



# Third Quarter Earnings Call

October 28, 2021  
Supplemental information



# Forward-looking statements

*The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect Encompass Health's current outlook, views and plans with respect to future events, including the ongoing strategic review and its impact on the business model, outlook and guidance, the COVID-19 pandemic and its effects, legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, cyber security, dividend strategies, repurchases of securities, effective tax rates, financial performance, financial assumptions, business model, balance sheet and cash flow plans, market share, development of new information tools and models, and shareholder value-enhancing transactions. These estimates, projections and other forward-looking information are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.*

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

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

*You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the earnings release attached as Exhibit 99.1 to the Company's Form 8-K dated October 27, 2021 (the "Q3 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2020, the Form 10-Q for the quarters ended March 31, 2021, June 30, 2021, and September 30, 2021, when filed, and in other documents Encompass Health previously filed with the SEC, many of which are beyond Encompass Health's control, that may cause actual events or results to differ materially from the views, beliefs and estimates expressed herein.*

## **Note regarding presentation of non-GAAP financial measures**

*The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934, including Adjusted EBITDA, leverage ratios, adjusted earnings per share, and adjusted free cash flow. Schedules are attached that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States. The Q3 Earnings Release Form 8-K, to which the following presentation is attached as Exhibit 99.2, provides further explanation and disclosure regarding Encompass Health's use of non-GAAP financial measures and should be read in conjunction with this supplemental information.*

# Table of contents

|   |       |
|---|-------|
| Key takeaways .....   | 4     |
| Q3 2021 summary .....   | 5-6   |
| Inpatient rehabilitation segment .....                              | 7-9   |
| Home health & hospice segment .....                                 | 10-13 |
| Consolidated Adjusted EBITDA .....                                  | 14    |
| Earnings per share .....  | 15-16 |
| Adjusted free cash flow .....                                       | 17    |
| Guidance and considerations for 2021 .....                          | 18-19 |
| Adjusted free cash flow assumptions .....                           | 20    |
| Uses of free cash flow .....  | 21    |
| <b>Appendix</b>   |       |
| Map of locations .....  | 23    |
| Expansion activity .....  | 24    |
| Clinical collaboration .....  | 25    |
| Pre-payment claims denials - inpatient rehabilitation segment ..... | 26    |
| Debt maturity profile and schedule .....                            | 27-28 |
| New-store/same-store growth .....                                   | 29-31 |
| Payment sources (percent of revenues) .....                         | 32    |
| Inpatient rehabilitation operational metrics .....                  | 33    |
| Home health & hospice operational metrics .....                     | 34    |
| Share information .....   | 35    |
| Segment operating results .....                                     | 36-38 |
| Reconciliations to GAAP .....                                       | 39-47 |
| End notes .....   | 48-49 |

# Key takeaways

- ▶ **Consolidated revenue grew 9.4% and Adjusted EBITDA grew 6.7%**
  - Strong revenue and Adjusted EBITDA growth in inpatient rehabilitation business over Q3 2020 and Q3 2019
    - ✓ Discharge growth of 8.7%
    - ✓ Pricing continues to reflect elevated acuity
  - Home health and hospice volumes and labor costs negatively impacted by COVID-19 surge
    - ✓ Home health admissions declined 0.9%
    - ✓ Cost per visit increased 9.3%
- ▶ **2021 guidance is being revised to reflect Q3 results and current operating trends**
  - Revised guidance reflects anticipation of continuing volume challenges in home health and hospice and continued higher labor costs in both segments.
- ▶ **Current expectations of ongoing strategic alternatives review for home health and hospice business**
  - The Company announced yesterday that it expects to effect the partial or full separation of its home health and hospice business into an independent public company via a carve-out IPO, spin-off, or split-off.
  - The Company is targeting such a transaction in the first half of 2022 and expects to announce a more precise timing and the form of the separation transaction in connection with its fourth quarter earnings release.
  - While there can be no assurance that a transaction of this nature will be consummated, the Company has made significant progress on the various tasks necessary to complete a separation transaction and will further its state of readiness over the balance of this year.

# Q3 2021 summary

| (\$millions)                            | Q3         |            |            | 9 Months   |            |            |
|---|------------|------------|------------|------------|------------|------------|
|   | 2021       | 2020       | % $\Delta$ | 2021       | 2020       | % $\Delta$ |
| <b>Encompass Health Consolidated</b>    |            |            |            |            |            |            |
| Net operating revenues                  | \$ 1,284.8 | \$ 1,173.9 | 9.4 %      | \$ 3,802.9 | \$ 3,430.0 | 10.9 %     |
| Adjusted EBITDA                         | \$ 245.6   | \$ 230.2   | 6.7 %      | \$ 775.3   | \$ 620.4   | 25.0 %     |
| Adjusted EPS                            | \$ 1.03    | \$ 0.78    | 32.1 %     | \$ 3.26    | \$ 1.96    | 66.3 %     |
| Adjusted free cash flow                 | \$ 124.1   | \$ 124.1   | — %        | \$ 437.1   | \$ 366.9   | 19.1 %     |
| <b>Inpatient Rehabilitation Segment</b> |            |            |            |            |            |            |
| Net operating revenues                  | \$ 1,010.9 | \$ 899.4   | 12.4 %     | \$ 2,972.4 | \$ 2,633.1 | 12.9 %     |
| Adjusted EBITDA                         | \$ 231.6   | \$ 209.2   | 10.7 %     | \$ 720.5   | \$ 605.0   | 19.1 %     |
| <b>Home Health and Hospice Segment</b>  |            |            |            |            |            |            |
| Net operating revenues                  | \$ 273.9   | \$ 274.5   | (0.2)%     | \$ 830.5   | \$ 796.9   | 4.2 %      |
| Adjusted EBITDA                         | \$ 46.4    | \$ 51.8    | (10.4)%    | \$ 158.9   | \$ 107.8   | 47.4 %     |

## Q3 2021 summary (continued)

- ▶ **IRF expansion activity - Opened 4 inpatient rehabilitation hospitals in Q3, 8 opened YTD (see page 24)**
  - Q3 inpatient rehabilitation hospital openings
    - ✓ Shreveport, LA - 40 beds
    - ✓ Waco, TX - 40 beds
    - ✓ Greenville, SC - 40 beds
    - ✓ Pensacola, FL - 40 beds
  - Announced plans to build three inpatient rehabilitation hospitals in:
    - ✓ Palm Beach Gardens, FL - 50 beds
    - ✓ Fitchburg, WI - 40 beds
    - ✓ Lake Worth, FL - 50 beds
  - Added 33 beds to existing hospitals (89 beds added year to date)
- ▶ **Balance sheet - See debt schedule and maturity profile on pages 27-28**
  - Net leverage ratio of 3.1x at quarter end
- ▶ **Shareholder and other distributions**
  - Paid quarterly cash dividend of \$0.28 per share in July 2021
  - Declared a \$0.28 per share quarterly cash dividend in July 2021 (paid in October 2021)
  - Declared a \$0.28 per share quarterly cash dividend in October 2021 (to be paid in January 2022)

# Inpatient rehabilitation segment

## Revenue growth of 12.4%

- ▶ Inpatient revenue growth resulted from increased volumes and pricing
  - Total discharge growth of 8.7%, inclusive of same-store growth of 6.7%
  - 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 (\$18.2 million in Q3 2021 vs. \$6.9 million in Q3 2020), offset by an increase of \$9.3 million in provider tax expenses included in other operating expenses (\$17.0 million in Q3 2021 vs. \$7.7 million in Q3 2020).

## Adjusted EBITDA increased 10.7%

- ▶ Adjusted EBITDA growth primarily resulted from revenue growth
- ▶ Salaries and benefits as a % of revenue increased by 30 bps, primarily due to:
  - Higher sign-on and shift bonuses plus contract labor to meet increased patient volumes
  - Pre-opening and ramp-up costs associated with new stores
  - These items were partially offset by a reduction in employees per occupied bed (“EPOB”)
- ▶ Other operating expenses as a % of revenue increased 40 bps, due to the increase in provider tax expense
- ▶ Includes \$6.5 million of pre-opening and new-store ramp-up costs in Q3 2021 (\$1.9 million in Q3 2020)

See operating metrics on page 33.

# Inpatient rehabilitation segment - revenue

| <i>(\$millions)</i>  | Q3<br>2021        | Q3<br>2020       | Favorable/<br>(Unfavorable) |
|--|-------------------|------------------|-----------------------------|
| <b>Net operating revenues:</b>                               |                   |                  |                             |
| Inpatient  | \$ 983.7          | \$ 883.2         | 11.4%                       |
| Outpatient and other   | 27.2              | 16.2             | 67.9%                       |
| <b>Total segment revenue</b>                                 | <b>\$ 1,010.9</b> | <b>\$ 899.4</b>  | <b>12.4%</b>                |
| <i>(Actual Amounts)</i>                                      |                   |                  |                             |
| <b>Discharges</b>  | <b>49,983</b>     | <b>45,962</b>    | <b>8.7%</b>                 |
| Same-store discharge growth                                  |                   |                  | 6.7%                        |
| <b>Net patient revenue per discharge</b>                     | <b>\$ 19,681</b>  | <b>\$ 19,216</b> | <b>2.4%</b>                 |
| Revenue reserves related to bad debt as a percent of revenue | 2.0 %             | 1.4 %            | 60 basis points             |

Revenue reserves related to bad debt as a percent of revenue increased 60 bps to 2.0%, primarily due to the impact of slower claims processing by managed care payors.



# Inpatient rehabilitation segment - Adjusted EBITDA

| <i>(\$millions)</i>                     | Q3<br>2021      | % of<br>Revenue | Q3<br>2020      | % of<br>Revenue |
|---|-----------------|-----------------|-----------------|-----------------|
| Net operating revenues                  | \$1,010.9       |                 | \$ 899.4        |                 |
| Operating expenses:                     |                 |                 |                 |                 |
| Salaries and benefits                   | (537.1)         | 53.1 %          | (475.0)         | 52.8 %          |
| Other operating expenses <sup>(a)</sup> | (156.2)         | 15.5 %          | (135.5)         | 15.1 %          |
| Supplies                                | (46.8)          | 4.6 %           | (45.3)          | 5.0 %           |
| Occupancy costs                         | (14.4)          | 1.4 %           | (15.3)          | 1.7 %           |
| Hospital operating expenses             | (217.4)         | 21.5 %          | (196.1)         | 21.8 %          |
| Other income <sup>(b)</sup>             | 0.7             |                 | 2.1             |                 |
| Equity in nonconsolidated affiliates    | 0.8             |                 | 0.9             |                 |
| Noncontrolling interests                | (26.3)          |                 | (22.1)          |                 |
| <b>Segment Adjusted EBITDA</b>          | <b>\$ 231.6</b> |                 | <b>\$ 209.2</b> |                 |
| Percent change                          | 10.7 %          |                 |                 |                 |

In arriving at Adjusted EBITDA, the following were excluded:

|  |          |          |
|--|----------|----------|
| (a) (Gain) loss on disposal or impairment of assets  | \$ (5.0) | \$ 7.5   |
| (b) Change in fair market value of equity securities | \$ 0.3   | \$ (0.4) |

Salaries and benefits, supplies, and occupancy costs as a percent of revenues benefited from the increase in provider tax revenues. Other operating expenses as a percent of revenue was negatively impacted by the increase in provider tax expenses, discussed on slide 7.

# Home health and hospice segment

## Revenue decreased 0.2%

- ▶ Revenue decrease resulted from a reduction in episodic admissions largely offset by the continued growth in non-episodic admissions, primarily due to our new contract with United Healthcare.
- ▶ Staffing constraints, continued lower occupancy levels at senior living facilities, and limited elective procedures contributed to the volume decline.
  - We lost approximately 2,500 admissions due to staffing constraints
    - ✓ Staffing constraints resulted primarily from quarantined employees and industry-wide nursing shortages.
    - ✓ The number of quarantined field employees increased in the third quarter. After averaging 30 in Q2, quarantined employees peaked at 179 in August before declining to 155 in September.
  - Episodic admissions of patients residing in senior living facilities declined by ~1,100 compared to Q3 2020
  - Episodic admissions of patients receiving elective procedures in acute care hospitals declined by ~400 compared to Q3 2020
- ▶ Revenue per episode increased 0.2%, less than expected, due to the mix between early and late payment periods resulting from the decline in episodic admissions during the quarter.
- ▶ Growth in hospice revenue resulted from:
  - Acquisition of assets from Frontier Home Health and Hospice in June 2021
  - Increased reimbursement rates
  - Increased average length of stay
  - Offset by a decline in volumes

# Home health and hospice segment (continued)

## Adjusted EBITDA decreased 10.4%

- ▶ Adjusted EBITDA decreased primarily due to the higher costs of services related to industry-wide staffing challenges
  - Cost per visit increased due to lower clinician productivity associated with recent hires, market rate increases for nurses, and increased contract labor.

## Demand for home healthcare continues to rise

- ▶ We continue to experience year-over-year growth in patient referrals
  - Total home health patient referrals grew 12.3% YTD and 7.3% in Q3 2021 vs. Q3 2020
  - Added over 3,000 new referral sources in Q3 2021

## Improving trends in October

- ▶ Average home health admissions per day are up by 14 (~4%) in October 2021 compared to September 2021.
- ▶ Number of quarantined field employees averaged 179 in August, 155 in September and 109 in October.
- ▶ Staffing constraint mitigation strategies include offering more flexible work schedules, increasing our hiring incentives, and implementing market rate adjustments.

See operating metrics on page 34.

# Home health and hospice segment - revenue

| <i>(\$millions)</i>          | Q3<br>2021      | Q3<br>2020      | Favorable/<br>(Unfavorable) |
|------------------------------|-----------------|-----------------|-----------------------------|
| Net operating revenues:      |                 |                 |                             |
| Home health revenue          | \$ 221.1        | \$ 223.3        | (1.0)%                      |
| Hospice revenue              | 52.8            | 51.2            | 3.1 %                       |
| <b>Total segment revenue</b> | <b>\$ 273.9</b> | <b>\$ 274.5</b> | <b>(0.2)%</b>               |

## Home Health

### Starts of care:

|  |               |               |               |
|--|---------------|---------------|---------------|
| Episodic admissions                          | 37,577        | 40,765        | (7.8)%        |
| <i>Same-store episodic admissions growth</i> |               |               | (9.7)%        |
| Episodic recertifications                    | 27,742        | 29,830        | (7.0)%        |
| <b>Total episodic starts of care</b>         | <b>65,319</b> | <b>70,595</b> | <b>(7.5)%</b> |
| Total admissions                             | 48,412        | 48,838        | (0.9)%        |
| <i>Same-store total admissions growth</i>    |               |               | (2.7)%        |
| Total recertifications                       | 32,942        | 33,786        | (2.5)%        |
| <b>Total starts of care</b>                  | <b>81,354</b> | <b>82,624</b> | <b>(1.5)%</b> |
| Revenue per episode                          | \$ 2,916      | \$ 2,910      | 0.2 %         |

## Hospice

### Admissions:

|                         |              |              |               |
|-------------------------|--------------|--------------|---------------|
| Same store              | 2,884        | 3,354        | (14.0)%       |
| New store               | 378          | —            | 11.3 %        |
| <b>Total admissions</b> | <b>3,262</b> | <b>3,354</b> | <b>(2.7)%</b> |

# Home health and hospice segment - Adjusted EBITDA

| <i>(\$millions)</i>  | Q3<br>2021     | % of<br>Revenue | Q3<br>2020     | % of<br>Revenue |
|--|----------------|-----------------|----------------|-----------------|
| <b>Net operating revenues</b>                                | \$ 273.9       |                 | \$ 274.5       |                 |
| Cost of services   | (124.0)        | 45.3 %          | (121.8)        | 44.4 %          |
| Support and overhead costs                                   | (103.2)        | 37.7 %          | (100.7)        | 36.7 %          |
| Operating expenses <sup>(a)</sup>                            | (227.2)        | 82.9 %          | (222.5)        | 81.1 %          |
| Equity in net income of nonconsolidated affiliates           | 0.1            |                 | 0.1            |                 |
| Noncontrolling interests                                     | (0.4)          |                 | (0.3)          |                 |
| <b>Segment Adjusted EBITDA</b>                               | <b>\$ 46.4</b> |                 | <b>\$ 51.8</b> |                 |
|  | Percent change | (10.4)%         |                |                 |
| In arriving at Adjusted EBITDA, the following were excluded: |                |                 |                |                 |
| (a) Gain on disposal of assets                               | \$ (0.2)       |                 | \$ —           |                 |

# Consolidated Adjusted EBITDA

## Consolidated Adjusted EBITDA for the quarter of \$245.6 million

- ▶ General and administrative expenses decreased as a percent of consolidated revenue due to the increased revenue base year-over-year.

| (\$millions)                                     | Q3 2021         | % of Consolidated Revenue | Q3 2020         | % of Consolidated Revenue |
|--|-----------------|---------------------------|-----------------|---------------------------|
| Inpatient rehabilitation segment Adjusted EBITDA | \$ 231.6        |                           | \$ 209.2        |                           |
| Home health and hospice segment Adjusted EBITDA  | 46.4            |                           | 51.8            |                           |
| General and administrative expenses*             | (32.4)          | 2.5%                      | (30.8)          | 2.6%                      |
| <b>Consolidated Adjusted EBITDA</b>              | <b>\$ 245.6</b> |                           | <b>\$ 230.2</b> |                           |
| Percentage change                                | 6.7 %           |                           |                 |                           |

\* General and administrative expenses in the above table exclude stock compensation of \$6.9 million and \$8.3 million for Q3 2021 and Q3 2020, respectively, as well as \$4.6 million in costs associated with the strategic alternatives review of our home health and hospice business for Q3 2021.

# Earnings per share - as reported

| (In Millions, Except Per Share Data)                                  | Q3             |                | 9 Months       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2021           | 2020           | 2021           | 2020           |
| <b>Adjusted EBITDA</b>  | \$ 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          |
| <b>Certain items not indicative of ongoing operating performance:</b> |                |                |                |                |
| Loss on early extinguishment of debt <sup>(1)</sup>                   | —              | —              | (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 <sup>(2)</sup> | —              | —              | —              | 2.2            |
| Change in fair market value of equity securities                      | (0.3)          | 0.4            | 0.3            | 0.3            |
| Government, class action, and related settlements <sup>(3)</sup>      | —              | —              | —              | (2.8)          |
| Payroll taxes on SARs exercise <sup>(4)</sup>                         | —              | —              | —              | (1.5)          |
| <b>Pre-tax income</b>   | 134.2          | 104.6          | 429.1          | 264.0          |
| Income tax expense  | (34.1)         | (26.9)         | (108.1)        | (65.8)         |
| <b>Income from continuing operations*</b>                             | \$ 100.1       | \$ 77.7        | \$ 321.0       | \$ 198.2       |
| Diluted shares (see page 35)  | 100.2          | 99.9           | 100.1          | 99.7           |
| <b>Diluted earnings per share*</b>                                    | <b>\$ 1.00</b> | <b>\$ 0.78</b> | <b>\$ 3.20</b> | <b>\$ 1.99</b> |

► The increase in EPS in the third quarter of 2021 and the year-to-date period primarily resulted from increased Adjusted EBITDA.

# Adjusted earnings per share<sup>(5)</sup>

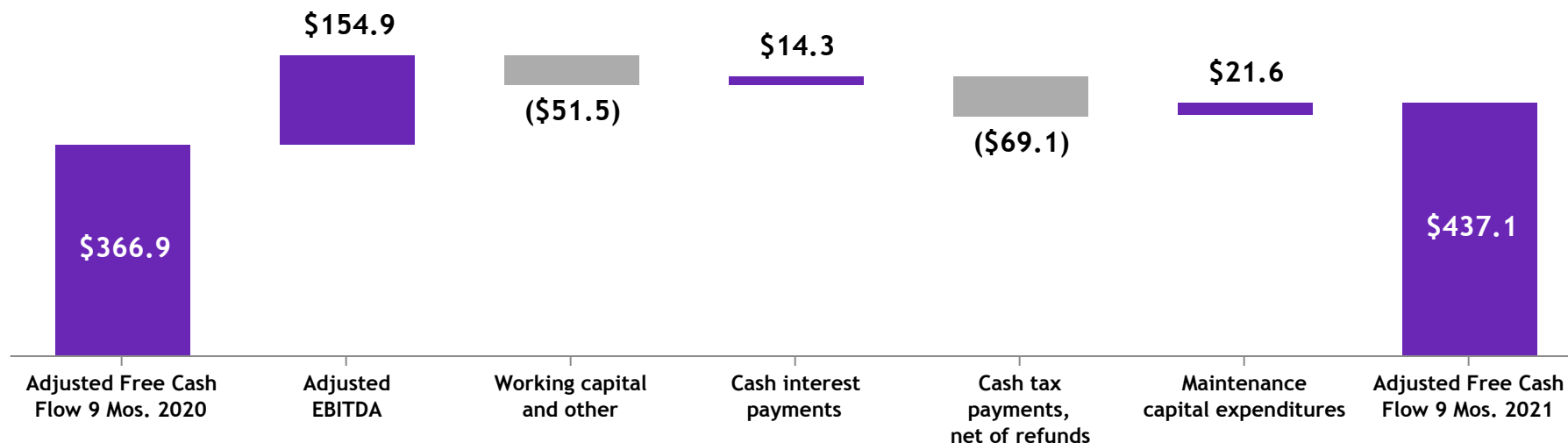
|   | Q3             |                | 9 Months       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2021           | 2020           | 2021           | 2020           |
| <b>Earnings per share, as reported</b>                                | <b>\$ 1.00</b> | <b>\$ 0.78</b> | <b>\$ 3.20</b> | <b>\$ 1.99</b> |
| Adjustments, net of tax:  |                |                |                |                |
| Government, class action, and related settlements <sup>(3)</sup>      | —              | —              | —              | 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 <sup>(1)</sup>                   | —              | —              | 0.01           | —              |
| Gain on consolidation of former equity method location <sup>(2)</sup> | —              | —              | —              | (0.02)         |
| Payroll taxes on SARs exercise <sup>(4)</sup>                         | —              | —              | —              | 0.01           |
| <b>Adjusted earnings per share*</b>                                   | <b>\$ 1.03</b> | <b>\$ 0.78</b> | <b>\$ 3.26</b> | <b>\$ 1.96</b> |

▶ Adjusted earnings per share removes from the GAAP earnings per share calculation the impact of items the Company believes are non-indicative of its ongoing operating performance.



# 2021 Adjusted free cash flow<sup>(6)</sup>

(\$ in millions)



- ▶ Adjusted free cash flow was higher in the first nine months of 2021 than 2020 primarily due to an increase in Adjusted EBITDA and lower maintenance capital expenditures.
- ▶ Increased working capital primarily resulted from the timing of payroll accruals related to the award of additional PTO to employees in Q2 2020 and the deferral of payroll taxes resulting from government relief efforts.
- ▶ Increased cash tax payments in 2021 due to higher year-over-year book income and tax relief in 2020 associated with the CARES Act.

# 2021 Full-Year Guidance - Updated as of October 27, 2021

|   | Initial<br>Guidance      | Updated<br>Guidance      | Updated<br>Guidance      | Revised<br>Guidance      |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| (\$ in millions, except per share data)   | January 26, 2021         | April 27, 2021           | July 27, 2021            |                          |
| <b>Net Operating Revenue</b>  | \$5,000<br>to<br>\$5,170 | \$5,060<br>to<br>\$5,230 | \$5,100<br>to<br>\$5,250 | \$5,080<br>to<br>\$5,130 |
| <b>Adjusted EBITDA <sup>(7)</sup></b>   | \$925<br>to<br>\$955     | \$1,000<br>to<br>\$1,030 | \$1,050<br>to<br>\$1,070 | \$1,025<br>to<br>\$1,045 |
| <b>Adjusted earnings per share from continuing operations attributable to Encompass Health <sup>(5)</sup></b> | \$3.31<br>to<br>\$3.53   | \$3.94<br>to<br>\$4.16   | \$4.32<br>to<br>\$4.47   | \$4.23<br>to<br>\$4.38   |

The Company's 2021 guidance assumes the continuation of the current structure of the business for 2021.

# Q4 2021 guidance considerations

## Inpatient Rehabilitation

- ▶ Estimated Medicare pricing increase of 1.9%
- ▶ Revenue reserve related to bad debt of 1.8% to 2.0% of net operating revenues
- ▶ Salaries and benefits per FTE increase of 5% to 6%
- ▶ Pre-opening and new-store ramp-up costs of \$1 million to \$3 million

## Home Health and Hospice

- ▶ Estimated 1.9% increase in Medicare pricing for home health; estimated 2.0% pricing increase for hospice
- ▶ Cost per visit estimated to be \$82, reflecting continued industry-wide staffing challenges

## Both Segments

- ▶ Includes the suspension of sequestration through December 31, 2021
- ▶ Continued elevated utilization and costs of personal protective equipment and testing

# Adjusted free cash flow<sup>(6)</sup> assumptions

| Certain cash flow items (millions)                                      | 9 Months 2021 Actuals | 2021 Assumptions      | 2020 Actuals   |
|---|-----------------------|-----------------------|----------------|
| Cash interest payments (net of amortization of debt discounts and fees) | \$118.6               | \$155 to \$165        | \$177.0        |
| Cash payments for income taxes, net of refunds                          | \$99.3                | \$125 to \$140        | \$32.9         |
| Working capital and other   | \$34.4                | \$100 to \$120        | (\$84.4)       |
| Maintenance CAPEX   | \$85.9                | \$140 to \$150        | \$154.9        |
| <b>Adjusted free cash flow</b>  | <b>\$437.1</b>        | <b>\$450 to \$525</b> | <b>\$579.9</b> |

▶ Lower average interest rate expected in 2021 due to the redemption of the 5.75% Senior Notes due 2024 in Q4 2020 and the redemption of \$200 million of 5.125% Senior Notes due 2023 in Q2 2021

▶ Higher cash payments for taxes expected in 2021 due to:

- higher expected book income
- tax relief in 2020 under the CARES Act
- lower stock-based compensation due to the final payout of the Home Health Holdings SARs in Q1 2020<sup>(4)</sup>

▶ Increased working capital expected in 2021 primarily due to the timing of payroll accruals related to the award of additional PTO to employees in 2020 and the deferral of payroll taxes resulting from government relief efforts

▶ Lower maintenance capital expenditures

# Uses of free cash flow

| (\$millions)                              |  | 9 Months<br>2021<br>Actuals  | 2021<br>Assumptions   | 2020<br>Actuals |
|---|--|--|-----------------------|-----------------|
| Growth in<br>core<br>business             | IRF bed expansions   | \$33.2   | \$50 to \$60          | \$44.8          |
|   | New IRFs   |  |                       |                 |
|   | - De novos   | 198.4  | 300 to 320            | 173.0           |
|   | - Acquisitions   | 1.1  | opportunistic         | —               |
|   | - Replacement IRFs and other   | 35.1   | 40 to 50              | 35.5            |
|   | Home health and hospice acquisitions   | 97.7   | ~100                  | 1.1             |
|   |  | <u>\$365.5</u>   | <u>\$490 to \$530</u> | <u>\$254.4</u>  |
| Debt<br>reduction                         | Debt redemptions (borrowings), net   | \$81.0   | opportunistic         | (\$226.3)       |
|   | Quarterly cash dividend currently set at \$0.28 per common share                     |  |                       |                 |
| Shareholder<br>and other<br>distributions | Cash dividends on common stock   | 84.7   | ~\$112                | 111.9           |
|   | Purchase of Home Health Holdings rollover shares and exercise of SARs <sup>(4)</sup> | —  | N/A                   | 262.9           |
|   | Common stock repurchases   | —  | opportunistic         | 6.1             |
|   |  | ~\$198 million authorization remaining as of September 30, 2021 <sup>(8)</sup> |                       |                 |

# Appendix

# Encompass Health

a leading provider of inpatient rehabilitation and home-based care

**FORTUNE**  
WORLD'S MOST  
**ADMIRED**  
COMPANIES<sup>®</sup> 2021

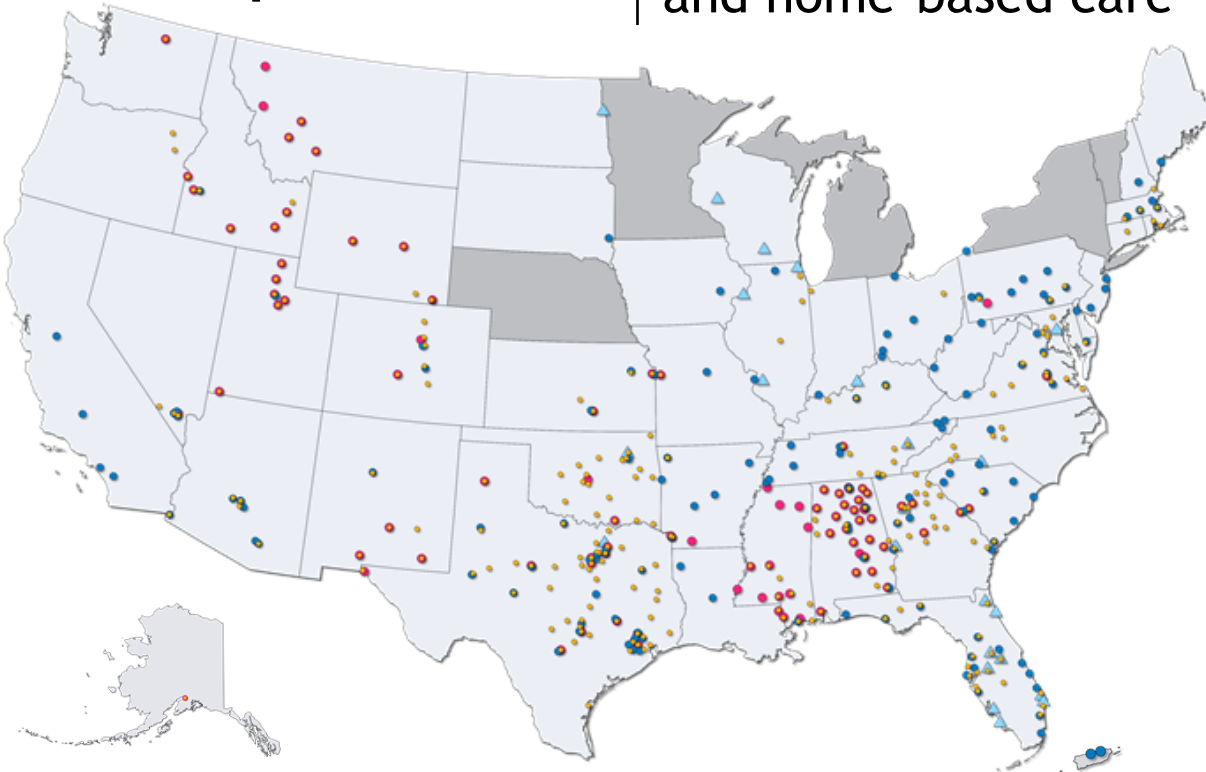
Modern Healthcare

**Best Places to Work**<sup>™</sup>  
2021

**93** of EHC's IRFs have an EHC home health location within the service area.\*

Largest  
owner and  
operator of  
IRFs

4th Largest provider  
of Medicare-certified  
skilled home health  
services



## Inpatient rehabilitation - 9/30/21

144 IRFs (53 are joint ventures)

35 States and Puerto Rico

~32,800 Employees

24 % of licensed beds<sup>†</sup>

31 % of Medicare patients served<sup>†</sup>

### Key statistics - trailing 4 quarters

~193,200 Inpatient discharges

~\$3.9 Billion in revenue

## Home health and hospice - 9/30/21

249 Home health locations

95 Hospice locations

34 States

~11,000 Employees

### Key statistics - trailing 4 quarters

~158,300 Home health episodic admissions

~13,200 Hospice admissions

~\$1.1 Billion in revenue

## Portfolio as of 9/30/21

● Inpatient rehabilitation hospitals ("IRFs")

● Home health locations

● Hospice locations

▲ 23 Future IRFs\*\*

**42 States and Puerto Rico**  
**~43,800 employees**

\* Excluding markets that have home health licensure barriers \*\* Future IRFs - Previously announced under development as of October 27, 2021

# Expansion activity

23

## IRF development projects announced and underway

| Inpatient Rehabilitation Facilities Under Development |                          |                |               |      |      |
|---|--------------------------|----------------|---------------|------|------|
|   | Expected Operations date | Joint venture? | # of New Beds |      |      |
|   |                          |                | 2021          | 2022 | 2023 |
| <b>De novo IRFs:</b>                                  |                          |                |               |      |      |
| 1 Libertyville, IL                                    | Q1 2022                  |                | —             | 60   | —    |
| 2 St. Augustine, FL                                   | Q1 2022                  |                | —             | 40   | —    |
| 3 Shiloh, IL  | Q1 2022                  | Yes            | —             | 40   | —    |
| 4 Lakeland, FL  | Q2 2022                  |                | —             | 50   | —    |
| 5 Cape Coral, FL                                      | Q2 2022                  |                | —             | 40   | —    |
| 6 Jacksonville, FL                                    | Q2 2022                  |                | —             | 50   | —    |
| 7 Grand Forks, ND                                     | Q2 2022                  | Yes            | —             | 40   | —    |
| 8 Moline, IL  | Q3 2022                  | Yes            | —             | 40   | —    |
| 9 Naples, FL  | Q3 2022                  |                | —             | 50   | —    |
| 10 Eau Claire, WI                                     | Q4 2022                  | Yes            | —             | 36   | —    |
| 11 Clermont, FL                                       | TBD                      |                | —             | —    | 50   |
| 12 Owasso, OK   | TBD                      | Yes            | —             | —    | 40   |
| 13 Bowie, MD  | TBD                      |                | —             | —    | 60   |
| 14 Knoxville, TN                                      | TBD                      | Yes            | —             | —    | 73   |
| 15 Prosper, TX  | TBD                      |                | —             | —    | 40   |
| 16 Columbus, GA                                       | TBD                      | Yes            | —             | —    | 40   |
| 17 Fitchburg, WI                                      | TBD                      |                | —             | —    | 40   |
| 18 Kissimmee, FL                                      | TBD                      |                | —             | —    | 50   |
| 19 Fort Mill, SC                                      | TBD                      |                | —             | —    | 39   |
| 20 Louisville, KY                                     | TBD                      | Yes            | —             | —    | 40   |
| 21 Palm Beach Gardens, FL*                            | TBD                      |                | —             | —    | —    |
| 22 Atlanta, GA*                                       | TBD                      | Yes            | —             | —    | —    |
| 23 Lake Worth, FL*                                    | TBD                      |                | —             | —    | —    |
| <b>Opened YTD**</b>                                   |                          |                | 350           |      |      |
| <b>Bed expansions, net***</b>                         |                          |                | ~130          | ~100 | ~100 |
|   |                          |                | ~480          | ~550 | ~570 |

### 2021 YTD expansion activity highlights

#### ► Opened 8 inpatient rehabilitation hospitals

- 40-bed hospital in San Angelo, TX
- 50-bed hospital in North Tampa, FL
- 50-bed hospital in Cumming, GA
- 40-bed hospital in Greenville, SC
- 40-bed hospital in Shreveport, LA
- 40-bed hospital in Waco, TX
- 40-bed hospital in Pensacola, FL
- 50-bed hospital in Henry County, GA (Stockbridge)

#### ► Added 89 beds to existing hospitals

#### ► Announced plans to build 14 inpatient rehabilitation hospitals

#### ► Closed the Frontier acquisition

- 9 home health and 11 hospice locations
- 3 new states: Alaska, Washington and Montana

### Home Health and Hospice Locations

|                           | # of Locations |
|---------------------------|----------------|
| <b>December 31, 2020</b>  | 323            |
| Acquisitions              | 20             |
| Opening of new locations  | 2              |
| Merging of locations      | (1)            |
| <b>September 30, 2021</b> | <b>344</b>     |

\* Scheduled to open in 2024

\*\*Henry County, GA (Stockbridge) opened in October 2021

\*\*\* Net bed expansions in each year may change due to the timing of certain regulatory approvals and/or construction delays. For 2021 and 2022, the currently expected range for bed expansions is 100 to 150.

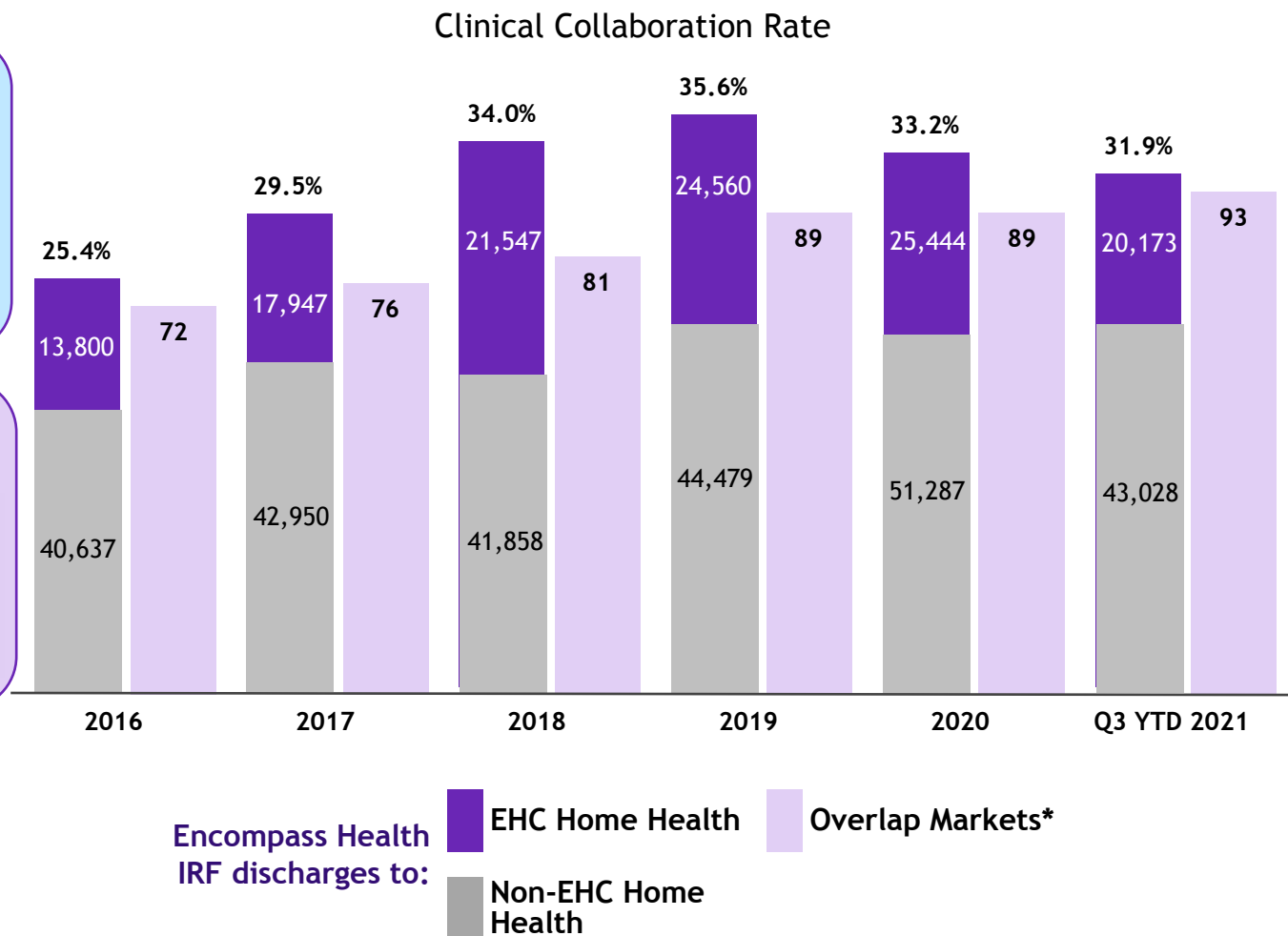


# The Company continues to improve the patient experience and outcomes through integrated care delivery.

## Inpatient rehabilitation-home health clinical collaboration (all payors) overlap markets\*

▶ The clinical collaboration rate has decreased primarily due to Medicare Advantage increasing as a percent of the total patient mix and home health staffing constraints in certain overlap markets.

- ▶ Clinical collaboration objectives:
- Improve patient experience and outcomes
  - Reduce total cost of care across a post-acute episode



\* Overlap markets have an Encompass Health IRF and an Encompass Health home health location within an approximate 30-mile radius, excluding markets that have home health licensure barriers. Overlap markets are open for 12 months before inclusion in the clinical collaboration rate.

# Pre-payment claims denials - inpatient rehabilitation segment

## Background

- For several years prior to 2018, under programs designated as “widespread probes,” certain Medicare Administrative Contractors (“MACs”) conducted pre-payment claim reviews and denied payment for certain diagnosis codes.
- Since 2018, CMS has replaced the “widespread probes” with the Targeted Probe and Educate (“TPE”) initiative.\*
- Encompass Health appeals most denials.
  - MACs identify medical documentation issues as a leading basis for denials.
  - Encompass Health’s investment in clinical information systems and its medical services department has further improved its documentation and reduced technical denials.
- By statute, ALJ decisions are due within 90 days of a request for hearing, but appeals are taking years. HHS has implemented rule changes to address the backlog of appeals, but their effect is uncertain.
- In November 2018, a federal court ordered HHS to reduce the backlog in the following increments: a 19% reduction by the end of FY 2019; a 49% reduction by the end of FY 2020; a 75% reduction by the end of FY 2021; and elimination of the backlog by the end of FY 2022.
- After years of delay in processing appeals, ALJs recently increased the frequency of hearings and the number of claims set at each hearing. Notwithstanding the recent acceleration, Encompass Health still has over 4,700 claims in the backlog.
- Effective March 2020, CMS suspended most Medicare fee-for-service medical reviews during the public health emergency, including TPE and current post-payment reviews, allowing reviews for potential fraud. CMS authorized its contractors to resume reviews as of August 2020.

Encompass Health reserves pre-payment claim denials as a reduction of net operating revenues upon notice from a MAC a claim is under review.

## Impact to Income Statement

| Period        | New Denials | Collections of Previously Denied Claims | Revenue Reserve for New Denials | Update of Reserve for Prior Denials |
|---------------|-------------|---|---------------------------------|-------------------------------------|
| (In Millions) |             |   |                                 |                                     |
| Q3 2021       | \$(0.5)     | \$(9.7)                                 | \$—                             | \$—                                 |
| Q2 2021       | 0.1         | (6.3)                                   | —                               | —                                   |
| Q1 2021       | (0.2)       | (5.2)                                   | —                               | —                                   |
| Q4 2020       | (0.4)       | (7.2)                                   | —                               | 4.5                                 |
| Q3 2020       | (0.6)       | (6.3)                                   | —                               | —                                   |
| Q2 2020       | (1.5)       | (3.5)                                   | —                               | —                                   |
| Q1 2020       | 4.2         | (5.0)                                   | 1.3                             | —                                   |
| Q4 2019       | 3.8         | (4.6)                                   | 1.1                             | —                                   |
| Q3 2019       | 11.3        | (6.1)                                   | 3.4                             | —                                   |
| Q2 2019       | 3.5         | (1.7)                                   | 1.1                             | —                                   |
| Q1 2019       | 1.6         | (2.5)                                   | 0.5                             | —                                   |
| Q4 2018       | 4.6         | (3.2)                                   | 1.4                             | —                                   |
| Q3 2018       | 0.7         | (1.3)                                   | 0.2                             | —                                   |

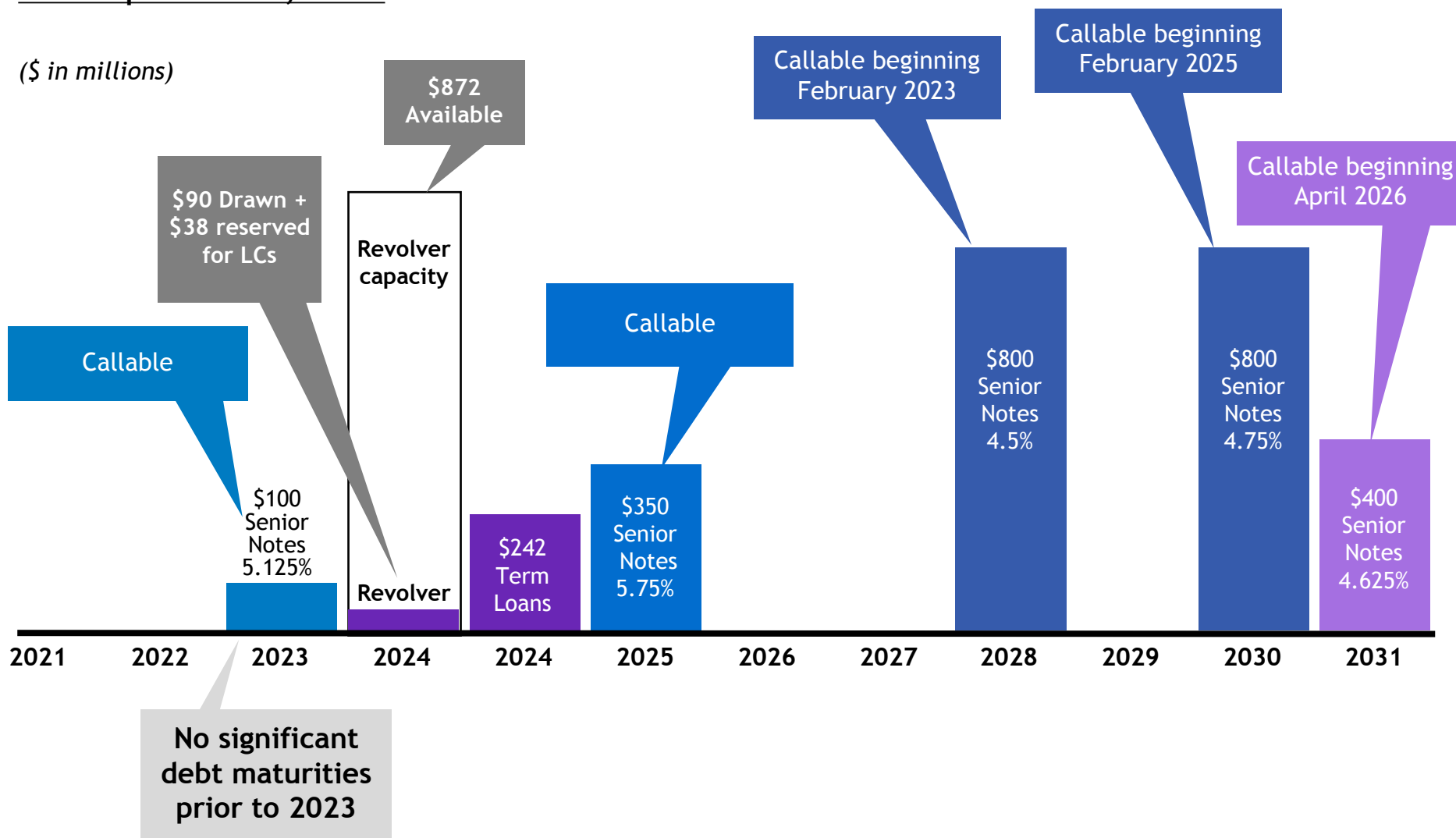
## Impact to Balance Sheet

|  | Sep. 30, 2021  | Dec. 31, 2020  | Dec. 31, 2019   |
|--|----------------|----------------|-----------------|
| (In Millions)  |                |                |                 |
| Pre-payment claims denials                                     | \$ 83.7        | \$ 122.8       | \$ 155.3        |
| Recorded reserves  | (28.2)         | (41.3)         | (46.6)          |
| <b>Net accounts receivable from pre-payment claims denials</b> | <b>\$ 55.5</b> | <b>\$ 81.5</b> | <b>\$ 108.7</b> |

# Debt maturity profile - face value

As of September 30, 2021\*

(\$ in millions)

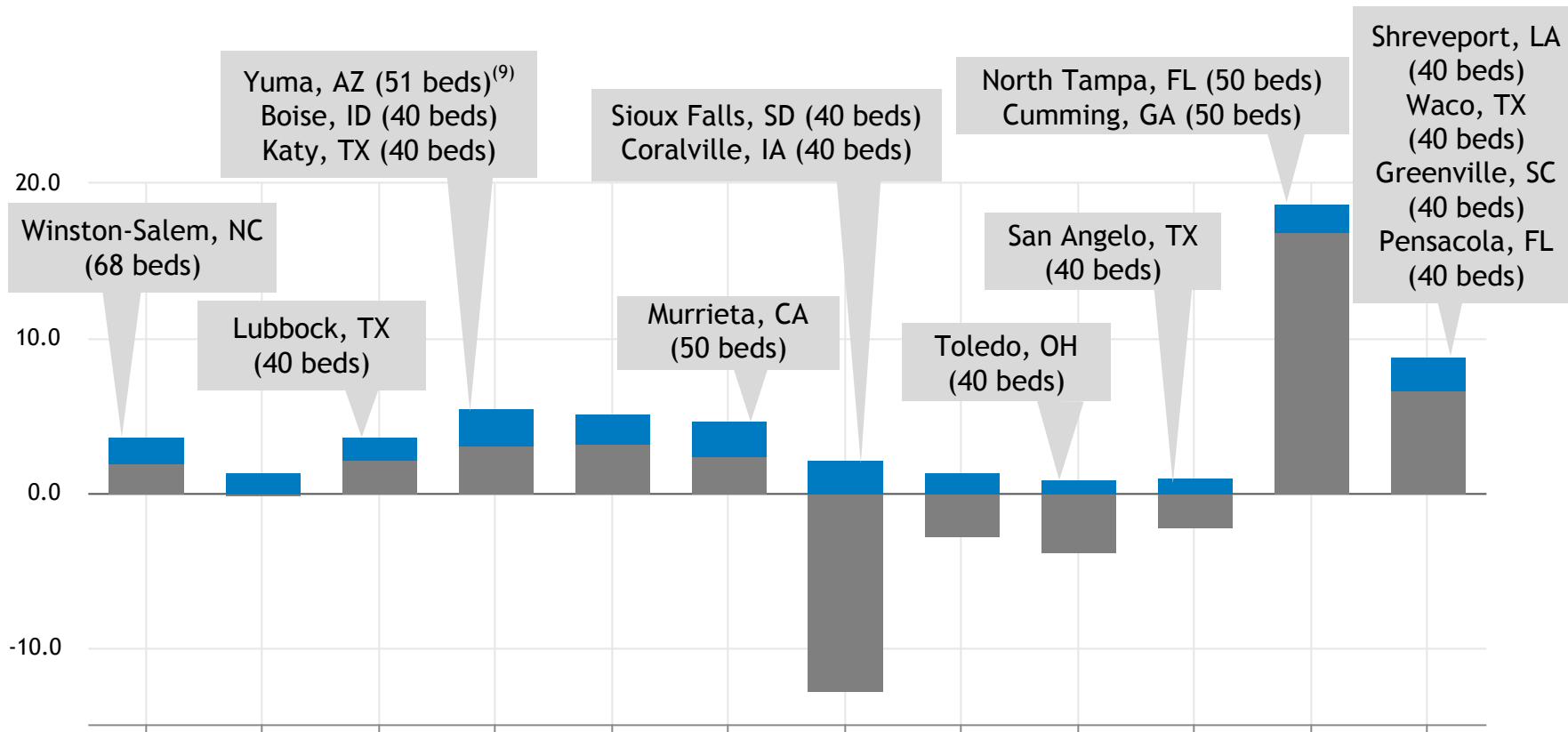


# Debt schedule

| (\$millions)   | September 30,<br>2021 | December 31,<br>2020 | Change in<br>Debt vs.<br>YE 2020 |
|--|-----------------------|----------------------|----------------------------------|
| Advances under \$1 billion revolving credit facility,<br>November 2024 - LIBOR +150bps | \$ 90.0               | \$ —                 | \$ 90.0                          |
| Term loan facility, November 2024 - LIBOR +150bps                                      | 241.8                 | 251.6                | (9.8)                            |
| Bonds Payable:   |                       |                      |                                  |
| 5.125% Senior Notes due 2023 <sup>(1)</sup>  | 99.6                  | 298.1                | (198.5)                          |
| 5.75% Senior Notes due 2025  | 346.8                 | 346.3                | 0.5                              |
| 4.50% Senior Notes due 2028  | 786.4                 | 785.0                | 1.4                              |
| 4.75% Senior Notes due 2030  | 784.3                 | 783.2                | 1.1                              |
| 4.625% Senior Notes due 2031   | 393.6                 | 393.2                | 0.4                              |
| Other notes payable  | 49.7                  | 39.8                 | 9.9                              |
| Finance lease obligations  | 415.7                 | 391.7                | 24.0                             |
| <b>Long-term debt</b>  | <b>\$ 3,207.9</b>     | <b>\$ 3,288.9</b>    | <b>\$ (81.0)</b>                 |
| <b>Debt to Adjusted EBITDA</b>   | <b>3.2 x</b>          | <b>3.8 x</b>         |                                  |
| <b>Leverage net of cash on balance sheet</b>   | <b>3.1 x</b>          | <b>3.6 x</b>         |                                  |

# New-store/same-store growth

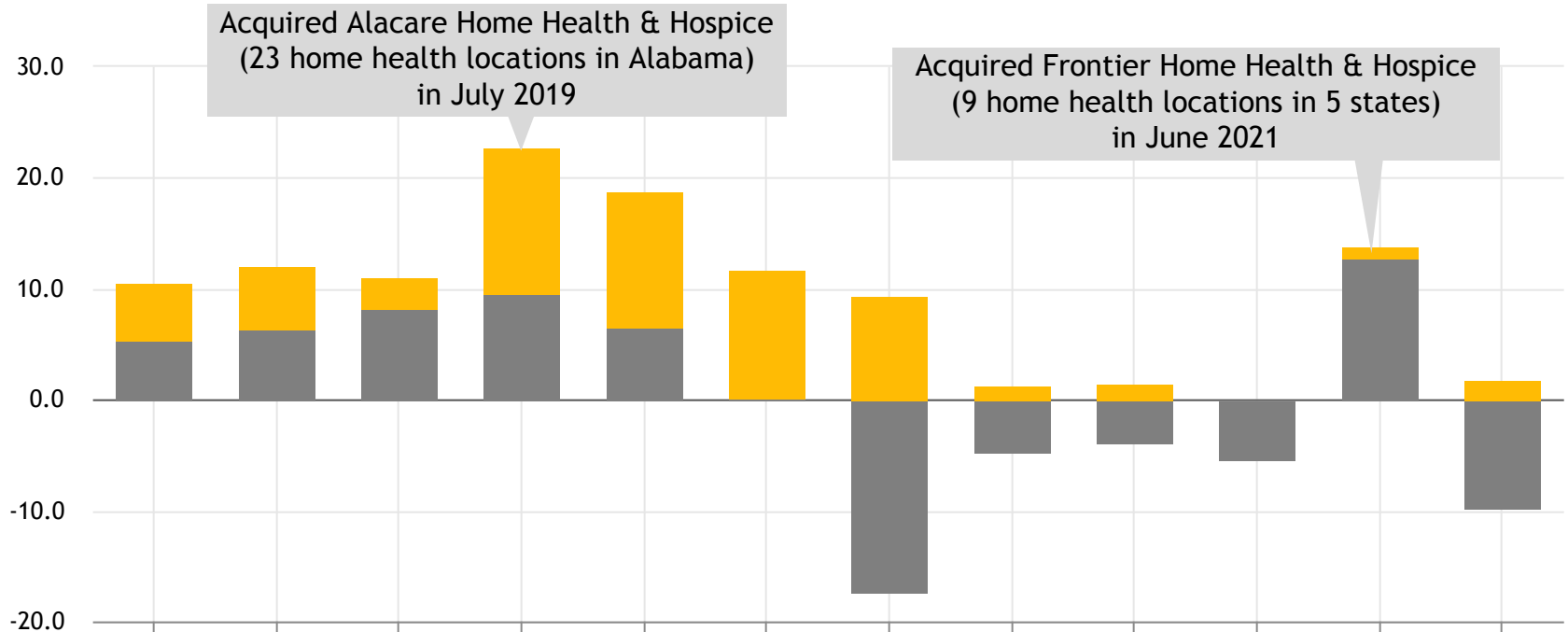
# Inpatient Rehabilitation



| Discharges                          | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| New store                           | 1.7%    | 1.3%    | 1.5%    | 2.4%    | 2.0%    | 2.3%    | 2.1%    | 1.3%    | 0.9%    | 1.0%    | 1.8%    | 2.0%    |
| Same store*                         | 1.9%    | (0.2)%  | 2.2%    | 3.1%    | 3.2%    | 2.4%    | (12.8)% | (2.8)%  | (3.8)%  | (2.2)%  | 16.9%   | 6.7%    |
| Total by quarter                    | 3.6%    | 1.1%    | 3.7%    | 5.5%    | 5.2%    | 4.7%    | (10.7)% | (1.5)%  | (2.9)%  | (1.2)%  | 18.7%   | 8.7%    |
| Total by year                       | 4.6%    |         |         |         | 3.9%    |         |         |         | (2.6)%  |         |         |         |
| Same-store year*                    | 2.8%    |         |         |         | 1.8%    |         |         |         | (4.4)%  |         |         |         |
| Same-store year UDS <sup>(10)</sup> | 1.1%    |         |         |         | 1.3%    |         |         |         | (3.2)%  |         |         |         |

Beginning in mid-March 2020, volume growth was impacted by COVID-19.

# New-store/same-store growth

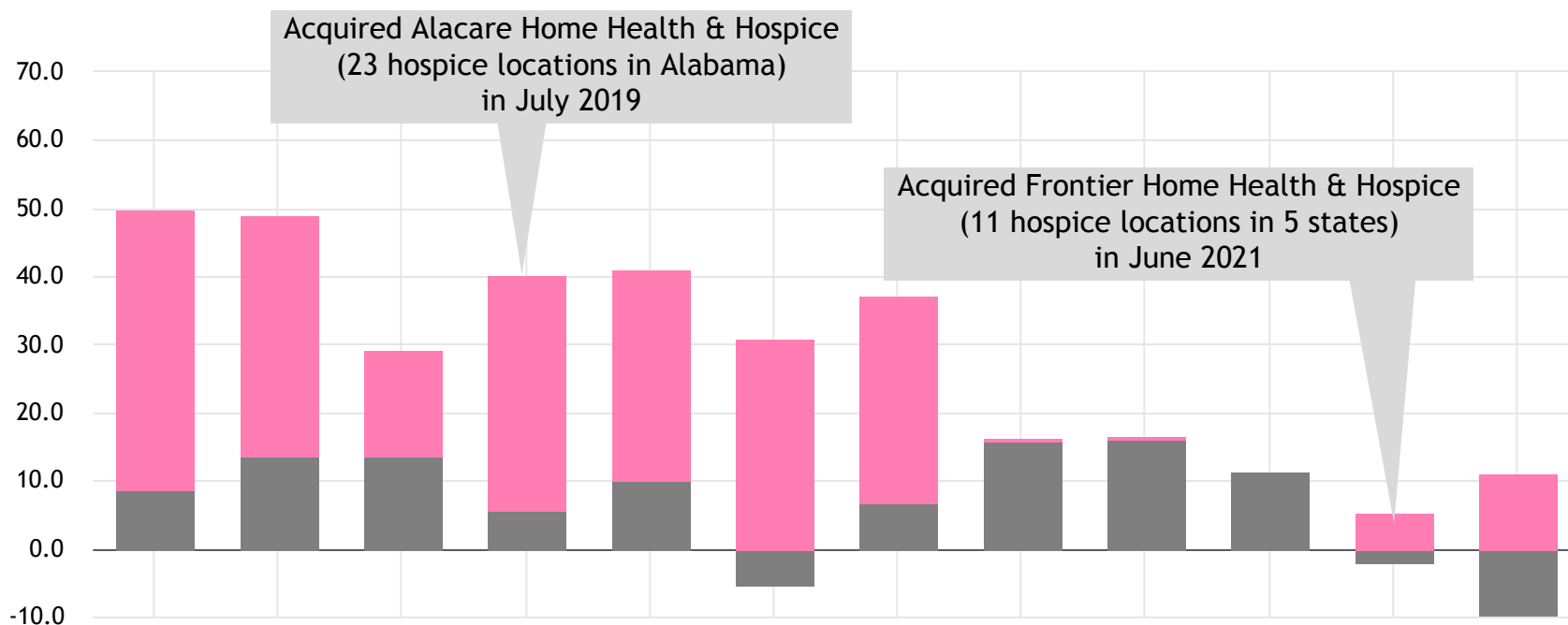


| Episodic admissions | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| New store           | 5.3%    | 5.7%    | 2.9%    | 13.0%   | 12.3%   | 11.7%   | 9.4%    | 1.3%    | 1.5%    | 0.1%    | 0.9%    | 1.9%    |
| Same store*         | 5.4%    | 6.4%    | 8.3%    | 9.7%    | 6.6%    | 0.2%    | (17.3)% | (4.6)%  | (3.8)%  | (5.4)%  | 12.9%   | (9.7)%  |
| Total by quarter    | 10.7%   | 12.1%   | 11.2%   | 22.7%   | 18.9%   | 11.9%   | (7.9)%  | (3.3)%  | (2.3)%  | (5.3)%  | 13.8%   | (7.8)%  |
| Total by year       | 10.0%   |         |         |         | 16.3%   |         |         |         | (0.5)%  |         |         |         |
| Same-store year*    | 5.6%    |         |         |         | 7.7%    |         |         |         | (6.1)%  |         |         |         |

- ▶ In 2018, the Company acquired or opened 23 home health locations.
- ▶ In 2019, the Company acquired or opened 27 home health locations.
- ▶ In 2020, the Company acquired or opened two home health locations and consolidated one former equity method location<sup>(2)</sup>.
- ▶ In 2021, the Company acquired nine home health locations and merged one location.

Beginning in mid-March 2020, volume growth was impacted by COVID-19.

# New-store/same-store growth



| Admissions       | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| New store        | 41.2%   | 35.5%   | 15.7%   | 34.6%   | 31.1%   | 30.9%   | 30.6%   | 0.5%    | 0.7%    | 0.1%    | 5.3%    | 11.3%   |
| Same store*      | 8.6%    | 13.7%   | 13.6%   | 5.8%    | 10.1%   | (5.3)%  | 6.7%    | 15.8%   | 16.1%   | 11.4%   | (1.9)%  | (14.0)% |
| Total by quarter | 49.8%   | 49.2%   | 29.3%   | 40.4%   | 41.2%   | 25.6%   | 37.3%   | 16.3%   | 16.8%   | 11.5%   | 3.4%    | (2.7)%  |
| Total by year    | 53.5%   |         |         |         | 39.8%   |         |         |         | 23.2%   |         |         |         |
| Same-store year* | 24.6%   |         |         |         | 12.2%   |         |         |         | 8.1%    |         |         |         |

- ▶ In 2018, the Company acquired or opened 22 hospice locations.
- ▶ In 2019, the Company acquired or opened 25 hospice locations.
- ▶ In 2020, the Company opened one hospice location.
- ▶ In 2021, the Company acquired or opened 13 hospice locations.

# Payment sources (percent of revenues)

|                          | Inpatient Rehabilitation Segment |                | Home Health and Hospice Segment |                | Consolidated   |                |                |                |                |
|--------------------------|----------------------------------|----------------|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                          | Q3                               |                | Q3                              |                | Q3             |                | 9 Months       |                | Full Year      |
|                          | 2021                             | 2020           | 2021                            | 2020           | 2021           | 2020           | 2021           | 2020           | 2020           |
| Medicare                 | 64.2 %                           | 65.8 %         | 81.9 %                          | 83.3 %         | 68.0 %         | 69.9 %         | 68.3 %         | 69.8 %         | 70.5 %         |
| Medicare Advantage       | 15.1 %                           | 15.7 %         | 10.4 %                          | 10.8 %         | 14.1 %         | 14.5 %         | 14.5 %         | 14.8 %         | 14.2 %         |
| Managed care             | 12.2 %                           | 10.7 %         | 6.2 %                           | 4.5 %          | 10.9 %         | 9.2 %          | 10.5 %         | 9.0 %          | 9.0 %          |
| Medicaid                 | 4.1 %                            | 4.3 %          | 1.4 %                           | 1.2 %          | 3.5 %          | 3.6 %          | 3.5 %          | 3.4 %          | 3.4 %          |
| Other third-party payors | 1.0 %                            | 1.2 %          | — %                             | — %            | 0.8 %          | 0.9 %          | 0.9 %          | 0.9 %          | 0.9 %          |
| Workers' compensation    | 0.6 %                            | 0.5 %          | — %                             | 0.1 %          | 0.5 %          | 0.4 %          | 0.4 %          | 0.5 %          | 0.5 %          |
| Patients                 | 0.5 %                            | 0.6 %          | — %                             | 0.1 %          | 0.4 %          | 0.5 %          | 0.4 %          | 0.5 %          | 0.4 %          |
| Other income             | 2.3 %                            | 1.2 %          | 0.1 %                           | — %            | 1.8 %          | 1.0 %          | 1.5 %          | 1.1 %          | 1.1 %          |
| Total                    | <u>100.0 %</u>                   | <u>100.0 %</u> | <u>100.0 %</u>                  | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |



# Inpatient rehabilitation operational metrics

|   | Q3                | Q2                | Q1              | Q4              | Q3              | Q2              | Q1              | Full Year         |
|---|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
|   | 2021              | 2021              | 2021            | 2020            | 2020            | 2020            | 2020            | 2020              |
| (In Millions)                                     |                   |                   |                 |                 |                 |                 |                 |                   |
| Net patient revenue-inpatient                     | \$ 983.7          | \$ 976.9          | \$ 942.3        | \$ 914.9        | \$ 883.2        | \$ 808.0        | \$ 890.0        | \$ 3,496.1        |
| Net patient revenue-outpatient and other revenues | 27.2              | 24.7              | 17.6            | 18.2            | 16.2            | 16.5            | 19.2            | 70.1              |
| Net operating revenues                            | <u>\$ 1,010.9</u> | <u>\$ 1,001.6</u> | <u>\$ 959.9</u> | <u>\$ 933.1</u> | <u>\$ 899.4</u> | <u>\$ 824.5</u> | <u>\$ 909.2</u> | <u>\$ 3,566.2</u> |
| (Actual Amounts)                                  |                   |                   |                 |                 |                 |                 |                 |                   |
| Discharges <sup>(11)</sup>                        | 49,983            | 49,492            | 47,187          | 46,503          | 45,962          | 41,682          | 47,750          | 181,897           |
| Net patient revenue per discharge                 | \$ 19,681         | \$ 19,739         | \$ 19,969       | \$ 19,674       | \$ 19,216       | \$ 19,385       | \$ 18,639       | \$ 19,220         |
| Outpatient visits                                 | 38,904            | 44,020            | 40,194          | 48,786          | 51,968          | 15,760          | 69,743          | 186,257           |
| Average length of stay                            | 12.8              | 12.7              | 13.0            | 12.9            | 13.0            | 13.2            | 12.7            | 12.9              |
| Occupancy %                                       | 70.6 %            | 71.1 %            | 71.4 %          | 68.7 %          | 68.8 %          | 64.5 %          | 71.3 %          | 67.7 %            |
| # of licensed beds                                | 9,846             | 9,701             | 9,560           | 9,505           | 9,437           | 9,401           | 9,322           | 9,505             |
| Occupied beds                                     | 6,951             | 6,897             | 6,826           | 6,530           | 6,493           | 6,064           | 6,647           | 6,435             |
| Full-time equivalents (FTEs) <sup>(12)</sup>      | 23,054            | 22,535            | 22,383          | 22,383          | 22,147          | 20,809          | 22,318          | 21,915            |
| Contract labor                                    | 383               | 318               | 221             | 192             | 176             | 116             | 161             | 161               |
| Total FTE and contract labor                      | <u>23,437</u>     | <u>22,853</u>     | <u>22,604</u>   | <u>22,575</u>   | <u>22,323</u>   | <u>20,925</u>   | <u>22,479</u>   | <u>22,076</u>     |
| EPOB <sup>(13)</sup>                              | 3.37              | 3.31              | 3.31            | 3.46            | 3.44            | 3.45            | 3.38            | 3.43              |

# Home health and hospice operational metrics

|                                     | Q3            |           | Q2   |           | Q1   |           | Q4               |           | Q3   |           | Q2   |           | Q1   |           | Full Year |           |
|-------------------------------------|---------------|-----------|------|-----------|------|-----------|------------------|-----------|------|-----------|------|-----------|------|-----------|-----------|-----------|
|                                     | 2021          |           | 2021 |           | 2021 |           | 2020             |           | 2020 |           | 2020 |           | 2020 |           | 2020      |           |
|                                     | (In Millions) |           |      |           |      |           |                  |           |      |           |      |           |      |           |           |           |
| Net home health revenue             | \$            | 221.1     | \$   | 232.3     | \$   | 219.9     | \$               | 227.7     | \$   | 223.3     | \$   | 201.8     | \$   | 224.8     | \$        | 877.6     |
| Net hospice revenue                 |               | 52.8      |      | 53.8      |      | 50.6      |                  | 53.6      |      | 51.2      |      | 47.8      |      | 48.0      |           | 200.6     |
| Net operating revenues              | \$            | 273.9     | \$   | 286.1     | \$   | 270.5     | \$               | 281.3     | \$   | 274.5     | \$   | 249.6     | \$   | 272.8     | \$        | 1,078.2   |
| Home Health:                        |               |           |      |           |      |           | (Actual Amounts) |           |      |           |      |           |      |           |           |           |
| Total admissions <sup>(14)</sup>    |               | 48,412    |      | 50,598    |      | 50,799    |                  | 48,533    |      | 48,838    |      | 44,124    |      | 52,754    |           | 194,249   |
| Episodic admissions <sup>(14)</sup> |               | 37,577    |      | 39,657    |      | 40,215    |                  | 40,830    |      | 40,765    |      | 34,841    |      | 42,476    |           | 158,912   |
| Total recertifications              |               | 32,942    |      | 33,794    |      | 31,902    |                  | 33,497    |      | 33,786    |      | 31,952    |      | 29,463    |           | 128,698   |
| Episodic recertifications           |               | 27,742    |      | 28,296    |      | 28,083    |                  | 30,064    |      | 29,830    |      | 28,328    |      | 26,553    |           | 114,775   |
| Episodes                            |               | 66,065    |      | 67,839    |      | 66,435    |                  | 71,441    |      | 68,261    |      | 60,154    |      | 68,652    |           | 268,508   |
| Average revenue per episode         | \$            | 2,916     | \$   | 2,968     | \$   | 2,923     | \$               | 2,883     | \$   | 2,910     | \$   | 2,920     | \$   | 2,909     | \$        | 2,905     |
| Episodic visits per episode         |               | 15.0      |      | 15.6      |      | 15.8      |                  | 15.7      |      | 16.4      |      | 17.4      |      | 16.3      |           | 16.4      |
| Total visits                        |               | 1,213,370 |      | 1,297,350 |      | 1,239,073 |                  | 1,281,830 |      | 1,300,866 |      | 1,250,546 |      | 1,306,230 |           | 5,139,472 |
| Cost per visit                      | \$            | 82        | \$   | 76        | \$   | 77        | \$               | 76        | \$   | 75        | \$   | 89        | \$   | 81        | \$        | 80        |
| Hospice:                            |               |           |      |           |      |           |                  |           |      |           |      |           |      |           |           |           |
| Admissions <sup>(15)</sup>          |               | 3,262     |      | 3,298     |      | 3,330     |                  | 3,348     |      | 3,354     |      | 3,190     |      | 2,986     |           | 12,878    |
| Patient days                        |               | 352,691   |      | 351,878   |      | 334,400   |                  | 349,989   |      | 346,019   |      | 336,507   |      | 334,545   |           | 1,367,060 |
| Average daily census                |               | 3,834     |      | 3,867     |      | 3,716     |                  | 3,804     |      | 3,761     |      | 3,698     |      | 3,676     |           | 3,735     |
| Revenue per day                     | \$            | 150       | \$   | 153       | \$   | 151       | \$               | 153       | \$   | 148       | \$   | 142       | \$   | 144       | \$        | 147       |

# Share information

| (In Millions)  | Weighted Average for the Period |             |              |             |             |             |             |
|--|---------------------------------|-------------|--------------|-------------|-------------|-------------|-------------|
|  | Q3                              |             | 9 Months     |             | Full Year   |             |             |
|  | 2021                            | 2020        | 2021         | 2020        | 2020        | 2019        | 2018        |
| <b>Basic shares outstanding</b>  | 99.0                            | 98.7        | 99.0         | 98.5        | 98.6        | 98.0        | 97.9        |
| Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants | 1.2                             | 1.2         | 1.1          | 1.2         | 1.2         | 1.4         | 1.9         |
| <b>Diluted shares outstanding</b>  | <u>100.2</u>                    | <u>99.9</u> | <u>100.1</u> | <u>99.7</u> | <u>99.8</u> | <u>99.4</u> | <u>99.8</u> |

| (In Millions)                   | End of Period |      |          |      |           |      |      |
|---------------------------------|---------------|------|----------|------|-----------|------|------|
|                                 | Q3            |      | 9 Months |      | Full Year |      |      |
|                                 | 2021          | 2020 | 2021     | 2020 | 2020      | 2019 | 2018 |
| <b>Basic shares outstanding</b> | 99.5          | 99.4 | 99.5     | 99.4 | 99.4      | 98.6 | 98.9 |

# Segment operating results

Q3 2021

Q3 2020

| (In Millions)   | IRF             | Home Health and Hospice | Reclasses   | Consolidated    | IRF             | Home Health and Hospice | Reclasses   | Consolidated    |
|---|-----------------|-------------------------|-------------|-----------------|-----------------|-------------------------|-------------|-----------------|
| Net operating revenues  | \$ 1,010.9      | \$ 273.9                | \$ —        | \$ 1,284.8      | \$ 899.4        | \$ 274.5                | \$ —        | \$ 1,173.9      |
| Operating Expenses:   |                 |                         |             |                 |                 |                         |             |                 |
| Inpatient Rehabilitation:   |                 |                         |             |                 |                 |                         |             |                 |
| Salaries and benefits   | (537.1)         | —                       | (193.0)     | (730.1)         | (475.0)         | —                       | (189.9)     | (664.9)         |
| Other operating expenses <sup>(a)</sup>                             | (156.2)         | —                       | (22.4)      | (178.6)         | (135.5)         | —                       | (20.4)      | (155.9)         |
| Supplies  | (46.8)          | —                       | (6.4)       | (53.2)          | (45.3)          | —                       | (7.2)       | (52.5)          |
| Occupancy costs   | (14.4)          | —                       | (5.4)       | (19.8)          | (15.3)          | —                       | (5.0)       | (20.3)          |
| Home Health and Hospice:  |                 |                         |             |                 |                 |                         |             |                 |
| Cost of services (excluding depreciation and amortization)          | —               | (124.0)                 | 124.0       | —               | —               | (121.8)                 | 121.8       | —               |
| Support and overhead costs  | —               | (103.2)                 | 103.2       | —               | —               | (100.7)                 | 100.7       | —               |
|   | (754.5)         | (227.2)                 | —           | (981.7)         | (671.1)         | (222.5)                 | —           | (893.6)         |
| Other income <sup>(b)</sup>   | 0.7             | —                       | —           | 0.7             | 2.1             | —                       | —           | 2.1             |
| Equity in net income of nonconsolidated affiliates                  | 0.8             | 0.1                     | —           | 0.9             | 0.9             | 0.1                     | —           | 1.0             |
| Noncontrolling interests  | (26.3)          | (0.4)                   | —           | (26.7)          | (22.1)          | (0.3)                   | —           | (22.4)          |
| <b>Segment Adjusted EBITDA</b>                                      | <b>\$ 231.6</b> | <b>\$ 46.4</b>          | <b>\$ —</b> | <b>278.0</b>    | <b>\$ 209.2</b> | <b>\$ 51.8</b>          | <b>\$ —</b> | <b>261.0</b>    |
| General and administrative expenses <sup>(c)(d)</sup>               |                 |                         |             | (32.4)          |                 |                         |             | (30.8)          |
| <b>Adjusted EBITDA</b>  |                 |                         |             | <b>\$ 245.6</b> |                 |                         |             | <b>\$ 230.2</b> |
| <b>In arriving at Adjusted EBITDA, the following were excluded:</b> |                 |                         |             |                 |                 |                         |             |                 |
| (a) (Gain) loss on disposal or impairment of assets                 | \$ (5.0)        | \$ (0.2)                | \$ —        | \$ (5.2)        | \$ 7.5          | \$ —                    | \$ —        | \$ 7.5          |
| (b) Change in fair market value of equity securities                | \$ 0.3          | \$ —                    | \$ —        | \$ 0.3          | \$ (0.4)        | \$ —                    | \$ —        | \$ (0.4)        |
| (c) Stock-based compensation  | \$ —            | \$ —                    | \$ —        | \$ 6.9          | \$ —            | \$ —                    | \$ —        | \$ 8.3          |
| (d) Costs associated with the strategic alternatives review         | \$ —            | \$ —                    | \$ —        | \$ 4.6          | \$ —            | \$ —                    | \$ —        | \$ —            |

# Segment operating results

Nine Months Ended September 30, 2021

Nine Months Ended September 30, 2020

| (In Millions)   | IRF             | Home Health and Hospice | Reclasses   | Consolidated    | IRF             | Home Health and Hospice | Reclasses   | Consolidated    |
|---|-----------------|-------------------------|-------------|-----------------|-----------------|-------------------------|-------------|-----------------|
| Net operating revenues  | \$ 2,972.4      | \$ 830.5                | \$ —        | \$ 3,802.9      | \$ 2,633.1      | \$ 796.9                | \$ —        | \$ 3,430.0      |
| Operating Expenses:   |                 |                         |             |                 |                 |                         |             |                 |
| Inpatient Rehabilitation:   |                 |                         |             |                 |                 |                         |             |                 |
| Salaries and benefits   | (1,554.9)       | —                       | (570.6)     | (2,125.5)       | (1,408.7)       | —                       | (585.7)     | (1,994.4)       |
| Other operating expenses <sup>(a)</sup>                                   | (443.7)         | —                       | (67.1)      | (510.8)         | (394.5)         | —                       | (66.2)      | (460.7)         |
| Supplies  | (136.1)         | —                       | (19.0)      | (155.1)         | (126.9)         | —                       | (21.9)      | (148.8)         |
| Occupancy costs   | (44.5)          | —                       | (15.7)      | (60.2)          | (46.0)          | —                       | (14.8)      | (60.8)          |
| Home Health and Hospice:  |                 |                         |             |                 |                 |                         |             |                 |
| Cost of services (excluding depreciation and amortization)                | —               | (364.7)                 | 364.7       | —               | —               | (389.4)                 | 389.4       | —               |
| Support and overhead costs <sup>(b)</sup>                                 | —               | (307.7)                 | 307.7       | —               | —               | (299.2)                 | 299.2       | —               |
|   | (2,179.2)       | (672.4)                 | —           | (2,851.6)       | (1,976.1)       | (688.6)                 | —           | (2,664.7)       |
| Other income <sup>(c)(d)</sup>  | 4.5             | 1.6                     | —           | 6.1             | 3.9             | —                       | —           | 3.9             |
| Equity in net income of nonconsolidated affiliates                        | 2.4             | 0.5                     | —           | 2.9             | 2.1             | 0.4                     | —           | 2.5             |
| Noncontrolling interests  | (79.6)          | (1.3)                   | —           | (80.9)          | (58.0)          | (0.9)                   | —           | (58.9)          |
| <b>Segment Adjusted EBITDA</b>  | <b>\$ 720.5</b> | <b>\$ 158.9</b>         | <b>\$ —</b> | <b>879.4</b>    | <b>\$ 605.0</b> | <b>\$ 107.8</b>         | <b>\$ —</b> | <b>712.8</b>    |
| General and administrative expenses <sup>(e)(f)(g)</sup>                  |                 |                         |             | (104.1)         |                 |                         |             | (92.4)          |
| <b>Adjusted EBITDA</b>  |                 |                         |             | <b>\$ 775.3</b> |                 |                         |             | <b>\$ 620.4</b> |
| In arriving at Adjusted EBITDA, the following were excluded:              |                 |                         |             |                 |                 |                         |             |                 |
| (a) (Gain) loss on disposal or impairment of assets                       | \$ (1.7)        | \$ (0.7)                | \$ —        | \$ (2.4)        | \$ 9.4          | \$ 1.2                  | \$ —        | \$ 10.6         |
| (b) Payroll taxes on SARs exercise <sup>(4)</sup>                         | \$ —            | \$ —                    | \$ —        | \$ —            | \$ —            | \$ 1.5                  | \$ —        | \$ 1.5          |
| (c) Change in fair market value of equity securities                      | \$ (0.3)        | \$ —                    | \$ —        | \$ (0.3)        | \$ (0.3)        | \$ —                    | \$ —        | \$ (0.3)        |
| (d) Gain on consolidation of former equity method location <sup>(2)</sup> | \$ —            | \$ —                    | \$ —        | \$ —            | \$ —            | \$ (2.2)                | \$ —        | \$ (2.2)        |
| (e) Stock-based compensation  | \$ —            | \$ —                    | \$ —        | \$ 21.7         | \$ —            | \$ —                    | \$ —        | \$ 25.3         |
| (f) Costs associated with the strategic alternatives review               | \$ —            | \$ —                    | \$ —        | \$ 9.6          | \$ —            | \$ —                    | \$ —        | \$ —            |
| (g) Costs associated with the Frontier acquisition                        | \$ —            | \$ —                    | \$ —        | \$ 1.3          | \$ —            | \$ —                    | \$ —        | \$ —            |

# Segment operating results

| (In Millions)   | Year Ended December 31, 2020 |                         |             |                 |
|---|------------------------------|-------------------------|-------------|-----------------|
|   | IRF                          | Home Health and Hospice | Reclasses   | Consolidated    |
| Net operating revenues  | \$ 3,566.2                   | \$ 1,078.2              | \$ —        | \$ 4,644.4      |
| Operating Expenses:   |                              |                         |             |                 |
| Inpatient Rehabilitation:   |                              |                         |             |                 |
| Salaries and benefits   | (1,903.8)                    | —                       | (776.7)     | (2,680.5)       |
| Other operating expenses <sup>(a)</sup>                                   | (534.7)                      | —                       | (88.1)      | (622.8)         |
| Supplies  | (171.0)                      | —                       | (29.5)      | (200.5)         |
| Occupancy costs   | (61.4)                       | —                       | (19.8)      | (81.2)          |
| Home Health and Hospice:  |                              |                         |             |                 |
| Cost of services (excluding depreciation and amortization)                | —                            | (511.3)                 | 511.3       | —               |
| Support and overhead costs <sup>(b)</sup>                                 | —                            | (402.8)                 | 402.8       | —               |
|   | (2,670.9)                    | (914.1)                 | —           | (3,585.0)       |
| Other income <sup>(c)(d)</sup>  | 8.0                          | —                       | —           | 8.0             |
| Equity in net income of nonconsolidated affiliates                        | 3.0                          | 0.5                     | —           | 3.5             |
| Noncontrolling interests  | (83.3)                       | (1.3)                   | —           | (84.6)          |
| <b>Segment Adjusted EBITDA</b>  | <b>\$ 823.0</b>              | <b>\$ 163.3</b>         | <b>\$ —</b> | <b>986.3</b>    |
| General and administrative expenses <sup>(e)</sup>                        |                              |                         |             | (126.0)         |
| <b>Adjusted EBITDA</b>  |                              |                         |             | <b>\$ 860.3</b> |
| <b>In arriving at Adjusted EBITDA, the following were excluded:</b>       |                              |                         |             |                 |
| (a) Loss on disposal or impairment of assets                              | \$ 10.4                      | \$ 1.2                  | \$ —        | \$ 11.6         |
| (b) Payroll taxes on SARs exercise <sup>(4)</sup>                         | \$ —                         | \$ 1.5                  | \$ —        | \$ 1.5          |
| (c) Change in fair market value of equity securities                      | \$ (0.4)                     | \$ —                    | \$ —        | \$ (0.4)        |
| (d) Gain on consolidation of former equity method location <sup>(2)</sup> | \$ —                         | \$ (2.2)                | \$ —        | \$ (2.2)        |
| (e) Stock-based compensation  | \$ —                         | \$ —                    | \$ —        | \$ 29.5         |

# Reconciliation of net income to Adjusted EBITDA<sup>(7)</sup>

|  | 2021            |           |                 |           |                 |           |                 |           |
|--|-----------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|
|  | Q1              |           | Q2              |           | Q3              |           | 9 Months        |           |
|  | Total           | Per Share | Total           | Per Share | Total           | Per Share | Total           | Per Share |
| (in millions, except per share data)                                       |                 |           |                 |           |                 |           |                 |           |
| <b>Net Income</b>  | \$ 132.8        |           | \$ 142.0        |           | \$ 126.7        |           | \$ 401.5        |           |
| Loss from disc ops, net of tax, attributable to Encompass Health           | —               |           | 0.3             |           | 0.1             |           | 0.4             |           |
| Net income attributable to noncontrolling interests                        | (25.5)          |           | (28.7)          |           | (26.7)          |           | (80.9)          |           |
| <b>Income from continuing operations attributable to Encompass Health*</b> | 107.3           | \$ 1.07   | 113.6           | \$ 1.13   | 100.1           | \$ 1.00   | 321.0           | \$ 3.20   |
| Provision for income tax expense   | 34.5            |           | 39.5            |           | 34.1            |           | 108.1           |           |
| Interest expense and amortization of debt discounts and fees               | 42.8            |           | 41.8            |           | 39.9            |           | 124.5           |           |
| Depreciation and amortization  | 62.5            |           | 63.4            |           | 64.9            |           | 190.8           |           |
| Loss on early extinguishment of debt <sup>(1)</sup>                        | —               |           | 1.0             |           | —               |           | 1.0             |           |
| (Gain) loss on disposal or impairment of assets                            | (0.1)           |           | 2.9             |           | (5.2)           |           | (2.4)           |           |
| Stock-based compensation expense   | 2.8             |           | 12.0            |           | 6.9             |           | 21.7            |           |
| Costs associated with the strategic alternatives review                    | 0.9             |           | 4.1             |           | 4.6             |           | 9.6             |           |
| Costs associated with the Frontier acquisition                             | —               |           | 1.3             |           | —               |           | 1.3             |           |
| Gain on consolidation of former equity method location <sup>(2)</sup>      | —               |           | —               |           | —               |           | —               |           |
| Change in fair market value of equity securities                           | 0.1             |           | (0.7)           |           | 0.3             |           | (0.3)           |           |
| <b>Adjusted EBITDA</b>   | <u>\$ 250.8</u> |           | <u>\$ 278.9</u> |           | <u>\$ 245.6</u> |           | <u>\$ 775.3</u> |           |
| <b>Weighted average common shares outstanding:</b>                         |                 |           |                 |           |                 |           |                 |           |
| Basic  |                 | 99.0      |                 | 99.0      |                 | 99.0      |                 | 99.0      |
| Diluted  |                 | 100.2     |                 | 100.2     |                 | 100.2     |                 | 100.1     |

\* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.  
Refer to pages 48-49 for end notes.

# Reconciliation of net income to Adjusted EBITDA<sup>(7)</sup>

| (in millions, except per share data)                                       | 2020            |             |                 |             |                 |             |                 |              |                 |             |
|--|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|--------------|-----------------|-------------|
|  | Q1              |             | Q2              |             | Q3              |             | Q4              |              | Full Year       |             |
|  | Total           | Per Share   | Total           | Per Share   | Total           | Per Share   | Total           | Per Share    | Total           | Per Share   |
| <b>Net Income</b>  | \$ 108.7        |             | \$ 48.3         |             | \$ 100.1        |             | \$ 111.7        |              | \$ 368.8        |             |
| Loss (income) from disc ops, net of tax, attributable to Encompass Health  | 0.1             |             | (0.1)           |             | —               |             | —               |              | —               |             |
| Net income attributable to noncontrolling interests                        | (21.7)          |             | (14.8)          |             | (22.4)          |             | (25.7)          |              | (84.6)          |             |
| <b>Income from continuing operations attributable to Encompass Health*</b> | 87.1            | \$ 0.87     | 33.4            | \$ 0.34     | 77.7            | \$ 0.78     | 86.0            | \$ 0.86      | 284.2           | \$ 2.85     |
| Government, class action, and related settlements                          | 2.8             |             | —               |             | —               |             | —               |              | 2.8             |             |
| Provision for income tax expense   | 27.1            |             | 11.8            |             | 26.9            |             | 38.0            |              | 103.8           |             |
| Interest expense and amortization of debt discounts and fees               | 43.2            |             | 45.8            |             | 49.0            |             | 46.2            |              | 184.2           |             |
| Depreciation and amortization  | 58.8            |             | 60.7            |             | 61.2            |             | 62.3            |              | 243.0           |             |
| Loss on early extinguishment of debt <sup>(16)</sup>                       | —               |             | —               |             | —               |             | 2.3             |              | 2.3             |             |
| Loss on disposal or impairment of assets                                   | 0.1             |             | 3.0             |             | 7.5             |             | 1.0             |              | 11.6            |             |
| Stock-based compensation expense   | 7.1             |             | 9.9             |             | 8.3             |             | 4.2             |              | 29.5            |             |
| Gain on consolidation of former equity method location <sup>(2)</sup>      | (2.2)           |             | —               |             | —               |             | —               |              | (2.2)           |             |
| Change in fair market value of equity securities                           | 2.5             |             | (2.4)           |             | (0.4)           |             | (0.1)           |              | (0.4)           |             |
| Payroll taxes on SARs exercise <sup>(4)</sup>                              | 1.5             |             | —               |             | —               |             | —               |              | 1.5             |             |
| <b>Adjusted EBITDA</b>   | <u>\$ 228.0</u> |             | <u>\$ 162.2</u> |             | <u>\$ 230.2</u> |             | <u>\$ 239.9</u> |              | <u>\$ 860.3</u> |             |
| <b>Weighted average common shares outstanding:</b>                         |                 |             |                 |             |                 |             |                 |              |                 |             |
| Basic  |                 | <u>98.2</u> |                 | <u>98.7</u> |                 | <u>98.7</u> |                 | <u>98.7</u>  |                 | <u>98.6</u> |
| Diluted  |                 | <u>99.6</u> |                 | <u>99.9</u> |                 | <u>99.9</u> |                 | <u>100.1</u> |                 | <u>99.8</u> |

\* Per share amounts for each period presented are based on diluted weighted-average shares outstanding. Refer to pages 48-49 for end notes.



# Net cash provided by operating activities reconciled to Adjusted EBITDA<sup>(7)</sup>

| (In Millions)  | Q3              |                 | 9 Months        |                 | Full Year       |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | 2021            | 2020            | 2021            | 2020            | 2020            |
| <b>Net cash provided by operating activities</b>                             | \$ 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 <sup>(4)</sup>                                | —               | —               | —               | 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             |
| <b>Adjusted EBITDA</b>   | <u>\$ 245.6</u> | <u>\$ 230.2</u> | <u>\$ 775.3</u> | <u>\$ 620.4</u> | <u>\$ 860.3</u> |

# Reconciliation of segment Adjusted EBITDA to income from continuing operations before income tax expense

|   | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                 | Year Ended<br>December 31, |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|----------------------------|
|   | 2021                                | 2020            | 2021                               | 2020            | 2020                       |
|   | (In Millions)                       |                 |                                    |                 |                            |
| <b>Total segment Adjusted EBITDA</b>                                  | <b>\$ 278.0</b>                     | <b>\$ 261.0</b> | <b>\$ 879.4</b>                    | <b>\$ 712.8</b> | <b>\$ 986.3</b>            |
| 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 <sup>(3)</sup>      | —                                   | —               | —                                  | (2.8)           | (2.8)                      |
| Loss on early extinguishment of debt <sup>(1)(16)</sup>               | —                                   | —               | (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                        |
| Gain on consolidation of former equity method location <sup>(2)</sup> | —                                   | —               | —                                  | 2.2             | 2.2                        |
| Payroll taxes on SARs exercise <sup>(4)</sup>                         | —                                   | —               | —                                  | (1.5)           | (1.5)                      |
| <b>Income from continuing operations before income tax expense</b>    | <b>\$ 160.9</b>                     | <b>\$ 127.0</b> | <b>\$ 510.0</b>                    | <b>\$ 322.9</b> | <b>\$ 472.6</b>            |

# Reconciliation of net cash provided by operating activities to adjusted free cash flow<sup>(6)</sup>

| (In Millions)   | Q3              |                 | 9 Months        |                 | Full Year       |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | 2021            | 2020            | 2021            | 2020            | 2020            |
| <b>Net cash provided by operating activities</b>                          | \$ 177.6        | \$ 173.4        | \$ 592.0        | \$ 425.0        | \$ 704.7        |
| Impact of discontinued operations   | —               | 0.1             | 0.6             | 0.2             | 0.2             |
| <b>Net cash provided by operating activities of continuing operations</b> | 177.6           | 173.5           | 592.6           | 425.2           | 704.9           |
| Capital expenditures for maintenance                                      | (32.1)          | (34.0)          | (85.9)          | (107.5)         | (154.9)         |
| Distributions paid to noncontrolling interests of consolidated affiliates | (25.1)          | (15.4)          | (77.8)          | (52.9)          | (72.2)          |
| <b>Items non-indicative of ongoing operating performance:</b>             |                 |                 |                 |                 |                 |
| Cash paid for SARs exercise (inclusive of payroll taxes) <sup>(4)</sup>   | —               | —               | —               | 102.1           | 102.1           |
| Transaction costs and related assumed liabilities                         | 3.7             | —               | 8.2             | —               | —               |
| <b>Adjusted free cash flow</b>  | <b>\$ 124.1</b> | <b>\$ 124.1</b> | <b>\$ 437.1</b> | <b>\$ 366.9</b> | <b>\$ 579.9</b> |
| <b>Cash dividends on common stock</b>                                     | <b>\$ 27.8</b>  | <b>\$ 27.6</b>  | <b>\$ 84.7</b>  | <b>\$ 84.3</b>  | <b>\$ 111.9</b> |

# Adjusted EPS<sup>(5)</sup> - Q3 2021

For the Three Months Ended September 30, 2021

|  | Adjustments    |                           |   |  |                |
|--|----------------|---------------------------|---|--|----------------|
|  | As<br>Reported | Income Tax<br>Adjustments | Costs<br>Associated with<br>the Strategic<br>Alternatives<br>Review | Change in<br>Fair Market<br>Value of<br>Equity<br>Securities | As<br>Adjusted |
|  |                |                           |   |  |                |
| 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 impairment 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          |                           |   |  |                |

\* Adjusted EPS may not sum across due to rounding.  
Refer to pages 48-49 for end notes.

# Adjusted EPS<sup>(5)</sup> - Q3 2020

|  | For the Three Months Ended September 30, 2020 |                        |  |             |
|--|---|------------------------|--|-------------|
|  | Adjustments                                   |                        |  |             |
|  | 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 impairment 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  |                        |  |             |

# Adjusted EPS<sup>(5)</sup> - YTD 2021

For the Nine Months Ended September 30, 2021

|  | Adjustments                             |                              |                        |   |  |  |             |  |
|--|---|------------------------------|------------------------|---|--|--|-------------|--|
|  | As Reported                             | Loss on Early Extng. of Debt | Income Tax Adjustments | Costs Associated with the Strategic Alternatives Review | Costs Associated with the Frontier Acquisition | Change in Fair Market Value of Equity Securities | As Adjusted |  |
|  | (In Millions, Except Per Share Amounts) |                              |                        |   |  |  |             |  |
| Adjusted EBITDA  | \$ 775.3                                | \$ —                         | \$ —                   | \$ —  | \$ —   | \$ —   | \$ 775.3    |  |
| Depreciation and amortization                                      | (190.8)                                 | —                            | —                      | —   | —  | —  | (190.8)     |  |
| Loss on early extinguishment of debt <sup>(1)</sup>                | (1.0)                                   | 1.0                          | —                      | —   | —  | —  | —           |  |
| Interest expense and amortization of debt discounts and fees       | (124.5)                                 | —                            | —                      | —   | —  | —  | (124.5)     |  |
| Stock-based compensation   | (21.7)                                  | —                            | —                      | —   | —  | —  | (21.7)      |  |
| Gain on disposal or impairment of assets                           | 2.4                                     | —                            | —                      | —   | —  | —  | 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                                     | —                            | —                      | —   | —  | (0.3)  | —           |  |
| Income from continuing operations before income tax expense        | 429.1                                   | 1.0                          | —                      | 9.6   | 1.3  | (0.3)  | 440.7       |  |
| Provision for income tax expense                                   | (108.1)                                 | (0.3)                        | (3.6)                  | (2.5)   | (0.3)  | 0.1  | (114.7)     |  |
| Income from continuing operations attributable to Encompass Health | \$ 321.0                                | \$ 0.7                       | \$ (3.6)               | \$ 7.1  | \$ 1.0   | \$ (0.2)   | \$ 326.0    |  |
| Diluted earnings per share from continuing operations*             | \$ 3.20                                 | \$ 0.01                      | \$ (0.04)              | \$ 0.07   | \$ 0.01  | \$ —   | \$ 3.26     |  |
| Diluted shares used in calculation                                 | 100.1                                   |                              |                        |   |  |  |             |  |

# Adjusted EPS<sup>(5)</sup> - YTD 2020

For the Nine Months Ended September 30, 2020

|  | Adjustments                             |  |                        |  |  |                                |             |  |
|--|---|--|------------------------|--|--|--------------------------------|-------------|--|
|  | 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 | As Adjusted |  |
|  | (In Millions, Except Per Share Amounts) |  |                        |  |  |                                |             |  |
| Adjusted EBITDA  | \$ 620.4                                | \$ —                                       | \$ —                   | \$ —   | \$ —   | \$ —                           | \$ 620.4    |  |
| Depreciation and amortization                                      | (180.7)                                 | —  | —                      | —  | —  | —                              | (180.7)     |  |
| Government, class action, and related settlements <sup>(3)</sup>   | (2.8)                                   | 2.8  | —                      | —  | —  | —                              | —           |  |
| Interest expense and amortization of debt discounts and fees       | (138.0)                                 | —  | —                      | —  | —  | —                              | (138.0)     |  |
| Stock-based compensation   | (25.3)                                  | —  | —                      | —  | —  | —                              | (25.3)      |  |
| Loss on disposal or impairments of assets                          | (10.6)                                  | —  | —                      | —  | —  | —                              | (10.6)      |  |
| Change in fair market value of equity securities                   | 0.3                                     | —  | —                      | (0.3)  | —  | —                              | —           |  |
| Gain on consolidation of Treasure Coast <sup>(2)</sup>             | 2.2                                     | —  | —                      | —  | (2.2)  | —                              | —           |  |
| Payroll taxes on SARs exercise <sup>(4)</sup>                      | (1.5)                                   | —  | —                      | —  | —  | 1.5                            | —           |  |
| Income from continuing operations before income tax expense        | 264.0                                   | 2.8  | —                      | (0.3)  | (2.2)  | 1.5                            | 265.8       |  |
| Provision for income tax expense                                   | (65.8)                                  | (0.7)                                      | (4.6)                  | 0.1  | 0.6  | (0.4)                          | (70.8)      |  |
| Income from continuing operations attributable to Encompass Health | \$ 198.2                                | \$ 2.1                                     | \$ (4.6)               | \$ (0.2)   | \$ (1.6)   | \$ 1.1                         | \$ 195.0    |  |
| Diluted earnings per share from continuing operations*             | \$ 1.99                                 | \$ 0.02                                    | \$ (0.05)              | \$ —   | \$ (0.02)  | \$ 0.01                        | \$ 1.96     |  |
| Diluted shares used in calculation                                 | 99.7                                    |  |                        |  |  |                                |             |  |

# End notes

- (1) In the second quarter of 2021, the Company redeemed a total of \$200 million of 5.125% Senior Notes due 2023 (\$100 million in April and \$100 million in June). The redemptions were completed at 100% of par using cash on hand and drawings under the Company's revolving credit facility. As a result of the redemptions, the Company recorded a \$1.0 million loss on early extinguishment of debt in the second quarter of 2021.
- (2) As a result of an amendment to the joint venture agreement related to our home health location in Treasure Coast, Florida, the accounting for this agency changed from the equity method of accounting to a consolidated entity effective January 1, 2020. We accounted for this change in control as a business combination and consolidated this entity using the acquisition method. As a result of our consolidation of this agency and the remeasurement of our previously held equity interest at fair value, we recorded a \$2.2 million gain as part of other income in the first quarter of 2020.
- (3) As previously disclosed, from 2013 to 2019, the Company cooperated with an investigation of alleged improper or fraudulent Medicare and Medicaid claims. The investigation, under the direction of DOJ, produced no evidence of fraud, falsity or wrongdoing. However, based on discussions with DOJ, and having considered the burdens and distractions associated with continuing the investigation and the likely costs of future litigation, the Company estimated a settlement value of \$48 million and accrued a loss contingency in that amount in the fourth quarter of 2018. Following further discussions, the Company entered into an agreement effective as of June 21, 2019 to settle all claims related to the DOJ investigation, together with related *qui tam* or "whistleblower" lawsuits, for cash payments totaling \$48 million.
- (4) In connection with the 2014 acquisition of Encompass Home Health and Hospice, the Company granted stock appreciation rights ("SARs") based on the fair value of the common stock of Home Health Holdings to certain members of that management team. Half of the SARs vested on Jan. 1, 2019, and the other half vested on Jan. 1, 2020. The fair value of the SARs was determined using the product of Home Health Holdings' EBITDA for the trailing 12-month period and a median market price multiple based on a basket of public home health companies and recent transactions, less the current balance of any intracompany note to the parent. In Q1 2019 and Q3 2019, holders exercised vested SARs for cash proceeds of approximately \$13 million and approximately \$55 million, respectively. In Q1 2020, holders exercised the remaining SARs for cash proceeds of approximately \$101 million.
- (5) The Company is providing adjusted earnings per share from continuing operations attributable to Encompass Health ("adjusted earnings per share"), which is a non-GAAP measure. The Company believes the presentation of adjusted earnings per share provides useful additional information to investors because it provides better comparability of ongoing operating performance to prior periods given that it excludes the impact of government, class action, and related settlements, professional fees - accounting, tax, and legal, mark-to-market adjustments for stock appreciation rights, gains or losses related to hedging and equity instruments, loss on early extinguishment of debt, adjustments to its income tax provision (such as valuation allowance adjustments, settlements of income tax claims and windfall tax benefits), items related to corporate and facility restructurings, and certain other items deemed to be non-indicative of ongoing operating performance. It is reasonable to expect that one or more of these excluded items will occur in future periods, but the amounts recognized can vary significantly from period to period and may not directly relate to the Company's ongoing operating performance. Accordingly, they can complicate comparisons of the Company's results of operations across periods and comparisons of the Company's results to those of other healthcare companies. Adjusted earnings per share should not be considered as a measure of financial performance under generally accepted accounting principles in the United States as the items excluded from it are significant components in understanding and assessing financial performance. Because adjusted earnings per share is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, it may not be comparable as presented to other similarly titled measures of other companies.\*
- (6) Definition of adjusted free cash flow, which is a non-GAAP measure, is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, dividends paid on preferred stock, distributions to noncontrolling interests, and certain other items deemed to be non-indicative of ongoing operating performance. Common stock dividends are not included in the calculation of adjusted free cash flow. Because this measure is not determined in accordance with GAAP and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies.
- (7) Adjusted EBITDA is a non-GAAP financial measure. The Company's leverage ratio (total consolidated debt to Adjusted EBITDA for the trailing four quarters) is, likewise, a non-GAAP measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure and the leverage ratio as a liquidity measure on an ongoing basis. These measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance or liquidity. In evaluating Adjusted EBITDA, the reader should be aware that in the future the Company may incur expenses similar to the adjustments set forth.
- (8) On Oct. 28, 2013, the Company announced its board of directors authorized the repurchase of up to \$200 million of its common stock. On Feb. 14, 2014, the Company's board approved an increase in this common stock repurchase authorization from \$200 million to \$250 million. As of June 30, 2018, the remaining repurchase authorization was approximately \$58 million. On July 24, 2018, the Company's board approved resetting the aggregate common stock repurchase authorization to \$250 million. As of September 30, 2021, the remaining repurchase authorization was approximately \$198 million.



# End notes, continued

- (9) As a result of negotiations with our partner to amend the joint venture agreement related to Yuma Rehabilitation Hospital, the accounting for this hospital changed from the equity method of accounting to a consolidated entity effective July 1, 2019. We accounted for this change in control as a business combination and consolidated this entity using the acquisition method. As a result of our consolidation of this hospital and the remeasurement of our previously held equity interest at fair value, we recorded a \$19.2 million gain as part of other income in the third quarter of 2019.
- (10) Data provided by Uniform Data System for Medical Rehabilitation, a division of UB Foundation Activities, Inc., a data gathering and analysis organization for the rehabilitation industry; represents ~80% of industry, including Encompass Health inpatient rehabilitation sites
- (11) Represents discharges from 144 consolidated hospitals in Q3 2021; 140 consolidated hospitals in Q2 2021; 138 consolidated hospitals in Q1 2021; 137 consolidated hospitals in Q4 2020; 136 consolidated hospitals in Q3 and Q2 2020; and 134 consolidated hospitals in Q1 2020.
- (12) Full-time equivalents included in the table represent Encompass Health employees who participate in or support the operations of our hospitals and include an estimate of full-time equivalents related to contract labor.
- (13) Employees per occupied bed, or “EPOB,” is calculated by dividing the number of full-time equivalents, including an estimate of full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period. The number of occupied beds is determined by multiplying the number of licensed beds by the Company’s occupancy percentage.
- (14) Represents home health admissions from 248 consolidated locations in Q3 2021 and Q2 2021; 240 consolidated locations in Q1 2021 and Q4 2020; 241 consolidated locations in Q3 2020; 244 consolidated locations in Q2 and Q1 2020.
- (15) Represents hospice admissions from 95 locations in Q3 2021; 94 locations in Q2 2021; 82 locations in Q1 2021 and Q4 2020; 83 locations in Q3, Q2 and Q1 2020.
- (16) In October 2020, the Company issued \$400 million of 4.625% Senior Notes due 2031. The proceeds plus approximately \$300 million of cash on hand were used to fully redeem \$700 million of 5.75% Senior Notes due 2024 at par on November 1, 2020. As a result of this redemption, the Company recorded an approximate \$2 million loss on early extinguishment of debt in the fourth quarter of 2020.