

Encompass Health reports results for third quarter 2021

Revises full-year guidance for 2021

BIRMINGHAM, Ala., Oct. 27, 2021 /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 third quarter ended September 30, 2021.

"Our consolidated financial results for the third quarter were solid, with year-over-year growth in revenues and Adjusted EBITDA. Our inpatient rehabilitation business continued to experience strong revenue and Adjusted EBITDA growth in spite of labor challenges," said President and Chief Executive Officer of Encompass Health Mark Tarr. "Our home health and hospice business experienced COVID-related headwinds which limited volume growth and increased costs. We remain very confident in the long-term trends for each of our businesses and in our competitive position. Although we have seen improvement in operating trends during October, we are lowering our full-year 2021 guidance as a result of the current and we believe transient challenges."



Consolidated results

	Q3 2021	Q3 2020	Growth	
			Dollars	Percent
	(In Millions, Except Per Share Data)			
Net operating revenues	\$ 1,284.8	\$ 1,173.9	\$ 110.9	9.4 %
Income from continuing operations attributable				
to Encompass Health per diluted share	1.00	0.78	0.22	28.2 %
Adjusted earnings per share	1.03	0.78	0.25	32.1 %
Cash flows provided by operating activities	177.6	173.4	4.2	2.4 %
Adjusted EBITDA	245.6	230.2	15.4	6.7 %
Adjusted free cash flow	124.1	124.1	—	— %
	Nine Months Ended			
	September 30,			
	2021	2020		
Cash flows provided by operating activities	\$ 592.0	\$ 425.0	\$ 167.0	39.3 %
Adjusted free cash flow	437.1	366.9	70.2	19.1 %

Revenue growth resulted from strong discharge growth and favorable pricing in our inpatient rehabilitation segment, partly offset by volume and cost headwinds in the home health and hospice business.

The increase in income from continuing operations attributable to Encompass Health per diluted share and adjusted earnings per share in 2021 primarily resulted from revenue growth.

The increase in year-to-date cash flows provided by operating activities and adjusted free cash flow primarily resulted from revenue growth and the lower maintenance capital expenditures in 2021, partly offset by higher cash taxes paid year-to-date in 2021.

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

Inpatient rehabilitation segment results

	Q3 2021	Q3 2020	Growth	
			Dollars	Percent
	(In Millions)			
Net operating revenues:				
Inpatient	\$ 983.7	\$ 883.2	\$ 100.5	11.4 %
Outpatient and other	27.2	16.2	11.0	67.9 %
Total segment revenue	\$ 1,010.9	\$ 899.4	\$ 111.5	12.4 %
	(Actual Amounts)			
Discharges	49,983	45,962	4,021	8.7 %
Same-store discharge growth				6.7 %
Net patient revenue per discharge	\$ 19,681	\$ 19,216	\$ 465	2.4 %
Revenue reserves related to bad debt as a percent of revenue	2.0 %	1.4 %		60 basis points
	(In Millions)			
Adjusted EBITDA	\$ 231.6	\$ 209.2	\$ 22.4	10.7 %

- *Revenue* - Inpatient revenue growth resulted from increased volumes and pricing. Total discharge growth for the third quarter of 2021 was 8.7% with same-store growth of 6.7%. Revenue reserves related to bad debt as a percent of revenue increased 60 basis points primarily attributable to claims processing delays by managed care payors.

Growth in net patient revenue per discharge of 2.4% primarily resulted from an increase in reimbursement rates and higher patient acuity.

The increase in outpatient and other revenue included an increase of \$11.3 million in provider tax revenues (offset by an increase of approximately \$9.3 million in provider tax expenses included in other operating expenses).

- *Adjusted EBITDA* - The 10.7% increase in Adjusted EBITDA in the third quarter of 2021 primarily resulted from revenue growth partially offset by higher expenses.

Home health and hospice segment results

	Q3 2021	Q3 2020	Growth	
			Dollars	Percent
	(In Millions)			
Net operating revenues:				
Home health revenue	\$ 221.1	\$ 223.3	\$ (2.2)	(1.0) %
Hospice revenue	52.8	51.2	1.6	3.1 %
Total segment revenue	\$ 273.9	\$ 274.5	\$ (0.6)	(0.2) %
Adjusted EBITDA	\$ 46.4	\$ 51.8	\$ (5.4)	(10.4) %
	Home Health			
	(Actual Amounts)			
Starts of care:				
Episodic admissions	37,577	40,765	(3,188)	(7.8) %
<i>Same-store episodic admissions growth</i>				(9.7) %
Episodic recertifications	27,742	29,830	(2,088)	(7.0) %
Total episodic starts of care	65,319	70,595	(5,276)	(7.5) %
Total admissions	48,412	48,838	(426)	(0.9) %
<i>Same-store total admissions growth</i>				(2.7) %
Total recertifications	32,942	33,786	(844)	(2.5) %
Total starts of care	81,354	82,624	(1,270)	(1.5) %
Revenue per episode	\$ 2,916	\$ 2,910	\$ 6	0.2 %
	Hospice			
Admissions:				

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	(In Millions, Except Per Share Data)			
Net operating revenues	\$ 1,284.8	\$ 1,173.9	\$ 3,802.9	\$ 3,430.0
Operating expenses:				
Salaries and benefits	730.1	664.9	2,125.5	1,995.9
Other operating expenses	173.4	163.4	508.4	471.3
Occupancy costs	19.8	20.3	60.2	60.8
Supplies	53.2	52.5	155.1	148.8
General and administrative expenses	43.9	39.1	136.7	117.7
Depreciation and amortization	64.9	61.2	190.8	180.7
Government, class action, and related settlements	—	—	—	2.8
Total operating expenses	1,085.3	1,001.4	3,176.7	2,978.0
Loss on early extinguishment of debt	—	—	1.0	—
Interest expense and amortization of debt discounts and fees	39.9	49.0	124.5	138.0
Other income	(0.4)	(2.5)	(6.4)	(6.4)
Equity in net income of nonconsolidated affiliates	(0.9)	(1.0)	(2.9)	(2.5)
Income from continuing operations before income tax expense	160.9	127.0	510.0	322.9
Provision for income tax expense	34.1	26.9	108.1	65.8
Income from continuing operations	126.8	100.1	401.9	257.1
Loss from discontinued operations, net of tax	(0.1)	—	(0.4)	—
Net and comprehensive income	126.7	100.1	401.5	257.1
Less: Net and comprehensive income attributable to noncontrolling interests	(26.7)	(22.4)	(80.9)	(58.9)
Net and comprehensive income attributable to Encompass Health	\$ 100.0	\$ 77.7	\$ 320.6	\$ 198.2
Weighted average common shares outstanding:				
Basic	99.0	98.7	99.0	98.5
Diluted	100.2	99.9	100.1	99.7
Earnings per common share:				
Basic earnings per share attributable to Encompass Health common shareholders:				
Continuing operations	\$ 1.01	\$ 0.78	\$ 3.22	\$ 2.01
Discontinued operations	—	—	—	—
Net income	\$ 1.01	\$ 0.78	\$ 3.22	\$ 2.01
Diluted earnings per share attributable to Encompass Health common shareholders:				
Continuing operations	\$ 1.00	\$ 0.78	\$ 3.20	\$ 1.99
Discontinued operations	—	—	—	—
Net income	\$ 1.00	\$ 0.78	\$ 3.20	\$ 1.99
Amounts attributable to Encompass Health common shareholders:				
Income from continuing operations	\$ 100.1	\$ 77.7	\$ 321.0	\$ 198.2
Loss from discontinued operations, net of tax	(0.1)	—	(0.4)	—
Net income attributable to Encompass Health	\$ 100.0	\$ 77.7	\$ 320.6	\$ 198.2

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

	September 30, 2021	December 31, 2020
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 94.8	\$ 224.0
Restricted cash	75.9	65.4
Accounts receivable	637.8	572.8
Other current assets	101.3	86.4
Total current assets	909.8	948.6
Property and equipment, net	2,467.9	2,206.6
Operating lease right-of-use assets	239.0	245.7
Goodwill	2,417.6	2,318.7
Intangible assets, net	424.3	431.3
Other long-term assets	263.1	295.0
Total assets	\$ 6,721.7	\$ 6,445.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 65.9	\$ 38.3
Current operating lease liabilities	40.7	44.8
Accounts payable	149.4	115.0
Accrued expenses and other current liabilities	537.9	519.2
Total current liabilities	793.9	717.3
Long-term debt, net of current portion	3,142.0	3,250.6
Long-term operating lease liabilities	208.4	209.6
Deferred income tax liabilities	60.4	51.8
Other long-term liabilities	223.5	215.0
Total liabilities	4,428.2	4,444.3
Commitments and contingencies		
Redeemable noncontrolling interests	32.5	31.6
Shareholders' equity:		
Encompass Health shareholders' equity	1,842.7	1,588.0
Noncontrolling interests	418.3	382.0
Total shareholders' equity	2,261.0	1,970.0
Total liabilities and shareholders' equity	\$ 6,721.7	\$ 6,445.9

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

Nine Months Ended September 30,

	2021 (In Millions)	2020
Cash flows from operating activities:		
Net income	\$ 401.5	\$ 257.1
Loss from discontinued operations, net of tax	0.4	—
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	190.8	180.7
Loss on early extinguishment of debt	1.0	—
Stock-based compensation	21.7	25.3
Deferred tax expense (benefit)	4.4	(5.7)
Other, net	(0.2)	15.5
Changes in assets and liabilities, net of acquisitions—		
Accounts receivable	(36.7)	(71.8)
Other assets	(27.0)	17.3
Accounts payable	8.8	10.3
Accrued payroll	30.0	86.7
Accrued interest payable	(23.0)	(0.2)
Other liabilities	20.9	(90.0)
Net cash used in operating activities of discontinued operations	(0.6)	(0.2)
Total adjustments	190.1	167.9
Net cash provided by operating activities	592.0	425.0
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(98.8)	(1.1)
Purchases of property and equipment	(336.3)	(256.2)
Additions to capitalized software costs	(13.0)	(5.7)
Proceeds from disposal of assets	18.5	0.1
Other, net	(16.0)	(1.9)
Net cash used in investing activities	(445.6)	(264.8)

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

	Nine Months Ended September 30,	
	2021	2020
	(In Millions)	
Cash flows from financing activities:		
Proceeds from bond issuance	—	592.5
Principal payments on debt, including pre-payments	(210.9)	(14.7)
Borrowings on revolving credit facility	110.0	330.0
Payments on revolving credit facility	(20.0)	(375.0)
Principal payments under finance lease obligations	(18.6)	(16.7)
Debt amendment and issuance costs	—	(13.5)
Taxes paid on behalf of employees for shares withheld	(16.4)	(15.7)
Contributions from consolidated affiliates	36.1	24.7
Dividends paid on common stock	(84.7)	(84.3)
Distributions paid to noncontrolling interests of consolidated affiliates	(77.8)	(52.9)
Repurchases of common stock, including fees and expenses	—	(4.9)
Purchase of equity interests in consolidated affiliates	—	(162.3)
Other, net	(0.1)	1.1
Net cash (used in) provided by financing activities	(282.4)	208.3
(Decrease) increase in cash, cash equivalents, and restricted cash	(136.0)	368.5
Cash, cash equivalents, and restricted cash at beginning of year	310.9	159.6
Cash, cash equivalents, and restricted cash at end of year	\$ 174.9	\$ 528.1
Reconciliation of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents at beginning of period	\$ 224.0	\$ 94.8
Restricted cash at beginning of period	65.4	57.4
Restricted cash included in other long-term assets at beginning of period	21.5	7.4
Cash, cash equivalents, and restricted cash at beginning of period	\$ 310.9	\$ 159.6
Cash and cash equivalents at end of period	\$ 94.8	\$ 450.0
Restricted cash at end of period	75.9	57.2
Restricted cash included in other long-term assets at end of period	4.2	20.9
Cash, cash equivalents, and restricted cash at end of period	\$ 174.9	\$ 528.1
Supplemental schedule of noncash operating, investing and financing activities:		
Property and equipment additions through finance leases	\$ 46.2	\$ 5.1
Accrued purchases of property & equipment	25.5	14.7
Operating lease additions	32.2	21.2

Encompass Health Corporation and Subsidiaries
Supplemental Information
Earnings Per Share

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	(In Millions, Except Per Share Data)			
Adjusted EBITDA	\$ 245.6	\$ 230.2	\$ 775.3	\$ 620.4
Depreciation and amortization	(64.9)	(61.2)	(190.8)	(180.7)
Interest expense and amortization of debt discounts and fees	(39.9)	(49.0)	(124.5)	(138.0)
Stock-based compensation expense	(6.9)	(8.3)	(21.7)	(25.3)
Gain (loss) on disposal or impairment of assets	5.2	(7.5)	2.4	(10.6)
	139.1	104.2	440.7	265.8
Certain items non-indicative of ongoing operating performance:				
Loss on early extinguishment of debt	—	—	(1.0)	—
Costs associated with the strategic alternatives review	(4.6)	—	(9.6)	—
Costs associated with the Frontier acquisition	—	—	(1.3)	—
Gain on consolidation of former equity method location	—	—	—	2.2
Change in fair market value of equity securities	(0.3)	0.4	0.3	0.3
Government, class action, and related settlements	—	—	—	(2.8)
Payroll taxes on SARs exercise	—	—	—	(1.5)
Pre-tax income	134.2	104.6	429.1	264.0
Income tax expense	(34.1)	(26.9)	(108.1)	(65.8)
Income from continuing operations ⁽¹⁾	\$ 100.1	\$ 77.7	\$ 321.0	\$ 198.2

Basic shares	99.0	98.7	99.0	98.5
Diluted shares	100.2	99.9	100.1	99.7
Basic earnings per share ⁽¹⁾	\$ 1.01	\$ 0.78	\$ 3.22	\$ 2.01
Diluted earnings per share ⁽¹⁾	\$ 1.00	\$ 0.78	\$ 3.20	\$ 1.99

(1) Income from continuing operations attributable to Encompass Health

**Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share**

	Q3		9 Months	
	2021	2020	2021	2020
Earnings per share, as reported	\$ 1.00	\$ 0.78	\$ 3.20	\$ 1.99
Adjustments, net of tax:				
Government, class action, and related settlements	—	—	—	0.02
Costs associated with the strategic alternatives review	0.03	—	0.07	—
Costs associated with the Frontier acquisition	—	—	0.01	—
Income tax adjustments	—	—	(0.04)	(0.05)
Loss on early extinguishment of debt	—	—	0.01	—
Gain on consolidation of former equity method location	—	—	—	(0.02)
Payroll taxes on SARs exercise	—	—	—	0.01
Adjusted earnings per share*	\$ 1.03	\$ 0.78	\$ 3.26	\$ 1.96

* Adjusted EPS may not sum due to rounding.

**Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share**

	For the Three Months Ended September 30, 2021				
	As Reported	Income Tax Adjustments	Costs Associated with the Strategic Alternatives Review	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)				
Adjusted EBITDA*	\$ 245.6	\$ —	\$ —	\$ —	\$ 245.6
Depreciation and amortization	(64.9)	—	—	—	(64.9)
Interest expense and amortization of debt discounts and fees	(39.9)	—	—	—	(39.9)
Stock-based compensation	(6.9)	—	—	—	(6.9)
Gain on disposal or impairments of assets	5.2	—	—	—	5.2
Costs associated with the strategic alternatives review	(4.6)	—	4.6	—	—
Change in fair market value of equity securities	(0.3)	—	—	0.3	—
Income from continuing operations before income tax expense	134.2	—	4.6	0.3	139.1
Provision for income tax expense	(34.1)	(0.2)	(1.2)	(0.1)	(35.6)
Income from continuing operations attributable to Encompass Health	\$ 100.1	\$ (0.2)	\$ 3.4	\$ 0.2	\$ 103.5
Diluted earnings per share from continuing operations**	\$ 1.00	\$ —	\$ 0.03	\$ —	\$ 1.03
Diluted shares used in calculation	100.2				

* Reconciliation to GAAP provided on page 17

** 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 September 30, 2020			
	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)			
Adjusted EBITDA*	\$ 230.2	\$ —	\$ —	\$ 230.2
Depreciation and amortization	(61.2)	—	—	(61.2)
Interest expense and amortization of debt discounts and fees	(49.0)	—	—	(49.0)
Stock-based compensation	(8.3)	—	—	(8.3)
Loss on disposal or impairments of assets	(7.5)	—	—	(7.5)
Change in fair market value of equity securities	0.4	—	(0.4)	—
Income from continuing operations before income tax expense	104.6	—	(0.4)	104.2
Provision for income tax expense	(26.9)	0.1	0.1	(26.7)
Income from continuing operations attributable to Encompass Health	\$ 77.7	\$ 0.1	\$ (0.3)	\$ 77.5
Diluted earnings per share from continuing operations**	\$ 0.78	\$ —	\$ —	\$ 0.78
Diluted shares used in calculation	99.9			

* Reconciliation to GAAP provided on page 17

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

**Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share**

For the Nine Months Ended September 30, 2021

Adjustments
Costs Associated Costs Chang

	As Reported	Loss on Early Exting. of Debt	Income Tax Adjustments	with the Strategic Alternatives Review	Associated with the Frontier Acquisition	Fair Market Value Equity Securities
	(In Millions, Except Per Share Amounts)					
Adjusted EBITDA*	\$ 775.3	\$ —	\$ —	\$ —	\$ —	\$ —
Depreciation and amortization	(190.8)	—	—	—	—	—
Loss on early extinguishment of debt	(1.0)	1.0	—	—	—	—
Interest expense and amortization of debt discounts and fees	(124.5)	—	—	—	—	—
Stock-based compensation	(21.7)	—	—	—	—	—
Gain on disposal or impairment of assets	2.4	—	—	—	—	—
Costs associated with the strategic alternatives review	(9.6)	—	—	9.6	—	—
Costs associated with the Frontier acquisition	(1.3)	—	—	—	1.3	—
Change in fair market value of equity securities	0.3	—	—	—	—	(0)
Income from continuing operations before income tax expense	429.1	1.0	—	9.6	1.3	(0)
Provision for income tax expense	(108.1)	(0.3)	(3.6)	(2.5)	(0.3)	(0)
Income from continuing operations attributable to Encompass Health	\$ 321.0	\$ 0.7	\$ (3.6)	\$ 7.1	\$ 1.0	\$ (0)
Diluted earnings per share from continuing operations**	\$ 3.20	\$ 0.01	\$ (0.04)	\$ 0.07	\$ 0.01	\$ —
Diluted shares used in calculation	100.1					

* Reconciliation to GAAP provided on page 17

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

**Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share**

For the Nine Months Ended September 30, 2020

	As Reported	Gov't, Class Action, & Related Settlements	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Former Equity Method Location	Payroll Taxes on SARs Exercise
	(In Millions, Except Per Share Amounts)					
Adjusted EBITDA*	\$ 620.4	\$ —	\$ —	\$ —	\$ —	\$ —
Depreciation and amortization	(180.7)	—	—	—	—	—
Government, class action, and related settlements	(2.8)	2.8	—	—	—	—
Interest expense and amortization of debt discounts and fees	(138.0)	—	—	—	—	—
Stock-based compensation	(25.3)	—	—	—	—	—
Loss on disposal or impairment of assets	(10.6)	—	—	—	—	—
Change in fair market value of equity securities	0.3	—	—	(0.3)	—	—
Gain on consolidation of former equity method location	2.2	—	—	—	(2.2)	—
Payroll taxes on SARs exercise	(1.5)	—	—	—	—	1.5
Income from continuing operations before income tax expense	264.0	2.8	—	(0.3)	(2.2)	1.5
Provision for income tax expense	(65.8)	(0.7)	(4.6)	0.1	0.6	(0.4)
Income from continuing operations attributable to Encompass Health	\$ 198.2	\$ 2.1	\$ (4.6)	\$ (0.2)	\$ (1.6)	\$ 1.1
Diluted earnings per share from continuing operations**	\$ 1.99	\$ 0.02	\$ (0.05)	\$ —	\$ (0.02)	\$ 0.01
Diluted shares used in calculation	99.7					

* Reconciliation to GAAP provided on page 17

** 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(In Millions)			
Net income	\$ 126.7	\$ 100.1	\$ 401.5	\$ 257.1
Loss from discontinued operations, net of tax, attributable to Encompass Health	0.1	—	0.4	—
Net income attributable to noncontrolling interests	(26.7)	(22.4)	(80.9)	(58.9)
Government, class action, and related settlements	—	—	—	2.8
Provision for income tax expense	34.1	26.9	108.1	65.8
Interest expense and amortization of debt discounts and fees	39.9	49.0	124.5	138.0
Depreciation and amortization	64.9	61.2	190.8	180.7
Loss on early extinguishment of debt	—	—	1.0	—
(Gain) loss on disposal or impairment of assets	(5.2)	7.5	(2.4)	10.6
Stock-based compensation expense	6.9	8.3	21.7	25.3
Costs associated with the strategic alternatives review	4.6	—	9.6	—
Costs associated with the Frontier acquisition	—	—	1.3	—
Gain on consolidation of former equity method location	—	—	—	(2.2)
Change in fair market value of equity securities	0.3	(0.4)	(0.3)	(0.3)
Payroll taxes on SARs exercise	—	—	—	1.5
Adjusted EBITDA	\$ 245.6	\$ 230.2	\$ 775.3	\$ 620.4

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2021	2020	2021	2020	2020
	(In Millions)				
Total segment Adjusted EBITDA	\$ 278.0	\$ 261.0	\$ 879.4	\$ 712.8	\$ 986.3
General and administrative expenses	(43.9)	(39.1)	(136.7)	(117.7)	(155.5)
Depreciation and amortization	(64.9)	(61.2)	(190.8)	(180.7)	(243.0)
Gain (loss) on disposal or impairment of assets	5.2	(7.5)	2.4	(10.6)	(11.6)
Government, class action, and related settlements	—	—	—	(2.8)	(2.8)
Loss on early extinguishment of debt	—	—	(1.0)	—	(2.3)
Interest expense and amortization of debt discounts and fees	(39.9)	(49.0)	(124.5)	(138.0)	(184.2)
Net income attributable to noncontrolling interests	26.7	22.4	80.9	58.9	84.6
Change in fair market value of equity securities	(0.3)	0.4	0.3	0.3	0.4

Payment exercises of common equity method location	—	—	—	(12.5)	(12.5)
Income from continuing operations before income tax expense	\$ 160.9	\$ 127.0	\$ 510.0	\$ 322.9	\$ 472.6

**Encompass Health Corporation and Subsidiaries
Supplemental Information
Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA**

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2021	2020	2021	2020	2020
	(In Millions)				
Net cash provided by operating activities	\$ 177.6	\$ 173.4	\$ 592.0	\$ 425.0	\$ 704.7
Interest expense and amortization of debt discounts and fees	39.9	49.0	124.5	138.0	184.2
Equity in net income of nonconsolidated affiliates	0.9	1.0	2.9	2.5	3.5
Net income attributable to noncontrolling interests in continuing operations	(26.7)	(22.4)	(80.9)	(58.9)	(84.6)
Amortization of debt-related items	(1.8)	(2.0)	(5.8)	(5.1)	(7.2)
Distributions from nonconsolidated affiliates	(0.9)	(0.8)	(2.7)	(2.8)	(3.8)
Current portion of income tax expense	35.9	23.5	103.7	71.5	51.4
Change in assets and liabilities	16.0	7.2	27.0	47.7	7.3
Cash used in operating activities of discontinued operations	—	0.1	0.6	0.2	0.2
Costs associated with the strategic alternatives review	4.6	—	9.6	—	—
Costs associated with the Frontier acquisition	—	—	1.3	—	—
Payroll taxes on SARs exercise	—	—	—	1.5	1.5
Change in fair market value of equity securities	0.3	(0.4)	(0.3)	(0.3)	(0.4)
Other	(0.2)	1.6	3.4	1.1	3.5
Adjusted EBITDA	\$ 245.6	\$ 230.2	\$ 775.3	\$ 620.4	\$ 860.3

**Encompass Health Corporation and Subsidiaries
Supplemental Information
Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(In Millions)			
Net cash provided by operating activities	\$ 177.6	\$ 173.4	\$ 592.0	\$ 425.0
Impact of discontinued operations	—	0.1	0.6	0.2
Net cash provided by operating activities of continuing operations	177.6	173.5	592.6	425.2
Capital expenditures for maintenance	(32.1)	(34.0)	(85.9)	(107.5)
Distributions paid to noncontrolling interests of consolidated affiliates	(25.1)	(15.4)	(77.8)	(52.9)
Items non-indicative of ongoing operations:				
Cash paid for SARs exercise (inclusive of payroll taxes)	—	—	—	102.1
Transaction costs and related assumed liabilities	3.7	—	8.2	—
Adjusted free cash flow	\$ 124.1	\$ 124.1	\$ 437.1	\$ 366.9

For the three months ended September 30, 2021, net cash used in investing activities was \$124.0 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended September 30, 2021 was \$18.5 million and primarily resulted from cash dividends paid on common stock and distributions to noncontrolling interests of consolidated affiliates, offset by net debt borrowings.

For the three months ended September 30, 2020, net cash used in investing activities was \$89.7 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended September 30, 2020 was \$45.6 million and primarily resulted from cash dividends paid on common stock and distributions paid to noncontrolling interests of consolidated affiliates.

For the nine months ended September 30, 2021, net cash used in investing activities was \$445.6 million and primarily resulted from capital expenditures and the acquisition of assets from Frontier Home Health and Hospice. Net cash used in financing activities during the nine months ended September 30, 2021 was \$282.4 million and primarily resulted from net debt payments, cash dividends paid on common stock and distributions to noncontrolling interests of consolidated affiliates.

For the nine months ended September 30, 2020, net cash used in investing activities was \$264.8 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the nine months ended September 30, 2020 was \$208.3 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.

**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 strategic alternatives review, the nature of the COVID-19 pandemic and its impact on Encompass Health's business and financial assumptions, 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; any potential adverse effects of the Company's stock price resulting from the announcement of the results of the strategic 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, 2020 and Form 10-Q for the quarters ended March 31, 2021, June 30, 2021, and September 30, 2021, when filed.

Media Contact

Casey Winger, 205 447-6410
casey.winger@encompasshealth.com

Investor Relations Contact

Mark Miller, 205 970-5860
mark.miller@encompasshealth.com

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<http://healthsouth.mediaroom.com/2021-10-27-Encompass-Health-reports-results-for-third-quarter-2021>