2019 J.P. Morgan Healthcare Conference

Encompass Health Presentation

Corporate Participants

Gary P. Taylor – Analyst, JPMorgan Securities LLC

Mark J. Tarr – President, Chief Executive Officer & Director, Encompass Health Corp.

MANAGEMENT DISCUSSION SECTION

Gary P. Taylor, Analyst, JPMorgan Securities LLC

Good morning. Thanks for continuing with us. My pleasure to introduce Encompass Health. The company is one of the nation's largest providers of post-acute services, both facility-based and home-based. 2018 revenues be in excess of $4 billion. President and CEO, Mark Tarr, is going to be presenting today, and then we're going to breakout in the Yorkshire Room down in to the left for some more Q&A. Mark?

Mark J. Tarr, President, Chief Executive Officer & Director, Encompass Health Corp.

Good morning, everyone. We're delighted to be back here at the JPMorgan conference again this year and we appreciate your attendance at our conference to hear more about Encompass Health. And we start with the forward-looking statements. We encourage you to check out our website, if you have additional questions regarding these or other details.

Some of you may not be familiar with the Encompass Health's story. For those of you that aren't familiar with the profile of our company, we are one of the largest leading providers of post-acute care in the nation. We have both a strong presence in terms of facility and home-based care. You'll see that we have 130 IRFs or inpatient rehabilitation facilities, those are the hospitals who provide the facility-based care. We now have 220 home health locations and an increasing service line forces, the hospice program, where we now have 58. We provide this care in 36 states and Puerto Rico.

We're very proud of the quality outcomes. And just as proud of the fact that we can provide those outcomes and attain those outcomes in a very cost efficient manner. Both of these operating segments had a very distinctive demographic tailwind; average aged patient for our hospitals is 76; average age patient for our home health is 77%. If you look at the CAGR, for those – the growth, the Medicare beneficiaries in this age range, you'll see that that exceeds 5% in the out years.

We operate and report out on two operating segments. Inpatient rehabilitation, you'll note that 45 of 130 of our inpatient [ph] rehab (00:02:24) hospitals are operated as joint venture with acute care hospitals or acute care hospital systems. We have very defined clinical programs. We're very proud of

the fact that 114 of our hospitals hold one or more disease-specific certifications. From market share standpoint, we have 22% of the licensed beds. We have 30% of the Medicare patients served last year on an IRF [ph] reserved in (00:02:53) Encompass Health hospital.

Our hospitals are all licensed as an acute care hospital or specialty track. We don't do surgery in these hospitals, we don't have ERs, but we have a full complement of medical specialties. We have a full complement of licensed and non-licensed staff, RNs, licensed therapist, physical therapist, occupational,

speech therapist, respiratory therapist, are required to have 24/7 nursing care. If you think about the patients that we serve, they're nondiscretionary in nature, so they have not been admitted to one of our hospitals necessarily following an elective procedure. They're very medically fragile. They have to tolerate three hours a day of therapy. But they are very fragile in terms of their medical status. So, they are going to be in a facility for this level of care.

The second operating segment we report out on are home health and hospice. It too has outcomes and quality that we're very proud of. You see the 95% on the star rating for the quality of care and 90% for the patient satisfaction. This segment also has very defined clinical programs that address chronic illness, that address post-surgical needs of patients who are discharged home from acute care hospitals, also those that serve patients that may be at a fall risk. They too have a complement of licensed and non-licensed staff, RNs, therapists, including physical, occupational, speech therapy. You can see that with the 220 and the 58 within 30 states, we're the fourth largest provider in this space.

It's a clear focus of ours on our strategic initiatives to integrate the care of our two operating segments and we do that in what we define as being overlap marketplaces. We define overlap marketplace as a market where we have an inpatient rehabilitation hospital that is serviced by Encompass Health home health agency. Typically, that is around approximately 30-mile radius for coverage in that marketplace. We define our clinical collaboration percentage, as you note here, in terms of those patients that are discharged at the time from our rehabilitation hospitals that are identified as needing home care at the time of discharge, what percentage of those go into an Encompass Health agency at that time.

So, we have 81 markets right now that are defined as overlap markets. You'll see what our clinical collaboration rate is what we term as that percentage of patients that go to one of our home health agencies. It's very clearly defined program. Two years ago we standardized that process of at the time of discharge from hospitals into home health to make sure that we had a clear clinical collaboration and a fine-tuned effort in terms of meeting all those points of communication with the family, with the patient, with referring physicians. And once again, how that's standardized throughout all of our marketplaces that we have these overlap markets.

You'll see that we've made very nice progress on this collaboration percentage with a 560 basis point year-over-year increase. Our near-term goal that we've stated on this is to reach 35% to 40%. So, we're well on our way of reaching that near-term goal. We'll reassess it once we hit that 35% going forward in terms of increasing our target for the next step.

We're very pleased at the momentum that we're taking in 2019 a result of our finish in 2018. You'll note here the very strong volume growth that we had in both of our segments. We had 3.5% in terms of total discharges for the fourth quarter; 1.8% of that coming from same-store. I will note that we had a 50 basis point negative impact from the Panama City marketplace, where the hurricane had its way with our hospital there. We had to shut it down for several weeks, so we missed out on that potential growth.

You'll see where the home health admissions growth was double-digit for this quarter with 10.6% in total, 5.4% in terms of same-store. Once again, this quarter we made nice progress on our clinical collaboration rate and we had very nice expansion activities. You'll see here we opened a 68-bed hospital in Winston-Salem, North Carolina, which is a new state for us with a new partner there, and brought on a number of new home health and hospice agencies in the fourth quarter.

So, with that fourth quarter, we tie into the updated guidance for 2018, where we show positive increases or narrowing the range in each one of these categories. We narrowed the range in net operating revenues. We increased our adjusted EBITDA, as well as increased for the EPS.

We're very much a forward thinking company, but we thought that this slide deserved a pause to point out what a successful year we had in 2018 and had some really nice, strong results in a number of major initiatives that we had outlined this time last year for the 2018 year. Relative to growth, we opened four new hospitals. We expanded our existing hospitals by 26 beds. That 26 number is, obviously, less than

our 100 target, but in 2017 we opened up 166 additional beds to our existing portfolio. And then in 2019, we'll expect to have 150-plus beds added onto our existing group of hospitals.

We added 23 home health locations and 22 hospice locations, the majority of those coming from our Camellia acquisition that we closed back in May. So that was some nice growth in there. And we made nice progress on our operational initiatives that we had introduced relative to whether it's the rebranding. We advanced the continued data analytics capable capabilities of the company, which played into the piloted post-acute solutions initiatives, which I'll talk more about. And then we've also increased the clinical collaboration throughout the year. We did all that with the help and support of one of the strongest balance sheets in the industry when you look at our overall leverage, as well as the continued free cash flow.

We announced in July of 2017 that we would be rebranding the company. And as part of this rebranding initiative, we would be changing the name of the company to Encompass Health. We started that rollout to the field-based facilities and agencies in January of 2018. I'm happy to announce that we are now complete with that rollout. We move into 2019 with a company that has a common name among both operating segments and a name that better reflects our strategy as an organization.

So if you think about our priorities for 2019, they continue to be focused on growth. Our stated target for growth in hospitals is four to six new hospitals each year. We've already announced that we have four new hospitals coming on 2019. We have targeted for home health and hospice acquisitions $50 million to $100 million. Given our pipeline, we're very confident that we'll reach or exceed that level.

And we have a number of operating initiatives that will continue in 2019. Some of those we're familiar with from 2018. We have a number of opportunities relative to post-acute solutions to continue to grow and lever our capabilities on stroke market share, and we'll also be preparing this year from an operational standpoint and we have been preparing for regulatory changes that will be introduced in each of our segment starting in the CMS fiscal year 2020.

I mentioned earlier about our success with the stroke program and it's one that really both of our operating segments have attained a real strong level of clinical capabilities in terms of treating stroke patients. You can see here from the standpoint of overall need, there is a real need, given the fact that we have 800,000 strokes per year in the U.S. Now, not all of those will need post-acute care, but you can see a large number of those patients will need either inpatient or home health or a combination of the two.

We're very proud, as I said, with the clinical capabilities, as noted here, with 112 of our hospitals hold stroke-specific certifications. We also have seen an increase in MA activity relative to their understanding of the value proposition when a patient comes to an IRF versus a skilled nursing facility. One third of the cases that we have now from MA are stroke cases. We're also excited to announce the strategic partnership and the co-marketing that we'll be doing this year with the American Heart Association/American Stroke Association for educating the marketplaces relative to stroke care and stroke prevention. So we think that's a real opportunity for us to lever our continued efforts and capabilities within the stroke program itself.

I mentioned earlier about post-acute solutions. We're having an increased frequency of post-acute opportunities presented to us, as acute care hospitals and acute care hospital systems reach out to us as a post-acute provider in terms of helping them with their post-acute strategy. We have been able to maximize and benefit from the opportunities of data analytics that we capture not only from our own investments and our IT platforms that you can see here that we've started in 2018. We use our own databases. We use databases that we work with in terms of Cerner. We can take advantage of Medalogix in terms of the data that they have, and utilizing our clinical capabilities, our clinical expertise to help these acute care hospital systems making sure that the patient is placed in the appropriate post-acute setting where the patient will get the best outcomes.

We were able to pilot in Tyler, Texas in 2018 having this 90-day longitudinal medical record, where these data analytics are applied. We added a second pilot in Petersburg, Virginia in November of 2018 that will have the full benefit of working in 2019. So you'll be able to see us to continue to enhance our capabilities

in this area. It's something that we can do that no other post-acute provider can do because of the investments that we've made in both segments relative to our IT platform.

I mentioned earlier about the regulatory changes that will be going in place in both of our segments to be rolled out for CMS 2020 fiscal year. The first one involves the transition from the patient assessment tool, and this is in our inpatient rehabilitation hospitals. We've had the same tool in place since 2002. It's called FIM, Functional Independent (sic) [Independence] (00:15:22) Measurement. It is a tool that's used

by the entire clinical team, nurses and therapists. It's well-ingrained. We have been in the process of introducing the CARE Tool now since the fourth quarter of 2016, where it's been run in a redundant manner in addition to the FIM.

Starting in the fourth quarter of this year of 2019, we will move fully towards the CARE Tool and away from the FIM tool. It does apply to the CMGs and direct-to-CMGs, which impact our pricing. We are confident that we will have everything in place at the time we move into this and we have been working with our therapists and nurses on educating them to make sure that we're consistent from one location to another, and make sure that we understand from CMS what their guidelines are in terms of orienting everyone and rolling out the CARE Tool.

The second area of regulatory change that we will face and have been preparing to face goes into effect on January 1, 2020. It's PDGM with our home health segment. There will be some major changes in terms of the way reimbursement works. You'll note here that it'll move from a 60-day episode payment to a 30-day payment period. It relies more heavily on the clinical characteristics of the patient and it will eliminate therapy service use thresholds in case-mix adjustments, which we're supportive of.

The area that we'll continue to work with CMS in terms of our communication and our disagreement essentially of the approach is the 6.4% reduction in the base rate in terms of making this budget neutral rollout from the regulatory standpoint. You'll see listed in yellow the mitigating activities that we have been or will implement throughout the year. We'll continue to work with CMS, provide our feedback, work with the trade associations to make sure that this implementation goes as smooth as possible, and the questions surrounding this behavioral adjustment are fully answered.

The final area of change that we'll be embracing will be the demonstration project that is expected to begin or restart, if you want to look at it that way, relative to the Review Choice Demonstration. You'll see here that it was supposed to have gone into effect no sooner than December 10. It has not gone into effect as of this point. It will start out in state of Illinois, where we have three agencies, and then progress from one state to the next. We are prepared for this. We've done a lot of work with our documentation efforts. We don't see this as being a major deal, as we're fully prepared at this point.

So, last three slides I've talked about change and areas that will need to be prepared for going into either the 2020 CMS fiscal year or in the demonstration project within the near term. One of the areas that gives us great confidence in the fact of our ability to adapt and adopt these changes and do so in a manner that is in a mitigating fashion and in the negative side is the fact that of the last 39 quarters, you'll see here listed out 38 of those we've been able to show adjusted EBITDA growth in each one of these quarters. And the only quarter that we didn't have that growth, you'll see there in Q4 of 2014 we brought on four additional hospitals, four new de novo hospitals that had start-up costs that were incurred.

So, in spite of the change, we feel that we're very well-positioned as a company to embrace these changes. While with any change there can be moments of rockiness or change in the industry itself, could be a bit bumpy at times, we're confident that we'll be able to embrace this change and move forward in a very proactive way. And if you look here in the chart here, you'll see that for every period of

change, we've come out in a very strong fashion and quite often those have led towards periods of growth for us.

We offer the 2019 and preliminary guidance here, the guidance considerations, and we draw your attention to the relative rate increases. We have an estimated 1.2% increase on the IRF side of our business for the first three quarters of this year. The Q4 we estimate to be somewhere around the 2.4%. On home health, home health gets its first increase rate this year with a 1.5% Medicare pricing increase.

I'll draw your attention to the expected salary increases for both of the segments. We have 3% for total salaries, and then 6% to 8% increase on benefits. And then from the hospital side of our business, you'll note that the revenue reserve, formerly bad debt expense, is slotted in at 1.4% to 1.6%. And then finally down to consolidated, you'll note that we will continue to invest in the operating initiatives and reinvesting in our company as we move forward.

Our company and the business model for our company continues to result in very strong free cash flows. You'll note, for 2018, adjusted free cash flow comes in at $480 million to $505 million. The 2019 assumptions come in at $400 million to $470 million. We'll use that free cash flow and prioritize it in terms of helping us grow and funding that growth. I mentioned earlier, the bed additions will have come online for 2019. We're expecting north of 150 additional beds. We've talked earlier about the four de novo hospitals, and the fact that we'll be funding $50 million to $100 million in acquisitions for home health and hospice. We'll be opportunistic in terms of our opportunity for debt reduction.

Then finally, I offer these very strong and sustainable business fundamentals. I mentioned earlier that the strong demographic tailwind that will increase the demand for the services for both of our segments. We are industry leading positions in terms of quality and cost effectiveness, and then we talked earlier about the financial strength of our overall balance sheet.

So, with those, that concludes the presentation. We will be in the...

Gary P. Taylor, Analyst, JPMorgan Securities LLC

Yorkshire Room.

Mark J. Tarr, President, Chief Executive Officer & Director, Encompass Health Corp.

...Yorkshire Room for Q&A. Thank you.

Q & A Breakout Session

Corporate Participants

Gary P. Taylor – Analyst, JPMorgan Securities LLC

Mark J. Tarr – President, Chief Executive Officer & Director, Encompass Health Corp.

April K. Anthony – Chief Executive Officer, Home Health and Hospice, Encompass Health Corp.

Douglas E. Coltharp – Executive Vice President & Chief Financial Officer, Encompass Health Corp.

MANAGEMENT DISCUSSION SECTION

Gary P. Taylor, Analyst, JPMorgan Securities LLC

Okay, thanks for joining the HealthSouth breakout. I'm going to – nope, go ahead. I'm just standing, I'm just standing. My standup a bit will be over at the [ph] club layer (00:00:15) I'll start with a moderated privilege, then I'll turn it over to this group.

QUESTION AND ANSWER SECTION

<Q – Gary Taylor – JPMorgan Securities LLC>: So just a couple of things from the presentation that – and I think it started, right – that jumped out of me. So, you've talked about increased value proposition recognition by Medicare Advantage, particularly in the stroke business. What about an orthopedic rehab business? Are you having equal success there, different? How do you feel that that's [indiscernible] (00:00:50)?

<A – Mark Tarr – Encompass Health Corp.>: Yeah. So, it's been probably a decade ago now that we really tried to redirect our clinical programs away from orthopedic more towards neurological in those that are more medically challenged. And the reason for that was, part of it was due to medical necessity guidelines that Medicare had for in-patient [indiscernible] (00:01:13) hospitals. And then the second, as you think about the fact that we have 6% of our discharges have a set number of diagnostic categories that come from; and orthopedic typically or what was then joint replacements, was not part of that designation.

So, we've really eliminated a fair number of orthopedic patients from our overall program mix. Since last year – last quarter actually, we had less than 4% of our total discharges or joint replacements. So, that's why you've seen a big push towards neurological capabilities and our capabilities that handle more medically-complex patient, and we've really worked our way out of the orthopedic business on the hospital side and on the home health side. It's become more prominent. But many of those patients we

would have seen from a joint replacement standpoint in past years and our hospitals are now going directly home from the key care hospitals.

<Q – Gary Taylor – JPMorgan Securities LLC>: Okay. I didn't realize the numbers that [indiscernible] (00:02:19) on me. Can we talk about value proposition in home health, because all the managed care guys that are here all talk about, want to move to home, want to move to lower cost setting, and yet MA still pays generally materially below what fee-for-service pays in Medicare. And I think your own guidance suggested either 0% to 1% or 0% to 2% rate increases on – I think it's at MA home health. So, it's not necessarily obvious that you're getting paid for the value that a lot of the payors really acknowledge that you bring. So can you talk about what are you doing on that front?

<A – Mark Tarr – Encompass Health Corp.>: Sure. I'm going ask April to weigh in here in just a second. But overall, we think that the fact that [indiscernible] (00:03:04) some of the M&A activities going on in the past years so relative to some of the payors getting involved in the home health side of things; we also think the fact that Medicare giving us our first positive rate increase now in several years are both indicators that the value of home health as a cost-effective setting [indiscernible] (00:03:30) costly setting for care and the fact that longer term more and more patients [ph] want to be (00:03:39) treated in home setting.

So those are all fundamentals that we think are going to make its way into the payor side that we've not seen up to this point, and we just have not put ourselves in a position of going out and signing contracts for rates that didn't reflect the quality of care that we're providing to the patients. So with that, I'll ask April to weigh in.

<A – April Anthony – Encompass Health Corp.>: Yeah. It's definitely unfortunate that we've seen a misalignment between what they say and what they do as it relates to the payment. But I think as Mark said, our tact has been to really stick to our [ph] meeting (00:04:14). If we can get into a risk-oriented relationship with those payors to say, we're happy to put our money where our mouth is and come up with the relationship or maybe we'll take a low fee-for-service rate if there is a bonus opportunity or premium opportunity based on performance. We've done some creative things like that. We've taken some capitated rates down in our Houston market, where we have strong density in a single market.

So we're doing some creative things with M&A that seemed to be working well on both sides of the equation, and we're hoping that with the investments like Humana as recently made in Kindred that

more and more of the payor organizations will start to better align their behaviors with their [indiscernible] (00:04:51) as it relates to those savings.

<Q – Gary Taylor – JPMorgan Securities LLC>: Thank you. Couple more from me just on some of the numbers. So, the shift to the CARE tool which will be calendar fourth quarter of this year, I think the slide said might put some pressure on 4Q Medicare for discharge. Since you've been tracking that, modeling that, is the variability just what makes actually shows up in the quarter because you said this – some of the cases it impacts and pushes revenue lower.

<A – Mark Tarr – Encompass Health Corp.>: Yeah. So the tool itself, there is a cross lock in the tool to the rate we get paid.

<Q – Gary Taylor – JPMorgan Securities LLC>: Yeah.

<A – Mark Tarr – Encompass Health Corp.>: And the CMS initially had said that this CARE tool would be rolled out with one year worth of data. We lobbied extremely hard as long as well as the rest of the industry to say that when your data from using this CARE tool was not enough. And so, they agreed at a second year of data. And once that second year of data which we don't know how all that has come out yet, won't know until probably spring of this year when the – or a proposed rule comes out, we'll have more insight into the various level of the impact from a CMG standpoint.

<Q – Gary Taylor – JPMorgan Securities LLC>: And then one more from me just on the PDGM moving to the new grouper. Is the 6.4% behavioral adjustment that CMS has proposed, is that totally within their regulatory authority to change since there – [ph] I think we test (00:06:27) we're doing this on a budget-neutral basis by Congress. So, this is entirely up to them, they have the authority to change it if [ph] you make it a case (00:06:35)?

<A – Mark Tarr – Encompass Health Corp.>: Well, I think those are some of the arguments we might have on that. And April and her team have been working with CMS both through our company as well as through industry trade associations. When you look at the 6.4% behavioral offset to bring this to budget neutrality proposition, that 6.4% is about three times what we've seen in terms of historical behavioral adjustment.

So, it's not only the fact that they're rolling it out, but the fact that it is such a high percentage, is just unreasonable to think that that will go in place on day one in terms of all these behavioral offsets that they are anticipating. April, do you have some thoughts to that?

<A – April Anthony – Encompass Health Corp.>: Yeah. I would just say that, in general, certainly CMS is taking the [ph] tact that (00:07:31) they have the authority to do that as an industry. And I think from a legal positioning perspective, we disagree that reacting to a presumed behavior. We think they absolutely have the right to do that on an observed behavior, but to presume in advance that that's how the industry will react. There's really no precedent for that. And to the contrary, if you were to look at the SNF industry, really just the opposite is occurring where they're forcing those changes to be only connected to observe behaviors.

And so, we think we have a strong basis both in legal argument and in precedence that we can go back and say, this is not a reasonable cut. And even if you were to take and assume behavior change, as Mark said, you got to be more consistent with what have actually occurred under past [indiscernible] (00:08:14) from a rate perspective. And we think that's at least a third – at max it should be about a third of what they're offering; something in a 2% range if you were to look at what actually occurred in any given year.

So, we think we have legal arguments, we think we have reasonable arguments and we think we have ones that will resonate with legislative body as well to say [indiscernible] (00:08:32) not really getting from CMS what you mandated from a law perspective when it relates to budget-neutral behavior.

<Q – Gary Taylor – JPMorgan Securities LLC>: Thank you. Questions from the audience?

<Q>: [indiscernible] (00:08:43) Thank you. So when you guys like to have visibility on one year minus 2%, they might realize there was [indiscernible] (00:08:52-00:08:58) or is there like a timeline [indiscernible] (00:09:02)?

<A – April Anthony – Encompass Health Corp.>: Right. So we've already begun to have discussions with CMS about the magnitude of that same behavior change about first, if it's appropriate at all; and secondly, about the magnitude of it. So some of those precursor meetings have occurred, their follow-up meetings beginning in January. Generally, in late April timeframe is when CMS will [ph] send (00:09:21) the proposed 2020 rule to the OMV for review. So we've really got between now and roughly

the end of April, if you look at historic precedent from a timeline perspective, to work with CMS to try to get them to voluntarily agree to a more moderated approach.

<Q>: Thanks. Just a follow up to that. What behavioral changes do you think you could make to, I guess, make up for that 6.4%?

<A – April Anthony – Encompass Health Corp.>: Well, if there's any good news in this, they did tell us exactly what they expected us to do. So it's not like we assume there'll be some behavior change, we have to guess what it is. They have actually outlined specifically that they thought 100% of the time when there was an alternative code in the secondary category that if made primary would raise the reimbursement, they assumed 100% of time the industry would do that.

So there are literally things that we could do from a technological perspective. If we can get confirmation that there is no legal issues associated with doing so, we could technologically promote to the clinician and say, this secondary code would actually produce higher returns; and if we moved it to primary and we're not going to be penalized for doing so.

So, knowing exactly what they expect creates the 6.4% gives us the ability to even use technology to deliver most of the outcome that's experienced there. What we're waiting for is confirmation that there would be no assumed misbehavior on our part if we were actually to do so. Because if you've assumed I'll do it 100% of the time then how can you penalize me for doing it 100% of the time. So, that's what we're waiting on some more legal confirmation on.

But we think we've got the ability to make those changes. We don't always think they're the most appropriate or clinically appropriate things to do, but if that's what you expect of me and you're not going to penalize me for doing it and I know that from a legal perspective, we would have that technical capability to make that happen.

<Q>: The government shutdown impact [indiscernible] (00:11:21-00:11:27)?

<A – April Anthony – Encompass Health Corp.>: So far that...

<Q – Gary Taylor – JPMorgan Securities LLC>: Can you repeat the question or I'll repeat the question. The question was, was the government shutdown impact your timing of negotiations on this issue with CMS?

<A – April Anthony – Encompass Health Corp.>: So far the team members that we work with at HHS and CMS are not presently blocked from working. I guess if the shutdown were to continue and expand into the Medicare or Medicaid services then we could potentially see some issues. But at this point, the people we need to negotiate with are still engaged and available to negotiate.

<Q – Gary Taylor – JPMorgan Securities LLC>: Any other questions? I'll ask one. I think I was looking at – it was the third quarter slides or your outlook slides. But you had talked about how leverage ratio has come down, and I think one of the growth priorities you talked about, the possibility of some ancillary acquisitions. Can you talk a little bit about what that might look like or what you're thinking about [indiscernible] (00:12:26)?

<A – Mark Tarr – Encompass Health Corp.>: Sure. Doug, do you want to take that one?

<A – Doug Coltharp – Encompass Health Corp.>: Yes. So the leverage has declined pretty steadily through the course of the year, both as a result of the increase in EBITDA and then some modest contractual debt paydown. And so, we will end the year or have ended the year with leverage ratio of about 2.8 times. It's not necessarily a level that we're uncomfortable with in terms of demonstrating too much excess capacity in the balance sheet.

And we think, particularly as we head into 2020, with some of the uncertainty around these changes in the payment systems for both of our business segments, having a little extra slack in the line is appropriate and beneficial because some of our less, well-fortified and tensely less [ph] sophisticated (00:13:10) competitors in both business segments may become acquisition opportunities during that period of the potential disruption.

Having said that, in terms of entering into another business segment, we really think that we have all the growth opportunities that we need within our core businesses. We continue to believe that based on strong demographic tailwind driving demand for our services that we're going to want to continue to add capacity in your business, we want to create more overlap markets between our IRFs and our home

health. And so, that will require additional home health location acquisition in addition to the fact that we believe that there are benefits of scale that accrue to that business.

So even where we're not adding overlap markets, we want to continue to increase the density and span of our footprint in home health. And as we've said a number of times, we'd really like to add scale to the hospice business, although it doesn't promote the same kind of clinical collaboration opportunity that exists in IRF and home health. It's serving the same core demographic and we're good at administering services in the home setting. And that demographic is again, together with [indiscernible] (00:14:16) factors, driving increase demand within hospice.

So I think it's unlikely that we'll enter into any other segment. If we were to do something of an ancillary nature, this potential could be something involving enhanced data analytics. We felt that there was something that we could acquire that would accelerate our formation of post-acute solutions. We might consider that, but I can't give you a tangible example [indiscernible] (00:14:40) on our radar screen that would fall within that footprint. And so unlikely there would be anything at substantial scale.

<A – Mark Tarr – Encompass Health Corp.>: It's worth noting that within the hospice service line, our current number of variations put us as the top 25 provider. So, that's one of the points I failed to mention in my presentation.

<Q>: I'm sorry, one last one. On the home health, if CMS says there is a proposed [indiscernible] (00:15:06) should we think that there is like [indiscernible] (00:15:09) operational changes that you can make into home health and would you have enough time to implement those in the second half of this year [indiscernible] (00:15:19)?

<A – April Anthony – Encompass Health Corp.>: At this point, we have to assume that what's proposed is going to be what's happening, and we are behaving as though the – what we know today is the best case scenario. We are certainly working to drive to a better place, but we're preparing for an operational perspective as though that is the final rule. So, we've got that in the works right now. Historically, one of our strengths as an organization has been our ability to adapt.

I think the fact that we have a very common operating approach, both in our technology platform as well as in our standard operating procedures, allows us to pivot more quickly sometimes and others within the industry because we have [ph] an Encompass (00:15:55) way of behaving and of operating.

And when it needs to change, it's easy to change from one thing to another as opposed to moving a whole bunch of marbles in a different direction and trying to get them realigned.

And so, I think we've got a historic precedent to say we've been good at reacting to disruption in the industry in the past and we'll begin that process, and frankly already did, when the rule came out back in October.

<A – Mark Tarr – Encompass Health Corp.>: And that applies to both of our business segments. I mean, if you look at whether it's the home health side or hospital side and you look at historical, [ph] thus the slide I put there (00:16:26) we've had some challenges in the hospital side too from a regulatory standpoint or changes from a regulatory standpoint over the last 10 years, of which we embraced and came out of it stronger than we went into it. And we're able to make those changes in a much easier scenario than some of the smaller players. And both of these segments that we have are very fragmented industries and that gives us an opportunity to go out and be the acquirer in many times of major transition regarding regulatory change.

<Q>: Can you just remind us again the revenues that we have between hospice and home health and IRF? And do you have any interest in the personal care or it's not acute enough [indiscernible] (00:17:15)?

<A – Mark Tarr – Encompass Health Corp.>: Doug, do you want to address the revenue?

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. So, we're about – right now we do about $3.3 billion in IRF revenue. If you do it on a run rate basis, we're getting pretty close to $1 billion in home health and hospice revenue, and that breaks down roughly $80 million-$20 million or $85 million-$15 million between home health and hospice. Hospice got a nice boost in 2018 with the acquisition of Camellia, which was almost 50% hospice business. Growth rates are a little different for those just based on the scale.

<A – April Anthony – Encompass Health Corp.>: From a private duty personal care perspective, I think that's something that we're kind of always looking at, but we don't anticipate that being a significant entry for us. At the time being, we think there are other providers out there that we can partner with to deliver those services when they're necessary for our patients.

So wouldn't anticipate us entering that personal care space imminently. I would certainly not say ever because the markets are changing and the dynamics changing with Medicare Advantage and we'll certainly keep a close eye on that. But I don't think that's an imminent entry for us.

<Q>: So the rules change for 2019 with respect to what MA plans could do and could offer in terms of social support and so forth. Although I think what we're kind of hearing for them was, there wasn't a lot of notice, there's still a little bit of uncertainties for 2019 benefit year, given all those bids are due in June, and there wasn't a lot of movement on that. But there could be more of that in 2020. So, we will stay engaged and see if they're asking for more of that that opportunity presents [indiscernible] (00:18:56)?

<A – April Anthony – Encompass Health Corp.>: Absolutely. So we've seen very little actual movement in the 2019 plan structures, but perhaps 2020 where they have a little bit more time to plan for it would be a year of further evolution and we'll keep a close eye on that. But certainly, our strength is in home delivered services and in managing a mobile workforce. And so, many of the challenges on the personal care side are the same as those we face on the field side. But there are some uniqueness to that business as well managing a non-skilled workforce remotely. And so, we'll keep a close eye on it and see if we think that's an appropriate entry [indiscernible] (00:19:30) at the right time.

<Q – Gary Taylor – JPMorgan Securities LLC>: Yes?

<Q>: One of the things you put in the slide deck [indiscernible] (00:19:36) share repurchases in 2019. Can you walk through your thought process around that in the context of balance sheet and the growth opportunities there?

<A – Doug Coltharp – Encompass Health Corp.>: So, it's been a component of our capital allocation in the past. We didn't make any share repurchases during the course of 2018 because we felt we had other compelling growth opportunities. And as Mark outlined in his presentation, the first priority for free cash flow allocation is going to be adding capacity to the businesses that we're already in. And again, based on what's happening demographically and based on some of the noise around the changes [indiscernible] (00:20:13) they're going to continue to be good opportunities [indiscernible] (00:20:17) in that manner for 2019.

Given the strength of the balance sheet, we really don't think there are any compelling needs to pay down debt. So, I don't anticipate that there will be significant cash flow allocation towards further debt reduction and that's going to leave some unallocated free cash flow out there. We have had a program of systemic shareholder distributions that include a regular dividend on the common stock which has been increased by our board every year since it was implemented in 2013.

And we'll continue to look at what we think is the relative valuation of our company stock trading in the market. And the nice thing about that is, it's a form of acquisition that increases our ownership in the business and we're pretty confident in the due diligence around that investment.

<Q – Gary Taylor – JPMorgan Securities LLC>: One more question. Yes?

<Q>: Yeah. On the home health side, you were talking about [indiscernible] (00:21:23) growth from roughly 5%, mostly [indiscernible] (00:21:26). Of that 5%, how much of it is coming from just the growth of the industry and how much of it is [indiscernible] (00:21:34)?

<A – April Anthony – Encompass Health Corp.>: It's hard to pinpoint. I mean, that 5% is the same-store growth. I think when you look market-by-market, there are a variety of different statistics. And so, I can't really pinpoint that between segment and those two elements.

<A – Mark Tarr – Encompass Health Corp.>: If you look at our business outlook, we've got 10-plus percent in terms of total growth on that, but not as specific on the same-store.

<Q – Gary Taylor – JPMorgan Securities LLC>: Okay. We have one more?

<Q>: Yeah. [indiscernible] (00:22:07) question on, you mentioned hospice with the potential interest in acquisitions. Do you think that's more driven with your success or not? [indiscernible] (00:22:15) geographic fit or overlap or is it just [indiscernible] (00:22:19)?

<A – Doug Coltharp – Encompass Health Corp.>: I think there's definitely benefit. April and her team had proven that there is a benefit to having hospice and home health co-located. And so, certainly in the

same way that we prioritize home health acquisitions to create visual overlaps with our IRF, we would look first to try to add hospice services to those locations where we have home health and are not currently in the hospice business, but that would not be exclusive to over-compelling hospice opportunities in new geographies.

I think when we prevail in terms of the acquisitions because of the strengths we bring to the table as a partner and the culture that April and her team created that other companies want to be a part of, in fact we can bring to them technology that really furthers their business practices and our willingness to pay a fair price. In most instances, we were looking at transactions even of a significant size because of the strength of our balance sheet, we don't have to go in within financing contingencies.

<A – Mark Tarr – Encompass Health Corp.>: We've always been a very disciplined acquirer and we use that same discipline as we evaluate the hospice, particularly at some of the multiples that are out there.

Gary P. Taylor, Analyst, JPMorgan Securities LLC

Okay. Thank you very much.

Mark J. Tarr, President, Chief Executive Officer & Director, Encompass Health Corp.

Thank you all.