Encompass Health Q4 2019 Earnings Call

February 7, 2020

Corporate Participants

Douglas E. Coltharp – Executive Vice President & Chief Financial Officer, Encompass Health Corp.
Mark J. Tarr – President, Chief Executive Officer & Director, Encompass Health Corp.
April K. Anthony – Chief Executive Officer-Home Health and Hospice, Encompass Health Corp.
Barbara A. Jacobsmeyer – Executive Vice President & President-Inpatient Hospitals, Encompass Health Corp.

Other Participants

Matt Larew – Analyst, William Blair & Co. LLC
Whit Mayo – Analyst, UBS Securities LLC
Kevin Mark Fischbeck – Analyst, Bank of America Merrill Lynch
Matthew Dale Gillmor – Analyst, Robert W. Baird & Co., Inc.
Pito Chickering – Analyst, Deutsche Bank Securities, Inc.
A.J. Rice – Analyst, Credit Suisse Securities (USA) LLC
Brian G. Tanquilut – Analyst, Jefferies LLC
Frank George Morgan – Analyst, RBC Capital Markets LLC
Matt Borsch – Analyst, BMO Capital Markets (United States)
Peter Costa – Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Encompass Health Fourth Quarter 2019 Earnings Conference Call. At this time, I would like to inform all participants that their lines will be in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions] You will be limited to one question and one follow-up question. Today's conference call is being recorded. If you have any objections, you may disconnect at this time.

I will now turn the call over to Doug Coltharp, Encompass Health Chief Financial Officer. Please go ahead, sir.

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

I want to thank you for joining Encompass Health's fourth quarter 2019 earnings call. With me on the call today are Mark Tarr, President and Chief Executive Officer; Barb Jacobsmeyer, President, Inpatient Rehabilitation Hospitals; and April Anthony, Chief Executive Officer of our Home Health and Hospice segment.

Before we begin, if you do not already have a copy, the fourth quarter earnings release, supplemental information, and related Form 8-K filed with the SEC are available on our website at encompasshealth.com. On page 2 of the supplemental information, you will find the Safe Harbor statements, which are also set forth in greater detail on the last page of the earnings release.

During the call, we will make forward-looking statements, which are subject to risk and uncertainties, many of which are beyond our control. Certain risk and uncertainties that could cause actual results to differ materially from our projections, estimates, and expectations are discussed in the company's SEC

filings, including the earnings release and related Form 8-K, and the Form 10-K for the year ended December 31, 2019 when filed. We encourage you to read them. You are cautioned not to place undue reliance on the estimates, projections, guidance, and other forward-looking information presented, which are based on current estimates of future events and speak only as of today. We do not undertake a duty to update these forward-looking statements.

Our supplemental information and discussion on this call will include certain non-GAAP financial measures. For such measures, reconciliation to the most directly comparable GAAP measure is available at the end of the supplemental information, at the end of the earnings release, and as part of the Form 8-K filed yesterday with the SEC, all of which are available on our website.

Before I turn it over to Mark, I would like to remind everyone that we will adhere to the one question and one follow-up question rule to allow everyone to submit a question. If you have additional questions, please feel free to put yourself back in the queue.

With that, I'll turn the call over to Mark.

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

Thank you, Doug, and good morning, everyone. 2019 was another strong year with solid financial results. Consolidated revenues increased 7.7%, consolidated adjusted EBITDA increased 7.1% and adjusted EPS increased 7.7%. This growth was driven by strong organic volume growth across all of our business lines. Same-store growth was 1.8% in inpatient rehabilitation, 7.7% in home health and 12.2% in hospice. Relative to growth in 2019, we expanded capacity in our inpatient rehabilitation hospitals by 272 beds. We got three new hospitals and the addition of 152 beds to existing hospitals.

We also continue to make positive traction with Medicare Advantage Plans in our inpatient rehabilitation segment, with MA discharges growing 18.7% year-over-year. In our home health and hospice segment, we added 27 home health locations and 25 hospice locations, the majority of which came through the Alacare acquisition in July. We also made significant progress on all of our strategic and operational initiatives. In 2020, we will continue to build on our momentum from 2019 with a continued focus on expanding our footprint across all business lines, increasing clinical collaboration, building stroke market share and developing innovative post-acute solutions.

For over a year, we've been discussing and preparing for regulatory changes impacting reimbursement in each of our segments. As we've stated previously, 2020 will be a year of Medicare reimbursement rebasing for us. Our inpatient rehabilitation hospitals transitioned to CMS Section GG for reporting and payment purposes on October 1, 2019. We were well-prepared for the transition and it is going as well as we anticipated.

In 2020, we continue to educate hospital staff as the new functional measures are utilized and provide feedback to CMS post implementation. The Patient-Driven Groupings Model or PDGM became effective for our home health locations on January 1, 2020. We currently estimate the implementation of this new reimbursement model will result in a 2% to 3% net Medicare pricing decrease for us in 2020. Operationally, we'll continue to use technology to generate objective, evidence-based care plans and drive incremental efficiencies in administrative support functions.

This includes our deployment of the Medalogix Care module across our entire portfolio of home health locations in the first half of 2020 to help us in developing that just right care plan for each patient. We are also working with Homecare Homebase on a scheduling module that will give us a new set of tools to further manage staff productivity and optimization.

And of course, we are focused on volume growth. Specifically, we are focused on increasing our scale and density in certain markets, which will help us leverage our overhead. We're also expanding our care transition coordinated program to more acute care hospitals in order to capture more admissions from

institutional settings. As a reminder, we have a proven track record of working through regulatory changes and these regulatory changes have not changed our long-term business outlook.

In 2020, we'll continue to prioritize the deployment of free cash flow to growth opportunities in both segments. We have four new inpatient rehabilitation hospitals scheduled to open in 2020 including Sioux Falls, South Dakota and Coralville, Iowa, which would be new states for us. We also plan to add approximately 100 to 120 beds to existing hospitals, which is roughly equivalent to three new hospitals.

Additionally, we are actively pursuing a number of projects given the repeal of Florida's CON laws. In home health and hospice, we expect to invest $50 million to $100 million in growth opportunities. The potential disruption caused by the implementation of PDGM within the home health industry may create some appealing opportunities for us. These opportunities will likely present themselves in the back three quarters of the year. We may pursue larger scale acquisitions opportunistically as we have done so in the past few years with CareSouth, Camellia and Alacare should any such opportunities arise.

Our 2020 operational initiatives include a continued focus on clinical collaboration. In our overlap markets, we are seeing that integrated care does drive quality metrics [audio gap] (00:09:51) experiencing higher discharges to home and lower discharges to skilled nursing facilities. We are focused on continuing to expand the benefits of clinical collaboration to more patients by increasing the number of overlap markets and increasing the clinical collaboration rate. We will also continue to focus on meeting the needs of patients recovering from stroke. Independent third parties such as the American Stroke Association and the Veterans' Administration, as well as research conducted by the University of Texas Medical Branch and published by the Journal of the AMA have all concluded that IRFs are a better setting for stroke patients due to the intensity of therapy provided which results in higher rates of return to community and greater functional recoveries experienced with IRFs.

We believe our expertise in treating stroke patients combined with the validation of the clinical efficacy of inpatient rehabilitation hospitals over skilled nursing facilities for treating stroke patients is contributing to the growth in the number of stroke patients we treat. Our three-year stroke CAGR for all stroke patients is approximately 6% and our three-year stroke CAGR for Medicare Advantage Plans is approximately 13%. With 123 of our hospitals holding stroke-specific certification from the Joint Commission, we believe we are poised for continued growth in stroke patients. We will use data analytics to highlight our superior clinical quality as well as leverage our strategic sponsorship of the American Heart/American Stroke Association as we continue to educate physicians, payers and patients on our value proposition involving stroke patients. Another significant part of our value proposition is our ability to reduce readmissions to acute care hospitals as it lowers the risk of readmission penalties to acute hospital providers and lowers total episodic costs for all payers. Therefore, in 2020, we will continue to develop and implement post-acute solutions that focus on improving patient outcome and lowering the total cost of care by reducing hospital readmissions across the entire episode of care.

In 2019, we piloted and refined our proprietary predictive readmission model in nine of our hospitals. In 2020, we will deploy this model in all of our hospitals. We've also developed a best practices playbook that will be part of this rollout. As I mentioned earlier, we are in the process of deploying the Medalogix Care module to all of our home health locations.

Using our historical patient data, this module tells us how many visits a patient needs and when they need them to optimize the outcome for the patient. It's a scientific approach that helps guide not replace clinical judgment in developing the right care plan for each patient. We use this module in approximately 20 of our home health locations in Texas in 2019. These locations saw an improvement in visit utilization, which resulted from better, more specific care plans. We will also look to expand the depth and reach of our tools that help maximize patient outcome and reduce episodic costs across the post-acute continuum. This includes tools that assist us in determining the highest quality providers in our markets, as well as helping a patient's care team to determine the most appropriate post-acute setting at each step of the patient journey.

All of these tools and enhanced capabilities are facilitated by the investments we've made in the IT platforms of both of our business segments, as well as our strategic relationships with Cerner and Medalogix.

With these growth and operational initiatives underway, we are reaffirming our 2020 guidance, as communicated in January. The reaffirmed ranges can be found on page 15 of the supplemental slide that accompanied our earnings release. Doug will discuss some considerations around the pacing of our 2020 results during his prepared remarks.

We're excited about our future. In fact, we're so excited that we're hosting an Investor and Analyst Day in New York on March 4 to tell you more about 2020 and beyond. Hope you'll join me and other members of the Encompass Health management team for this event.

With that, I'll turn it over to Doug for more details on the fourth quarter and all of 2019.

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

Thank you, Mark. And once again, good morning, everyone. Mark summarized the consolidated revenue and EBITDA results, so I'll begin with cash flow and the balance sheet. I'll then discuss the revenue and EBITDA drivers for Q4 when I move into the operating segment results.

Adjusted free cash flow for 2019 of $516.5 million was at the top end of our guidance range. Growth in adjusted EBITDA for the year was offset by increased net working capital. As we discussed through the course of 2019, the increased working capital resulted primarily from higher accounts receivable related to TPE and other claims reviews in both segments.

During Q4, we continued to be proactive in positioning our balance sheet to support our long-term strategic objectives, including growth opportunities in both business segments. Following successful issuance of $1 billion in new senior notes in Q3 2019, we completed a call of $400 million of our 5.75% notes due 2024, reducing this maturity from $1.2 billion at the beginning of 2019 to $700 million at year-end.

We also amended our bank credit facilities, extending the maturity date by two years to 2024 and increasing the revolver from $700 million to $1 billion. We ended the year with our leverage ratio at 3.2 times.

In 2019, we continued to augment the returns from investments in our operating segments with shareholder distributions. During 2019, we paid $108.7 million in cash dividends on our common stock and repurchased approximately $46 million of common shares on the open market.

Moving now into our business segments, IRF segment revenue for Q4 increased 6% and segment-adjusted EBITDA increased 6.3%. Q4 IRF segment revenue growth was driven by discharge growth at 5.2%, including 3.2% same-store growth and a 90 basis point increase in revenue per discharge.

The increase in revenue per discharge reflected our transition to CMS Section GG, but benefited from prior period cost report adjustments, as well as the timing of discharges between fiscal quarters.

Revenue reserves related to bad debt increased 20 basis points to 1.7% of revenue in Q4 due to a new industry-wide post-payment review initiated by a supplemental review contractor.

New claims denials related to TPE were $3.8 million, down sequentially and on a year-over-year basis. Collections of previously denied claims remain slow, and we again have seen little progress resolving our substantial backlog of claims, now at approximately $155 million, awaiting adjudication at the ALJ level.

IRF segment SWB in Q4 2019 increased 20 basis points to 51.9% of revenue, primarily due to a 3.5% increase in salaries and wages per FTE, inclusive of approximately $1.5 million in training and education costs associated with the transition to CMS Section GG. Benefits cost per FTE for Q4 decreased over the prior year due to workers' compensation reserve adjustments related to prior claim years.

In our home health and hospice segment, Q4 revenue increased 14.9% and adjusted EBITDA increased 12.5%. Home health and hospice revenue growth in Q4 was driven by volume, boosted by the midyear acquisition of Alacare.

Home health admissions for Q4 increased 18.9%, including same-store growth of 6.6%. Hospice admissions increased 41.2%, including same-store growth of 10.1%. Home health revenue per episode declined 2.4% in Q4, due primarily to the change in mix related to the Alacare acquisition, as well as the timing of episodes between fiscal quarters. Hospice revenue per day for Q4 decreased 2.7%, again owing primarily to the acquisition of Alacare.

Q4 segment operating expenses increased 70 basis points, as a percent of revenue, to 82.4%. Cost of services for Q4 was constant with the prior-year period at 46.4%, as the increase in cost per visit was offset by a decline in visits per episode. Support and overhead costs increased, as a percent of revenue, primarily due to higher group medical cost in the quarter and the integration of Alacare.

As Mark mentioned in his comments, we are reaffirming the 2020 guidance we initially provided in January including an adjusted EBITDA range of $935 million to $965 million. I thought it'd be helpful to discuss some of the guidance considerations and how they impact the expected pacing of our 2020 adjusted EBITDA.

In the IRF segment, we expect the transition of CMS Section GG to impact for first three quarters of 2020, but we then expect a Q4 pricing increase of approximately 2.5% based on the anticipated net market basket update for fiscal year 2021.

In the home health and hospice segment, we expect the impact of PDGM to have a greater impact in the first half as we transition to this new payment model. We also expect the cost and productivity benefits associated with our utilization of the Medalogix tool to be more pronounced in the back half of the year given our deployment schedule.

And now, operator, we'll open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Matt Larew of William Blair.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning, Matt.

<A – Mark Tarr – Encompass Health Corp.>: Good morning, Matt.

<Q – Matt Larew – William Blair & Co. LLC>: Hi. Good morning, everyone. I wanted to ask actually about research in the quarter, which I think have now been down sequentially for several quarters. I know you'd mentioned on the Q3 call a large MA payer, I think Alacare patient mix contributed and maybe there's some effect from your clinicians from the increase in TPE. So there's a lot going on there. But maybe sorting through all the moving parts, could you help us understand what exactly do you think is going on and how we should think about research moving forward? Is this sort of an amalgamation of transient issues or more indicative of a longer-term trend in home health?

<A – Mark Tarr – Encompass Health Corp.>: I'm going to ask April Anthony to answer that question.

<A – April Anthony – Encompass Health Corp.>: Well, Matt, I think you kind of answered your own question. The list that you provided is in fact what's kind of going on with the research situation. And I think we do feel like we are operating at sort of a new normal over the last two quarters that that ratio of research that we're seeing that of course starting in the third quarter included the impact of Alacare and their different ratios. So, I would say what we saw in quarter three and four is reflective of what we sort of anticipate being the continued proportional rate of research going into 2020 for all the reasons that you listed there.

<Q – Matt Larew – William Blair & Co. LLC>: Okay, thanks. And then, Mark, just wanted to ask, you alluded to a focus on increasing scale and density in certain markets. Doug, you had talked a bit about the capacity that you have right now. But I think there is still just about $50 million to $100 million of M&A for home health at least included in guidance. Just maybe give us a sense for as you focus on capital deployment throughout the year, where you see the most opportunity and whether there is maybe more potential for that $50 million to $100 million number to end up being pretty conservative?

<A – Doug Coltharp – Encompass Health Corp.>: Yeah, Matt. This is Doug. So, I think overall or just in terms of the deployment of cash, it's going to be a somewhat familiar story with the last several years. The piece that we can control is the capital that's going to be allocated to capacity expansion in the IRF segment where we'll have de novo activity underway as Mark outlined in his comments and expect to add over 100 beds to existing facilities again. The bit of the wildcard there is when we can actually start de novo activity in Florida given the CON repeal and we're hoping to have more clarity around that here within the next 30 days or so.

On the home health side, it's a little bit more of an uncertainty because we anticipate that at least a portion of that $50 million to $100 million in an anticipated spend will be a direct result of the RAP phase-out that is embedded in PDGM, and specifically the working capital and cash flow implications that's going to have on some smaller competitors. But we don't know the timing with which that will hit them and it's going to be a market-by-market situation to determine whether or not it makes sense to step into the breach if a smaller company is experiencing those difficulties and acquire that business or whether or not the market share can be gained simply by adding resources to our existing platform.

As Mark mentioned in his comments and as we've demonstrated over the last several years, we anticipate that it will probably be a few larger transactions, predominantly companies that are private equity backed that may come to market in the course of 2020. It's our anticipation just given the potential volatility associated with the transition to PDGM that those PE properties bought to market maybe more heavily skewed towards hospice than home health. We will certainly be a candidate to look at those and we recognize that industry multiples are higher right now than they have been even recently and that's off

of relatively high levels, but we're going to be a very disciplined acquirer as we've demonstrated in the past.

<Q – Matt Larew – William Blair & Co. LLC>: Thank you.

Operator: Our next question comes from the line of Whit Mayo of UBS.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning, Whit.

<A – Mark Tarr – Encompass Health Corp.>: Good morning, Whit.

<Q – Whit Mayo – UBS Securities LLC>: Hey, good morning, guys. I calculate about a 2% or $13 million headwind in the fourth quarter from the FIM to CARE Tool Section GG change. One is, is that right? And if so, revenue per discharge should be up 2%, EBITDA up 12%, but Doug you referenced some cost report settlements and maybe a few other factors, workers' comp. So, I'm just trying to wrestle down all these moving pieces in the quarter.

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. So, I think in terms of the size of the headwind, it depends on what you comparing the actual pricing we experience under CMS Section GG to. And so, if you compare it to the 2.4% market – net market basket update that we had as an initial marker, I think the right rate to use in the comparison in terms of the Section GG impact would be up 60 basis points. So, when we look at the impact of those two tailwinds we had and fourth quarter pricing in the IRF segment, the prior period cost reports and the timing of discharge between quarters, we ascribe about 30 basis points of the increase to that. So, the 90-basis point increase we saw on the quarter less that 30 basis points gets you to the 60 basis points, compare that to the 2.4% market basket update that we had penciled in at the beginning of 2019 and I would suggest that that would be a proxy for the headwind created by the Section GG transition.

<Q – Whit Mayo – UBS Securities LLC>: Okay. [indiscernible] (00:28:44). And is there a dollar amount on the cost report and also a dollar amount on the Worker's Comp?

<A – Doug Coltharp – Encompass Health Corp.>: So, the cost report was $1.2 million for the quarter and we had a little bit more spread through the first three quarters of the year, so that was $2 million, and Worker's Comp was $3.6 million in the quarter and it was a very strong year for workers' comp for the year. So, that was actually $8 million for the full year.

<Q – Whit Mayo – UBS Securities LLC>: Okay.

<A – Doug Coltharp – Encompass Health Corp.>: And these are items that were laid out in the 8-K that was issued with our...

<Q – Whit Mayo – UBS Securities LLC>: That's right.

<A – Doug Coltharp – Encompass Health Corp.>: ...preliminary 2019 results and 2020 guidance back January 12. I know that comes out when there's a lot of news hitting the market simultaneously. But for anybody specifically looking to reference, that table of numbers are just suggested. That's already out there.

<Q – Whit Mayo – UBS Securities LLC>: No, I remember that now, thanks. And just my second for April. Just any surprises quarter-to-date with PDGM? Any expectations that you have? Any changes you see developing at the field level and maybe just any thoughts on the Review Choice Demo? Thanks.

<A – April Anthony – Encompass Health Corp.>: Yeah. So, for PDGM, it obviously still remains early. We're just now beginning to see the beginning of second period come into the mix. And so as we work in January, we're ramping down the old PPS system and ramping in to PDGM system. So, it's a mixed bag. I would say in PDGM we're seeing what you would expect, which is as 100% first period episodes. You

see a little bit higher reimbursement associated with first period than we'll ultimately see once we get a blended set of first and second periods in, which won't really happen until March. And with that added reimbursement, we also see this at its first 30-day period has higher visits per episode.

Again, all of that expected in January. But it does make projecting what does it mean for the long run difficult because it isn't – it is not really a full set of data yet. So, nothing happening on the regulatory side that's concerning. We've actually been pleasantly surprised that CMS has been processing claims, both RAPs and a few finals that have gone through the system. So, we're feeling good about that, that the rates that we're being paid are consistent with our expectations.

So, I would say everything is going about as well as it could, but it's still a pretty dimly lit picture and I think it will be March before we really have sort of a full spectrum of light on the situation and then give us another month or so to really analyze once we've got the full set of data what we're really seeing. So, nothing to be concerned about.

RCD is obviously coming up now in less than a month in Texas and that's a pretty big piece for us. About 29% of our starts come in the State of Texas. And so, we know that that's going to be a significant effort for our organization, but we've had processes going for several months in preparation for that. Don't anticipate that's going to cause any significant disruption, perhaps a little bit of short-term speed bump for the Texas area in the March and possibly April timeframe. But based on our experience in Illinois and Ohio, we're confident we're going to get through that. It's just a larger scale that we've got to prepare for.

<Q – Whit Mayo – UBS Securities LLC>: Thanks.

Operator: Our next question comes from the line of Kevin Fischbeck of Bank of America.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning, Kevin.

<A – Mark Tarr – Encompass Health Corp.>: Good morning, Kevin.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Morning. So, I guess, I want to go to your commentary about the pacing of the year. It sounded like you were saying that on the home health side that there will be, I guess, two dynamics that there would both be potentially a rate impact and a mitigation impact that would say that the first half of the year would be worse on both of those. And if that's the case, that 2% to 3% net impact that you're talking about, how should we think about how you're ending the year on that? So, I guess, that's a 2% to 3% a year impact for the – on average for the year.

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. So, Kevin, I'll start and then I'll ask April to jump in. And so, I don't know that you'll necessarily see the pricing impact of 2% to 3% be markedly different throughout the course of the year, but it is possible that it will be more pronounced in the first part of the year than it is in the second part of the year just because there's a lot to adjust to and at least a component of the assumed behavioral changes that we'll be making relate to enhanced documentation procedures. And any time you're injecting a new behavior into workforce as large as we have, there's an adoption period and a learning curve to be ascended.

It's difficult to separate the two, but we sometimes get hung up referring to the implementation of the Medalogix Care tool designed or is going to be used to design better care plans for our patients as a mitigation to the PDGM pricing impact, but it's really not. It's something that we would be doing anyway because it's going to generate better outcomes for our patients and it's going to allow us to realize more productivity and therefore a greater benefit to our cost structure as a business unit. And that just based on the deployment schedule, we expect to be about two-thirds to 70% deployed by the end of the March and then fully deployed by the end of the second quarter given that pacing and, again, an adoption period and a learning curve it just means that the cost and productivity benefits we expect to get from the rollout of Medalogix is going to be more pronounced in the second half of the year. And with that, I'll ask April to both elaborate and correct me where I've been wrong.

<A – April Anthony – Encompass Health Corp.>: No, I think that's right. There's certainly nothing from a rate perspective that is technically going to make it different in the first half of the back, but there are some behaviors relative to fulsome coding, making sure that we're identifying every possible code that we're going to have to make sure our clinicians are tuned for. There's some focus on more specific codes that maybe were required under the PPS system, so there are some intangible things that we've got to work on with our team that hopefully as we get more and more education and more time out there, certainly we'll see that improve slightly. But I would say that the materiality of that improvement will be relatively small and that the 2% to 3% that we referenced will be relatively consistent over the course of the year.

And Doug is right. One of the things I want to say with what the Medalogix Care tool is it is not a tool that was designed under the PDGM model nor is it specifically tuned for the PDGM model. It's a tool that's designed to say what do patients need to achieve their highest possible outcome. And what we're finding in the deployment of the tool is it's really creating that much greater specificity of care planning tied to specific patient issues and needs. And so, we're finding that in many cases it's suggesting we do more visits than we had done in the past; in other cases, it's suggesting we do fewer visits than we had done in the past. But it's not a PDGM tuning that's suggesting that; it's really a patient-specific care need and outcome opportunity.

And so, I think the tool is giving our clinicians a new level of insight. Of course, their clinical judgment, as Mark mentioned, is not being overwritten by that tool. It's simply a tool in their tool belt to make sure that they have the greatest understanding and that they're being sort of pressure tested to think critically in all instances about patient need. And so, super encouraged about the early stages of input.

We've got relatively small percentage of our episodes that began being included on that tool and then have now ended in September, October and November of last year. And I think we're seeing positive results from that. But it's too small of a subset yet to fully extrapolate across our universe. But we're certainly encouraged by what we're seeing there.

We do recognize as well that when we deploy that tool, if it has the effect of lowering visits, it puts at risk the potential that cost per visit could go up. So if I'm doing fewer visits with the same staff, I could actually see my cost per visit elevate. And so, making sure that we're creating that right balance, creating capacity for growth within our clinical staff as a result of that decline in visits and that we're being smart about how we balance our full-time clinicians versus our per visit clinicians that are paid on a transactional basis, those are some of those fine-tunings that it may take our clinical staff a little bit of time as well once the tool is deployed to get their cost per visit back in line with where it has been historically. So lot of good things happening, but also just a little bit of a ramp it's going to take to get all of them completely effectively deployed.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Okay. So I guess just given that then, Doug, the comment about the pacing throughout the year, I guess when I first heard that, I thought, okay, we're going to have to change our model seasonality wise. It sounds more incremental or is there actually a difference in the pacing – in the seasonality this year versus prior years that we should be aware of? I don't know if there's a finer point you could put on that if, in fact, the model is going to look a little different than we're used to.

<A – Doug Coltharp – Encompass Health Corp.>: Kevin, I do think it is going to look a little different, which is specifically why we felt the need to address pacing and, specifically, I think the quarters that will be most pronounced are Q1 and Q4.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Q1 and Q4. Q1 down and Q4 up, you're saying?

<A – Doug Coltharp – Encompass Health Corp.>: Correct.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Okay, perfect. Thank you.

Operator: Our next question comes from the line of Matthew Gillmor of Baird.

<A – Doug Coltharp – Encompass Health Corp.>: Hey, Matt.

<A – Mark Tarr – Encompass Health Corp.>: Hey, Matt.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Hey. Thanks. Good morning. Hey, I wanted to follow up on the use of free cash flow, especially on the de novo side. I think it's $200 million to $240 million for this year, which is a pretty big step up. I think you mentioned maybe some preparation for some activity in Florida. But if you could just sort of talk about that increase and maybe where it's going and what's driving that?

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. So you've got two things going on right now. One is in response to the demographic tailwind overall and what we believe to be a growing imbalance between supply and demand for IRF beds. A lot of that attributable to the fact that if you look at the decade that took place from 2010 to 2020, the supply of licensed IRF beds in the US increased by about 1% in spite of that age cohort being served by the IRF segment growing during that timeframe in excess of 3%. So that's led to an imbalance.

So that's creating opportunities for de novos kind of across the nation, and you've seen some of the newer markets we've decided to enter. So we're bringing four new IRFs online during 2020. But the pipeline is building beyond that for 2021 and 2022. And that only includes as a baseline one specific opportunity in Florida, and that's Tampa, where we were able to procure CON before the repeal happened.

What we're trying to determine right now is when we actually have the ability to start construction work for Florida projects. And there is some ambiguity as to whether or not the July 2021 date means that that is the date on which we can open the doors of a new facility that will already have been built or whether no meaningful work can take place until that start date. We expect to get some clarification on that here in the near term.

In the interim, we are taking steps to put us in a ready position in Florida. We have, for a long time, because, as you know, we have a significant presence already in the state of Florida. We've had a prioritization of the markets that we wanted to enter. And we are out now looking at land and, in many instances, securing land that could be available whether construction begins immediately or down the road.

So what you see penciled in, in terms of the use of cash flow in our guidance really reflects more of the pipeline outside of Florida building for 2020 and 2021. And there's a potential that it could be accelerated if we get green-lighted earlier than anticipated for Florida.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Got it. And then as a follow-up, maybe you care to share this, maybe you don't, but specifically within Florida, do you have any estimate in terms of the number of beds the company could add within that market over the next couple years just so we can maybe get a sense for the impact from that change?

<A – Mark Tarr – Encompass Health Corp.>: I have to save something for Investor Day.

<Q – Matt Gillmor – Robert W. Baird & Co., Inc.>: Okay. Fair enough. Thank you.

Operator: Our next question comes from the line of Pito Chickering of Deutsche Bank.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning, Pito.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Hey, good morning, guys. Thanks for taking my questions. I wanted to dig into the Medalogix thing a little differently. The episodic visits per episode declined, to nine visits sequentially, which is pretty dramatic. Maybe I missed it, but what percent of sites have Medalogix rolled out and what's that timing throughout the year. But more importantly, as you improve the nurse staff efficiency, does it three up nursing capacity and because you don't want to let any nurses go, at what point does the organic growth rate of home health catch up the excess capacity for Medalogix? Like you talked about the seasonality from first quarter to fourth quarter, but do we even see the full benefit of Medalogix fall through to the bottom line by the fourth quarter or is it more of a 2021 story?

<A – April Anthony – Encompass Health Corp.>: I think we'll start to see that fall through occurring in the second half of 2020. We think that we can get that rightsizing to occur through a combination of attrition and organic growth so that we can catch up that capacity that's created by the visit savings. And from a perspective of deployment, as of the end of the year, we were about 67% deployed. Currently, as of the end of January, we're 74% deployed.

And because of the success of the program, we've actually accelerated a little bit and where we originally thought we'd be a little over 80% deployed by the end of the first quarter, I think we're on track to be closer to 90% by the end of the first quarter and then finish up kind of by late April, early May. So we're really encouraged with the pace, but I think it will take us into the second half before we find that balance between visit savings and costs per visit returning to the norm.

<A – Mark Tarr – Encompass Health Corp.>: I think, Pito...

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: So then by fourth quarter...

<A – Mark Tarr – Encompass Health Corp.>: ...we would anticipate that we're not going to have fully recognized all of the benefits related to the deployment of this tool in 2020.

<A – April Anthony – Encompass Health Corp.>: That's correct. I think we'll start to see the early effects of it coming in, in the second half. I don't really expect you to see much in the first half even though we may see visit declines because of the cost trade-offs that I mentioned, but I do think that a tool like this, it sharpens over time and I think our ability for our clinicians to trust it and really rely on it grows as they see the accuracy and the successful impact of outcomes. So, I think we've really got a ramp where we'll start seeing benefits in the second half of 2020, but I think that ramp will continue well into 2021 with some steady improvements as we get greater and greater adoption and greater and greater adherence to the suggested volumes as clinicians see the accuracy and the success of what's being predicted relative to the outcome impact it's making.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Which is a perfect segue to second follow-up, which is, as you look at the class, I'd say, to re-roll this out into the third quarter of 2019, how much of a reduction have you been seeing from those guys over the last, say, five, six months versus sort of the newer class of sites?

<A – April Anthony – Encompass Health Corp.>: Yeah. So, again, not an update that we're ready to quantify that yet, but we've only seen really the first wave episode that started in September, October, and November on the tool, have now completed their 60-day cycle. And so, we're just now beginning to see that. So, it's too small of a dataset that we would not want to disclose that yet because it's not enough to extrapolate from.

Operator: Our next question comes from the line of A.J. Rice with Credit Suisse.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning, A.J.

<A – Mark Tarr – Encompass Health Corp.>: Good morning, A.J.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Hey, everybody. Maybe first just ask about, so you guys did a lot of preparation for the PDGM. You're really analyzing all of this in great detail and got a lot of information as to what's happening. I think, Doug, you mentioned in your prepared remarks that you assume that you may see some freeing up of smaller and regional home health opportunities for acquisition or to grab their business. Do you have any sense of how are they – how are the smaller players experiencing this? Did they know right now how significant the change is to them? What point over the course of the year might they have a better understanding and what kind of discussions are you having with them now as to what they're experiencing?

<A – April Anthony – Encompass Health Corp.>: Yeah. I would say for us, we have yet to see the smaller providers fully recognize the impact of what's coming down. And if you think about it, you really got to – you've got to bleed out of the old system and bleed into the new system. And so really in January and February, they're still getting payments really under the old method. So, the episodes that started in December, they're still getting RAP payments, there are still episodes being paid in that old way.

I think when you reach March and April timeframe is when they're going to sort of fully bled off of the old system, be fully into the new system and begin to really feel the pinch of now only receiving 20% RAP payment and be able to feel the impact of the rate cut that is coming on the episodes that are being completed and the final claims that are coming through. So, I would guess that it's more of a mid to late second quarter timeframe that we're going to see the small providers really begin to say, uh-oh, where'd all my cash go. And I think it may be not until that moment when they realize their cash account is lower than they had anticipated that they really realize the full impact of it.

And so, that'd be my prediction and I would say we're trying to stay close. We've got a robust pipeline always of opportunities. But we are definitely staying close not only to those that are in our pipeline, but also making sure that all of our clinical teams in the field, all of our leadership teams throughout the 300-nearly-30 locations are also very tuned in to what they're hearing in the market.

These folks tend to have friends that work in other home health agencies. And so, when they hear that message, trying to make sure they know exactly how to get that word to us quickly that they've heard about the struggle the competitors having, so that we can start making inbound calls. So, I think that's really going to ramp up in that April-May timeframe.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Okay. And then my follow-up was around, I think your guidance for 2020 suggests sort of wages up on average of 3.5%. There have been some discussion that because of the PDPM change that SNFs are experiencing, we might see some excess therapy – therapist capacity available. It seems – if I'm right, that 3.5% is a slight increase over what you had been running. Can you just tell us a little bit about what you're seeing on the labor side and what's behind that?

<A – April Anthony – Encompass Health Corp.>: Well, like you, we certainly read and hear a lot about what the nursing home sector is doing relative to therapist. We certainly have experienced zero lay-off in the therapy division. We don't expect or anticipate anything to happen in that regard. We have no intention of lowering our compensation to that group. It may be that in the future the rates for that sub-sector begin to moderate because of a supply-demand imbalance. I would say we are not seeing that yet and certainly, we don't have any anticipation to do anything within our group.

Also, I would say that our therapists have the lowest turnover in our industry, so it's not like attrition will bring this to bear sooner for us because we have single-digit turnover in the therapy area. And so, I don't really anticipate that we'll see much benefit from that other than possibly just a little better improvement in net new hires for that discipline perhaps slightly less expensive than the past.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: And...

<A – Doug Coltharp – Encompass Health Corp.>: A.J., it's something we're tracking with our hospitals. So I am going to ask Barb Jacobsmeyer to weigh in on what we're seeing from a hospital therapy perspective.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: All right.

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Yeah. Kind of like April mentioned, we have very low turnover for our therapists. It was 7% in 2019. So, the other thing I would mention is that we've never tried to be competitive with the rates that are paid to a therapist at the skilled facility. The settings are very different. And so, even though like we do hire a therapist at a competitive rate, we've never tried to compete with the skilled rate, so it doesn't really create an opportunity from a rate perspective for us.

<A – Doug Coltharp – Encompass Health Corp.>: And then, the last thing I would add to that, A.J., this is Doug, is that part of the reason you're getting up to 3.5% is because our assumed benefits increase for both business segments in 2020 is higher than it has been recently with a range of 8% to 12% and that is due in both instances to favorable results in 2019. On the IRF segment 2019, the lower-than-anticipated benefits expense was related to the workers' compensation adjustments from prior period – prior year claims that we referenced. And on home health, even though we had an increase in group medical for the fourth quarter for the year, group medical was better than we anticipated, so there's some element of mean reversion anticipated in the 2020 assumption around benefits.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Okay. Thanks.

Operator: Our next question comes from the line of Brian Tanquilut of Jefferies.

<A – Doug Coltharp – Encompass Health Corp.>: Hello, Brian.

<Q – Brian Tanquilut – Jefferies LLC>: Hey, good morning.

<A – Mark Tarr – Encompass Health Corp.>: Hey, Brian.

<Q – Brian Tanquilut – Jefferies LLC>: Good morning. Mark, without trying to steal your thunder ahead of Investor Day, so as I listen to Doug talking about increasing the credit facilities and all the opportunities in Florida and these things, should we be thinking that growth is expected to accelerate after 2020 on both sides of the business?

<A – Mark Tarr – Encompass Health Corp.>: We're very positive on our growth outlook for 2021 and beyond. We do think that Florida is just part of that. We think we have opportunities in the home health and hospice side. Certainly on the IRF side, we've talked about the new hospitals we're bringing on in 2020. We're excited about the new states we're bringing them on.

Doug touched upon the Florida itself. We have 12 hospitals in the State of Florida. That's a state where there's going to be continued population – aging and population growth. That is a state where we have a long history in terms of dealing with the agencies there. So, we're very positive about the growth outlook for the company as well as our strategic initiatives that we have.

<Q – Brian Tanquilut – Jefferies LLC>: Appreciate it. I guess...

<A – Doug Coltharp – Encompass Health Corp.>: Hey, Brian, we will be providing some more detail about anticipated growth at the Investor Day.

<Q – Brian Tanquilut – Jefferies LLC>: No, I appreciate that. I guess my follow-up is for Barb. So, as we think about the implementation of Section GG, you obviously had some training heading into the implementation of that on October 1. I'm guessing it impacted productivity and cost. So, how should we be thinking about the tapering off of that drag from the training and just pulling capacity out as your nurses are trained into – or for that new reimbursement system?

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Well, as we mentioned on third quarter, obviously, to your point, we had the bulk of the major education happening in that September timeframe, October timeframe because of the go live October 1 and that was over 20,000 clinicians that all had to be trained. The training now is more going to be about obviously new employees that join our hospitals will need to be trained, but also now some of our reporting that can show maybe where there's inconsistency or some inter-rater reliability opportunities to do more of that employee-to-employee education. So, we'll certainly see it taper off from what we saw in third and fourth quarter, but we're going to continue to be pretty diligent about making sure we continue to get our folks educated in competency.

<Q – Brian Tanquilut – Jefferies LLC>: Appreciate it. Thanks. Congrats.

<A – Doug Coltharp – Encompass Health Corp.>: I would not view the tail off or the elimination of the training cost related to Section GG as a big tailwind for 2020 because we just don't know right now how much incremental training and education we're going to have to deploy throughout the course of the year. If things go as well as they did in the fourth quarter, that is a potential benefit for us, but right now I think it's prudent to expect that we will have to spend some portion of that again in 2020.

<Q – Brian Tanquilut – Jefferies LLC>: All right. Got it. Thanks, Doug.

Operator: Our next question comes from the line of Frank Morgan of RBC Capital Markets.

<A – Doug Coltharp – Encompass Health Corp.>: Hello, Frank.

<A – Mark Tarr – Encompass Health Corp.>: Good morning, Frank.

<Q – Frank Morgan – RBC Capital Markets LLC>: Good morning. Hey, a lot of my questions answered, but I guess I'll stay on the IRF side of the business here. The 90 bps pricing growth that you had in the quarter, sounds like it might have been more like 70 bps if you exclude some of the one-time benefits. But I'm wondering in a similar vein when you talked about the home health care side, is there anything that is not fully baked into or reflected in the average rate that might change over the year in the IRF side of the business? I guess on two levels, one, just mechanically with the new Section GG, but also the impact of this growth in these Medicare Advantage stroke cases. Is there some other element other than just the mechanics of Section GG that might make rates better or worse over the course of the year? Thanks.

<A – Doug Coltharp – Encompass Health Corp.>: So, Frank, on the fourth quarter IRF pricing, if you strip out both the impact of the timing of discharges between fiscal quarters and the retro period cost report adjustment, I think the rate was about 60 basis points, up 60 basis points versus the 70 basis points that you quoted.

<Q – Frank Morgan – RBC Capital Markets LLC>: Okay.

<A – Doug Coltharp – Encompass Health Corp.>: The reason we didn't pencil that in is a point estimate for the first three quarters of this year is because this has been a comprehensive change to the payment system. So, we can't necessarily suggest that one quarter's worth of data and results has established the new trend and we need to see what the adoption looks like as we move through the normal seasonality and the progression of the fiscal year and that's why we're still out there with that range, albeit having raised the higher end of the range now from up 50 basis points to up 75 basis points.

In terms of other things that could come to bear in 2020, on the pricing, we do expect that Medicare Advantage discharge volume growth will continue to outpace Medicare fee-for-service. Although when you look, and I think we've spoken before in these types of venues that we measure on a regular basis the new Medicare beneficiary enrolment in every county in which we have a hospital. And in the most recent period, Medicare fee-for-service enrollees continue to outpace Medicare Advantage enrollees. So, roughly 55% of the new beneficiaries enrolled in fee-for-service and 45% in Medicare Advantage. Nonetheless because of the value proposition that we're able to establish with Medicare Advantage Plans

around specific diagnoses like stroke and neurological, we expect that growth to continue at a higher level. The good news is that most of those are on a case rate basis and that case rate basis is essentially the same as Medicare fee-for-service. So that should track the growth in the fee-for-service pricing, and we don't see any material impact outside of what we've cited as the Section GG impact.

<Q – Frank Morgan – RBC Capital Markets LLC>: I guess, if you can share, what is the sort of the average DRG payment rate for a stroke patient? I think in the past you said maybe – it may was like a 10% discount, but I don't know [indiscernible] (00:58:19), is a stroke patient a much more higher dollar case?

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. So it's going to be closer to a $22,000 per discharge. And, obviously, it carries with it a slightly longer length of stay and a more intensive therapy regime. So, that higher price per discharge is not necessarily resulting in a material difference in terms of a flow to EBITDA margin if you were able to take it to that level, although it will generate higher EBITDA margins or higher EBITDA dollars.

<Q – Frank Morgan – RBC Capital Markets LLC>: EBITDA dollars, got you. Okay. That's good. Thank you.

<A – Mark Tarr – Encompass Health Corp.>: Thanks, Frank.

Operator: [Operator Instructions] Our next question comes from the line of Matthew Borsch of BMO Capital Markets.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning.

<Q – Matt Borsch – BMO Capital Markets (United States)>: Good morning. Thank you. I guess I'm the at least the third analyst named Matt on the call.

<A – Doug Coltharp – Encompass Health Corp.>: Makes it easier for us.

<Q – Matt Borsch – BMO Capital Markets (United States)>: Yeah, right. Well, we'll go whole hog and have everybody. So I just wanted to ask maybe sort of building on the last question there, which was on the Medicare fee-for-service versus MA reimbursement on the IRF side. Can you just talk about the home health and hospice side? And then in light of PDGM, what your efforts have been on negotiating on the MA side?

<A – Doug Coltharp – Encompass Health Corp.>: April, you want to take that one?

<A – April Anthony – Encompass Health Corp.>: Sure. So, unfortunately, we're not seeing as close to proximity to the traditional Medicare rates for the Medicare Advantage in home health sector. For us, that haircut is larger than it is in the IRF segment. And so, our desire to grow that segment has remained sort of limited. We have had some nice progress over the last year, I would say, in improving our rates slightly and have seen some enhancement in that, but nevertheless still a pretty significant discount even to the adjusted PDGM rate.

Under PDGM, we are seeing that about, give or take, 90% of the non-Medicare payers are converting to PDGM as well, or at least they're claiming to. I think a lot of them are going to struggle in that they haven't prepared their systems for that. So we could see some cash flow extension from those payers who want to pay under the PDGM model, but don't have their systems tuned to fully do that yet. So we're kind of anticipating some slowdown in payment from those payers.

But everybody does say they're going to convert to that model of payment. So those who are paying as episodically under the old PPS rates will now pay us episodically under the PDGM rates. And so, that's at least good news and it will all be under a common component. But I do think it will take a few months for those non-Medicare payers to shake out.

So we'll continue working, trying to identify relationships that we can, in fact, lean into, but also being very discerning about not wanting to take loss leader relationships. We just haven't found that doing so is a good trade-off. It doesn't really help us grow our Medicare business simply because we'll take a physician or a hospital low-paying business. We'd rather just sell our value propositions. And so, we're going to still be very discerning. And if we can come up with a credible relationship, we'll pursue it, but we're not just going to grow for the sake of growth with non-profitable business.

<Q – Matt Borsch – BMO Capital Markets (United States)>: Got it. Okay. Thank you.

Operator: Our next question comes from the line of Peter Costa of Wells Fargo.

<A – Doug Coltharp – Encompass Health Corp.>: Good morning, Pete.

<Q – Pete Costa – Wells Fargo Securities LLC>: Good morning, everyone. I know it's hard to gauge what the government might do, but you're quite close to it. So I'm wondering if you had any insight on whether you think the government will for 2022 do another rate cut in home health to try to get the other half of what they want to do this year, but didn't get done. Is that possible?

And then the follow-up to that, sort of separate, but looking at the visits per episode, that dropped to 16.4 this quarter, which is continuing trend down. Should we expect that to keep headed down and you've talked about why it's going down, but I just want to make sure that we're going to see that continue sort of at the same rate that it did the last couple of quarters.

<A – April Anthony – Encompass Health Corp.>: Sure. So starting with our predictive ability relative to what CMS will do, and you mentioned 2022. I think that we feel very strongly that there would not be an adjustment in the 2021 rates because there will be very limited actual PDGM data available by the time the 2021 rate is set. So we don't anticipate any significant rate adjustments to the downside in 2021. Hopefully, we'll get a full market basket and actually get a year that we see some net positive.

In 2022, they will begin to have the first glimpse at a full year of PDGM data from 2020 and perhaps at that point in time, if they see that behavior changes, exceeded what they baked into the system, they certainly could do more something along the line of a case-mix creep adjustment as they've done in the past. It's our belief that the statutory language which gave CMS the authority to do assumed behavior changes was a one-time statutory authority and that they don't have the opportunity to just keep layering more assumed behavior changes in year after year, that they'll actually have to use observed data.

So we think 2022 would be the first period they would have enough observable data to actually make a change. I think it is highly unlikely that that observable data will show that the industry moderated behaviors as fast as they had expected. So I would guess that we're probably in for a couple of years of rate stability, and that it may be more like a 2023 timeframe before there's enough data and enough time for the industry to truly change behaviors in that data to see a rate change. So I'm certainly feeling good about 2021 and pretty positive as well about 2022 being moderate rate years for us where we just get market basket increases and move on.

To your second question relative to visits per episode, there are some unique things that occur in the fourth quarter, obviously, with all the holiday times. Oftentimes, patient will say my children are in town, I don't want you to come during the Thursday, Friday of Christmas or during the holiday, or Thanksgiving, excuse me, or during the Christmas time.

So we do typically see a little bit of lower visits per episode in the fourth quarter, but we also believe that some of that fourth quarter improvement is, in fact, the tailwind of Medalogix Care. And that as we get that more fully deployed, that we will continue to see that rate and continuing to improve slightly visits per episode.

Again, keep in mind, the moderation of initially trading a visit of a full-time staff member who gets paid the same amount doesn't create any net value to the bottom line. So we do think we'll continue to see those improvements in visits per episode, but that there's a little bit of a lagging catch-up in the cost per visit side, so that we get the full benefit of that. So, again, look to the second half for the net value of that visit improvement.

<Q – Pete Costa – Wells Fargo Securities LLC>: Okay. So then just as a final follow-up on that, if you don't mind. If that bounces up, say, a little bit into January and then you talked about the January rates being better. Every time you talk about the rate changes in home health, it seems like January and February looks to me a little better than March and April. But you talked about the earnings pressure being the worst in the first quarter and best in the fourth quarter. Why is that earnings pressure worse in the first quarter and why wouldn't it be worse in the second quarter, and why isn't it more tempered in the first quarter?

<A – April Anthony – Encompass Health Corp.>: Well, it's tempered in the first quarter because you're still – you still have the bleed out. So, episodes that started on December 31 are going to have 59 days of time in the first quarter that they're being paid at the old pre-rate cut rate into the old PPS system. So, in the first quarter, you kind of have that benefit of really two months' worth of episodes that are phasing in over the course. So, by the time you get to the end of February, all of those old PPS episodes will now be gone. You'll be fully into the new rate cut environment. And so, January looks a little better than – or, excuse me, first quarter looks a little better than second quarter because you're bleeding out in higher rate episodes. You don't have everything at that rate cut level yet. That makes sense?

Operator: And that was our final question. I would like to turn the floor back over to Doug Coltharp for any additional or closing remarks.

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

Thank you, operator. I understand that there may have been some technical difficulties at the outset of the call and if so, we apologize that. In the event you missed it at the outside of the call, I did the introduction and I'm doing this part not because Crissy has in any way changed her capacity with our company. Crissy is actually here and on the call today. She is feeling a little bit under the weather. So, we have sequestered her in another room. And I wanted to state as well and follow up on what Mark stated in his remarks that we do have an Investor Day scheduled for March 4 at The Pierre in New York City and we hope that you will be able to join us for that. And if anyone has any additional questions regarding this call, Crissy is available to take your follow-up calls and her direct line is 205-970-5860, and we thank you again for joining today's call.

Operator: Thank you. Ladies and gentlemen, this does conclude today's conference call. You may now disconnect and have a wonderful day.