



News Release

Encompass Health reports results for second quarter 2020

7/27/2020

BIRMINGHAM, Ala., July 27, 2020 /PRNewswire/ -- Encompass Health Corp. (NYSE: EHC), a national leader in integrated healthcare, offering facility-based and home-based patient care through its network of inpatient rehabilitation hospitals, home health agencies and hospice agencies, today reported its results of operations for the second quarter ended June 30, 2020.

"Our patient volumes in both business segments have substantially rebounded from the low point experienced in April," said President and Chief Executive Officer of Encompass Health Mark Tarr. "We believe we have implemented plans across our organization to address the significant ongoing challenges presented by the COVID-19 pandemic. We remain confident in the intermediate and long-term growth prospects for our Company based on the increasing demand for the services we provide to an aging population."

Consolidated results

| | Q2 2020 | Q2 2019 | Growth | |
|--|------------|------------|-----------|----------|
| | | | Dollars | Percent |
| (In Millions, Except per Share Data) | | | | |
| Net operating revenues | \$ 1,074.1 | \$ 1,135.0 | \$ (60.9) | (5.4) % |
| Income from continuing operations attributable to Encompass Health per diluted share | 0.34 | 0.92 | (0.58) | (63.0) % |
| Adjusted earnings per share | 0.31 | 1.08 | (0.77) | (71.3) % |
| Cash flows provided by operating activities | 222.3 | 145.4 | 76.9 | 52.9 % |
| Adjusted EBITDA | 162.2 | 252.2 | (90.0) | (35.7) % |

| | | | | |
|-------------------------|-------|-------|------|--------|
| Adjusted free cash flow | 168.2 | 142.2 | 26.0 | 18.3 % |
|-------------------------|-------|-------|------|--------|

Six Months Ended June
30,

| | 2020 | 2019 | | |
|---|----------|----------|-----------|----------|
| Cash flows provided by operating activities | \$ 251.6 | \$ 305.3 | \$ (53.7) | (17.6) % |
| Adjusted free cash flow | 242.8 | 270.0 | (27.2) | (10.1) % |

Decreased volumes in both segments resulted in a decrease in revenues.

Income from continuing operations attributable to Encompass Health per diluted share for the second quarter of 2020 compared to the second quarter of 2019 reflected a decrease in earnings, as discussed in the segment results sections that follow.

Cash flows provided by operating activities and adjusted free cash flow was lower in the first half of 2020 than the first half of 2019 primarily due to a decrease in revenues partially offset by a decrease in working capital. The decrease in working capital primarily resulted from the timing of and increase in payroll tax and interest accruals.

See attached supplemental information for calculations of non-GAAP measures and reconciliations to their most comparable GAAP measure.

Inpatient rehabilitation segment results

| | Q2 2020 | Q2 2019 | Growth | |
|-----------------------------|------------------|----------|-----------|----------|
| | | | Dollars | Percent |
| Net operating revenues: | (In Millions) | | | |
| | \$ 808.0 | \$ 851.8 | \$ (43.8) | (5.1) % |
| Inpatient | 16.5 | 22.1 | (5.6) | (25.3) % |
| Outpatient and other | \$ 824.5 | \$ 873.9 | \$ (49.4) | (5.7) % |
| Total segment revenue | | | | |
| | (Actual Amounts) | | | |
| Discharges | 41,682 | 46,679 | (4,997) | (10.7) % |
| Same-store discharge growth | | | | (12.8) % |

| | | | | |
|--|-----------|-----------|---------------|------------------|
| Net patient revenue per discharge | \$ 19,385 | \$ 18,248 | \$ 1,137 | 6.2 % |
| Revenue reserves related to bad debt as a percent of revenue | 1.4 % | 1.4 % | | (0 basis points) |
| | | | (In Millions) | |
| Adjusted EBITDA | \$ 180.3 | \$ 233.9 | \$ (53.6) | (22.9) % |

- Revenue - The revenue decline was driven by decreased volumes partially offset by favorable pricing. Same-store discharges declined primarily due to the COVID-19 pandemic. New-store discharge growth of 2.1% resulted from joint ventures in Lubbock, Texas (May 2019) and Boise, Idaho (July 2019), and wholly owned hospitals in Katy, Texas (September 2019) and Murrieta, California (February 2020). New-store growth also resulted from a joint venture hospital in Yuma, Arizona changing from the equity method of accounting to a consolidated entity effective July 1, 2019. Growth in net patient revenue per discharge primarily resulted from a higher acuity patient mix and the suspension of sequestration starting in May 2020.

The decrease in outpatient and other revenue resulted from the COVID-19 pandemic related suspension of hospital-based outpatient services in mid-March 2020 and the closure of certain hospital-based outpatient programs in 2019.

- Adjusted EBITDA - The decrease in Adjusted EBITDA primarily resulted from COVID-19 pandemic related impacts on patient volumes, staff productivity and medical supplies, as well as the award of additional paid-time-off to employees in response to the COVID-19 pandemic.

Home health and hospice segment results

| | Q2 2020 | Q2 2019 | Growth | |
|-------------------------|---------------|----------|-----------|---------|
| | | | Dollars | Percent |
| Net operating revenues: | | | | |
| | (In Millions) | | | |
| | \$ 201.8 | \$ 222.7 | \$ (20.9) | (9.4) % |
| Home health | 47.8 | 38.4 | 9.4 | 24.5 % |
| Hospice | | | | |
| | \$ 249.6 | \$ 261.1 | \$ (11.5) | (4.4) % |
| Total segment revenue | | | | |

Home Health Metrics

| | (Actual Amounts) | | | |
|------------|------------------|--------|---------|----------|
| Admissions | 34,841 | 37,828 | (2,987) | (7.9) % |
| | | | | (17.3) % |

Shareholder and other distributions

In the second quarter of 2020, the Company paid a quarterly cash dividend of \$0.28 per share on its common stock and declared a quarterly cash dividend of \$0.28 per share that was paid in July 2020. In July 2020, the Company declared a quarterly cash dividend of \$0.28 per share on its common stock to be paid in October 2020.

Balance sheet and liquidity

The Company's primary sources of liquidity are cash on hand, cash flows from operations, and borrowings under its revolving credit facility. To further enhance its liquidity and ensure availability under its credit agreement, in April 2020, the Company amended its credit agreement primarily to provide covenant relief through the fourth quarter of 2021 in response to the COVID-19 pandemic.

In May 2020, the Company issued an additional \$300 million of its 4.5% Senior Notes due 2028 and an additional \$300 million of its 4.75% Senior Notes due 2030. A portion of the proceeds were used to repay borrowings under the Company's revolving credit facility.

As of June 30, 2020, the Company had approximately \$419 million in cash and approximately \$964 million available to it under its \$1.0 billion revolving credit facility. The Company's leverage ratio at the end of the second quarter of 2020 was 4.2x (3.7x net of cash on hand).

Earnings conference call and webcast

The Company will host an investor conference call at 9:00 a.m. Eastern Time on Tuesday, July 28, 2020, to discuss its results for the second quarter of 2020. For reference during the call, the Company will post certain supplemental information at <http://investor.encompasshealth.com>.

The conference call may be accessed by dialing 877 587-6761 and giving the pass code 4793507. International callers should dial 706 679-1635 and give the same pass code. Please call approximately ten minutes before the start of the call to ensure you are connected. The conference call will also be webcast live and will be available for on-line replay at <http://investor.encompasshealth.com> by clicking on an available link.

About Encompass Health

As a national leader in integrated healthcare services, Encompass Health (NYSE: EHC) offers both facility-based and home-based patient care through its network of inpatient rehabilitation hospitals, home health agencies and hospice agencies. With a national footprint that includes 136 hospitals, 245 home health locations and 83 hospice locations in 39 states and Puerto Rico, the Company is committed to delivering high-quality, cost-effective integrated care across the healthcare continuum. Driven by a set of shared values, Encompass Health is ranked as

one of Fortune's 100 Best Companies to Work For. For more information, visit encompasshealth.com, or follow us on Twitter and Facebook.

Other information

The information in this press release is summarized and should be read in conjunction with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "June 2020 Form 10-Q"), when filed, as well as the Company's Current Report on Form 8-K filed on July 27, 2020 (the "Q2 Earnings Form 8-K"), to which this press release is attached as Exhibit 99.1. In addition, the Company will post supplemental information today on its website at <http://investor.encompasshealth.com> for reference during its July 28, 2020 earnings call.

The financial data contained in the press release and supplemental information include non-GAAP financial measures, including the Company's adjusted earnings per share, leverage ratio, Adjusted EBITDA, and adjusted free cash flow. Reconciliations to their most comparable GAAP measure are included below, in the supplemental information, or in the Q2 Earnings Form 8-K. Readers are encouraged to review the "Note Regarding Presentation of Non-GAAP Financial Measures" included in the Q2 Earnings Form 8-K which provides further explanation and disclosure regarding the Company's use of these non-GAAP financial measures.

The Q2 Earnings Form 8-K and, when filed, the June 2020 Form 10-Q can be found on the Company's website at <http://investor.encompasshealth.com> and the SEC's website at www.sec.gov.

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------|--------------------------------------|------------|------------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (In Millions, Except per Share Data) | | | |
| Net operating revenues | \$ 1,074.1 | \$ 1,135.0 | \$ 2,256.1 | \$ 2,259.0 |
| Operating expenses: | | | | |
| Salaries and benefits | 651.9 | 622.9 | 1,331.0 | 1,243.7 |
| Other operating expenses | 148.3 | 149.8 | 307.9 | 299.9 |

| | | | | |
|--|----------------|----------------|-----------------|-----------------|
| Occupancy costs | 20.3 | 20.3 | 40.5 | 39.9 |
| Supplies | 50.6 | 41.7 | 96.3 | 81.8 |
| General and administrative expenses | 43.0 | 77.1 | 78.6 | 130.5 |
| Depreciation and amortization | 60.7 | 52.7 | 119.5 | 105.2 |
| Government, class action, and related settlements | — | — | 2.8 | — |
| Total operating expenses | <u>974.8</u> | <u>964.5</u> | <u>1,976.6</u> | <u>1,901.0</u> |
| Loss on early extinguishment of debt | — | 2.3 | — | 2.3 |
| Interest expense and amortization of debt discounts and fees | 45.8 | 37.7 | 89.0 | 74.9 |
| Other income | (5.8) | (2.2) | (3.9) | (5.9) |
| Equity in net income of nonconsolidated affiliates | (0.7) | (1.8) | (1.5) | (4.3) |
| Income from continuing operations before income tax expense | <u>60.0</u> | <u>134.5</u> | <u>195.9</u> | <u>291.0</u> |
| Provision for income tax expense | 11.8 | 23.5 | 38.9 | 54.3 |
| Income from continuing operations | <u>48.2</u> | <u>111.0</u> | <u>157.0</u> | <u>236.7</u> |
| Income (loss) from discontinued operations, net of tax | 0.1 | (0.1) | — | (0.6) |
| Net and comprehensive income | <u>48.3</u> | <u>110.9</u> | <u>157.0</u> | <u>236.1</u> |
| Less: Net and comprehensive income attributable to noncontrolling interests | (14.8) | (19.7) | (36.5) | (42.6) |
| Net and comprehensive income attributable to Encompass Health | <u>\$ 33.5</u> | <u>\$ 91.2</u> | <u>\$ 120.5</u> | <u>\$ 193.5</u> |
| Weighted average common shares outstanding: | | | | |
| Basic | <u>98.7</u> | <u>98.0</u> | <u>98.5</u> | <u>98.2</u> |
| Diluted | <u>99.9</u> | <u>99.3</u> | <u>99.6</u> | <u>99.5</u> |
| Earnings per common share: | | | | |
| Basic earnings per share attributable to Encompass Health common shareholders: | | | | |
| Continuing operations | \$ 0.34 | \$ 0.93 | \$ 1.22 | \$ 1.97 |
| Discontinued operations | — | — | — | (0.01) |
| Net income | <u>\$ 0.34</u> | <u>\$ 0.93</u> | <u>\$ 1.22</u> | <u>\$ 1.96</u> |
| Diluted earnings per share attributable to Encompass Health common shareholders: | | | | |
| Continuing operations | \$ 0.34 | \$ 0.92 | \$ 1.21 | \$ 1.95 |
| Discontinued operations | — | — | — | (0.01) |

| | | | | |
|---|----------------|----------------|-----------------|-----------------|
| Net income | \$ 0.34 | \$ 0.92 | \$ 1.21 | \$ 1.94 |
| <hr/> | | | | |
| Amounts attributable to Encompass Health common shareholders: | | | | |
| Income from continuing operations | \$ 33.4 | \$ 91.3 | \$ 120.5 | \$ 194.1 |
| Income (loss) from discontinued operations, net of tax | 0.1 | (0.1) | — | (0.6) |
| Net income attributable to Encompass Health | <u>\$ 33.5</u> | <u>\$ 91.2</u> | <u>\$ 120.5</u> | <u>\$ 193.5</u> |

Encompass Health Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

| | June 30, 2020 | December 31, 2019 |
|-------------------------------------|---------------------------|----------------------|
| | <hr/> (In Millions) <hr/> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 419.0 | \$ 94.8 |
| Restricted cash | 56.4 | 57.4 |
| Accounts receivable | 553.2 | 506.1 |
| Other current assets | 73.1 | 97.5 |
| Total current assets | <hr/> 1,101.7 | <hr/> 755.8 |
| Property and equipment, net | 2,041.4 | 1,959.3 |
| Operating lease right-of-use assets | 268.5 | 276.5 |
| Goodwill | 2,318.7 | 2,305.2 |
| Intangible assets, net | 455.8 | 476.3 |
| Deferred income tax assets | 11.1 | 2.9 |
| Other long-term assets | 305.3 | 304.7 |

| | | |
|--|-------------------|-------------------|
| Total assets | \$ 6,502.5 | \$ 6,080.7 |
| <u>Liabilities and Shareholders' Equity</u> | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 36.9 | \$ 39.3 |
| Current operating lease liabilities | 42.2 | 40.4 |
| Accounts payable | 93.1 | 94.6 |
| Accrued expenses and other current liabilities | 492.2 | 546.7 |
| Total current liabilities | <u>664.4</u> | <u>721.0</u> |
| Long-term debt, net of current portion | 3,546.7 | 3,023.3 |
| Long-term operating lease liabilities | 234.9 | 243.8 |
| Other long-term liabilities | 191.7 | 159.9 |
| | <u>4,637.7</u> | <u>4,148.0</u> |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests | 33.4 | 239.6 |
| Shareholders' equity: | | |
| Encompass Health shareholders' equity | 1,462.8 | 1,352.2 |
| Noncontrolling interests | 368.6 | 340.9 |
| Total shareholders' equity | <u>1,831.4</u> | <u>1,693.1</u> |
| Total liabilities and shareholders' equity | <u>\$ 6,502.5</u> | <u>\$ 6,080.7</u> |

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30,

| | |
|------|------|
| 2020 | 2019 |
|------|------|

| | (In Millions) | |
|---|---------------|----------|
| Cash flows from operating activities: | | |
| Net income | \$ 157.0 | \$ 236.1 |
| Loss from discontinued operations, net of tax | — | 0.6 |
| Adjustments to reconcile net income to net cash provided by operating activities— | | |
| Depreciation and amortization | 119.5 | 105.2 |
| Stock-based compensation | 17.0 | 65.3 |
| Deferred tax (benefit) expense | (9.1) | 0.5 |
| Other, net | 7.8 | 3.8 |
| Change in assets and liabilities, net of acquisitions— | | |
| Accounts receivable | (38.5) | (22.6) |
| Other assets | 20.0 | (11.8) |
| Accounts payable | (0.4) | (4.5) |
| Accrued payroll | 58.4 | (7.7) |
| Other liabilities | (80.0) | (55.1) |
| Net cash used in operating activities of discontinued operations | (0.1) | (4.5) |
| Total adjustments | 94.6 | 68.6 |
| Net cash provided by operating activities | 251.6 | 305.3 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (166.6) | (155.8) |
| Additions to capitalized software costs | (4.4) | (6.6) |
| Acquisitions of businesses, net of cash acquired | (1.1) | (13.7) |
| Other, net | (3.0) | (15.5) |
| Net cash used in investing activities | (175.1) | (191.6) |

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited)

Six Months Ended June 30,

2020 2019

(In Millions)

Cash flows from financing activities:

| | | |
|---|----------|----------|
| Proceeds from bond issuance | 592.5 | — |
| Principal payments on debt, including pre-payments | (11.0) | (112.1) |
| Borrowings on revolving credit facility | 330.0 | 400.0 |
| Payments on revolving credit facility | (375.0) | (95.0) |
| Principal payments under finance lease obligations | (10.9) | (9.3) |
| Repurchases of common stock, including fees and expenses | (4.9) | (43.8) |
| Dividends paid on common stock | (56.7) | (54.9) |
| Purchase of equity interests in consolidated affiliates | (162.3) | — |
| Distributions paid to noncontrolling interests of consolidated affiliates | (37.4) | (36.5) |
| Taxes paid on behalf of employees for shares withheld | (15.7) | (16.1) |
| Other, net | 5.3 | 8.2 |
| Net cash provided by financing activities | 253.9 | 40.5 |
| Increase in cash, cash equivalents, and restricted cash | 330.4 | 154.2 |
| Cash, cash equivalents, and restricted cash at beginning of period | 159.6 | 133.5 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 490.0 | \$ 287.7 |

Reconciliation of Cash, Cash Equivalents, and Restricted Cash

| | | |
|---|----------|----------|
| Cash and cash equivalents at beginning of period | \$ 94.8 | \$ 69.2 |
| Restricted cash at beginning of period | 57.4 | 59.0 |
| Restricted cash included in other long-term assets at beginning of period | 7.4 | 5.3 |
| | \$ 159.6 | \$ 133.5 |
| Cash, cash equivalents, and restricted cash at beginning of period | | |
| Cash and cash equivalents at end of period | \$ 419.0 | \$ 221.7 |
| Restricted cash at end of period | 56.4 | 56.8 |

| | | |
|---|----------|----------|
| Restricted cash included in other long-term assets at end of period | 14.6 | 9.2 |
| | \$ 490.0 | \$ 287.7 |
| Cash, cash equivalents, and restricted cash at end of period | | |

Encompass Health Corporation and Subsidiaries

Supplemental Information

Earnings Per Share

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------------|----------|------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | (In Millions, Except Per Share Data) | | | |
| Consolidated Adjusted EBITDA | \$ 162.2 | \$ 252.2 | \$ 390.2 | \$ 495.1 |
| | (60.7) | (52.7) | (119.5) | (105.2) |
| Depreciation and amortization | (45.8) | (37.7) | (89.0) | (74.9) |
| Interest expense and amortization of debt discounts and fees | (9.9) | (45.9) | (17.0) | (65.3) |
| Stock-based compensation expense | (3.0) | (1.3) | (3.1) | (2.4) |
| Loss on disposal or impairment of assets | 42.8 | 114.6 | 161.6 | 247.3 |
| Certain items non-indicative of ongoing operating performance: | | | | |
| | — | (2.3) | — | (2.3) |
| Loss on early extinguishment of debt | — | (0.4) | — | (1.0) |
| Transaction costs | — | — | 2.2 | — |
| Gain on consolidation of Treasure Coast | — | 2.6 | — | 3.4 |
| SARs mark-to-market impact on noncontrolling interests | 2.4 | 0.3 | (0.1) | 1.2 |
| Change in fair market value of equity securities | — | — | (2.8) | — |
| Government, class action, and related settlements | — | — | (1.5) | (0.2) |
| Payroll taxes on SARs exercise | 45.2 | 114.8 | 159.4 | 248.4 |
| Pre-tax income | (11.8) | (23.5) | (38.9) | (54.3) |
| Income tax expense | | | | |

| | | | | |
|--|---------|---------|----------|----------|
| Income from continuing operations ⁽¹⁾ | \$ 33.4 | \$ 91.3 | \$ 120.5 | \$ 194.1 |
| Basic shares | 98.7 | 98.0 | 98.5 | 98.2 |
| Diluted shares | 99.9 | 99.3 | 99.6 | 99.5 |
| Basic earnings per share ⁽¹⁾ | \$ 0.34 | \$ 0.93 | \$ 1.22 | \$ 1.97 |
| Diluted earnings per share ⁽¹⁾ | \$ 0.34 | \$ 0.92 | \$ 1.21 | \$ 1.95 |

⁽¹⁾ Income from continuing operations attributable to Encompass Health

Encompass Health Corporation and Subsidiaries

Supplemental Information

Adjusted Earnings Per Share

| | Q2 | | 6 Months | |
|---|---------|---------|----------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| Earnings per share, as reported | \$ 0.34 | \$ 0.92 | \$ 1.21 | \$ 1.95 |
| Adjustments, net of tax: | | | | |
| Government, class action, and related settlements | — | — | 0.02 | — |
| Mark-to-market adjustments for stock compensation expense | — | 0.21 | — | 0.28 |
| Transaction costs | — | — | — | 0.01 |
| Income tax adjustments | — | (0.07) | (0.05) | (0.12) |
| Loss on early extinguishment of debt | — | 0.02 | — | 0.02 |
| Change in fair market value of equity securities | (0.02) | — | — | (0.01) |
| Gain on consolidation of Treasure Coast | — | — | (0.02) | — |
| | — | — | 0.01 | — |

| | | | | |
|--|---------|---------|---------|---------|
| Payroll taxes on SARs exercise | | | | |
| Adjusted earnings per share ⁽¹⁾ | \$ 0.31 | \$ 1.08 | \$ 1.18 | \$ 2.12 |

⁽¹⁾ Adjusted EPS may not sum due to rounding.

Encompass Health Corporation and Subsidiaries

Supplemental Information

Adjusted Earnings Per Share

For the Three Months Ended June 30, 2020

| | Adjustments | | | As Adjusted |
|--|---|------------------------|--|-------------|
| | As Reported | Income Tax Adjustments | Change in Fair Market Value of Equity Securities | |
| | (In Millions, Except Per Share Amounts) | | | |
| Adjusted EBITDA ⁽¹⁾ | \$ 162.2 | \$ — | \$ — | \$ 162.2 |
| Depreciation and amortization | (60.7) | — | — | (60.7) |
| Interest expense and amortization of debt discounts and fees | (45.8) | — | — | (45.8) |
| Stock-based compensation | (9.9) | — | — | (9.9) |
| Loss on disposal or impairment of assets | (3.0) | — | — | (3.0) |
| Change in fair market value of equity securities | 2.4 | — | (2.4) | — |
| | 45.2 | — | (2.4) | 42.8 |
| Income from continuing operations before income tax expense | | | | |
| Provision for income tax expense | (11.8) | (0.4) | 0.6 | (11.6) |
| | \$ 33.4 | \$ (0.4) | \$ (1.8) | \$ 31.2 |
| Income from continuing operations attributable to Encompass Health | | | | |
| Diluted earnings per share from continuing operations ⁽²⁾ | \$ 0.34 | \$ — | \$ (0.02) | \$ 0.31 |

Diluted shares used in calculation

99.9

(1) See reconciliation of net income to Adjusted EBITDA

(2) Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries

Supplemental Information

Adjusted Earnings Per Share

For the Three Months Ended June 30, 2019

| | Adjustments | | | | | | As Adjusted |
|--|---|--|-------------------------------|------------------------|-------------------|--|-------------|
| | As Reported | Mark-to-Market Adjustment for Stock Compensation Expense | Loss on Early Exting. of Debt | Income Tax Adjustments | Transaction Costs | Change in Fair Market Value of Equity Securities | |
| | (In Millions, Except Per Share Amounts) | | | | | | |
| Adjusted EBITDA ⁽¹⁾ | \$ 252.2 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 252.2 |
| Depreciation and amortization | (52.7) | — | — | — | — | — | (52.7) |
| Loss on early extinguishment of debt | (2.3) | — | 2.3 | — | — | — | — |
| Interest expense and amortization of debt discounts and fees | (37.7) | — | — | — | — | — | (37.7) |
| Stock-based compensation | (45.9) | 31.4 | — | — | — | — | (14.5) |
| Loss on disposal of assets | (1.3) | — | — | — | — | — | (1.3) |

| | | | | | | | |
|--|---------|---------|---------|-----------|--------|----------|----------|
| Transaction costs | (0.4) | — | — | — | 0.4 | — | — |
| SARs mark-to-market impact on noncontrolling interests | 2.6 | (2.6) | — | — | — | — | — |
| Change in fair market value of equity securities | 0.3 | — | — | — | — | (0.3) | — |
| Income from continuing operations before income tax expense | 114.8 | 28.8 | 2.3 | — | 0.4 | (0.3) | 146.0 |
| Provision for income tax expense | (23.5) | (7.8) | (0.6) | (7.2) | (0.1) | 0.1 | (39.1) |
| Income from continuing operations attributable to Encompass Health | \$ 91.3 | \$ 21.0 | \$ 1.7 | \$ (7.2) | \$ 0.3 | \$ (0.2) | \$ 106.9 |
| Diluted earnings per share from continuing operations ⁽²⁾ | \$ 0.92 | \$ 0.21 | \$ 0.02 | \$ (0.07) | \$ — | \$ — | \$ 1.08 |
| Diluted shares used in calculation | 99.3 | | | | | | |

⁽¹⁾ See reconciliation of net income to Adjusted EBITDA

⁽²⁾ Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries

Supplemental Information

Adjusted Earnings Per Share

For the Six Months Ended June 30, 2020

| | Adjustments | | | | | | As Adjusted |
|--|---|--|------------------------|--|---|--------------------------------|-------------|
| | As Reported | Gov't, Class Action, & Related Settlements | Income Tax Adjustments | Change in Fair Market Value of Equity Securities | Gain on Consolidation of Treasure Coast | Payroll Taxes on SARs Exercise | |
| | (In Millions, Except Per Share Amounts) | | | | | | |
| Adjusted EBITDA ⁽¹⁾ | 390.2 | — | — | — | — | — | \$ 390.2 |
| Depreciation and amortization | (119.5) | — | — | — | — | — | (119.5) |
| Government, class action and related settlements | (2.8) | 2.8 | — | — | — | — | — |
| Interest expense and amortization of debt discounts and fees | (89.0) | — | — | — | — | — | (89.0) |
| Stock-based compensation | (17.0) | — | — | — | — | — | (17.0) |
| Loss on disposal or impairment of assets | (3.1) | — | — | — | — | — | (3.1) |
| Change in fair market value of equity securities | (0.1) | — | — | 0.1 | — | — | — |
| Gain on consolidation of Treasure Coast | 2.2 | — | — | — | (2.2) | — | — |
| Payroll taxes on SARs exercise | (1.5) | — | — | — | — | 1.5 | — |
| Income from continuing operations before income tax expense | 159.4 | 2.8 | — | 0.1 | (2.2) | 1.5 | 161.6 |
| Provision for income tax expense | (38.9) | (0.7) | (4.7) | — | 0.6 | (0.4) | (44.1) |
| Income from continuing operations attributable to Encompass | \$ 120.5 | \$ 2.1 | \$ (4.7) | \$ 0.1 | \$ (1.6) | \$ 1.1 | \$ 117.4 |

| | | | | | | | |
|--|----------|---------|-----------|--------|-----------|---------|----------|
| Health | \$ 120.5 | \$ 2.1 | \$ (4.7) | \$ 0.1 | \$ (1.6) | \$ 1.1 | \$ 117.5 |
| Diluted earnings per share from continuing operations ⁽²⁾ | \$ 1.21 | \$ 0.02 | \$ (0.05) | \$ — | \$ (0.02) | \$ 0.01 | \$ 1.18 |
| Diluted shares used in calculation | 99.6 | | | | | | |

(1) See reconciliation of net income to Adjusted EBITDA

(2) Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries

Supplemental Information

Adjusted Earnings Per Share

For the Six Months Ended June 30, 2019

| | Adjustments | | | | | | | As Adjusted |
|--------------------------------------|---|---|-------------------------------|------------------------|-------------------|--|--------------------------------|-------------|
| | As Reported | Mark-to-Market Adjustment for Stock Comp. Expense | Loss on Early Exting. of Debt | Income Tax Adjustments | Transaction Costs | Change in Fair Market Value of Equity Securities | Payroll Taxes on SARs Exercise | |
| | (In Millions, Except Per Share Amounts) | | | | | | | |
| Adjusted EBITDA ⁽¹⁾ | \$ 495.1 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 495.1 |
| Depreciation and amortization | (105.2) | — | — | — | — | — | — | (105.2) |
| Loss on early extinguishment of debt | (2.3) | — | 2.3 | — | — | — | — | — |

| | | | | | | | | |
|--|----------|---------|---------|-----------|---------|-----------|--------|----------|
| Interest expense and amortization of debt discounts and fees | (74.9) | — | — | — | — | — | — | (74.9) |
| Stock-based compensation | (65.3) | 41.0 | — | — | — | — | — | (24.3) |
| Loss on disposal of assets | (2.4) | — | — | — | — | — | — | (2.4) |
| Transaction costs | (1.0) | — | — | — | 1.0 | — | — | — |
| SARs mark-to-market impact on noncontrolling interests | 3.4 | (3.4) | — | — | — | — | — | — |
| Change in fair market value of equity securities | 1.2 | — | — | — | — | (1.2) | — | — |
| Payroll taxes on SARs exercise | (0.2) | — | — | — | — | — | 0.2 | — |
| Income from continuing operations before income tax expense | 248.4 | 37.6 | 2.3 | — | 1.0 | (1.2) | 0.2 | 288.3 |
| Provision for income tax expense | (54.3) | (10.2) | (0.6) | (12.4) | (0.3) | 0.3 | — | (77.5) |
| Income from continuing operations attributable to Encompass Health | \$ 194.1 | \$ 27.4 | \$ 1.7 | \$ (12.4) | \$ 0.7 | \$ (0.9) | \$ 0.2 | \$ 210.8 |
| Diluted earnings per share from continuing operations ⁽²⁾ | \$ 1.95 | \$ 0.28 | \$ 0.02 | \$ (0.12) | \$ 0.01 | \$ (0.01) | \$ — | \$ 2.12 |
| Diluted shares used in calculation | 99.5 | | | | | | | |

⁽¹⁾ See reconciliation of net income to Adjusted EBITDA

⁽²⁾ Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries

Supplemental Information

Reconciliation of Net Income to Adjusted EBITDA

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | (In Millions) | | | |
| Net income | \$ 48.3 | \$ 110.9 | \$ 157.0 | \$ 236.1 |
| (Income) loss from discontinued operations, net of tax, attributable to Encompass Health | (0.1) | 0.1 | — | 0.6 |
| Net income attributable to noncontrolling interests | (14.8) | (19.7) | (36.5) | (42.6) |
| Provision for income tax expense | 11.8 | 23.5 | 38.9 | 54.3 |
| Interest expense and amortization of debt discounts and fees | 45.8 | 37.7 | 89.0 | 74.9 |
| Government, class action, and related settlements | — | — | 2.8 | — |
| Depreciation and amortization | 60.7 | 52.7 | 119.5 | 105.2 |
| Loss on early extinguishment of debt | — | 2.3 | — | 2.3 |
| Loss on disposal or impairment of assets | 3.0 | 1.3 | 3.1 | 2.4 |
| Stock-based compensation expense | 9.9 | 45.9 | 17.0 | 65.3 |
| Transaction costs | — | 0.4 | — | 1.0 |
| Gain on consolidation of Treasure Coast | — | — | (2.2) | — |
| SARs mark-to-market impact on noncontrolling interests | — | (2.6) | — | (3.4) |
| Change in fair market value of equity securities | (2.4) | (0.3) | 0.1 | (1.2) |
| Payroll taxes on SARs exercise | — | — | 1.5 | 0.2 |
| Adjusted EBITDA | \$ 162.2 | \$ 252.2 | \$ 390.2 | \$ 495.1 |

Encompass Health Corporation and Subsidiaries

Supplemental Information

Reconciliation of Segment Adjusted EBITDA to
Income from Continuing Operations Before Income Tax Expense

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Year Ended December 31, |
|--|--------------------------------|----------|------------------------------|----------|----------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2019 |
| (In Millions) | | | | | |
| Total segment Adjusted EBITDA | \$ 195.3 | \$ 283.0 | \$ 451.8 | \$ 559.3 | \$ 1,095.4 |
| General and administrative expenses | (43.0) | (77.1) | (78.6) | (130.5) | (247.0) |
| Depreciation and amortization | (60.7) | (52.7) | (119.5) | (105.2) | (218.7) |
| Loss on disposal or impairment of assets | (3.0) | (1.3) | (3.1) | (2.4) | (11.1) |
| Government, class action, and related settlements | — | — | (2.8) | — | — |
| Loss on early extinguishment of debt | — | (2.3) | — | (2.3) | (7.7) |
| Interest expense and amortization of debt discounts and fees | (45.8) | (37.7) | (89.0) | (74.9) | (159.7) |
| Net income attributable to noncontrolling interests | 14.8 | 19.7 | 36.5 | 42.6 | 87.1 |
| SARs mark-to-market impact on noncontrolling interests | — | 2.6 | — | 3.4 | 5.0 |
| Change in fair market value of equity securities | 2.4 | 0.3 | (0.1) | 1.2 | 0.8 |
| Gain on consolidation of former equity method location | — | — | 2.2 | — | 19.2 |
| Payroll taxes on SARs exercise | — | — | (1.5) | (0.2) | (1.0) |
| Income from continuing operations before income tax expense | \$ 60.0 | \$ 134.5 | \$ 195.9 | \$ 291.0 | \$ 562.3 |

Encompass Health Corporation and Subsidiaries

Supplemental Information

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

| | Three Months Ended June 30, | | Six Months Ended June 30, | | Year Ended December 31, |
|--|--------------------------------|-----------------|------------------------------|-----------------|----------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2019 |
| | (In Millions) | | | | |
| Net cash provided by operating activities | \$ 222.3 | \$ 145.4 | \$ 251.6 | \$ 305.3 | \$ 635.3 |
| Interest expense and amortization of debt discounts and fees | 45.8 | 37.7 | 89.0 | 74.9 | 159.7 |
| Equity in net income of nonconsolidated affiliates | 0.7 | 1.8 | 1.5 | 4.3 | 6.7 |
| Net income attributable to noncontrolling interests in continuing operations | (14.8) | (19.7) | (36.5) | (42.6) | (87.1) |
| Amortization of debt-related items | (1.7) | (1.0) | (3.1) | (2.0) | (4.5) |
| Distributions from nonconsolidated affiliates | (1.0) | (2.5) | (2.0) | (4.6) | (6.6) |
| Current portion of income tax expense | 22.3 | 25.5 | 48.0 | 53.7 | 75.9 |
| Change in assets and liabilities | (113.9) | 65.2 | 40.5 | 101.7 | 180.1 |
| Cash used in operating activities of discontinued operations | — | 1.5 | 0.1 | 4.5 | 4.4 |
| Transaction costs | — | 0.4 | — | 1.0 | 2.1 |
| Payroll taxes on SARs exercise | — | — | 1.5 | 0.2 | 1.0 |
| SARs mark-to-market impact on noncontrolling interests | — | (2.6) | — | (3.4) | (5.0) |
| Change in fair market value of equity securities | (2.4) | (0.3) | 0.1 | (1.2) | (0.8) |
| Other | 4.9 | 0.8 | (0.5) | 3.3 | 3.7 |
| Consolidated Adjusted EBITDA | <u>\$ 162.2</u> | <u>\$ 252.2</u> | <u>\$ 390.2</u> | <u>\$ 495.1</u> | <u>\$ 964.9</u> |

Encompass Health Corporation and Subsidiaries

Supplemental Information

Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow

Three Months Ended Six Months Ended

| | June 30, | | June 30, | |
|---|---------------|----------|----------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | (In Millions) | | | |
| Net cash provided by operating activities | \$ 222.3 | \$ 145.4 | \$ 251.6 | \$ 305.3 |
| Impact of discontinued operations | — | 1.5 | 0.1 | 4.5 |
| Net cash provided by operating activities of continuing operations | 222.3 | 146.9 | 251.7 | 309.8 |
| Capital expenditures for maintenance | (35.7) | (34.5) | (73.5) | (64.1) |
| Distributions paid to noncontrolling interests of consolidated affiliates | (18.4) | (17.0) | (37.5) | (36.5) |
| Items non-indicative of ongoing operations: | | | | |
| Cash paid for SARs exercise (inclusive of payroll taxes) | — | — | 102.1 | 13.4 |
| Transaction costs and related assumed liabilities | — | 0.4 | — | 1.0 |
| Cash paid for government, class action, and related settlements | — | 46.4 | — | 46.4 |
| Adjusted free cash flow | \$ 168.2 | \$ 142.2 | \$ 242.8 | \$ 270.0 |

For the three months ended June 30, 2020, net cash used in investing activities was \$92.1 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the three months ended June 30, 2020 was \$182.8 million and primarily resulted from the issuance of additional senior notes in May 2020 offset by cash dividends paid on common stock and distributions paid to noncontrolling interests of consolidated affiliates.

For the three months ended June 30, 2019, net cash used in investing activities was \$100.1 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the three months ended June 30, 2019 was \$122.2 million and primarily resulted from borrowings on the Company's revolving credit facility to fund the acquisition of Alacare Home Health and Hospice and other operational needs.

For the six months ended June 30, 2020, net cash used in investing activities was \$175.1 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the six months ended June 30, 2020 was \$253.9 million and primarily resulted from the issuance of additional senior notes in May 2020 offset by the settlement of the final put and exercise of the Home Health Holdings rollover shares and SARs, cash dividends paid on common stock, and distributions paid to noncontrolling interests of consolidated affiliates.

For the six months ended June 30, 2019, net cash used in investing activities was \$191.6 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the six months ended June 30, 2019 was \$40.5 million and primarily resulted from borrowings on the Company's revolving credit facility to fund

the acquisition of Alacare Home Health and Hospice and other operational needs.

Encompass Health Corporation and Subsidiaries Forward-Looking Statements

Statements contained in this press release and the supplemental information which are not historical facts, such as those relating to the nature of the COVID-19 pandemic and its impact on Encompass Health's business and financial assumptions, balance sheet and cash flow plans, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, Encompass Health, through its senior management, may from time to time make forward-looking public statements concerning the matters described herein. All such estimates, projections, and forward-looking information speak only as of the date hereof, and Encompass Health undertakes no duty to publicly update or revise such forward-looking information, whether as a result of new information, future events, or otherwise. Such forward-looking statements are necessarily estimates based upon current information, involve a number of risks and uncertainties, and relate to, among other things, future events, Encompass Health's plan to repurchase its debt or equity securities, dividend strategies, effective income tax rates, its business strategy, its financial plans, its future financial performance, its projected business results or model, its ability to return value to shareholders, its projected capital expenditures, its leverage ratio, its acquisition opportunities, and the impact of future legislation or regulation. Actual events or results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors which could cause actual events or results to differ materially from those estimated by Encompass Health include, but are not limited to, the continued spread of COVID-19, including the speed, depth, geographic reach and duration of the spread, which could decrease our patient volumes and revenues and lead to staffing and supply shortages and associated cost increases; actions to be taken by the Company in response to the pandemic; the legal, regulatory and administrative developments that occur at the federal, state and local levels; the Company's infectious disease prevention and control efforts; the demand for the Company's services, including based on any downturns in the economy, consumer confidence, or the capital markets and unemployment among family members; the price of Encompass Health's common stock as it affects the Company's willingness and ability to repurchase shares and the financial and accounting effects of any repurchases; any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings involving Encompass Health, including any matters related to yet undiscovered issues, if any, in acquired operations; Encompass Health's ability to attract and retain key management personnel; any adverse effects on Encompass Health's stock price resulting from the integration of acquired operations; potential disruptions, breaches, or other incidents affecting the proper operation, availability, or security of Encompass Health's or its vendors' information systems, including unauthorized access to or theft of patient, business associate, or other sensitive information or inability to provide patient care because of system unavailability as well as unforeseen issues, if any, related to integration of acquired systems; the ability to successfully integrate acquired operations, including realization of anticipated tax benefits, revenues, and cost savings, minimizing the negative impact on margins arising from the changes in staffing and other operating practices, and avoidance of unforeseen exposure to liabilities; Encompass Health's ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with its growth

strategy; increases in Medicare audit activity, including increased use of sampling and extrapolation, resulting in additional unpaid reimbursement claims and an increase in the backlog of appealed claims denials; changes, delays in (including in connection with resolution of Medicare payment reviews or appeals), or suspension of reimbursement for Encompass Health's services by governmental or private payors; changes in the regulation of the healthcare industry at either or both of the federal and state levels, including as part of national healthcare reform and deficit reduction (such as the Patient-Driven Groupings Model for home health, the new patient assessment measures, referred to as "Section GG functional measures," for inpatient rehabilitation, and other payment system reforms) and Encompass Health's ability to adapt operations to those changes; competitive pressures in the healthcare industry and Encompass Health's response thereto; Encompass Health's ability to obtain and retain favorable arrangements with third-party payors; Encompass Health's ability to control costs, particularly labor and employee benefit costs, including group medical expenses; adverse effects resulting from coverage determinations made by Medicare Administrative Contractors regarding its Medicare reimbursement claims and lengthening delays in Encompass Health's ability to recover improperly denied claims through the administrative appeals process on a timely basis; Encompass Health's ability to adapt to changes in the healthcare delivery system, including value-based purchasing and involvement in coordinated care initiatives or programs that may arise with its referral sources; Encompass Health's ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages, which may be worsened by the pandemic, and the impact on Encompass Health's labor expenses from potential union activity and staffing shortages; general conditions in the economy and capital markets, including any instability or uncertainty related to armed conflict or an act of terrorism, governmental impasse over approval of the United States federal budget, an increase in the debt ceiling, or an international sovereign debt crisis; the increase in the costs of defending and insuring against alleged professional liability claims and Encompass Health's ability to predict the estimated costs related to such claims; and other factors which may be identified from time to time in Encompass Health's SEC filings and other public announcements, including Encompass Health's Form 10-K for the year ended December 31, 2019 and Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020, when filed.

Media Contact

Casey Lassiter, 205 447-6410

casey.lassiter@encompasshealth.com

Investor Relations Contact

Crissy Carlisle, 205 970-5860

crissy.carlisle@encompasshealth.com

View original content to download multimedia:<http://www.prnewswire.com/news-releases/encompass-health-reports-results-for-second-quarter-2020-301100511.html>

SOURCE Encompass Health Corp.