

Encompass Health reports results for first quarter 2022

BIRMINGHAM, Ala., April 27, 2022 /PRNewswire/ -- Encompass Health Corporation (NYSE: EHC), a national leader in integrated healthcare, offering facility-based and home-based patient care through its network of inpatient rehabilitation hospitals and home health and hospice agencies, today reported its results of operations for the first quarter ended March 31, 2022.

"Our first quarter results are further evidence of the strong demand for the services we provide," said President and Chief Executive Officer of Encompass Health Mark Tarr. "Our hospital and home care teams continue to provide high quality, compassionate care to patients in need of our services. While we continue to face near-term staffing challenges, we remain confident in the long-term prospects for our businesses."



Consolidated results

	Q1 2022	Q1 2021	Growth	
			Dollars	Percent
	(In Millions, Except Per Share Data)			
Net operating revenues	\$ 1,333.6	\$ 1,230.4	\$ 103.2	8.4%
Income from continuing operations attributable to Encompass Health per diluted share	0.87	1.07	(0.20)	(18.7)%
Adjusted earnings per share	0.97	1.05	(0.08)	(7.6)%
Cash flows provided by operating activities	218.9	158.5	60.4	38.1%
Adjusted EBITDA	245.0	250.8	(5.8)	(2.3)%
Adjusted free cash flow	165.9	107.4	58.5	54.5%

Revenue growth in the first quarter of 2022 resulted primarily from volume growth in both segments.

Income from continuing operations attributable to Encompass Health per diluted share in the first quarter of 2022 was impacted by higher costs associated with the strategic alternatives review and higher stock-based compensation.

Cash flows provided by operating activities increased 38.1% in the first quarter of 2022. Adjusted free cash flow increased 54.5%, primarily as a result of improved working capital. Accounts receivable in the first quarter of 2021 were elevated due predominantly to the phase out of the home health request for anticipated payment and inpatient rehabilitation Medicare payment processing delays.

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

Inpatient rehabilitation segment results

	Q1 2022	Q1 2021	Growth	
			Dollars	Percent
Net operating revenues:			(In Millions)	
Inpatient	\$ 1,036.2	\$ 942.3	\$ 93.9	10.0%
Outpatient and other	23.1	17.6	5.5	31.3%
Total segment revenue	<u>\$ 1,059.3</u>	<u>\$ 959.9</u>	<u>\$ 99.4</u>	<u>10.4%</u>
			(Actual Amounts)	
Discharges	50,771	47,187	3,584	7.6%
Same-store discharge growth				3.8%
Net patient revenue per discharge	\$ 20,409	\$ 19,969	\$ 440	2.2%
Revenue reserves related to bad debt as a percent of revenue	2.2%	1.7%		50 basis points
			(In Millions)	
Adjusted EBITDA	\$ 226.2	\$ 234.9	\$ (8.7)	(3.7)%

- *Revenue* - Inpatient revenue growth resulted from increased volumes and pricing. Total discharge growth for the first quarter of 2022 was 7.6% with same-store growth of 3.8%. Revenue reserves related to bad debt as a percent of revenue increased 50 basis points, primarily attributable to a shift in payor mix toward non-Medicare payors.

Growth in net patient revenue per discharge of 2.2% primarily resulted from an increase in reimbursement rates.

The increase in outpatient and other revenue included an increase of \$5.8 million in provider tax revenues (partly offset by an increase of approximately \$2.7 million in provider tax expense included in other operating expenses).

- *Adjusted EBITDA* - The 3.7% decrease in Adjusted EBITDA primarily resulted from increased utilization and pricing of agency staffing and sign-on and shift bonuses in order to service the increased volume of patients.

Home health and hospice segment results

	Q1 2022	Q1 2021	Growth	
			Dollars	Percent
	(In Millions)			
Net operating revenues:				
Home health	\$ 224.9	\$ 219.9	\$ 5.0	2.3%
Hospice	49.4	50.6	(1.2)	(2.4)%
Total segment revenue	<u>\$ 274.3</u>	<u>\$ 270.5</u>	<u>\$ 3.8</u>	<u>1.4%</u>
Adjusted EBITDA	\$ 50.1	\$ 50.8	\$ (0.7)	(1.4)%
Home Health				
Starts of care:		(Actual Amounts)		
Total admissions	53,309	50,799	2,510	4.9%
Same-store total admissions growth				0.9%
Total recertifications	31,787	31,902	(115)	(0.4)%
Total starts of care	<u>85,096</u>	<u>82,701</u>	<u>2,395</u>	<u>2.9%</u>
Episodic admissions	38,971	40,215	(1,244)	(3.1)%
Same-store episodic admissions growth				(7.4)%
Episodic recertifications	25,808	28,083	(2,275)	(8.1)%
Total episodic starts of care	<u>64,779</u>	<u>68,298</u>	<u>(3,519)</u>	<u>(5.2)%</u>
Revenue per episode	\$ 3,037	\$ 2,923	\$ 114	3.9%
Hospice				
Admissions:				
Same store	2,830	3,325	(495)	(14.9)%
New store	416	5	411	12.4%
Total admissions	<u>3,246</u>	<u>3,330</u>	<u>(84)</u>	<u>(2.5)%</u>

- *Revenue* - Home health total admissions increased 4.9% and same-store total admissions increased 0.9%.

Home health revenue per episode increased 3.9%, driven primarily by an increase in Medicare reimbursement rates.

Hospice admissions decreased 2.5%, primarily attributable to capacity constraints.

- *Adjusted EBITDA* - The 1.4% decrease in Adjusted EBITDA resulted primarily from increased costs of service due to higher labor costs.

General and administrative expenses

	Q1 2022	% of Consolidated Revenue	Q1 2021	% of Consolidated Revenue
(In Millions)				
General and administrative expenses, excluding stock-based compensation	\$ 31.3	2.3%	\$ 34.9	2.8%

General and administrative expenses decreased as a percent of consolidated revenue due to improved operating leverage and a decline in fair value adjustments on the Company's nonqualified 401(k) plan (offset with "Other Income" in the inpatient rehabilitation segment).

General and administrative expenses in the above table exclude \$9.6 million in costs associated with the strategic alternatives review of the Company's home health and hospice business for the first quarter of 2022.

Spin off of the home health and hospice business

The Company expects the spin off of its home health and hospice business to form an independent, publicly traded company (the "HH&H Business") to be effectuated on July 1, 2022, subject to customary conditions, including the effectiveness of a Form 10 registration statement, regulatory approvals and receipt of a favorable IRS private letter ruling. Additional information regarding the spin off is provided in the supplemental slides accompanying this release.

2022 guidance

The Company is reaffirming its guidance for full-year 2022.

	2022 Guidance Ranges
	(In Millions, Except Per Share Data)
Net operating revenues	\$5,380 to \$5,500
Adjusted EBITDA	\$1,015 to \$1,065
Adjusted earnings per share from continuing operations attributable to Encompass Health	\$3.83 to \$4.19

The Company's 2022 consolidated guidance assumes the continuation of the current structure of the business for 2022. Guidance is not inclusive of any costs incurred in 2022 related to the preparations for the planned spin off of Enhabit Home Health & Hospice including rebranding, professional fees, or personnel additions specifically required for an independent public company.

The Company intends to provide 2022 guidance for Encompass Health and Enhabit on a separated basis in the first half of June 2022.

For additional considerations regarding the Company's 2022 guidance ranges, 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 10:00 a.m. Eastern Time on Thursday, April 28, 2022 to discuss its results for the first quarter of 2022. 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 866 342-8591 and giving the pass code EHCQ122. International callers should dial 203 518-9713 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 147 hospitals and 252 home health locations and 99 hospice locations in 42 states and Puerto Rico, the Company provides high-quality, cost-effective integrated healthcare. 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 our newsroom, Twitter, Instagram 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, 2022 (the "March 2022 Form 10-Q"), when filed, as well as the Company's Current Report on Form 8-K filed on April 27, 2022 (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 28, 2022 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 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 not 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 not 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 2022 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 \$160 million to \$170 million
- Amortization of debt-related items - approximately \$10 million

The Q1 Earnings Form 8-K and, when filed, the March 2022 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 March 31,	
	2022	2021
	(In Millions, Except Per Share Data)	
Net operating revenues	\$ 1,333.6	\$ 1,230.4
Operating expenses:		
Salaries and benefits	776.0	687.2
Other operating expenses	182.1	162.3
Occupancy costs	20.9	20.2
Supplies	56.1	51.9
General and administrative expenses	48.4	38.6
Depreciation and amortization	66.2	62.5
Total operating expenses	1,149.7	1,022.7

Loss on early extinguishment of debt	0.3	—
Interest expense and amortization of debt discounts and fees	39.6	42.8
Other expense (income)	3.6	(1.4)
Equity in net income of nonconsolidated affiliates	(0.9)	(1.0)
Income from continuing operations before income tax expense	141.3	167.3
Provision for income tax expense	31.2	34.5
Income from continuing operations	110.1	132.8
Loss from discontinued operations, net of tax	—	—
Net and comprehensive income	110.1	132.8
Less: Net and comprehensive income attributable to noncontrolling interests	(22.6)	(25.5)
Net and comprehensive income attributable to Encompass Health	\$ 87.5	\$ 107.3

Weighted average common shares outstanding:

Basic	99.2	99.0
Diluted	100.2	100.2

Earnings per common share:

Basic earnings per share attributable to Encompass Health common shareholders:

Continuing operations	\$ 0.88	\$ 1.08
Discontinued operations	—	—
Net income	\$ 0.88	\$ 1.08

Diluted earnings per share attributable to Encompass Health common shareholders:

Continuing operations	\$ 0.87	\$ 1.07
Discontinued operations	—	—
Net income	\$ 0.87	\$ 1.07

Amounts attributable to Encompass Health:

Income from continuing operations	\$ 87.5	\$ 107.3
Loss from discontinued operations, net of tax	—	—
Net income attributable to Encompass Health	\$ 87.5	\$ 107.3

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

March 31, 2022 December 31, 2021
(In Millions)

Assets		
Current assets:		
Cash and cash equivalents	\$ 94.2	\$ 54.8
Restricted cash	61.0	65.1
Accounts receivable	683.5	680.3
Other current assets	111.0	121.2
Total current assets	949.7	921.4
Property and equipment, net	2,667.1	2,601.6
Operating lease right-of-use assets	236.8	242.0
Goodwill	2,456.5	2,427.9
Intangible assets, net	410.6	417.5
Other long-term assets	223.3	254.5
Total assets	\$ 6,944.0	\$ 6,864.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 42.8	\$ 42.8
Current operating lease liabilities	38.4	38.4
Accounts payable	147.3	137.6
Accrued expenses and other current liabilities	526.0	530.0
Total current liabilities	754.5	748.8
Long-term debt, net of current portion	3,221.3	3,243.9
Long-term operating lease liabilities	208.3	213.1
Deferred income tax liabilities	89.7	86.7
Other long-term liabilities	178.6	173.2
	4,452.4	4,465.7
Commitments and contingencies		
Redeemable noncontrolling interests	43.2	42.2
Shareholders' equity:		
Encompass Health shareholders' equity	1,973.5	1,911.3
Noncontrolling interests	474.9	445.7
Total shareholders' equity	2,448.4	2,357.0
Total liabilities and shareholders' equity	\$ 6,944.0	\$ 6,864.9

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

Three Months Ended March 31,
2022 2021
(In Millions)

Cash flows from operating activities:

Net income	\$ 110.1	\$ 132.8
Depreciation and amortization	66.2	62.5
Stock-based compensation	7.5	2.8
Deferred tax expense	2.0	8.7
Other, net	7.9	2.0
Changes in assets and liabilities, net of acquisitions —		
Accounts receivable	7.3	(55.1)
Other assets	12.0	1.3
Accrued payroll	5.6	5.7
Other liabilities	0.4	(2.2)
Net cash used in operating activities of discontinued operations	(0.1)	—
Total adjustments	108.8	25.7
Net cash provided by operating activities	218.9	158.5

Cash flows from investing activities:

Purchases of property and equipment	(115.2)	(98.8)
Other, net	(7.9)	3.2

Net cash used in investing activities	(123.1)	(95.6)
Cash and cash equivalents at beginning of period	—	—
Principal payments on debt, including pre-payments	(103.9)	(3.6)
Borrowings on revolving credit facility	130.0	—
Payments on revolving credit facility	(25.0)	—
Debt amendment costs	(20.0)	—
Taxes paid on behalf of employees for shares withheld	(7.6)	(15.6)
Contributions from noncontrolling interests of consolidated affiliates	21.4	4.5
Dividends paid on common stock	(28.5)	(29.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(21.3)	(27.8)
Other, net	(6.0)	(5.9)
Net cash used in financing activities	(60.9)	(77.5)
Increase (decrease) in cash, cash equivalents, and restricted cash	34.9	(14.6)
Cash, cash equivalents, and restricted cash at beginning of period	120.3	310.9
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 155.2</u>	<u>\$ 296.3</u>

Reconciliation of Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents at beginning of period	\$ 54.8	\$ 224.0
Restricted cash at beginning of period	65.1	65.4
Restricted cash included in other long-term assets at beginning of period	0.4	21.5
Cash, cash equivalents, and restricted cash at beginning of period	<u>\$ 120.3</u>	<u>\$ 310.9</u>
Cash and cash equivalents at end of period	\$ 94.2	\$ 223.9
Restricted cash at end of period	61.0	62.2
Restricted cash included in other long-term assets at end of period	—	10.2
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 155.2</u>	<u>\$ 296.3</u>

Encompass Health Corporation and Subsidiaries Supplemental Information Earnings Per Share

	Three Months Ended March 31,	
	2022	2021
	(In Millions, Except Per Share Data)	
Adjusted EBITDA	\$ 245.0	\$ 250.8
Depreciation and amortization	(66.2)	(62.5)
Interest expense and amortization of debt discounts and fees	(39.6)	(42.8)
Stock-based compensation	(7.5)	(2.8)
(Loss) gain on disposal or impairment of assets	(0.6)	0.1
	131.1	142.8
Items not indicative of ongoing operating performance:		
Loss on early extinguishment of debt	(0.3)	—
Costs associated with the strategic alternatives review	(9.6)	(0.9)
Change in fair market value of equity securities	(2.5)	(0.1)
Pre-tax income	118.7	141.8
Income tax expense	(31.2)	(34.5)
Income from continuing operations ⁽¹⁾	<u>\$ 87.5</u>	<u>\$ 107.3</u>
Basic shares	99.2	99.0
Diluted shares	100.2	100.2
Basic earnings per share ⁽¹⁾	<u>\$ 0.88</u>	<u>\$ 1.08</u>
Diluted earnings per share ⁽¹⁾	<u>\$ 0.87</u>	<u>\$ 1.07</u>

⁽¹⁾ Income from continuing operations attributable to Encompass Health

Encompass Health Corporation and Subsidiaries Supplemental Information Adjusted Earnings Per Share

	Q1	
	2022	2021
Earnings per share, as reported	\$ 0.87	\$ 1.07
Adjustments, net of tax:		
Costs associated with the strategic alternatives review	0.07	0.01
Income tax adjustments	—	(0.03)
Change in fair market value of equity securities	0.02	—
Adjusted earnings per share*	<u>\$ 0.97</u>	<u>\$ 1.05</u>

* 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, 2022					
	Adjustments					As Adjusted
	As Reported	Loss on Early Extinguishment of Debt	Income Tax Adjustments	Costs Associated with the Strategic Alternatives Review	Change in Fair Market Value of Equity Securities	
		(In Millions, Except Per Share Amounts)				
Adjusted EBITDA*	\$ 245.0	\$ —	\$ —	\$ —	\$ —	\$ 245.0
Depreciation and amortization	(66.2)	—	—	—	—	(66.2)
Interest expense and amortization of debt discounts and fees	(39.6)	—	—	—	—	(39.6)
Stock-based compensation	(7.5)	—	—	—	—	(7.5)
Loss on disposal or impairment of assets	(0.6)	—	—	—	—	(0.6)
Loss on early extinguishment of debt	(0.3)	0.3	—	—	—	—
Costs associated with the strategic alternatives review	(9.6)	—	—	9.6	—	—
Change in fair market value of equity securities	(2.5)	—	—	—	2.5	—
Income from continuing operations before income tax expense	118.7	0.3	—	9.6	2.5	131.1
Provision for income tax expense	(31.2)	(0.1)	0.2	(2.5)	(0.6)	(34.2)
Income from continuing operations attributable to Encompass Health	<u>\$ 87.5</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ 7.1</u>	<u>\$ 1.9</u>	<u>\$ 96.9</u>
Diluted earnings per share from continuing operations**	<u>\$ 0.87</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.07</u>	<u>\$ 0.02</u>	<u>\$ 0.97</u>

Diluted shares used in calculation

100.2

* See reconciliation of net income to Adjusted EBITDA.

** Adjusted EPS may not sum across due to rounding.

For the Three Months Ended March 31, 2021					
	As Reported	Adjustments			As Adjusted
		Income Tax	Costs Associated with the Strategic Alternatives Review	Change in Fair Market Value of Equity Securities	
		(In Millions, Except Per Share Amounts)			
Adjusted EBITDA*	\$ 250.8	\$ —	\$ —	\$ —	\$ 250.8
Depreciation and amortization	(62.5)	—	—	—	(62.5)
Interest expense and amortization of debt discounts and fees	(42.8)	—	—	—	(42.8)
Stock-based compensation	(2.8)	—	—	—	(2.8)
Gain on disposal or impairment of assets	0.1	—	—	—	0.1
Costs associated with the strategic alternatives review	(0.9)	—	0.9	—	—
Change in fair market value of equity securities	(0.1)	—	—	0.1	—
Income from continuing operations before income tax expense	141.8	—	0.9	0.1	142.8
Provision for income tax expense	(34.5)	(3.3)	(0.2)	—	(38.0)
Income from continuing operations attributable to Encompass Health	\$ 107.3	\$ (3.3)	\$ 0.7	\$ 0.1	\$ 104.8
Diluted earnings per share from continuing operations**	\$ 1.07	\$ (0.03)	\$ 0.01	\$ —	\$ 1.05
Diluted shares used in calculation	100.2				

* See reconciliation of net income to Adjusted EBITDA.

** 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,	
	2022	2021
	(In Millions)	
Net income	\$ 110.1	\$ 132.8
Net income attributable to noncontrolling interests	(22.6)	(25.5)
Provision for income tax expense	31.2	34.5
Interest expense and amortization of debt discounts and fees	39.6	42.8
Depreciation and amortization	66.2	62.5
Loss on early extinguishment of debt	0.3	—
Loss (gain) on disposal or impairment of assets	0.6	(0.1)
Stock-based compensation	7.5	2.8
Costs associated with the strategic alternatives review	9.6	0.9
Change in fair market value of equity securities	2.5	0.1
Adjusted EBITDA	\$ 245.0	\$ 250.8

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

	Three Months Ended March 31,	
	2022	2021
	(In Millions)	
Total segment Adjusted EBITDA	\$ 276.3	\$ 285.7
General and administrative expenses	(48.4)	(38.6)
Depreciation and amortization	(66.2)	(62.5)
(Loss) gain on disposal or impairment of assets	(0.6)	0.1
Loss on early extinguishment of debt	(0.3)	—
Interest expense and amortization of debt discounts and fees	(39.6)	(42.8)
Net income attributable to noncontrolling interests	22.6	25.5
Change in fair market value of equity securities	(2.5)	(0.1)
Income from continuing operations before income tax expense	\$ 141.3	\$ 167.3

Encompass Health Corporation and Subsidiaries **Supplemental Information**

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

	Three Months Ended March 31,	
	2022	2021
	(In Millions)	
Net cash provided by operating activities	\$ 218.9	\$ 158.5
Interest expense and amortization of debt discounts and fees	39.6	42.8
Equity in net income of nonconsolidated affiliates	0.9	1.0
Net income attributable to noncontrolling interests in continuing operations	(22.6)	(25.5)
Amortization of debt-related items	(2.3)	(2.0)
Distributions from nonconsolidated affiliates	(1.0)	(1.0)
Current portion of income tax expense	29.2	25.8
Change in assets and liabilities	(25.3)	50.3
Cash used in operating activities of discontinued operations	0.1	—
Costs associated with the strategic alternatives review	9.6	0.9
Change in fair market value of equity securities	2.5	0.1
Other	(4.6)	(0.1)
Adjusted EBITDA	\$ 245.0	\$ 250.8

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,	
2022	2021
(In Millions)	

Net cash provided by operating activities	\$ 218.9	\$ 158.5
Net cash provided by operating activities of continuing operations	219.0	158.5
Capital expenditures for maintenance	(34.5)	(23.3)
Distributions paid to noncontrolling interests of consolidated affiliates	(21.3)	(27.8)
Items not indicative of ongoing operating performance:		
Transaction costs and related assumed liabilities	2.7	—
Adjusted free cash flow	\$ 165.9	\$ 107.4

For the three months ended March 31, 2022, net cash used in investing activities was \$123.1 million and resulted primarily from capital expenditures. Net cash used in financing activities during the three months ended March 31, 2022 was \$60.9 million and resulted primarily from net debt repayments and amendment costs, cash dividends paid on common stock and distributions to noncontrolling interests of consolidated affiliates.

For the three months ended March 31, 2021, net cash used in investing activities was \$95.6 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended March 31, 2021 was \$77.5 million and primarily resulted from cash dividends paid on common stock, distributions to noncontrolling interests of consolidated affiliates and taxes paid of behalf of employees for shares withheld under stock compensation arrangements.

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 timing and effects, such as the tax-free treatment and the incremental costs, of the spin-off and rebranding of the home health and hospice business and its impact on the business model, outlook and guidance, the nature of the COVID-19 pandemic and its impact on Encompass Health's business and financial assumptions, legislative and regulatory developments, financial guidance, 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 possibility that the Company may not be able to realize higher values for its home health and hospice business through strategic transactions; the possibility that the Company may decide not to undertake a transaction following the review of strategic alternatives or that it is not able to consummate any proposed transactions resulting from the review due to, among other things, market, regulatory and other factors; the potential for disruption to the Company's business resulting from the review of strategic alternatives or the undertaking of any transactions following the review; 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) 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, including claims associated with patient and employee exposures to COVID-19, 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, 2021 and Form 10-Q for the quarter ended March 31, 2022, when filed.

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