

Encompass Health reports results for first quarter 2019 and reiterates full-year 2019 guidance

Full-year 2019 guidance now includes the impact of the proposed rule for inpatient rehabilitation hospitals on the fourth quarter of 2019

BIRMINGHAM, Ala., April 25, 2019 /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 first quarter ended March 31, 2019.

"The strength of our business model was demonstrated again in the first quarter of 2019 as we made continued progress on our operational and strategic initiatives and generated strong financial results," said President and Chief Executive Officer of Encompass Health Mark Tarr.



Consolidated results

| | Q1 2019 | Q1 2018 | Growth | |
|--|--------------------------------------|------------|---------|----------|
| | | | Dollars | Percent |
| | (In Millions, Except per Share Data) | | | |
| Net operating revenues | \$ 1,124.0 | \$ 1,046.0 | \$ 78.0 | 7.5 % |
| Income from continuing operations attributable to Encompass Health per diluted share | 1.04 | 0.85 | 0.19 | 22.4 % |
| Adjusted earnings per share | 1.04 | 0.93 | 0.11 | 11.8 % |
| Cash flows provided by operating activities | 159.9 | 216.3 | (56.4) | (26.1) % |
| Adjusted EBITDA | 242.9 | 223.3 | 19.6 | 8.8 % |
| Adjusted free cash flow | 127.8 | 170.2 | (42.4) | (24.9) % |

Revenue growth was driven by volume and pricing growth in both of the Company's operating segments.

The increase in income from continuing operations attributable to Encompass Health per diluted share and adjusted earnings per share resulted primarily from increased revenue.

The decrease in cash flows provided by operating activities and adjusted free cash flow resulted primarily from increased working capital.

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

Inpatient rehabilitation segment results

| | | | Growth | | |
|-----------------------------------|-----------|------------------|---------|---------|---|
| | Q1 2019 | Q1 2018 | Dollars | Percent | |
| Net operating revenues: | | (In Millions) | | | |
| Inpatient | \$ 847.6 | \$ 817.1 | \$ 30.5 | 3.7 | % |
| Outpatient and other | 22.5 | 23.2 | (0.7) | (3.0) | % |
| Total segment revenue | \$ 870.1 | \$ 840.3 | \$ 29.8 | 3.5 | % |
| | | (Actual Amounts) | | | |
| Discharges | 45,609 | 45,108 | 501 | 1.1 | % |
| Same-store discharge growth | | | | (0.2) | % |
| Net patient revenue per discharge | \$ 18,584 | \$ 18,114 | \$ 470 | 2.6 | % |
| | | (In Millions) | | | |
| Adjusted EBITDA | \$ 230.0 | \$ 223.8 | \$ 6.2 | 2.8 | % |

- Revenue** - Revenue growth resulted from volume growth and an increase in net patient revenue per discharge. Discharge growth from new stores resulted from the Company's joint ventures in Murrells Inlet, South Carolina (September 2018) and Winston-Salem, North Carolina (October 2018), as well as wholly owned hospitals in Shelby County, Alabama (April 2018) and Bluffton, South Carolina (June 2018). Same-store discharge growth in the first quarter of 2019 was negatively impacted by approximately 20 basis points due to the ongoing effects of Hurricane Michael on operations in Panama City, Florida. Same-store discharge growth was 4.8% in the first quarter of 2018, with a severe influenza season (approximately 100 to 200 basis points) and the timing of discharges around Easter and Passover (approximately 50 basis points) contributing to that growth. Growth in net patient revenue per discharge primarily resulted from an increase in reimbursement rates from all payors and improvements in discharge destination.

Revenue reserves as a percent of revenue increased 30 basis points to 1.4%. Revenue reserves as a percent of revenue were lower in the first quarter of 2018 primarily due to the recoupment of previously denied claims.

- Adjusted EBITDA** - The increase in Adjusted EBITDA primarily resulted from revenue growth. The increase in salaries and benefits as a percent of revenue was lower than the expected range.

Home health and hospice segment results

| Home health and hospice segment results | | | Growth | |
|---|------------------|----------|---------|---------|
| | Q1 2019 | Q1 2018 | Dollars | Percent |
| Net operating revenues: | (In Millions) | | | |
| Home health | \$ 219.5 | \$ 185.3 | \$ 34.2 | 18.5 % |
| Hospice | 34.4 | 20.4 | 14.0 | 68.6 % |
| Total segment revenue | \$ 253.9 | \$ 205.7 | \$ 48.2 | 23.4 % |
| Home Health Metrics | | | | |
| | (Actual Amounts) | | | |
| Admissions | 37,944 | 33,855 | 4,089 | 12.1 % |
| Same-store admissions growth | | | | 6.4 % |
| Episodes | 63,626 | 56,658 | 6,968 | 12.3 % |
| Same-store episode growth | | | | 5.4 % |

| | | | | |
|----------------------------|---------------|----------|---------|--------|
| Revenue per episode | \$ 3,057 | \$ 2,934 | \$ 123 | 4.2 % |
| | (In Millions) | | | |
| Adjusted EBITDA | \$ 46.3 | \$ 33.5 | \$ 12.8 | 38.2 % |

- *Revenue* - Revenue growth resulted from volume growth and an increase in revenue per episode. Volume growth included the impact of the Camellia Healthcare acquisition which closed on May 1, 2018. The increase in revenue per episode primarily resulted from a Medicare reimbursement rate increase, receipt of an approximate \$1 million Bundled Payments for Care Improvement reconciliation payment in the first quarter of 2019, and changes in patient mix. Revenue per episode in the first quarter of 2018 was negatively impacted by an approximate \$4 million reserve for a Zone Program Integrity Contractor audit.

Hospice revenue increased primarily due to acquisitions and same-store admissions growth of 13.7%.

- *Adjusted EBITDA* - Growth in Adjusted EBITDA primarily resulted from revenue growth and improvements in caregiver optimization and productivity in home health and increased scale and efficiencies in hospice.

General and administrative expenses

| | Q1 2019 | % of Consolidated Revenue | Q1 2018 | % of Consolidated Revenue |
|---|----------------|----------------------------------|----------------|----------------------------------|
| | (In Millions) | | | |
| General and administrative expenses, excluding stock-based compensation | \$ 33.4 | 3.0% | \$ 34.0 | 3.3% |

- *General and administrative expenses* decreased as a percent of consolidated revenue primarily due to expenses associated with the Company's rebranding and name change in Q1 2018 and operating leverage resulting from revenue growth. During the first quarter of 2019, the Company invested \$0.8 million in its rebranding and name change, all of which was included in general and administrative expenses. During the first quarter of 2018, the Company invested \$3.6 million in its rebranding and name change.

Repurchases of common stock

During the first quarter of 2019, the Company repurchased 219,708 shares of its common stock for approximately \$13 million. As of March 31, 2019, the Company had approximately \$237 million remaining under its existing stock repurchase authorization.

"Our leverage ratio at the end of the first quarter remained at 2.8x," said Executive Vice President and Chief Financial Officer of Encompass Health Doug Coltharp. "The strength of our balance sheet and cash flow generation position us with substantial flexibility to deploy capital."

2019 guidance

On April 17, 2019, the Centers for Medicare and Medicaid Services released its notice of proposed rule making for fiscal year 2020 under the inpatient rehabilitation facility prospective payment system (the "2020 Proposed IRF Rule"). Based on its analysis of the adjustments included in the proposed rule and other factors, including the acuity of the Company's patients over the three-month period prior to the release of the proposed rule, the Company currently estimates its Medicare payment rates for its inpatient rehabilitation segment will be flat to down 0.25% in fiscal year 2020 (effective October 1, 2019).

Based on its results for the first quarter of 2019 and its current expectations for the remainder of 2019, including the impact of the 2020 Proposed IRF Rule discussed above on the fourth quarter of 2019, the Company is reiterating its full-year guidance for 2019.

| | Full-Year 2019 Guidance |
|---|--------------------------------------|
| | (In Millions, Except Per Share Data) |
| Net operating revenues | \$4,500 to \$4,600 |
| Adjusted EBITDA | \$925 to \$945 |
| Adjusted earnings per share from continuing operations attributable to Encompass Health | \$3.71 to \$3.85 |

This guidance does not include the Company's pending acquisition of Alacare Home Health and Hospice which is expected to close in June 2019.

For additional considerations regarding the Company's 2019 guidance, see the supplemental information posted on the Company's website at <http://investor.encompasshealth.com>. See also the "Other Information" section below for an explanation of why the Company does not provide guidance for comparable GAAP measures for Adjusted EBITDA and adjusted earnings per share.

Earnings conference call and webcast

The Company will host an investor conference call at 9:00 a.m. Eastern Time on Friday, April 26, 2019, to discuss its results for the first quarter of 2019. 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 3564805. 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 130 hospitals, 221 home health locations and 59 hospice locations in 37 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 March 31, 2019 (the "March 2019 Form 10-Q"), when filed, as well as the Company's Current Report on Form 8-K filed on April 25, 2019 (the "Q1 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 April 26, 2019 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, except with regard to non-GAAP guidance, are included below, in the supplemental information, or in the Q1 Earnings Form 8-K. Readers are encouraged to review the "Note Regarding Presentation of Non-GAAP Financial Measures" included in the Q1 Earnings Form 8-K which provides further explanation and disclosure regarding the Company's use of these non-GAAP financial measures.

Excluding net operating revenues, the Company does not provide guidance on a GAAP basis because it is unable to predict, with reasonable certainty, the future impact of items that are deemed to be outside the control of the Company or otherwise non-indicative of its ongoing operating performance. Such items include 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 instruments; loss on early extinguishment of debt; adjustments to its income tax provision (such as valuation allowance adjustments and settlements of income tax claims); items related to corporate and facility restructurings; and certain other items the Company believes to be non-indicative of its ongoing operations. These items cannot be reasonably predicted and will depend on several factors, including industry and market conditions, and could be material to the Company's results computed in accordance with GAAP.

However, the following reasonably estimable GAAP measures for 2019 would be included in a reconciliation for Adjusted EBITDA if the other reconciling GAAP measures could be reasonably predicted:

- Interest expense and amortization of debt discounts and fees - estimate of \$150 million to \$160 million
- Amortization of debt-related items - approximately \$4 million

The Q1 Earnings Form 8-K and, when filed, the March 2019 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 Operations
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|----------------|
| | 2019 | 2018 |
| | (In Millions, Except per Share Data) | |
| | \$ | \$ |
| Net operating revenues | 1,124.0 | 1,046.0 |
| Operating expenses: | | |
| Salaries and benefits | 620.8 | 570.2 |
| Other operating expenses | 150.1 | 141.2 |
| Occupancy costs | 19.6 | 18.6 |
| Supplies | 40.1 | 39.9 |
| General and administrative expenses | 53.4 | 61.1 |
| Depreciation and amortization | 52.5 | 45.9 |
| Total operating expenses | 936.5 | 876.9 |
| Interest expense and amortization of debt discounts and fees | 37.2 | 35.6 |
| Other (income) loss | (3.7) | 0.1 |
| Equity in net income of nonconsolidated affiliates | (2.5) | (2.3) |
| Income from continuing operations before income tax expense | 156.5 | 135.7 |
| Provision for income tax expense | 30.8 | 30.0 |
| Income from continuing operations | 125.7 | 105.7 |
| Loss from discontinued operations, net of tax | (0.5) | (0.5) |
| Net income | 125.2 | 105.2 |
| Less: Net income attributable to noncontrolling interests | (22.9) | (21.4) |
| Net income attributable to Encompass Health | \$ 102.3 | \$ 83.8 |
| Weighted average common shares outstanding: | | |
| Basic | 98.4 | 97.8 |
| Diluted | 99.7 | 99.4 |
| Earnings per common share: | | |
| Basic earnings per share attributable to Encompass Health common shareholders: | | |
| Continuing operations | \$ 1.05 | \$ 0.86 |
| Discontinued operations | (0.01) | (0.01) |
| Net income | \$ 1.04 | \$ 0.85 |
| Diluted earnings per share attributable to Encompass Health common shareholders: | | |
| Continuing operations | \$ 1.04 | \$ 0.85 |
| Discontinued operations | (0.01) | (0.01) |
| Net income | \$ 1.03 | \$ 0.84 |
| Amounts attributable to Encompass Health common shareholders: | | |
| Income from continuing operations | \$ 102.8 | \$ 84.3 |
| Loss from discontinued operations, net of tax | (0.5) | (0.5) |
| Net income attributable to Encompass Health | \$ 102.3 | \$ 83.8 |

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

| | March 31, | December 31, |
|---------------------------|----------------------|---------------------|
| | 2019 | 2018 |
| | (In Millions) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 56.1 | \$ 69.2 |
| Restricted cash | 59.0 | 59.0 |

| | | |
|---|-------------------|-------------------|
| Accounts receivable | 500.6 | 467.7 |
| Other current assets | 87.0 | 86.2 |
| Total current assets | 682.7 | 662.1 |
| Property and equipment, net | 1,736.2 | 1,634.8 |
| Operating lease right-of-use assets | 284.9 | — |
| Goodwill | 2,111.6 | 2,100.8 |
| Intangible assets, net | 435.4 | 443.4 |
| Deferred income tax assets | 40.5 | 42.9 |
| Other long-term assets | 292.5 | 291.0 |
| Total assets | \$ 5,583.8 | \$ 5,175.0 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 37.3 | \$ 35.8 |
| Current operating lease liabilities | 48.3 | — |
| Accounts payable | 94.7 | 90.0 |
| Accrued expenses and other current liabilities | 587.9 | 546.7 |
| Total current liabilities | 768.2 | 672.5 |
| Long-term debt, net of current portion | 2,521.8 | 2,478.6 |
| Long-term operating lease liabilities | 245.0 | — |
| Other long-term liabilities | 159.3 | 205.2 |
| | 3,694.3 | 3,356.3 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests | 273.0 | 261.7 |
| Shareholders' equity: | | |
| Encompass Health shareholders' equity | 1,314.3 | 1,276.7 |
| Noncontrolling interests | 302.2 | 280.3 |
| Total shareholders' equity | 1,616.5 | 1,557.0 |
| Total liabilities and shareholders' equity | \$ 5,583.8 | \$ 5,175.0 |

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

| | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2019 | 2018 |
| | (In Millions) | |
| Cash flows from operating activities: | | |
| Net income | \$ 125.2 | \$ 105.2 |
| Loss from discontinued operations, net of tax | 0.5 | 0.5 |
| Adjustments to reconcile net income to net cash provided by operating activities— | | |
| Depreciation and amortization | 52.5 | 45.9 |
| Stock-based compensation | 19.4 | 26.1 |
| Deferred tax expense (benefit) | 2.6 | (3.0) |
| Other, net | (0.8) | 1.6 |
| Change in assets and liabilities, net of acquisitions— | | |
| Accounts receivable | (29.6) | 8.3 |
| Other assets | (3.8) | 14.2 |
| Accrued payroll | (14.8) | (9.5) |
| Other liabilities | 11.7 | 27.7 |
| Net cash used in operating activities of discontinued operations | (3.0) | (0.7) |
| Total adjustments | 34.2 | 110.6 |
| Net cash provided by operating activities | 159.9 | 216.3 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (72.3) | (59.9) |
| Acquisitions of businesses, net of cash acquired | (13.7) | (0.6) |
| Other, net | (5.5) | (0.1) |
| Net cash used in investing activities | (91.5) | (60.6) |
| Cash flows from financing activities: | | |
| Borrowings on revolving credit facility | 25.0 | 95.0 |
| Payments on revolving credit facility | (30.0) | (95.0) |
| Dividends paid on common stock | (28.3) | (25.4) |
| Purchase of equity interests in consolidated affiliates | — | (65.1) |
| Distributions paid to noncontrolling interests of consolidated affiliates | (19.5) | (15.4) |
| Taxes paid on behalf of employees for shares withheld | (15.9) | (8.3) |
| Other, net | (13.0) | (2.5) |
| Net cash used in financing activities | (81.7) | (116.7) |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (13.3) | 39.0 |
| Cash, cash equivalents, and restricted cash at beginning of period | 133.5 | 116.8 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 120.2 | \$ 155.8 |
| Reconciliation of Cash, Cash Equivalents, and Restricted Cash | | |
| Cash and cash equivalents at beginning of period | \$ 69.2 | \$ 54.4 |
| Restricted cash at beginning of period | 59.0 | 62.4 |
| Restricted cash included in other long-term assets at beginning of period | 5.3 | — |
| Cash, cash equivalents, and restricted cash at beginning of period | \$ 133.5 | \$ 116.8 |
| Cash and cash equivalents at end of period | \$ 56.1 | \$ 86.4 |
| Restricted cash at end of period | 59.0 | 69.4 |
| | | — |

Restricted cash included in other long-term assets at end of period
Cash, cash equivalents, and restricted cash at end of period

| | | |
|----|-------|----------|
| | 5.1 | |
| \$ | 120.2 | \$ 155.8 |

Encompass Health Corporation and Subsidiaries
Supplemental Information
Earnings Per Share

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| | (In Millions, Except Per Share Data) | |
| Adjusted EBITDA | \$ 242.9 | \$ 223.3 |
| Depreciation and amortization | (52.5) | (45.9) |
| Interest expense and amortization of debt discounts and fees | (37.2) | (35.6) |
| Stock-based compensation expense | (19.4) | (26.1) |
| Noncash loss on disposal of assets | (1.1) | (0.8) |
| | 132.7 | 114.9 |
| Certain items non-indicative of ongoing operating performance: | | |
| Transaction costs | (0.6) | (1.0) |
| SARs mark-to-market impact on noncontrolling interests | 0.8 | 1.0 |
| Change in fair market value of equity securities | 0.9 | (0.6) |
| Payroll taxes on SARs exercise | (0.2) | — |
| Pre-tax income | 133.6 | 114.3 |
| Income tax expense | (30.8) | (30.0) |
| Income from continuing operations ⁽¹⁾ | \$ 102.8 | \$ 84.3 |
| Basic shares | 98.4 | 97.8 |
| Diluted shares | 99.7 | 99.4 |
| Basic earnings per share ⁽¹⁾ | \$ 1.05 | \$ 0.86 |
| Diluted earnings per share ⁽¹⁾ | \$ 1.04 | \$ 0.85 |

⁽¹⁾ Income from continuing operations attributable to Encompass Health

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

| | Q1 | |
|--|-------------|-------------|
| | 2019 | 2018 |
| Earnings per share, as reported | \$ 1.04 | \$ 0.85 |
| Adjustments, net of tax: | | |
| Mark-to-market adjustments for stock appreciation rights | 0.06 | 0.08 |
| Transaction costs | — | 0.01 |
| Change in fair market value of equity securities | (0.01) | — |
| Income tax adjustments | (0.05) | — |
| Adjusted earnings per share ⁽¹⁾ | \$ 1.04 | \$ 0.93 |

⁽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 March 31, 2019 | | | | | | |
|--|--|---|-------------------------------|--------------------------|---|---------------------------------------|--------------------|
| | Adjustments | | | | | | |
| | As Reported | Mark-to-Market Adjustment for Stock Compensation Expense | Income Tax Adjustments | Transaction Costs | Change in Fair Market Value of Equity Securities | Payroll Taxes on SARs Exercise | As Adjusted |
| | (In Millions, Except Per Share Amounts) | | | | | | |
| Adjusted EBITDA ⁽¹⁾ | \$ 242.9 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 242.9 |
| Depreciation and amortization | (52.5) | — | — | — | — | — | (52.5) |
| Interest expense and amortization of debt discounts and fees | (37.2) | — | — | — | — | — | (37.2) |
| Stock-based compensation | (19.4) | 9.6 | — | — | — | — | (9.8) |
| Loss on disposal of assets | (1.1) | — | — | — | — | — | (1.1) |

| | | | | | | | |
|---|-----------------|----------------|------------------|---------------|------------------|---------------|-----------------|
| Transaction costs | (0.6) | — | — | 0.6 | — | — | — |
| SARs mark-to-market impact on noncontrolling interests | 0.8 | (0.8) | — | — | — | — | — |
| Change in fair market value of equity securities | 0.9 | — | — | — | (0.9) | — | — |
| Payroll taxes on SARs exercise | (0.2) | — | — | — | — | 0.2 | — |
| Income from continuing operations before income tax expense | 133.6 | 8.8 | — | 0.6 | (0.9) | 0.2 | 142.3 |
| Provision for income tax expense | (30.8) | (2.4) | (5.2) | (0.2) | 0.2 | — | (38.4) |
| Income from continuing operations attributable to Encompass Health | \$ 102.8 | \$ 6.4 | \$ (5.2) | \$ 0.4 | \$ (0.7) | \$ 0.2 | \$ 103.9 |
| Add: Interest, amortization, and loss on extinguishment of convertible debt, net of tax | — | — | — | — | — | — | — |
| Numerator for diluted earnings per share | \$ 102.8 | | | | | | \$ 103.9 |
| Diluted earnings per share from continuing operations⁽²⁾ | \$ 1.04 | \$ 0.06 | \$ (0.05) | \$ — | \$ (0.01) | \$ — | \$ 1.04 |
| Diluted shares used in calculation | 99.7 | | | | | | |

(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 March 31, 2018

| | Adjustments | | | | | |
|---|---|---|------------------------|-------------------|--|-------------|
| | As Reported | Mark-to-Market Adjustment for Stock Appreciation Rights | Income Tax Adjustments | Transaction Costs | Change in Fair Market Value of Equity Securities | As Adjusted |
| | (In Millions, Except Per Share Amounts) | | | | | |
| Adjusted EBITDA ⁽¹⁾ | \$ 223.3 | \$ — | \$ — | \$ — | \$ — | \$ 223.3 |
| Depreciation and amortization | (45.9) | — | — | — | — | (45.9) |
| Interest expense and amortization of debt discounts and fees | (35.6) | — | — | — | — | (35.6) |
| Stock-based compensation | (26.1) | 11.6 | — | — | — | (14.5) |
| Loss on disposal of assets | (0.8) | — | — | — | — | (0.8) |
| Transaction costs | (1.0) | — | — | 1.0 | — | — |
| SARs mark-to-market impact on noncontrolling interests | 1.0 | (1.0) | — | — | — | — |
| Change in fair market value of equity securities | (0.6) | — | — | — | 0.6 | — |
| Income from continuing operations before income tax expense | 114.3 | 10.6 | — | 1.0 | 0.6 | 126.5 |
| Provision for income tax expense | (30.0) | (3.0) | (0.2) | (0.3) | (0.2) | (33.7) |
| Income from continuing operations attributable to Encompass Health | \$ 84.3 | \$ 7.6 | \$ (0.2) | \$ 0.7 | \$ 0.4 | \$ 92.8 |
| Add: Interest, amortization, and loss on extinguishment of convertible debt, net of tax | — | | | | | — |
| Numerator for diluted earnings per share | \$ 84.3 | | | | | \$ 92.8 |
| Diluted earnings per share from continuing operations, as reported ⁽²⁾ | \$ 0.85 | \$ 0.08 | \$ — | \$ 0.01 | \$ — | \$ 0.93 |
| Diluted shares used in calculation | 99.4 | | | | | |

(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 March 31, | |
|---|------------------------------|-----------------|
| | 2019 | 2018 |
| | (In Millions) | |
| Net income | \$ 125.2 | \$ 105.2 |
| Loss from discontinued operations, net of tax, attributable to Encompass Health | 0.5 | 0.5 |

| | | |
|--|-----------------|-----------------|
| Net income attributable to noncontrolling interests | (22.9) | (21.4) |
| Provision for income tax expense | 30.8 | 30.0 |
| Interest expense and amortization of debt discounts and fees | 37.2 | 35.6 |
| Depreciation and amortization | 52.5 | 45.9 |
| Net noncash loss on disposal of assets | 1.1 | 0.8 |
| Stock-based compensation expense | 19.4 | 26.1 |
| Transaction costs | 0.6 | 1.0 |
| SARs mark-to-market impact on noncontrolling interests | (0.8) | (1.0) |
| Change in fair market value of equity securities | (0.9) | 0.6 |
| Payroll taxes on SARs exercise | 0.2 | — |
| Adjusted EBITDA | \$ 242.9 | \$ 223.3 |

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

| | Three Months Ended March 31, | |
|--|------------------------------|-----------------|
| | 2019 | 2018 |
| | (In Millions) | |
| Total segment Adjusted EBITDA | \$ 276.3 | \$ 257.3 |
| General and administrative expenses | (53.4) | (61.1) |
| Depreciation and amortization | (52.5) | (45.9) |
| Loss on disposal of assets | (1.1) | (0.8) |
| Interest expense and amortization of debt discounts and fees | (37.2) | (35.6) |
| Net income attributable to noncontrolling interests | 22.9 | 21.4 |
| SARs mark-to-market impact on noncontrolling interests | 0.8 | 1.0 |
| Change in fair market value of equity securities | 0.9 | (0.6) |
| Payroll taxes on SARs exercise | (0.2) | — |
| Income from continuing operations before income tax expense | \$ 156.5 | \$ 135.7 |

Encompass Health Corporation and Subsidiaries

Supplemental Information

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

| | Three Months Ended March 31, | |
|--|------------------------------|-----------------|
| | 2019 | 2018 |
| | (In Millions) | |
| Net cash provided by operating activities | \$ 159.9 | \$ 216.3 |
| Interest expense and amortization of debt discounts and fees | 37.2 | 35.6 |
| Equity in net income of nonconsolidated affiliates | 2.5 | 2.3 |
| Net income attributable to noncontrolling interests in continuing operations | (22.9) | (21.4) |
| Amortization of debt-related items | (1.0) | (1.0) |
| Distributions from nonconsolidated affiliates | (2.1) | (1.2) |
| Current portion of income tax expense | 28.2 | 33.0 |
| Change in assets and liabilities | 36.5 | (40.7) |
| Cash used in operating activities of discontinued operations | 3.0 | 0.7 |
| Transaction costs | 0.6 | 1.0 |
| SARs mark-to-market impact on noncontrolling interests | (0.8) | (1.0) |
| Payroll taxes on SARs exercise | 0.2 | — |
| Change in fair market value of equity securities | (0.9) | 0.6 |
| Other | 2.5 | (0.9) |
| Consolidated Adjusted EBITDA | \$ 242.9 | \$ 223.3 |

Encompass Health Corporation and Subsidiaries

Supplemental Information

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

| | Three Months Ended March 31, | |
|---|------------------------------|-----------------|
| | 2019 | 2018 |
| | (In Millions) | |
| Net cash provided by operating activities | \$ 159.9 | \$ 216.3 |
| Impact of discontinued operations | 3.0 | 0.7 |
| Net cash provided by operating activities of continuing operations | 162.9 | 217.0 |
| Capital expenditures for maintenance | (29.6) | (36.1) |
| Distributions paid to noncontrolling interests of consolidated affiliates | (19.5) | (15.4) |
| Items non-indicative of ongoing operations: | | |
| Transaction costs and related assumed liabilities | 0.6 | 0.4 |
| Cash paid for SARs exercise | 13.4 | 4.3 |
| Adjusted free cash flow | \$ 127.8 | \$ 170.2 |

For the three months ended March 31, 2019, net cash used in investing activities was \$91.5 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended March 31, 2019 was \$81.7 million and primarily resulted from cash dividends paid on common stock, distributions paid to noncontrolling interests of consolidated affiliates, taxes paid on behalf of employees for shares withheld under stock compensation arrangements, net debt payments, and repurchases of common stock.

For the three months ended March 31, 2018, net cash used in investing activities was \$60.6 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended March 31, 2018 was \$116.7 million and primarily resulted from purchasing one-

third of the Rollover Shares held by members of the home health and hospice management team, cash dividends paid on common stock, and distributions paid to noncontrolling interests of consolidated affiliates.

Statements contained in this press release and the supplemental information which are not historical facts, such as those relating to financial guidance and assumptions, balance sheet and cash flow plans, a potential settlement of the pending DOJ investigations, and anticipated acquisitions, are forward-looking statements. 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 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 its pending DOJ and HHS-OIG investigations and 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 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 and other payment system reforms); 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 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, 2018 and Form 10-Q for the quarter ended March 31, 2019, when filed.

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SOURCE Encompass Health Corp.

<http://healthsouth.mediaroom.com/2019-04-25-Encompass-Health-reports-results-for-first-quarter-2019-and-reiterates-full-year-2019-guidance>