expenses ^(b)	(41.8)	3.0 %	(36.9)	3.0 %
Other income ^(c)	3.6		3.3	
Equity in nonconsolidated affiliates	0.2		0.9	
Noncontrolling interests in continuing operations	(43.3)		(31.5)	
Adjusted EBITDA	\$ 289.6		\$ 255.0	
Percent change	13.6 %			

▶ Other operating expenses includes a \$5.8 million increase in provider tax expenses.⁽¹⁾

(\$ in millions)	Q4 2024	Q4 2023
In arriving at Adjusted EBITDA, the following were excluded:		
(a) Loss on disposal or impairment of assets	\$ 6.1	\$ 6.1
(b) Stock-based compensation and the change in fair market value of the non-qualified deferred comp plan	\$ 12.7	\$ 16.2
(c) Change in fair market value of equity securities and the non-qualified deferred comp plan	\$ 1.5	\$ (5.6)

Earnings per share - as reported

(\$ in millions, except per share data)	Q4		Year Ended	
	2024	2023	2024	2023
Adjusted EBITDA	\$ 289.6	\$ 255.0	\$ 1,103.7	\$ 971.1
Depreciation and amortization ⁽⁴⁾	(78.0)	(70.1)	(299.6)	(273.9)
Interest expense and amortization of debt discounts and fees	(33.0)	(34.9)	(137.4)	(143.5)
Stock-based compensation	(12.5)	(13.4)	(48.3)	(50.6)
Loss on disposal or impairment of assets ⁽⁵⁾	(6.1)	(6.1)	(17.4)	(9.8)
	160.0	130.5	601.0	493.3
Items not indicative of ongoing operating performance:				
Loss on early extinguishment of debt ⁽⁶⁾⁽⁷⁾	(0.2)	—	(0.6)	—
State regulatory change impact on noncontrolling interests ⁽⁴⁾	—	—	—	2.2
Change in fair market value of equity securities	(1.7)	2.8	1.0	0.7
Asset impairment impact on noncontrolling interests ⁽⁵⁾	—	—	7.3	—
Pre-tax income	158.1	133.3	608.7	496.2
Income tax expense	(37.6)	(37.2)	(150.2)	(132.2)
Income from continuing operations*	<u>\$ 120.5</u>	<u>\$ 96.1</u>	<u>\$ 458.5</u>	<u>\$ 364.0</u>
Diluted shares (see page 23)	102.3	101.5	102.2	101.3
Diluted earnings per share*	<u>\$ 1.18</u>	<u>\$ 0.94</u>	<u>\$ 4.49</u>	<u>\$ 3.59</u>

* Earnings per share are determined using income from continuing operations attributable to Encompass Health. Reconciliations to GAAP provided on pages 24-30. Refer to pages 31-32 for end notes.

Adjusted earnings per share⁽⁸⁾

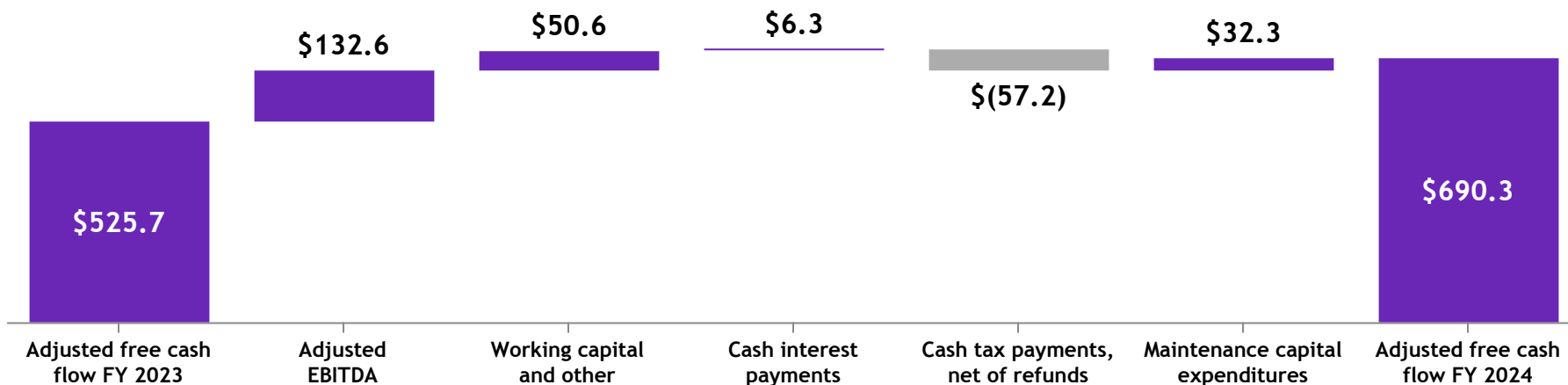
	Q4		Year Ended	
	2024	2023	2024	2023
Diluted earnings per share, as reported	\$ 1.18	\$ 0.94	\$ 4.49	\$ 3.59
Adjustments, net of tax:				
Asset impairment impact ⁽⁵⁾	—	—	0.02	—
Income tax adjustments ⁽⁹⁾	(0.03)	0.03	(0.08)	0.03
State regulatory change impact ⁽⁴⁾	—	—	—	0.03
Change in fair market value of equity securities	0.01	(0.02)	(0.01)	—
Adjusted earnings per share*	\$ 1.17	\$ 0.95	\$ 4.43	\$ 3.64

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

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 27-30.

2024 Adjusted free cash flow⁽¹⁰⁾

(\$ in millions)



- ▶ Decreased working capital primarily due to:
 - Lower accounts receivable
 - An increase in liabilities including group medical and other self-insured reserves, provider taxes and cost report settlements
- ▶ Increased cash taxes primarily due to higher income, the phase-out of bonus depreciation and 2023 cash taxes benefiting from an \$11 million overpayment in 2022

2025 Guidance

(\$ in millions, except per share data)

	2024 Actuals	2025 Guidance
Net Operating Revenue	\$5,373.2	\$5,800 to \$5,900
Adjusted EBITDA ⁽³⁾	\$1,103.7	\$1,160 to \$1,200
Adjusted earnings per share from continuing operations attributable to Encompass Health ⁽⁸⁾	\$4.43	\$4.67 to \$4.96

2025 Guidance considerations

▶ Pricing

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

▶ Labor

- SWB per FTE* increase of 3.25% to 3.75%

▶ Capacity additions

- 7 de novo hospitals with 340 beds and a 50-bed satellite hospital⁽¹¹⁾
 - ✓ Net pre-opening and ramp-up costs of \$18 million to \$22 million (inclusive of costs associated with 2026 openings incurred in 2025)
- Approximately 100 beds to existing hospitals

▶ Corporate

- Adjusted EBITDA impact of \$11.5 million to \$13.5 million
 - ✓ Oracle Fusion implementation costs of \$5.5 million to \$6.5 million (\$2.3 million in 2024)
 - ✓ Addition of Augusta hospital to Piedmont joint venture increasing income attributable to noncontrolling interests (NCI) by \$6.0 million to \$7.0 million (\$3.2 million in 2024)
- Tax rate of approximately 26%
- Diluted share count of approximately 103 million shares

*Includes contract labor and sign-on and shift bonuses

Adjusted free cash flow⁽¹⁰⁾ assumptions

Certain cash flow items (\$ in millions)	2024 Actuals	2025 Assumptions	
Cash interest payments (net of amortization of debt discounts and fees)	\$127.7	\$110 to \$120	Decreased cash interest payments due to repayment of \$250 million of Senior Notes during 2024
Cash payments for income taxes, net of refunds	\$163.8	\$155 to \$175	Cash tax payments include an increase in pre-tax income offset by overpayment from 2024
Working capital and other	\$(62.7)	\$30 to \$50	Increased working capital due to growth in revenue and normalized growth in group medical reserves
Maintenance CAPEX	\$184.6	\$215 to \$225	Increased maintenance CAPEX related to major renovation projects and programmatic hospital asset replacements
Adjusted free cash flow	\$690.3	\$590 to \$690	

Uses of free cash flow

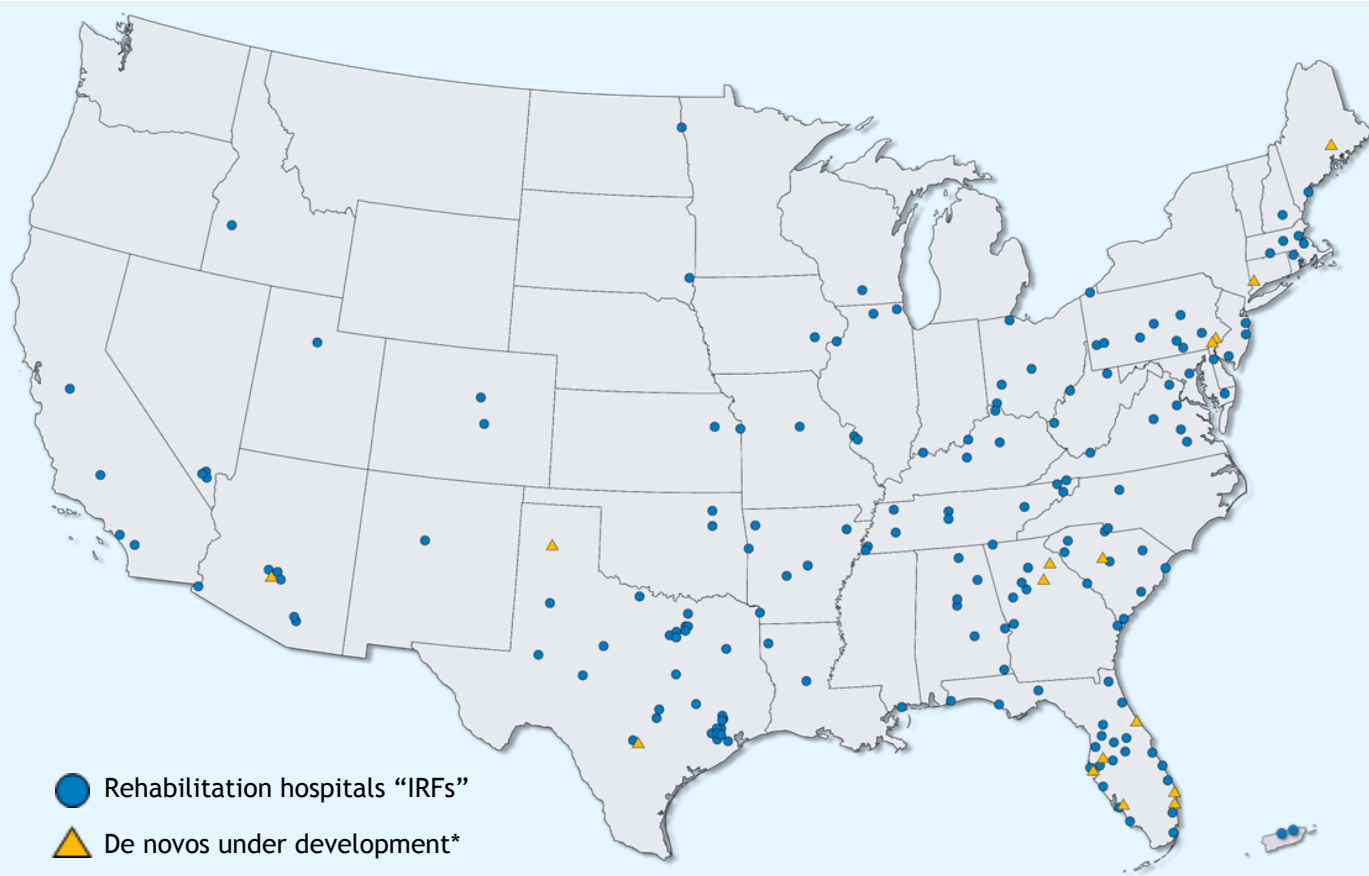
(\$ in millions)		2024 Actuals	2025 Assumptions
Growth in core business	IRF bed expansions	\$96.8	\$145 to \$155
	New IRFs		
	- De novos	358.1	380 to 390
	- Replacement IRFs and other	3.0	TBD
		<u>\$457.9</u>	<u>\$525 to \$545</u>
Debt reduction	Change in total debt ⁽¹²⁾	\$214.8	TBD
Shareholder distributions	Cash dividends on common stock	\$62.8	~ \$68
	Common stock repurchases	\$31.1	TBD

- ~\$489 million remaining under current authorization as of December 31, 2024⁽¹³⁾

Appendix

Encompass Health

Largest owner and operator of rehabilitation hospitals



Company profile as of
12/31/24

166

Rehabilitation hospitals
“IRFs”

65 are joint ventures

17

IRFs under
development**

38

States and
Puerto Rico

Key statistics
trailing four quarters

~248,500
patient discharges

~\$5.4 Billion in
revenue

~40,200
employees



2025 *Fortune* World’s Most Admired Companies™
2025 *Forbes* Most Trusted Companies in America
2024 *Becker’s* Top Places to Work in Healthcare

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* De novos under development - previously announced de novo hospitals under development as of February 6, 2025

** IRFs under development include de novo and remote and satellite locations⁽¹¹⁾

Refer to pages 31-32 for end notes.

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 \$0.17 per share per quarter)
- Approximately \$489 million remaining under current stock repurchase authorization as of December 31, 2024⁽¹³⁾

Development activity

17

IRF development projects announced and underway**

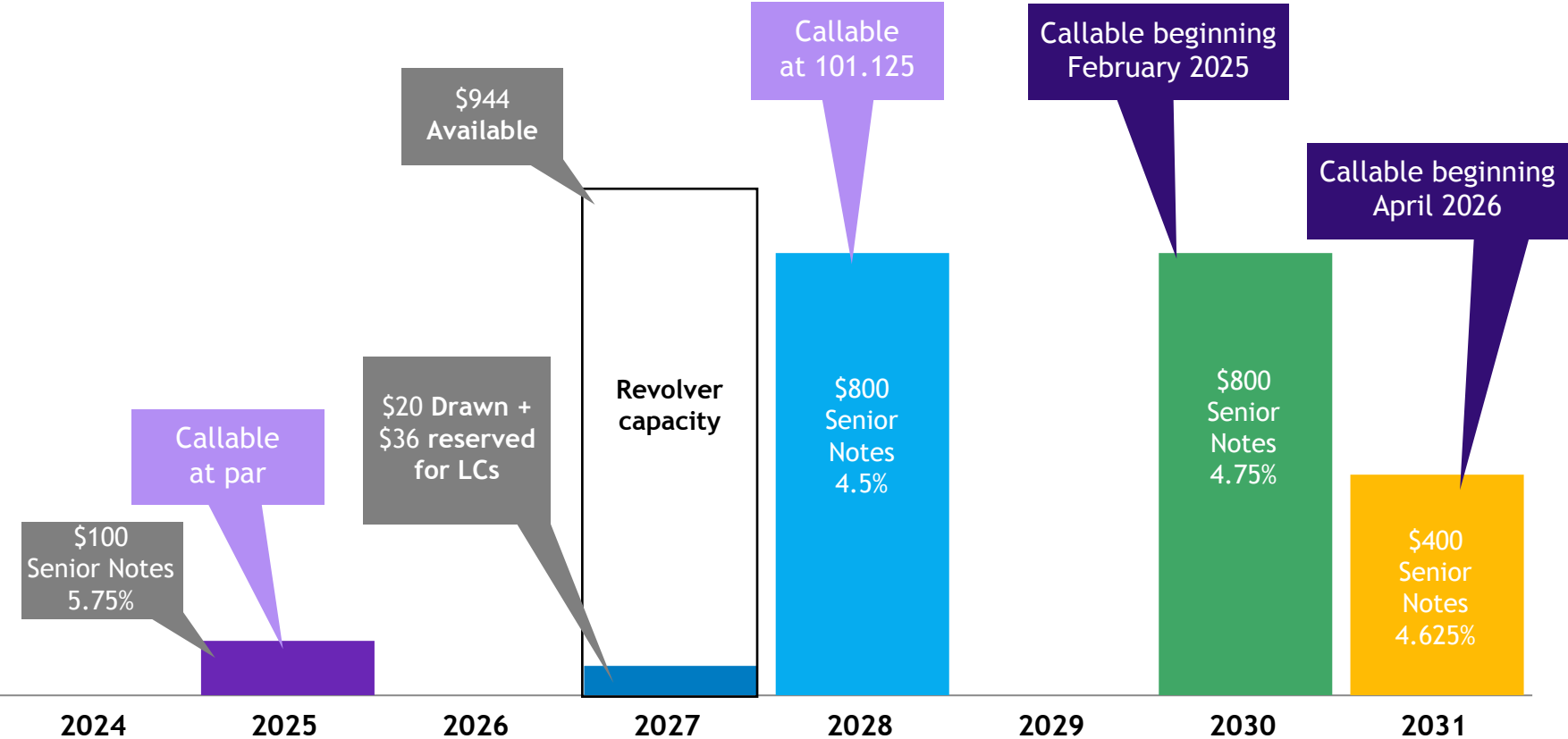
Inpatient Rehabilitation Hospitals opened or under development						
	Joint venture	Expected open date	# of new beds			
			2024	2025	2026	2027
De novos*						
Kissimmee, FL			50	—	—	—
Atlanta, GA	✓		40	—	—	—
Louisville, KY	✓		40	—	—	—
Johnston, RI			50	—	—	—
Fort Mill, SC			39	—	—	—
Houston, TX			61	—	—	—
1 Athens, GA	✓	1Q25	—	40	—	—
2 Fort Myers, FL	✓	2Q25	—	60	—	—
3 Daytona Beach, FL		2Q25	—	50	—	—
4 Danbury, CT		3Q25	—	40	—	—
5 Lake Worth, FL		4Q25	—	50	—	—
6 St. Petersburg, FL		4Q25	—	50	—	—
7 Amarillo, TX		4Q25	—	50	—	—
8 Irmo, SC			—	—	50	—
9 Concordville, PA			—	—	50	—
10 Loganville, GA	✓		—	—	40	—
11 Norristown, PA			—	—	50	—
12 Avondale, AZ			—	—	60	—
13 San Antonio, TX			—	—	50	—
14 Wesley Chapel, FL			—	—	—	50
15 Palm Beach Gardens, FL			—	—	—	50
16 Bangor, ME			—	—	—	50
Remote and satellite^{(11)*}						
Ballwin, MO (Town & Country)	✓		40	—	—	—
17 Wildwood, FL (in The Villages, FL)		3Q25	—	50	—	—
Other bed additions			107	~100	~100	~100
*All dates are tentative and subject to change			427	~490	~400	~250

4Q 2024 Development activity highlights		
Opened de novos	# of beds	JV
• Houston, TX	61	
Beds added to existing hospitals		
	22	
Announced de novos	# of beds	JV
• Wesley Chapel, FL	50	
• Bangor, ME	50	

Debt maturity profile - face value

As of December 31, 2024*

(\$ in millions)



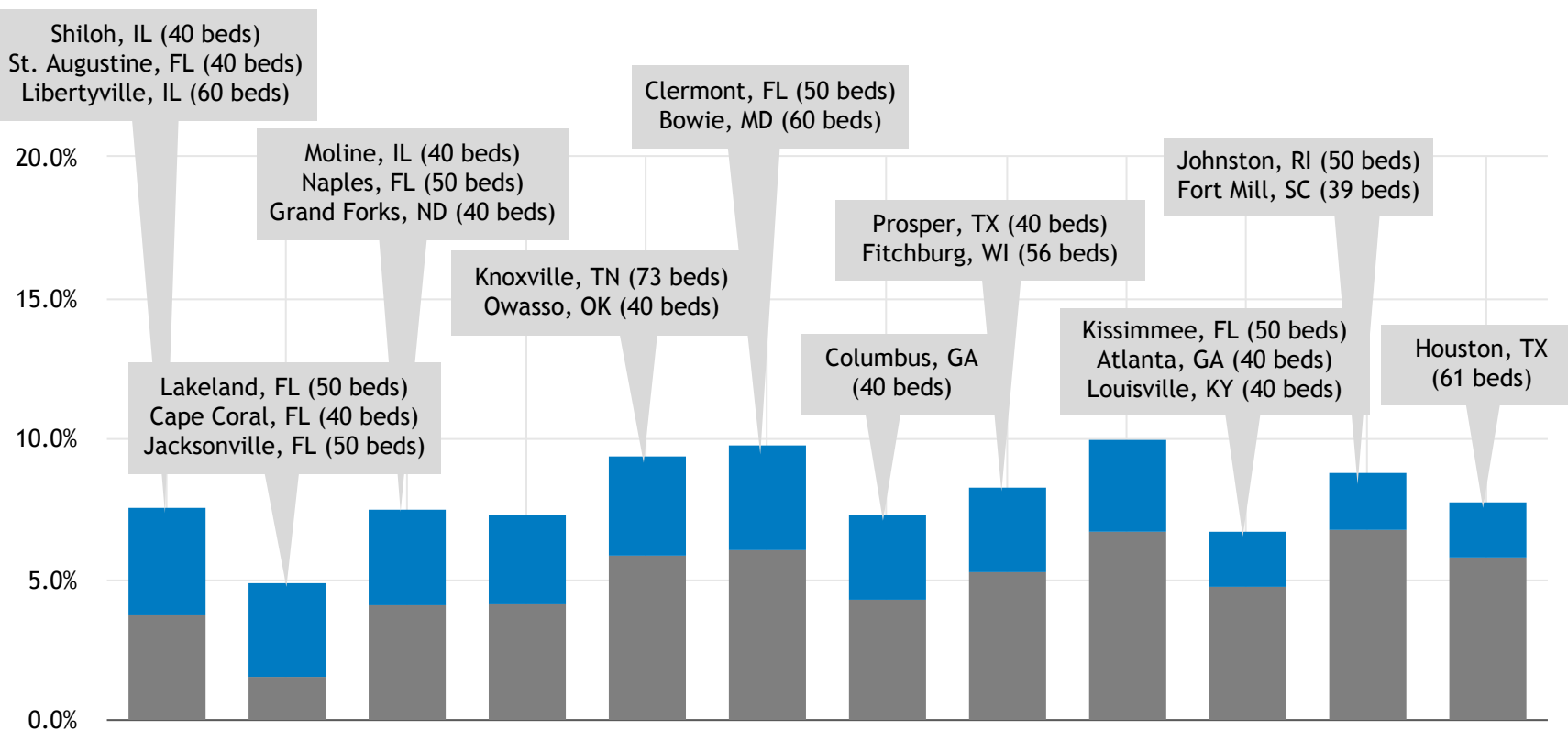
▶ Redeemed \$250 million of 5.75% Senior Notes due 2025 in 2024⁽⁶⁾⁽⁷⁾

Debt schedule

(\$ in millions)	December 31, 2024	December 31, 2023	Change in Debt vs. YE 2023
Advances under \$1 billion revolving credit facility	\$ 20.0	\$ —	\$ 20.0
Bonds Payable:			
5.75% Senior Notes due 2025	99.8	348.5	(248.7)
4.50% Senior Notes due 2028	788.4	785.0	3.4
4.75% Senior Notes due 2030	784.2	781.5	2.7
4.625% Senior Notes due 2031	392.5	391.5	1.0
Other notes payable	94.5	66.0	28.5
Finance lease obligations	318.4	340.1	(21.7)
Long-term debt	\$ 2,497.8	\$ 2,712.6	\$ (214.8)
Debt to Adjusted EBITDA	2.3 x	2.8 x	
Leverage net of cash and cash equivalents	2.2 x	2.7 x	

The leverage ratio for 2024 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 2.5x
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	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
New store	3.8%	3.3%	3.4%	3.1%	3.5%	3.6%	3.0%	3.0%	3.3%	1.9%	2.0%	2.0%
Same store ⁽¹⁴⁾	3.8%	1.6%	4.1%	4.2%	5.9%	6.2%	4.3%	5.3%	6.7%	4.8%	6.8%	5.8%
Total by quarter	7.6%	4.9%	7.5%	7.3%	9.4%	9.8%	7.3%	8.3%	10.0%	6.7%	8.8%	7.8%
Total by year				6.8%				8.7%				8.3%
Same store by year ⁽¹⁴⁾				3.1%				4.8%				5.6%

Payment sources (percent of revenues)

	Q4		Full Year	
	2024	2023	2024	2023
Medicare	65.6 %	65.7 %	65.1 %	65.0 %
Medicare Advantage	16.5 %	16.0 %	16.8 %	16.2 %
Managed care	10.5 %	10.8 %	10.8 %	11.1 %
Medicaid	3.2 %	3.6 %	3.3 %	4.0 %
Other third-party payors	0.8 %	0.8 %	0.8 %	0.9 %
Workers' compensation	0.5 %	0.5 %	0.5 %	0.5 %
Patients	0.3 %	0.4 %	0.3 %	0.3 %
Other income	2.6 %	2.2 %	2.4 %	2.0 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

Operational metrics

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Full Year	
	2024	2024	2024	2024	2023	2023	2023	2023	2024	2023
	(In Millions)									
Net patient revenue- inpatient	\$1,366.1	\$1,316.2	\$1,265.5	\$1,282.7	\$1,216.8	\$1,180.5	\$1,162.3	\$1,134.2	\$5,230.5	\$4,693.8
Net patient revenue- outpatient and other revenues	38.9	34.8	35.7	33.3	30.0	26.4	24.8	26.2	142.7	107.4
Net operating revenues	<u>\$1,405.0</u>	<u>\$1,351.0</u>	<u>\$1,301.2</u>	<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>\$5,373.2</u>	<u>\$4,801.2</u>
	(Actual Amounts)									
Discharges ⁽¹⁵⁾	63,839	62,715	60,833	61,111	59,247	57,665	57,011	55,557	248,498	229,480
Net patient revenue per discharge	\$ 21,399	\$ 20,987	\$ 20,803	\$ 20,990	\$ 20,538	\$ 20,472	\$ 20,387	\$ 20,415	\$ 21,048	\$ 20,454
Outpatient visits	26,434	28,544	29,312	29,744	29,627	28,604	30,752	31,852	114,034	120,835
Average length of stay	12.0	12.2	12.2	12.3	12.3	12.4	12.3	12.5	12.2	12.4
Occupancy %	75.3 %	75.4 %	74.5 %	76.7 %	73.4 %	72.8 %	72.4 %	73.4 %	74.6 %	72.1 %
# of licensed beds	11,094	11,041	10,948	10,781	10,778	10,677	10,611	10,510	11,094	10,778
Occupied beds	8,354	8,325	8,156	8,269	7,911	7,773	7,682	7,714	8,276	7,771
Full-time equivalents (FTEs) - internal	28,188	27,938	27,297	27,209	26,713	26,112	25,453	25,122	27,658	25,850
Contract labor FTEs	394	430	450	434	378	388	476	459	427	425
Total FTEs ⁽¹⁶⁾	<u>28,582</u>	<u>28,368</u>	<u>27,747</u>	<u>27,643</u>	<u>27,091</u>	<u>26,500</u>	<u>25,929</u>	<u>25,581</u>	<u>28,085</u>	<u>26,275</u>
EPOB ⁽¹⁷⁾	3.42	3.41	3.40	3.34	3.42	3.41	3.38	3.32	3.39	3.38

Share information

(in millions)	Weighted Average for the Period				
	Q4		Full Year		
	2024	2023	2024	2023	2022
Basic shares outstanding	100.0	99.5	99.9	99.5	99.2
Restricted stock awards, dilutive stock options, and restricted stock units	2.3	2.0	2.3	1.8	1.2
Diluted shares outstanding	102.3	101.5	102.2	101.3	100.4

(in millions)	End of Period				
	Q4		Full Year		
	2024	2023	2024	2023	2022
Basic shares outstanding	100.8	100.3	100.8	100.3	99.8

Net cash provided by operating activities reconciled to Adjusted EBITDA⁽³⁾

(\$ in millions)	Q4		Full Year	
	2024	2023	2024	2023
Net cash provided by operating activities	\$ 278.8	\$ 201.0	\$ 1,002.8	\$ 850.8
Interest expense and amortization of debt discounts and fees	33.0	34.9	137.4	143.5
(Loss) gain on sale of investments, excluding impairments	(3.1)	5.5	2.7	4.6
Equity in net income of nonconsolidated affiliates	0.2	0.9	3.0	3.2
Net income attributable to noncontrolling interests in continuing operations	(43.3)	(31.5)	(140.9)	(111.0)
Amortization of debt-related items	(2.4)	(2.4)	(9.7)	(9.5)
Distributions from nonconsolidated affiliates	(0.9)	(1.0)	(4.0)	(1.6)
Current portion of income tax expense	29.0	30.4	139.5	128.3
Change in assets and liabilities	(2.8)	8.6	(21.9)	(50.3)
Cash (provided by) used in operating activities of discontinued operations	(0.6)	11.4	3.1	16.0
State regulatory change impact on noncontrolling interests ⁽⁴⁾	—	—	—	(2.2)
Asset impairment impact on noncontrolling interests ⁽⁵⁾	—	—	(7.3)	—
Change in fair market value of equity securities	1.7	(2.8)	(1.0)	(0.7)
Adjusted EBITDA	<u>\$ 289.6</u>	<u>\$ 255.0</u>	<u>\$ 1,103.7</u>	<u>\$ 971.1</u>

Reconciliation of net income to Adjusted EBITDA⁽³⁾

(\$ in millions)	Q4		Full Year	
	2024	2023	2024	2023
Net income	\$ 164.2	\$ 119.1	\$ 596.6	\$ 463.0
(Income) loss from discontinued operations, net of tax, attributable to Encompass Health	(0.4)	8.5	2.8	12.0
Net income attributable to noncontrolling interests included in continuing operations	(43.3)	(31.5)	(140.9)	(111.0)
Provision for income tax expense	37.6	37.2	150.2	132.2
Interest expense and amortization of debt discounts and fees	33.0	34.9	137.4	143.5
Depreciation and amortization ⁽⁴⁾	78.0	70.1	299.6	273.9
Loss on early extinguishment of debt ⁽⁶⁾⁽⁷⁾	0.2	—	0.6	—
Loss on disposal or impairment of assets ⁽⁵⁾	6.1	6.1	17.4	9.8
Stock-based compensation	12.5	13.4	48.3	50.6
State regulatory change impact on noncontrolling interests ⁽⁴⁾	—	—	—	(2.2)
Change in fair market value of equity securities	1.7	(2.8)	(1.0)	(0.7)
Asset impairment impact on noncontrolling interests ⁽⁵⁾	—	—	(7.3)	—
Adjusted EBITDA	<u>\$ 289.6</u>	<u>\$ 255.0</u>	<u>\$ 1,103.7</u>	<u>\$ 971.1</u>

Reconciliation of net cash provided by operating activities to adjusted free cash flow⁽¹⁰⁾

(\$ in millions)	Q4		Full Year	
	2024	2023	2024	2023
Net cash provided by operating activities	\$ 278.8	\$ 201.0	\$1,002.8	\$ 850.8
Impact of discontinued operations	(0.6)	11.4	3.1	16.0
Net cash provided by operating activities of continuing operations	278.2	212.4	1,005.9	866.8
Capital expenditures for maintenance	(50.8)	(87.1)	(184.6)	(216.9)
Distributions paid to noncontrolling interests of consolidated affiliates	(39.5)	(22.8)	(125.0)	(114.7)
Items not indicative of ongoing operating performance:				
Transaction costs and related liabilities	2.6	(9.0)	(6.0)	(9.5)
Adjusted free cash flow	\$ 190.5	\$ 93.5	\$ 690.3	\$ 525.7
Cash dividends on common stock	\$ 17.0	\$ 14.9	\$ 62.8	\$ 60.4

Adjusted EPS⁽⁸⁾ - Q4 2024

For the Three Months Ended December 31, 2024

	Adjustments				As Adjusted
	As Reported	Loss on Early Exting. of Debt	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	
	(\$ in millions, except per share amounts)				
Adjusted EBITDA	\$ 289.6	\$ —	\$ —	\$ —	\$ 289.6
Depreciation and amortization	(78.0)	—	—	—	(78.0)
Interest expense and amortization of debt discounts and fees	(33.0)	—	—	—	(33.0)
Stock-based compensation	(12.5)	—	—	—	(12.5)
Loss on disposal or impairment of assets	(6.1)	—	—	—	(6.1)
Loss on early extinguishment of debt ⁽⁷⁾	(0.2)	0.2	—	—	—
Change in fair market value of equity securities	(1.7)	—	—	1.7	—
Income from continuing operations before income tax expense	158.1	0.2	—	1.7	160.0
Provision for income tax expense	(37.6)	(0.1)	(2.6)	(0.4)	(40.7)
Income from continuing operations attributable to Encompass Health	<u>\$ 120.5</u>	<u>\$ 0.1</u>	<u>\$ (2.6)</u>	<u>\$ 1.3</u>	<u>\$ 119.3</u>
Diluted earnings per share from continuing operations*	<u>\$ 1.18</u>	<u>\$ —</u>	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ 1.17</u>
Diluted shares used in calculation	<u>102.3</u>				

Adjusted EPS⁽⁸⁾ - Q4 2023

	For the Three Months Ended December 31, 2023			
	As Reported	Adjustments		As Adjusted
Income Tax Adjustments		Change in Fair Market Value of Equity Securities		
	(\$ in millions, except per share amounts)			
Adjusted EBITDA	\$ 255.0	\$ —	\$ —	\$ 255.0
Depreciation and amortization	(70.1)	—	—	(70.1)
Interest expense and amortization of debt discounts and fees	(34.9)	—	—	(34.9)
Stock-based compensation	(13.4)	—	—	(13.4)
Loss on disposal or impairment of assets	(6.1)	—	—	(6.1)
Change in fair market value of equity securities	2.8	—	(2.8)	—
Income from continuing operations before income tax expense	133.3	—	(2.8)	130.5
Provision for income tax expense	(37.2)	2.9	0.7	(33.6)
Income from continuing operations attributable to Encompass Health	<u>\$ 96.1</u>	<u>\$ 2.9</u>	<u>\$ (2.1)</u>	<u>\$ 96.9</u>
Diluted earnings per share from continuing operations*	<u>\$ 0.94</u>	<u>\$ 0.03</u>	<u>\$ (0.02)</u>	<u>\$ 0.95</u>
Diluted shares used in calculation	<u>101.5</u>			

Adjusted EPS⁽⁸⁾ - 2024

	For the Year Ended December 31, 2024					
	As Reported	Adjustments				Change in Fair Market Value of Equity Securities
Asset Impairment Impact		Loss on Early Exting. of Debt	Income Tax Adjustments			
	(\$ in millions, except per share amounts)					
Adjusted EBITDA	\$1,103.7	\$ —	\$ —	\$ —	\$ —	\$1,103.7
Depreciation and amortization	(299.6)	—	—	—	—	(299.6)
Interest expense and amortization of debt discounts and fees	(137.4)	—	—	—	—	(137.4)
Stock-based compensation	(48.3)	—	—	—	—	(48.3)
Loss on disposal or impairment of assets ⁽⁵⁾	(17.4)	10.4	—	—	—	(7.0)
Loss on early extinguishment of debt ⁽⁶⁾⁽⁷⁾	(0.6)	—	0.6	—	—	—
Change in fair market value of equity securities	1.0	—	—	—	(1.0)	—
Asset impairment impact on noncontrolling interests ⁽⁵⁾	7.3	(7.3)	—	—	—	—
Income from continuing operations before income tax expense	608.7	3.1	0.6	—	(1.0)	611.4
Provision for income tax expense	(150.2)	(1.3)	(0.2)	(7.7)	0.3	(159.1)
Income from continuing operations attributable to Encompass Health	<u>\$ 458.5</u>	<u>\$ 1.8</u>	<u>\$ 0.4</u>	<u>\$ (7.7)</u>	<u>\$ (0.7)</u>	<u>\$ 452.3</u>
Diluted earnings per share from continuing operations*	<u>\$ 4.49</u>	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ (0.08)</u>	<u>\$ (0.01)</u>	<u>\$ 4.43</u>
Diluted shares used in calculation	<u>102.2</u>					

Adjusted EPS⁽⁸⁾ - 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 ⁽⁴⁾	(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 ⁽⁴⁾	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	<u>\$ 364.0</u>	<u>\$ 2.9</u>	<u>\$ 2.8</u>	<u>\$ (0.5)</u>	<u>\$ 369.2</u>
Diluted earnings per share from continuing operations*	<u>\$ 3.59</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ —</u>	<u>\$ 3.64</u>
Diluted shares used in calculation	<u>101.3</u>				

End notes

- (1) Provider taxes are amounts paid by us to fund, in part, state Medicaid programs. We have historically used the term “provider tax revenues” to represent all amounts received in connection with state Medicaid programs that are not included in the specific Medicaid claim reimbursements we receive. These amounts include state directed and supplemental payment programs associated with Medicaid. We have used the term “net provider tax revenues” to represent the difference between provider taxes paid and the “provider tax revenues” received.
- (2) During Q4 2023, we recorded an additional reserve totaling approximately \$22 million related to appeals pending before the Departmental Appeals Board (DAB) and several federal district courts. The increase in reserve was driven primarily by an increase in unfavorable adjudication outcomes experienced at the DAB during the second half of 2023 and largely offsets the remaining net carrying value of these claims. These appeals relate to claims denied primarily prior to 2018. This adjustment does not impact our reserve methodology for ongoing claims audit programs, including Targeted Probe and Educate (“TPE”) and Review Choice Demonstration (“RCD”) programs. We will continue to pursue ongoing appeals before the DAB and federal district courts where economically beneficial. The impact of the reserve on Q4 2023 Adjusted EBITDA was approximately \$16 million, net of noncontrolling interest expense.
- (3) 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.
- (4) In May of 2023, the governor of South Carolina signed into law S.164, which repealed the requirement of certain healthcare providers to obtain and/or maintain a certificate of need (“CON”). As a result of this repeal, in Q2 2023 we accelerated amortization of approximately \$6 million in remaining carrying value of our South Carolina CON assets, increasing depreciation and amortization expense by approximately \$6 million and reducing noncontrolling interest in continuing operations by approximately \$2 million (related to our joint venture partner’s share of income at one impacted location). The impact of these adjustments have been excluded from the calculation of Adjusted EBITDA and adjusted earnings per share in the second quarter of 2023 given the non-recurring nature of the CON repeal (Florida is the only other state in recent history to repeal its CON law) is not indicative of ongoing operating performance.
- (5) 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 twelve months ended December 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.
- (6) In the third quarter of 2024, the Company redeemed \$150 million of its 5.75% Senior Notes due 2025. The redemption was completed at 100% of par using cash on hand. As a result of the redemption, the Company recorded a \$0.4 million loss on early extinguishment of debt in the third quarter of 2024.
- (7) In the fourth quarter of 2024, the Company redeemed \$100 million of its 5.75% Senior Notes due 2025. The redemption was completed at 100% of par using cash on hand. As a result of the redemption, the Company recorded a \$0.2 million loss on early extinguishment of debt in the fourth quarter of 2024.

End notes (continued)

- (8) 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.
- (9) Income tax adjustments for the fourth quarter and year ended 2024 relate primarily to removal of windfall tax benefits from GAAP earnings per share. Income tax adjustments for the fourth quarter and year ended 2023 relate primarily to state tax expense associated with the spin-off of Enhabit removed from GAAP earnings per share.
- (10) 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.
- (11) Our inpatient rehabilitation hospitals (“IRFs”) may operate one or more satellite and/or remote locations. Satellite and remote locations are located proximate to one of our existing IRFs but do not have a separate Medicare provider number. As such, they are considered a bed addition, are included in same store results from the day of opening, and are not included in our count of total open hospitals. As of December 31, 2024, we operate 11 satellite and remote locations.
- (12) Cash used for net debt redemptions were \$242.1 million during the twelve months ended December 31, 2024.
- (13) On October 28, 2013, the Company announced its board of directors authorized the repurchase of up to \$200 million of its common stock. On February 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, 2024, the remaining repurchase authorization was approximately \$181 million. On July 24, 2024, the Company’s board approved resetting the aggregate common stock repurchase authorization to \$500 million. As of December 31, 2024, the remaining repurchase authorization was approximately \$489 million.
- (14) Same-store comparisons are calculated based on hospitals open throughout both the full current periods and prior periods presented. These comparisons include the financial results of market consolidation transactions and capacity expansions (including the addition of satellite and remote hospitals) in existing markets.
- (15) Represents discharges from 166 consolidated hospitals in Q4 2024; 165 consolidated hospitals in Q3 2024; 163 consolidated hospitals in Q2 2024; 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.
- (16) 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.
- (17) 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.