



2024 Third Quarter Earnings Call

October 29, 2024
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 business outlook, guidance and growth targets, labor availability and costs, legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, such as the de novo pipeline, costs, growth and timelines, operational initiatives, dividend strategies, leverage, repurchases of securities, outstanding shares of common stock, effective tax rates, financial performance, financial assumptions and considerations, balance sheet and cash flow plans, market barriers to entry, and addressable market size. 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 28, 2024 (the "Q3 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2023, the Forms 10-Q for the quarters ended March 31, 2024 and June 30, 2024, the Form 10-Q for the quarter ended September 30, 2024, 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 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

Q3 2024 Financial summary	4
Key takeaways	5
Revenue	6
Adjusted EBITDA	7
Earnings per share	8-9
Adjusted free cash flow	10
2024 Guidance and guidance considerations	11-12
Adjusted free cash flow assumptions	13
Uses of free cash flow	14
Appendix	
Map of locations	16
Growth targets, fundamentals and value drivers	17
Development activity	18
Debt maturity profile and schedule	19-20
New-store/same-store growth	21
Payment sources	22
Operational metrics	23
Share information	24
Reconciliations to GAAP	25-32
End notes	33-34

Q3 2024 Financial summary

(\$ in millions, except per share data)	Q3			9 Months		
	2024	2023	% Δ	2024	2023	% Δ
Encompass Health						
Net operating revenue	\$1,351.0	\$1,206.9	11.9 %	\$3,968.2	\$3,554.4	11.6 %
Adjusted EBITDA	\$ 269.3	\$ 237.5	13.4 %	\$ 814.1	\$ 716.1	13.7 %
Adjusted EPS	\$ 1.03	\$ 0.86	19.8 %	\$ 3.26	\$ 2.69	21.2 %
Adjusted free cash flow	\$ 189.7	\$ 149.3	27.1 %	\$ 499.8	\$ 432.2	15.6 %

Q3 2024 Key takeaways

▶ Revenue

- Net operating revenue growth of 11.9%
 - ✓ Discharge growth of 8.8% (6.8% same store)

▶ Adjusted EBITDA

- Adjusted EBITDA growth of 13.4%

▶ Balance sheet

- Net leverage of 2.3x
- Redeemed \$150 million of 5.75% Senior Notes due 2025 in August 2024

▶ Capacity additions

- Opened 2 de novo hospitals with a total of 89 beds
- Added 10 beds to existing hospitals

▶ Shareholder distributions

- Repurchased 79,790 shares of common stock for \$6.8 million
- Paid a \$0.15 per share cash dividend in July 2024
- Declared a \$0.17 per share cash dividend in July 2024 (paid in October 2024)

▶ Events subsequent

- Issued notice of redemption for \$100 million of 5.75% Senior Notes due 2025 with a settlement date of November 21, 2024
- Declared a \$0.17 per share cash dividend in October 2024 (to be paid in January 2025)

Revenue

(\$ in millions)	Q3 2024	Q3 2023	% Change*
Net operating revenue:			
Inpatient	\$ 1,316.2	\$ 1,180.5	11.5%
Outpatient and other	34.8	26.4	31.8%
Total revenue	\$ 1,351.0	\$ 1,206.9	11.9%

(Actual Amounts)

Discharges	62,715	57,665	8.8%
New-store discharge growth			2.0%
Same-store discharge growth			6.8%
Net patient revenue per discharge	\$ 20,987	\$ 20,472	2.5%
Revenue reserves related to bad debt as a percent of revenue	1.9 %	2.2 %	(30) bps

- ▶ Outpatient and other revenue includes a \$7.9 million increase in provider tax revenues.
- ▶ Revenue reserves related to bad debt as a percent of revenue decreased 30 basis points due to strong collections of previously reviewed claims and lower claims review audit activity.

Adjusted EBITDA⁽¹⁾

(\$ in millions)	Q3 2024	% of Revenue	Q3 2023	% of Revenue
Net operating revenue	\$ 1,351.0		\$ 1,206.9	
Operating expenses:				
Salaries and benefits	(732.1)	54.2 %	(658.6)	54.6 %
Other operating expenses ^(a)	(201.8)	14.9 %	(181.5)	15.0 %
Supplies	(60.6)	4.5 %	(53.9)	4.5 %
Occupancy costs	(14.4)	1.1 %	(14.2)	1.2 %
Hospital operating expenses	(276.8)	20.5 %	(249.6)	20.7 %
General and administrative expenses ^(b)	(39.1)	2.9 %	(37.1)	3.1 %
Other income ^(c)	4.5		3.0	
Equity in nonconsolidated affiliates	0.7		1.0	
Noncontrolling interests in continuing operations	(38.9)		(28.1)	
Adjusted EBITDA	\$ 269.3		\$ 237.5	
Percent change	13.4 %			

▶ Adjusted EBITDA includes a \$3.4 million increase in net provider tax revenues.

(\$ in millions)	Q3 2024	Q3 2023
In arriving at Adjusted EBITDA, the following were excluded:		
(a) Loss on disposal or impairment of assets	\$ 0.6	\$ 2.2
(b) Stock-based compensation and the change in fair market value of the non-qualified deferred comp plan	\$ 14.9	\$ 12.7
(c) Change in fair market value of equity securities and the non-qualified deferred comp plan	\$ (4.8)	\$ 2.5

Earnings per share - as reported

(\$ in millions, except per share data)	Q3		9 Months	
	2024	2023	2024	2023
Adjusted EBITDA	\$ 269.3	\$ 237.5	\$ 814.1	\$ 716.1
Depreciation and amortization ⁽²⁾	(78.4)	(67.3)	(221.6)	(203.8)
Interest expense and amortization of debt discounts and fees	(34.9)	(35.9)	(104.4)	(108.6)
Stock-based compensation	(12.9)	(13.7)	(35.8)	(37.2)
Loss on disposal or impairment of assets ⁽³⁾	(0.6)	(2.2)	(11.3)	(3.7)
	<u>142.5</u>	<u>118.4</u>	<u>441.0</u>	<u>362.8</u>
Items not indicative of ongoing operating performance:				
Loss on early extinguishment of debt ⁽⁴⁾	(0.4)	—	(0.4)	—
State regulatory change impact on noncontrolling interests ⁽²⁾	—	—	—	2.2
Change in fair market value of equity securities	2.8	(1.5)	2.7	(2.1)
Asset impairment impact on noncontrolling interests ⁽³⁾	—	—	7.3	—
Pre-tax income	<u>144.9</u>	<u>116.9</u>	<u>450.6</u>	<u>362.9</u>
Income tax expense	(36.0)	(30.3)	(112.6)	(95.0)
Income from continuing operations*	<u>\$ 108.9</u>	<u>\$ 86.6</u>	<u>\$ 338.0</u>	<u>\$ 267.9</u>
Diluted shares (see page 24)	102.1	101.4	102.2	101.1
Diluted earnings per share*	<u>\$ 1.07</u>	<u>\$ 0.85</u>	<u>\$ 3.31</u>	<u>\$ 2.65</u>

* Earnings per share are determined using income from continuing operations attributable to Encompass Health.

Reconciliations to GAAP provided on pages 25-32. Refer to pages 33-34 for end notes.

Adjusted earnings per share⁽⁵⁾

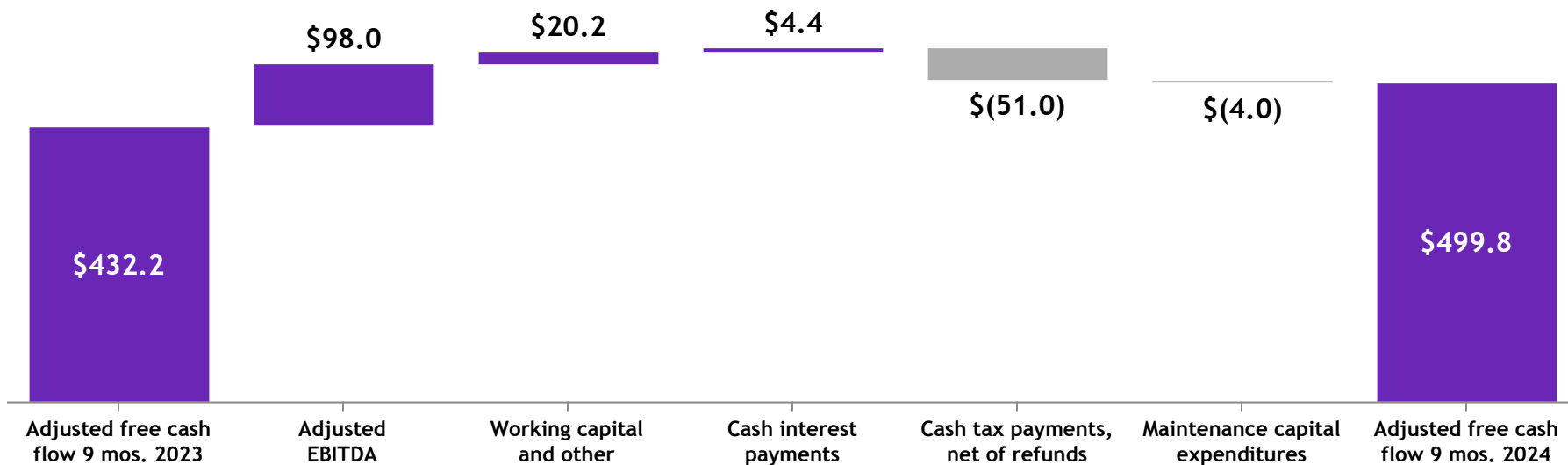
	Q3		9 Months	
	2024	2023	2024	2023
Diluted earnings per share, as reported	\$ 1.07	\$ 0.85	\$ 3.31	\$ 2.65
Adjustments, net of tax:				
Asset impairment impact ⁽³⁾	—	—	0.02	—
Income tax adjustments	(0.02)	—	(0.05)	—
State regulatory change impact ⁽²⁾	—	—	—	0.03
Change in fair market value of equity securities	(0.02)	0.01	(0.02)	0.02
Adjusted earnings per share*	\$ 1.03	\$ 0.86	\$ 3.26	\$ 2.69

▶ Adjusted earnings per share removes from GAAP earnings per share the impact of items the Company believes are not indicative of its ongoing operating performance.

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 28-32.

2024 YTD Adjusted free cash flow⁽⁶⁾

(\$ in millions)



2024 Guidance - Updated as of October 28, 2024

	Previous Guidance	Updated Guidance
(\$ in millions, except per share data)		
Net Operating Revenue	\$5,275 to \$5,350	\$5,325 to \$5,375
Adjusted EBITDA ⁽¹⁾	\$1,040 to \$1,075	\$1,070 to \$1,090
Adjusted earnings per share from continuing operations attributable to Encompass Health ⁽⁵⁾	\$3.97 to \$4.22	\$4.19 to \$4.33

2024 Guidance considerations

▶ Pricing

- Medicare pricing increase of 3.3% for Q4
- Managed Care pricing increase of 2% to 3% for Q4
- Bad debt reserves of 2.0% to 2.5% of revenue for Q4

▶ Labor

- SWB per FTE (including contract labor, sign-on and shift bonuses) increase of 4.0% to 4.5%

▶ Capacity additions

- 6 de novo hospitals with 280 beds and 1 40-bed satellite hospital (satellite hospital beds accounted for in bed additions)
 - ✓ Net pre-opening and ramp-up costs of \$17 million to \$18 million (inclusive of costs associated with 2025 openings incurred in 2024)
- Approximately 110 beds to existing hospitals

▶ Corporate

- Adjusted EBITDA impact of Oracle Fusion implementation and addition of Augusta, Georgia hospital to Piedmont joint venture
 - ✓ Q3 \$2.9 million; Q4 \$3.0 million to \$3.5 million
- Tax rate of approximately 26%
- Diluted share count of approximately 102 million shares

Adjusted free cash flow⁽⁶⁾ assumptions

Certain cash flow items (\$ in millions)	9 Months 2024 Actuals	2023 Actuals	2024 Assumptions
Cash interest payments (net of amortization of debt discounts and fees)	\$97.1	\$134.0	~ \$130
Cash payments for income taxes, net of refunds	\$124.6	\$106.6	\$155 to \$165
Working capital and other	\$(41.2)	\$(12.1)	\$0 to \$20
Maintenance CAPEX	\$133.8	\$216.9	\$185 to \$195
Adjusted free cash flow	\$499.8	\$525.7	\$560 to \$620

Increased cash taxes due to higher net income and phase-out of bonus depreciation; 2023 cash taxes benefited from \$11 million overpayment in 2022 applied to 2023

Increased working capital due to growth in accounts receivable and the timing of payroll and payroll tax liabilities

Uses of free cash flow

(\$ in millions)

		9 Months 2024 Actuals	2023 Actuals	2024 Assumptions
Growth in core business	IRF bed expansions	\$60.7	\$41.8	\$95 to \$105
	New IRFs			
	- De novos	246.2	321.6	315 to 325
	- Replacement IRFs and other ⁽⁷⁾	3.0	24.2	TBD
		<u>\$309.9</u>	<u>\$387.6</u>	<u>\$410 to \$430</u>

Debt reduction	Debt redemptions (borrowings), net	\$135.1	\$54.4	TBD
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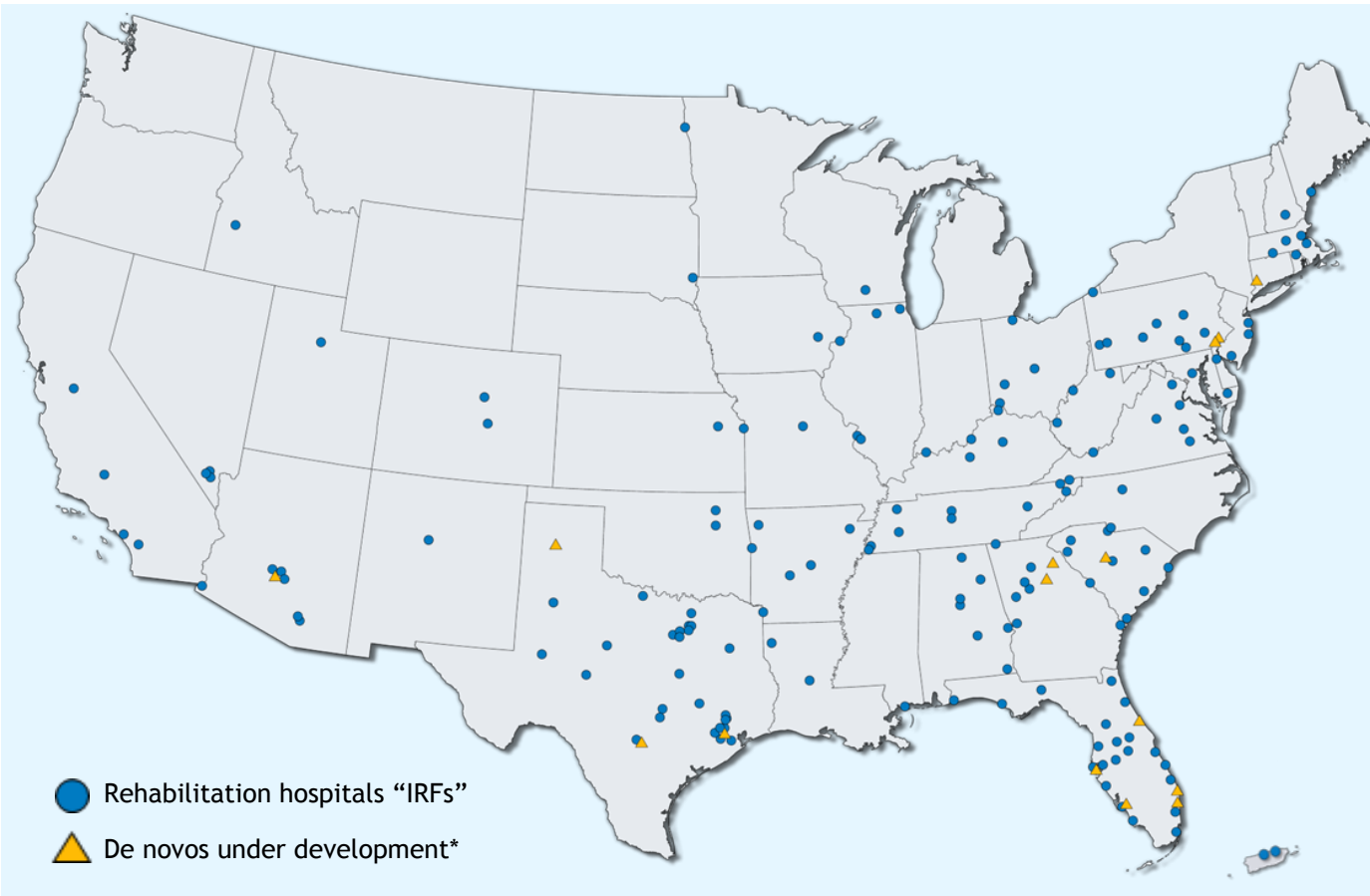
- Issued notice of redemption for \$100 million of 5.75% Senior Notes due 2025 with a settlement date of November 21, 2024

Shareholder distributions	Cash dividends on common stock	\$45.8	\$60.4	~ \$63
	Common stock repurchases	\$23.6	\$—	TBD

- ~\$498 million remaining under current authorization as of September 30, 2024⁽⁸⁾

Appendix

Encompass Health | Largest owner and operator of rehabilitation hospitals



Company profile as of 09/30/24

165

Rehabilitation hospitals "IRFs"

65 are joint ventures

16

IRFs under development**

38

States and Puerto Rico

25%

of Licensed beds †

34%

of Medicare patients served †

Key statistics trailing four quarters

~243,900

patient discharges

~\$5.2

Billion in revenue



Fortune Magazine

World's Most Admired Companies

~40,200
employees

BECKER'S HEALTHCARE

Top Places to Work in Healthcare

Growth targets, fundamentals and value drivers

▶ 2023 - 2027 Growth targets

- 6 to 10 de novos per year
- 80 to 120 bed additions per year
- 6% to 8% discharge CAGR

▶ Large, under penetrated, and growing inpatient rehabilitation market

- Large addressable market indicated by low conversion rate of presumptively eligible inpatient rehabilitation patients
- Favorable demographics driving increased demand for rehabilitation services
- Unparalleled clinical expertise for treating inpatient rehabilitation conditions with consistent delivery of high-quality, cost-effective care
- De novo and bed addition strategy delivers attractive financial returns
- Cash flow and capital availability to fund capacity additions
- Fragmented sector presents unit acquisition and joint venture opportunities
- Significant barriers to entry and economies of scale
- Resilient business model with focus on non-discretionary conditions occurring predominantly in an aging population

▶ Shareholder distributions

- Cash dividend (currently \$0.17 per share per quarter)
- Approximately \$498 million remaining under current stock repurchase authorization as of September 30, 2024⁽⁸⁾

Development activity

16

IRF development projects announced and underway**

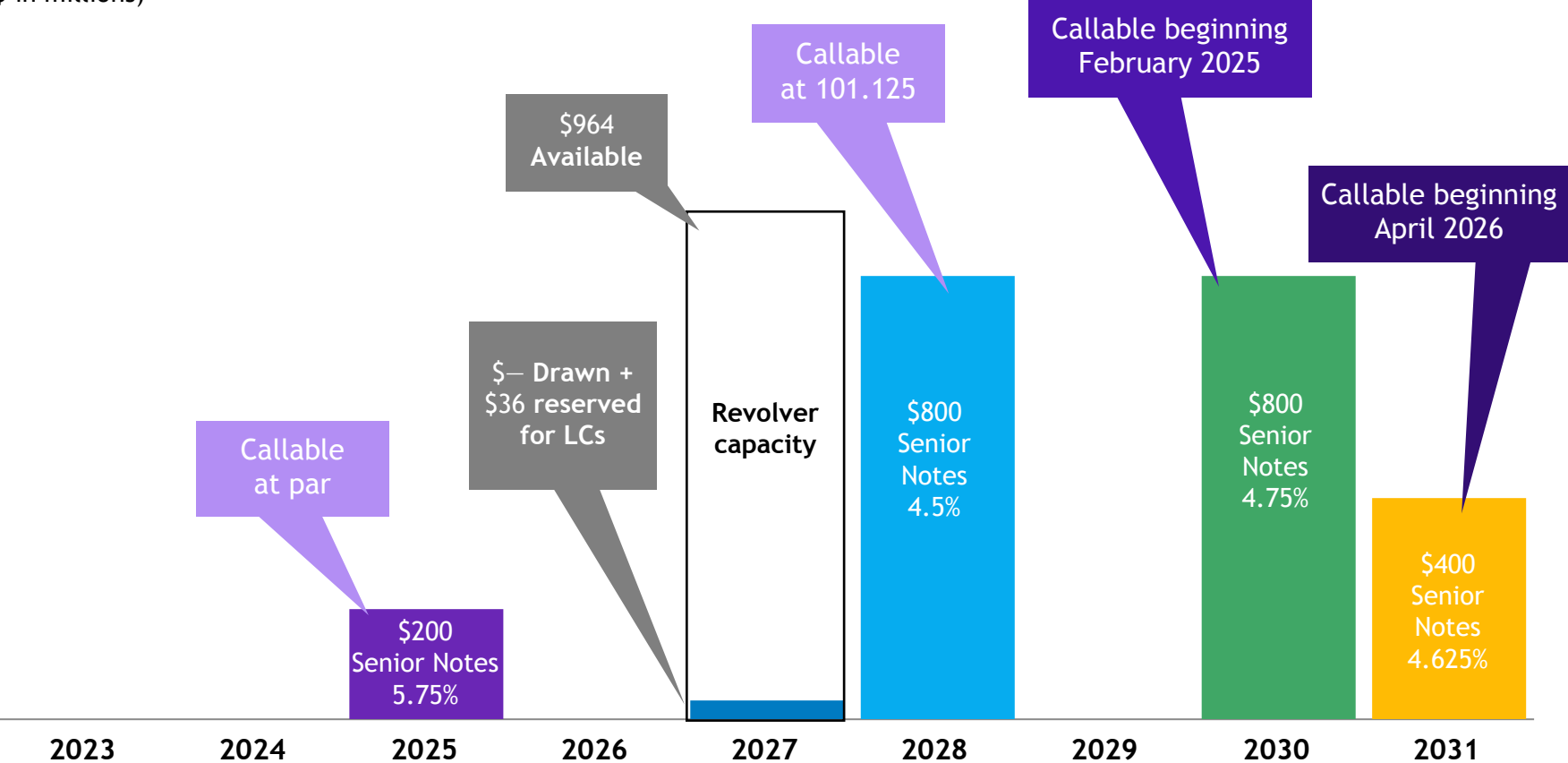
Inpatient Rehabilitation Hospitals opened or under development					
	Joint venture	Expected open date	# of new beds		
			2024	2025	2026
De novos*					
Kissimmee, FL			50	—	—
Atlanta, GA	✓		40	—	—
Louisville, KY	✓		40	—	—
Johnston, RI			50	—	—
Fort Mill, SC			39	—	—
1 Houston, TX		4Q24	61	—	—
2 Athens, GA	✓	1Q25	—	40	—
3 Fort Myers, FL	✓	2Q25	—	60	—
4 Daytona Beach, FL		2Q25	—	50	—
5 Danbury, CT		3Q25	—	40	—
6 Lake Worth, FL		4Q25	—	50	—
7 St. Petersburg, FL		4Q25	—	50	—
8 Amarillo, TX		4Q25	—	50	—
9 Irmo, SC			—	—	50
10 Concordville, PA			—	—	50
11 Loganville, GA	✓		—	—	40
12 Norristown, PA			—	—	50
13 Avondale, AZ			—	—	60
14 San Antonio, TX			—	—	50
15 Palm Beach Gardens, FL			—	—	50
Remote and satellite^{(9)*}					
Ballwin, MO (Town & Country)	✓		40	—	—
16 Wildwood, FL (in The Villages, FL)		3Q25	—	50	—
Other bed additions			~110	~80	~80
*All dates are tentative and subject to change			430	470	430

3Q 2024 Development activity highlights		
Opened de novos	# of beds	JV
• Johnston, RI	50	
• Fort Mill, SC	39	
Beds added to existing hospitals		
	10	

Debt maturity profile - face value

As of September 30, 2024*

(\$ in millions)



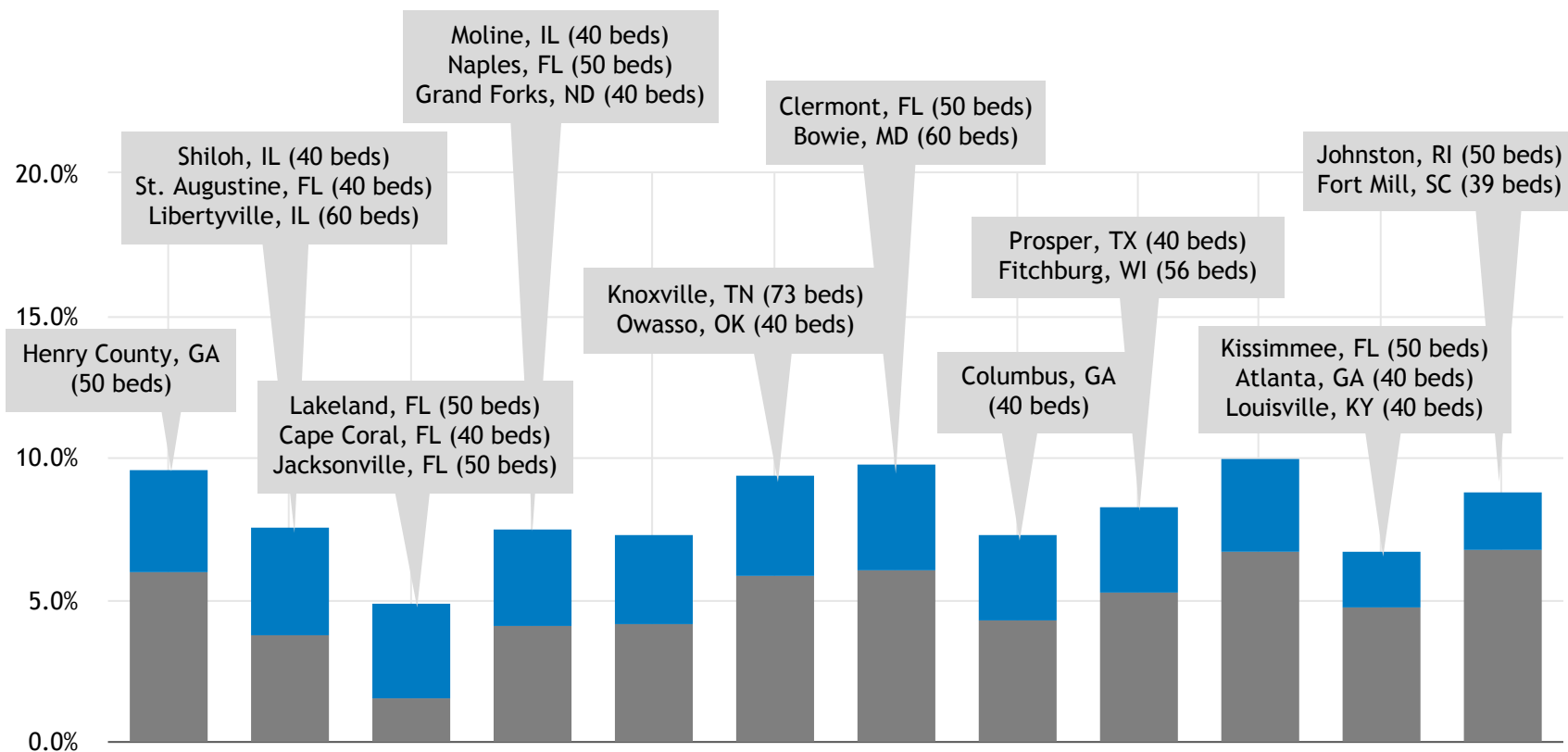
- ▶ Redeemed \$150 million of 5.75% Senior Notes due 2025 in August 2024⁽⁴⁾
- ▶ Issued notice of redemption for \$100 million of 5.75% Senior Notes due 2025 with a settlement date of November 21, 2024

Debt schedule

(\$ in millions)	September 30, 2024	December 31, 2023	Change in Debt vs. YE 2023
Advances under \$1 billion revolving credit facility	\$ —	\$ —	\$ —
Bonds Payable:			
5.75% Senior Notes due 2025	199.5	348.5	(149.0)
4.50% Senior Notes due 2028	787.5	785.0	2.5
4.75% Senior Notes due 2030	783.5	781.5	2.0
4.625% Senior Notes due 2031	392.3	391.5	0.8
Other notes payable	90.7	66.0	24.7
Finance lease obligations	324.0	340.1	(16.1)
Long-term debt	\$ 2,577.5	\$ 2,712.6	\$ (135.1)
Debt to Adjusted EBITDA	2.4 x	2.8 x	
Leverage net of cash and cash equivalents	2.3 x	2.7 x	

The leverage ratio for 3Q24 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 2.8x
The leverage ratio for 2023 stated in terms of the most comparable GAAP measurement would be Debt to Net cash provided by operating activities: 3.2x

New-store/same-store growth



Discharges	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
New store	3.6%	3.8%	3.3%	3.4%	3.1%	3.5%	3.6%	3.0%	3.0%	3.3%	1.9%	2.0%
Same store ⁽¹⁰⁾	6.0%	3.8%	1.6%	4.1%	4.2%	5.9%	6.2%	4.3%	5.3%	6.7%	4.8%	6.8%
Total by quarter	9.6%	7.6%	4.9%	7.5%	7.3%	9.4%	9.8%	7.3%	8.3%	10.0%	6.7%	8.8%
Total by year	8.7%				6.8%				8.7%			
Same store by year ⁽¹⁰⁾	6.2%				3.1%				4.8%			

Payment sources (percent of revenues)

	Q3		9 Months		Full Year
	2024	2023	2024	2023	2023
Medicare	65.4 %	65.2 %	64.8 %	64.8 %	65.0 %
Medicare Advantage	16.4 %	15.9 %	16.9 %	16.2 %	16.2 %
Managed care	11.0 %	11.2 %	10.9 %	11.2 %	11.1 %
Medicaid	3.4 %	4.1 %	3.4 %	4.1 %	4.0 %
Other third-party payors	0.7 %	0.9 %	0.8 %	0.9 %	0.9 %
Workers' compensation	0.5 %	0.5 %	0.5 %	0.6 %	0.5 %
Patients	0.3 %	0.3 %	0.3 %	0.3 %	0.3 %
Other income	2.3 %	1.9 %	2.4 %	1.9 %	2.0 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Operational metrics

	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Full Year 2023
	(\$ in millions)							
Net patient revenue-inpatient	\$1,316.2	\$1,265.5	\$1,282.7	\$1,216.8	\$1,180.5	\$1,162.3	\$1,134.2	\$4,693.8
Net patient revenue-outpatient and other revenues	34.8	35.7	33.3	30.0	26.4	24.8	26.2	107.4
Net operating revenues	<u>\$1,351.0</u>	<u>\$1,301.2</u>	<u>\$1,316.0</u>	<u>\$1,246.8</u>	<u>\$1,206.9</u>	<u>\$1,187.1</u>	<u>\$1,160.4</u>	<u>\$4,801.2</u>
	(Actual Amounts)							
Discharges ⁽¹¹⁾	62,715	60,833	61,111	59,247	57,665	57,011	55,557	229,480
Net patient revenue per discharge	\$ 20,987	\$ 20,803	\$ 20,990	\$ 20,538	\$ 20,472	\$ 20,387	\$ 20,415	\$ 20,454
Outpatient visits	28,544	29,312	29,744	29,627	28,604	30,752	31,852	120,835
Average length of stay	12.2	12.2	12.3	12.3	12.4	12.3	12.5	12.4
Occupancy %	75.4 %	74.5 %	76.7 %	73.4 %	72.8 %	72.4 %	73.4 %	72.1 %
# of licensed beds	11,041	10,948	10,781	10,778	10,677	10,611	10,510	10,778
Occupied beds	8,325	8,156	8,269	7,911	7,773	7,682	7,714	7,771
Full-time equivalents (FTEs) - internal	27,938	27,297	27,209	26,713	26,112	25,453	25,122	25,850
Contract labor FTEs	430	450	434	378	388	476	459	425
Total FTEs ⁽¹²⁾	<u>28,368</u>	<u>27,747</u>	<u>27,643</u>	<u>27,091</u>	<u>26,500</u>	<u>25,929</u>	<u>25,581</u>	<u>26,275</u>
EPOB ⁽¹³⁾	3.41	3.40	3.34	3.42	3.41	3.38	3.32	3.38

Share information

	Weighted Average for the Period						
	Q3		9 Months		Full Year		
	2024	2023	2024	2023	2023	2022	2021
(in millions)							
Basic shares outstanding	99.9	99.5	99.9	99.5	99.5	99.2	99.0
Restricted stock awards, dilutive stock options, and restricted stock units	2.2	1.9	2.3	1.6	1.8	1.2	1.2
Diluted shares outstanding	102.1	101.4	102.2	101.1	101.3	100.4	100.2

	End of Period						
	Q3		9 Months		Full Year		
	2024	2023	2024	2023	2023	2022	2021
(in millions)							
Basic shares outstanding	100.8	100.2	100.8	100.2	100.3	99.8	99.5

Net cash provided by operating activities reconciled to Adjusted EBITDA⁽¹⁾

(\$ in millions)	Q3		9 Months		Full Year
	2024	2023	2024	2023	2023
Net cash provided by operating activities	\$ 267.8	\$ 215.2	\$ 724.0	\$ 649.8	\$ 850.8
Interest expense and amortization of debt discounts and fees	34.9	35.9	104.4	108.6	143.5
Gain (loss) on sale of investments, excluding impairments	4.6	(2.7)	5.8	(0.9)	4.6
Equity in net income of nonconsolidated affiliates	0.7	1.0	2.8	2.3	3.2
Net income attributable to noncontrolling interests in continuing operations	(38.9)	(28.1)	(97.6)	(79.5)	(111.0)
Amortization of debt-related items	(2.4)	(2.4)	(7.3)	(7.1)	(9.5)
Distributions from nonconsolidated affiliates	(1.1)	(0.4)	(3.1)	(0.6)	(1.6)
Current portion of income tax expense	38.1	33.5	110.5	97.9	128.3
Change in assets and liabilities	(32.5)	(17.5)	(19.1)	(58.9)	(50.3)
Cash used in operating activities of discontinued operations	1.0	1.7	3.7	4.6	16.0
State regulatory change impact on noncontrolling interests ⁽²⁾	—	—	—	(2.2)	(2.2)
Asset impairment impact on noncontrolling interests ⁽³⁾	—	—	(7.3)	—	—
Change in fair market value of equity securities	(2.8)	1.5	(2.7)	2.1	(0.7)
Other	(0.1)	(0.2)	—	—	—
Adjusted EBITDA	<u>\$ 269.3</u>	<u>\$ 237.5</u>	<u>\$ 814.1</u>	<u>\$ 716.1</u>	<u>\$ 971.1</u>

Reconciliation of net income to Adjusted EBITDA⁽¹⁾

(\$ in millions)	Q3		9 Months		Full Year
	2024	2023	2024	2023	2023
Net income	\$ 147.1	\$ 113.4	\$ 432.4	\$ 343.9	\$ 463.0
Loss from discontinued operations, net of tax, attributable to Encompass Health	0.7	1.3	3.2	3.5	12.0
Net income attributable to noncontrolling interests included in continuing operations	(38.9)	(28.1)	(97.6)	(79.5)	(111.0)
Provision for income tax expense	36.0	30.3	112.6	95.0	132.2
Interest expense and amortization of debt discounts and fees	34.9	35.9	104.4	108.6	143.5
Depreciation and amortization ⁽²⁾	78.4	67.3	221.6	203.8	273.9
Loss on early extinguishment of debt ⁽⁴⁾	0.4	—	0.4	—	—
Loss on disposal or impairment of assets ⁽³⁾	0.6	2.2	11.3	3.7	9.8
Stock-based compensation	12.9	13.7	35.8	37.2	50.6
State regulatory change impact on noncontrolling interests ⁽²⁾	—	—	—	(2.2)	(2.2)
Change in fair market value of equity securities	(2.8)	1.5	(2.7)	2.1	(0.7)
Asset impairment impact on noncontrolling interests ⁽³⁾	—	—	(7.3)	—	—
Adjusted EBITDA	<u>\$ 269.3</u>	<u>\$ 237.5</u>	<u>\$ 814.1</u>	<u>\$ 716.1</u>	<u>\$ 971.1</u>

Reconciliation of net cash provided by operating activities to adjusted free cash flow⁽⁶⁾

(\$ in millions)	Q3		9 Months		Full Year
	2024	2023	2024	2023	2023
Net cash provided by operating activities	\$ 267.8	\$ 215.2	\$ 724.0	\$ 649.8	\$ 850.8
Impact of discontinued operations	1.0	1.7	3.7	4.6	16.0
Net cash provided by operating activities of continuing operations	268.8	216.9	727.7	654.4	866.8
Capital expenditures for maintenance	(46.2)	(35.3)	(133.8)	(129.8)	(216.9)
Distributions paid to noncontrolling interests of consolidated affiliates	(33.0)	(32.5)	(85.5)	(91.9)	(114.7)
Items not indicative of ongoing operating performance:					
Transaction costs and related liabilities	0.1	0.2	(8.6)	(0.5)	(9.5)
Adjusted free cash flow	\$ 189.7	\$ 149.3	\$ 499.8	\$ 432.2	\$ 525.7
Cash dividends on common stock	\$ 15.0	\$ 15.0	\$ 45.8	\$ 45.5	\$ 60.4

Adjusted EPS⁽⁵⁾ - Q3 2024

For the Three Months Ended September 30, 2024

	Adjustments				As Adjusted
	As Reported	Loss on Early Exting. of Debt	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	
	(\$ in millions, except per share amounts)				
Adjusted EBITDA	\$ 269.3	\$ —	\$ —	\$ —	\$ 269.3
Depreciation and amortization	(78.4)	—	—	—	(78.4)
Interest expense and amortization of debt discounts and fees	(34.9)	—	—	—	(34.9)
Stock-based compensation	(12.9)	—	—	—	(12.9)
Loss on disposal or impairment of assets	(0.6)	—	—	—	(0.6)
Loss on early extinguishment of debt ⁽⁴⁾	(0.4)	0.4	—	—	—
Change in fair market value of equity securities	2.8	—	—	(2.8)	—
Income from continuing operations before income tax expense	144.9	0.4	—	(2.8)	142.5
Provision for income tax expense	(36.0)	(0.1)	(2.1)	0.7	(37.5)
Income from continuing operations attributable to Encompass Health	<u>\$ 108.9</u>	<u>\$ 0.3</u>	<u>\$ (2.1)</u>	<u>\$ (2.1)</u>	<u>\$ 105.0</u>
Diluted earnings per share from continuing operations*	<u>\$ 1.07</u>	<u>\$ —</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ 1.03</u>
Diluted shares used in calculation	<u>102.1</u>				

Adjusted EPS⁽⁵⁾ - Q3 2023

For the Three Months Ended September 30, 2023

Adjustments

	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
(\$ in millions, except per share amounts)				
Adjusted EBITDA	\$ 237.5	\$ —	\$ —	\$ 237.5
Depreciation and amortization	(67.3)	—	—	(67.3)
Interest expense and amortization of debt discounts and fees	(35.9)	—	—	(35.9)
Stock-based compensation	(13.7)	—	—	(13.7)
Loss on disposal or impairment of assets	(2.2)	—	—	(2.2)
Change in fair market value of equity securities	(1.5)	—	1.5	—
Income from continuing operations before income tax expense	116.9	—	1.5	118.4
Provision for income tax expense	(30.3)	(0.5)	(0.3)	(31.1)
Income from continuing operations attributable to Encompass Health	\$ 86.6	\$ (0.5)	\$ 1.2	\$ 87.3
Diluted earnings per share from continuing operations*	\$ 0.85	\$ —	\$ 0.01	\$ 0.86
Diluted shares used in calculation	101.4			

Adjusted EPS⁽⁵⁾ - YTD Q3 2024

	For the Nine Months Ended September 30, 2024					
	Adjustments					
	As Reported	Asset Impairment Impact	Loss on Early Exting. of Debt	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(\$ in millions, except per share amounts)					
Adjusted EBITDA	\$ 814.1	\$ —	\$ —	\$ —	\$ —	\$ 814.1
Depreciation and amortization	(221.6)	—	—	—	—	(221.6)
Interest expense and amortization of debt discounts and fees	(104.4)	—	—	—	—	(104.4)
Stock-based compensation	(35.8)	—	—	—	—	(35.8)
Loss on disposal or impairment of assets ⁽³⁾	(11.3)	10.4	—	—	—	(0.9)
Loss on early extinguishment of debt ⁽⁴⁾	(0.4)	—	0.4	—	—	—
Change in fair market value of equity securities	2.7	—	—	—	(2.7)	—
Asset impairment impact on noncontrolling interests ⁽³⁾	7.3	(7.3)	—	—	—	—
Income from continuing operations before income tax expense	450.6	3.1	0.4	—	(2.7)	451.4
Provision for income tax expense	(112.6)	(1.3)	(0.1)	(5.1)	0.7	(118.4)
Income from continuing operations attributable to Encompass Health	<u>\$ 338.0</u>	<u>\$ 1.8</u>	<u>\$ 0.3</u>	<u>\$ (5.1)</u>	<u>\$ (2.0)</u>	<u>\$ 333.0</u>
Diluted earnings per share from continuing operations*	<u>\$ 3.31</u>	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ 3.26</u>
Diluted shares used in calculation	<u>102.2</u>					

Adjusted EPS⁽⁵⁾ - YTD Q3 2023

For the Nine Months Ended September 30, 2023

	Adjustments				As Adjusted
	As Reported	State Regulatory Change Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	
	(\$ in millions, except per share amounts)				
Adjusted EBITDA	\$ 716.1	\$ —	\$ —	\$ —	\$ 716.1
Depreciation and amortization ⁽²⁾	(203.8)	6.1	—	—	(197.7)
Interest expense and amortization of debt discounts and fees	(108.6)	—	—	—	(108.6)
Stock-based compensation	(37.2)	—	—	—	(37.2)
Loss on disposal or impairment of assets	(3.7)	—	—	—	(3.7)
State regulatory change impact on noncontrolling interests ⁽²⁾	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	(2.1)	—	—	2.1	—
Income from continuing operations before income tax expense	362.9	3.9	—	2.1	368.9
Provision for income tax expense	(95.0)	(1.0)	(0.1)	(0.5)	(96.6)
Income from continuing operations attributable to Encompass Health	\$ 267.9	\$ 2.9	\$ (0.1)	\$ 1.6	\$ 272.3
Diluted earnings per share from continuing operations*	\$ 2.65	\$ 0.03	\$ —	\$ 0.02	\$ 2.69
Diluted shares used in calculation	101.1				

Adjusted EPS⁽⁵⁾ - 2023

For the Year Ended December 31, 2023

Adjustments

	As Reported	State Regulatory Change Impact	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(\$ in millions, except per share amounts)				
Adjusted EBITDA	\$ 971.1	\$ —	\$ —	\$ —	\$ 971.1
Depreciation and amortization ⁽²⁾	(273.9)	6.1	—	—	(267.8)
Interest expense and amortization of debt discounts and fees	(143.5)	—	—	—	(143.5)
Stock-based compensation	(50.6)	—	—	—	(50.6)
Loss on disposal or impairment of assets	(9.8)	—	—	—	(9.8)
State regulatory change impact on noncontrolling interests ⁽²⁾	2.2	(2.2)	—	—	—
Change in fair market value of equity securities	0.7	—	—	(0.7)	—
Income from continuing operations before income tax expense	496.2	3.9	—	(0.7)	499.4
Provision for income tax expense	(132.2)	(1.0)	2.8	0.2	(130.2)
Income from continuing operations attributable to Encompass Health	\$ 364.0	\$ 2.9	\$ 2.8	\$ (0.5)	\$ 369.2
Diluted earnings per share from continuing operations*	\$ 3.59	\$ 0.03	\$ 0.03	\$ —	\$ 3.64
Diluted shares used in calculation	101.3				

End notes

- (1) 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.
- (2) In May of 2023, the governor of South Carolina signed into law S.164, which repealed the requirement of certain healthcare providers to obtain and/or maintain a certificate of need ("CON"). As a result of this repeal, in Q2 2023 we accelerated amortization of approximately \$6 million in remaining carrying value of our South Carolina CON assets, increasing depreciation and amortization expense by approximately \$6 million and reducing noncontrolling interest in continuing operations by approximately \$2 million (related to our joint venture partner's share of income at one impacted location). The impact of these adjustments have been excluded from the calculation of Adjusted EBITDA and adjusted earnings per share in the second quarter of 2023 given the non-recurring nature of the CON repeal (Florida is the only other state in recent history to repeal its CON law) is not indicative of ongoing operating performance.
- (3) In January 2024, we received notice that our joint venture partner, Hospital Sisters Health System, intended to close its acute-care hospital, Sacred Heart Hospital in Eau Claire, WI, in which our joint venture inpatient rehabilitation hospital is located. We closed that joint venture hospital in February 2024 and incurred a one-time impairment charge of \$10.4 million. The impact to net income attributable to Encompass Health during the nine months ended September 30, 2024 resulting from the impairment was \$1.8 million after reductions for net income attributable to noncontrolling interests of \$7.3 million and the provision for income tax expense of \$1.3 million.
- (4) In the third quarter of 2024, the Company redeemed \$150 million of its 5.75% Senior Notes due 2025. The redemption was completed at 100% of par using cash on hand. As a result of the redemption, the Company recorded a \$0.4 million loss on early extinguishment of debt in the third quarter of 2024.
- (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.

End notes (continued)

- (6) The 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, distributions to noncontrolling interests, and certain 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) In September 2023, we purchased our Treasure Coast hospital (Vero Beach, Florida) real estate from Ocean Health Associates, LTD. (“Ocean Health”) for \$21.4 million. Prior to the purchase, we leased the real estate from Ocean Health. The \$21.4 million payment is included in Principal payments under finance lease obligations on the consolidated statement of cash flows for the twelve months ended December 31, 2023.
- (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 June 30, 2024, the remaining repurchase authorization was approximately \$181 million. On July 24, 2024, the Company's board approved resetting the aggregate common stock repurchase authorization to \$500 million. As of September 30, 2024, the remaining repurchase authorization was approximately \$498 million.
- (9) Our inpatient rehabilitation hospitals (“IRFs”) may operate one or more satellite and/or remote locations. Satellite and remote locations are located proximate to one of our existing IRFs but do not have a separate Medicare provider number. As such, they are considered a bed addition, are included in same store results from the day of opening, and are not included in our count of total open hospitals. As of September 30, 2024, we operate 11 satellite and remote locations.
- (10) Same-store comparisons are calculated based on hospitals open throughout both the full current periods and prior periods presented. These comparisons include the financial results of market consolidation transactions and capacity expansions (including the addition of satellite and remote hospitals) in existing markets.
- (11) Represents discharges from 165 consolidated hospitals in Q3 2024; 163 consolidated hospitals in Q2 2024; 160 consolidated hospitals in Q1 2024; 161 consolidated hospitals in Q4 2023; 159 consolidated hospitals in Q3 2023; 158 consolidated hospitals in Q2 2023; and 156 consolidated hospitals in Q1 2023.
- (12) Total full-time equivalents included in the table represent Encompass Health employees who participate in or support the operations of our hospitals and include full-time equivalents related to contract labor.
- (13) Employees per occupied bed, or “EPOB,” is calculated by dividing the number of total full-time equivalents, including full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period.