The Ensign Group, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
Three and Nine Months Ended September 30, 2024
(Financial Table Follows)

Non-GAAP Financial Measures

The following discussion includes references to Adjusted EBT, EBITDA, Adjusted EBITDA, Adjusted EBITDAR and Funds from Operations (FFO) which are non-GAAP financial measures (collectively, the Non-GAAP Financial Measures). Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other provisions of the Securities Exchange Act of 1934, as amended (the Exchange Act), define and prescribe the conditions for use of certain non-GAAP financial information. These Non-GAAP Financial Measures are used in addition to and in conjunction with results presented in accordance with GAAP. These Non-GAAP Financial Measures should not be relied upon to the exclusion of GAAP financial measures. These Non-GAAP Financial Measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business.

We believe the presentation of certain Non-GAAP Financial Measures are useful to investors and other external users of our financial statements regarding our results of operations because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall performance of companies in our industry without regard to items such as interest income, interest expense and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets, capital structure and the method by which assets were acquired; and
- they help investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating results.

We use the Non-GAAP Financial Measures:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis;
- to allocate resources to enhance the financial performance of our business;
- to assess the value of a potential acquisition;
- to assess the value of a transformed operation's performance;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We use certain Non-GAAP Financial Measures to compare the operating performance of each operation. These measures are useful in this regard because they do not include such costs as other expense, income taxes, depreciation and amortization expense, which may vary from period-to-period depending upon various factors, including the method used to finance operations, the amount of debt that we have incurred, whether an operation is owned or leased, the date of acquisition of a facility or business, and the tax law of the state in which a business unit operates.

We also establish compensation programs and bonuses for our leaders that are partially based upon the achievement of certain Non-GAAP Financial Measures.

Despite the importance of these measures in analyzing our underlying business, designing incentive compensation and for our goal setting, the Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, certain of our Non-GAAP Financial Measures have limitations as analytical tools, and they should not be considered in isolation, or as a substitute for analysis of our results as reported in accordance with GAAP. Some of these limitations are:

- they do not reflect our current or future cash requirements for capital expenditures or contractual commitments;

- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- they do not reflect rent expenses, which are necessary to operate our leased operations, in the case of Adjusted EBITDAR;
- they do not reflect any income tax payments we may be required to make;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, which may limit their usefulness as comparative measures.

We compensate for these limitations by using them only to supplement net income on a basis prepared in accordance with GAAP in order to provide a more complete understanding of the factors and trends affecting our business. Management strongly encourages investors to review our consolidated financial statements in their entirety and to not rely on any single financial measure. Because these Non-GAAP Financial Measures are not standardized, it may not be possible to compare these financial measures with other companies' Non-GAAP financial measures having the same or similar names. These Non-GAAP Financial Measures should not be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. We strongly urge you to review the reconciliation of income from operations to the Non-GAAP Financial Measures in the table below, along with our Interim Financial Statements and related notes included elsewhere in this document.

We use the following Non-GAAP financial measures that we believe are useful to investors as key valuation and operating performance measures:

PERFORMANCE MEASURES

Adjusted EBT

We adjust income before provision for income taxes (Adjusted EBT) when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance. We believe that the presentation of Adjusted EBT, when combined with income before provision for income taxes and GAAP net income attributable to The Ensign Group, Inc., is beneficial to an investor's complete understanding of our operating performance. We use this performance measure as an indicator of business performance, as well as for operational planning, decision-making purposes and to determine compensation in our executive compensation plan.

Adjusted EBT is income before provision for income taxes adjusted for non-core business items, which for the reported periods includes, to the extent applicable:

- stock-based compensation expense;
- litigation;
- acquisition related costs;
- costs incurred related to system implementations;
- loss on long-lived assets and gain on business interruption recoveries and
- depreciation and amortization of patient base intangible assets.

EBITDA

We believe EBITDA is useful to investors in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base (depreciation and amortization expense) from our operating results.

We calculate EBITDA as net income, adjusted for net losses attributable to noncontrolling interest, before (a) interest income, (b) provision for income taxes, (c) depreciation and amortization, and (d) interest expense. EBITDA in the prior period has been recast to conform to the current period presentation.

Adjusted EBITDA

We adjust EBITDA when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance, in the case of Adjusted EBITDA. We believe that the presentation of Adjusted EBITDA, when combined with EBITDA and GAAP net income attributable to The Ensign Group, Inc., is beneficial to an investor's complete understanding of our operating performance.

Adjusted EBITDA is EBITDA adjusted for the same non-core business items as listed in Adjusted EBT, except for depreciation and amortization of patient base intangible assets.

Funds from Operations (FFO)

We consider FFO to be a useful supplemental measure of the operating performance of Standard Bearer. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many real estate investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts (NAREIT) created FFO as a supplemental measure of operating performance for REITs, which excludes historical cost depreciation from net income. We define (in accordance with the definition used by NAREIT) FFO to consist of Standard Bearer segment income, excluding depreciation and amortization related to real estate, gains or losses from the sale of real estate, insurance recoveries related to real estate and impairment of long-lived assets.

VALUATION MEASURE

Adjusted EBITDAR

We use Adjusted EBITDAR as one measure in determining the value of prospective acquisitions. It is also a commonly used measure by our management, research analysts and investors, to compare the enterprise value of different companies in the healthcare industry, without regard to differences in capital structures and leasing arrangements. Adjusted EBITDAR is a financial valuation measure that is not specified in GAAP. This measure is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring operating expense, and is therefore presented only for the current period.

The adjustments made and previously described in the computation of Adjusted EBITDA are also made when computing Adjusted EBITDAR. We calculate Adjusted EBITDAR by excluding rent-cost of services from Adjusted EBITDA.

We believe the use of Adjusted EBITDAR allows the investor to compare operational results of companies who have operating and capital leases. A significant portion of capital lease expenditures are recorded in interest, whereas operating lease expenditures are recorded in rent expense.

THE ENSIGN GROUP, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION BY SEGMENT

(In thousands)

The table below reconciles income before provision for income taxes to Adjusted EBT for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Consolidated statements of income data:		*(In thousands)*		
Income before provision for income taxes	$ 98,674	$ 82,045	$ 280,336	$ 241,480
Stock-based compensation expense	9,183	7,237	26,406	22,691
Litigation[a]	(555)	2,783	(1,425)	1,965
Loss on long-lived assets and gain on business interruption recoveries	486	(259)	2,335	(1,009)
Acquisition related costs[b]	239	150	518	722
Costs incurred related to system implementations	89	—	2,522	875
Depreciation and amortization - patient base[c]	236	135	449	182
ADJUSTED EBT	**$ 108,352**	**$ 92,091**	**$ 311,141**	**$ 266,906**

(a) Litigation relates to specific proceedings and adjustments arising outside of the ordinary course of business.

(b) Costs incurred to acquire operations that are not capitalizable.

(c) Included in depreciation and amortization are amortization expenses related to patient base intangible assets at newly acquired skilled nursing and senior living facilities.

THE ENSIGN GROUP, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION BY SEGMENT

(In thousands)

The table below reconciles net income to EBITDA, Adjusted EBITDA and Adjusted EBITDAR for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Consolidated statements of income data:		*(In thousands)*		
Net income	$ 78,567	$ 63,968	$ 218,708	$ 188,027
Less: Net income attributable to noncontrolling interests	123	105	422	319
Interest income	7,607	5,259	21,151	12,785
Add: Provision for income taxes	20,107	18,077	61,628	53,453
Depreciation and amortization	21,474	18,446	61,619	53,154
Interest expense	2,024	2,024	6,028	6,083
EBITDA	**$ 114,442**	**$ 97,151**	**$ 326,410**	**$ 287,613**
Adjustments to EBITDA:				
Stock-based compensation expense	9,183	7,237	26,406	22,691
Litigation[(a)]	(555)	2,783	(1,425)	1,965
Loss on long-lived assets and gain on business interruption recoveries	486	(259)	2,335	(1,009)
Acquisition related costs[(b)]	239	150	518	722
Costs incurred related to system implementations	89	—	2,522	875
ADJUSTED EBITDA	**$ 123,884**	**$ 107,062**	**$ 356,766**	**$ 312,857**
Rent—cost of services	54,792	50,357	159,940	146,754
ADJUSTED EBITDAR	**$ 178,676**		**$ 516,706**	

(a) Litigation relates to specific proceedings and adjustments arising outside of the ordinary course of business.

(b) Costs incurred to acquire operations that are not capitalizable.

THE ENSIGN GROUP, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION BY SEGMENT

(In thousands)

Skilled Services

The table below reconciles net income to EBITDA and Adjusted EBITDA for the skilled services reportable segment for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Statements of Income Data:				
Segment income[a]	$ 128,489	$ 117,816	$ 377,483	$ 348,169
Depreciation and amortization	11,541	9,936	32,988	28,417
EBITDA	**$ 140,030**	**$ 127,752**	**$ 410,471**	**$ 376,586**
Adjustments to EBITDA:				
Stock-based compensation expense	5,783	4,879	16,690	14,740
Litigation[b]	—	—	2,100	—
Gain on business interruption recoveries	—	(259)	—	(1,009)
ADJUSTED EBITDA	**$ 145,813**	**$ 132,372**	**$ 429,261**	**$ 390,317**

(a) Segment income reflects profit or loss from operations before provision for income taxes and impairment charges from operations. General and administrative expenses are not allocated to the skilled services segment for purposes of determining segment profit or loss.

(b) Litigation relates to specific proceedings arising outside of the ordinary course of business.

Standard Bearer

The following table sets forth details of operating results for our revenue and earnings, and their respective components, by Standard Bearer for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Rental revenue generated from third-party tenants	$ 4,195	$ 4,004	$ 12,588	$ 11,576
Rental revenue generated from Ensign's independent subsidiaries	20,234	16,976	57,396	49,035
TOTAL RENTAL REVENUE	**$ 24,429**	**$ 20,980**	**$ 69,984**	**$ 60,611**
Segment income[a]	7,274	7,165	21,892	21,517
Depreciation and amortization	7,484	6,429	21,479	18,528
FFO[b]	**$ 14,758**	**$ 13,594**	**$ 43,371**	**$ 40,045**

(a) Segment income reflects profit or loss from operations before provision for income taxes, excluding gain or loss from sale of real estate, insurance recoveries and impairment of long-lived assets. Included in Standard Bearer expenses for the three and nine months ended September 30, 2024 is the management fee of $1.5 million and $4.2 million, respectively, and interest of $5.5 million and $14.8 million, respectively, from intercompany agreements between Standard Bearer and the Company and its independent subsidiaries, including the Service Center. Included in Standard Bearer expenses for the three and nine months ended September 30, 2023 is the management fee of $1.3 million and $3.7 million, respectively, and interest of $3.4 million and $9.1 million, respectively, from intercompany agreements between Standard Bearer and the Company and its independent subsidiaries, including the Service Center.

(b) FFO, in accordance with the definition used by the National Association of Real Estate Investment Trusts, means net income attributable to common stockholders, computed in accordance with U.S. GAAP, excluding gains or losses from sale of real estate, insurance recoveries related to real estate and impairment of long-lived assets, while including depreciation and amortization related to real estate to earnings.