Credit Suisse Healthcare Conference

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Encompass Health

Forward-looking statements

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

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

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

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

Note regarding presentation of non-GAAP financial measures

The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934, including Adjusted EBITDA, leverage ratios, adjusted earnings per share, and adjusted free cash flow. Schedules are attached that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States.

Company overview

A leading provider of inpatient rehabilitation hospitals and home-based care

145	249	95
IRFs	Home Health locations	Hospice locations

States and Puerto Rico

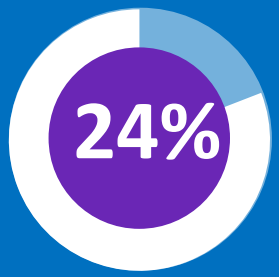
42

Committed to delivering high-quality, cost-effective, integrated care across the healthcare continuum

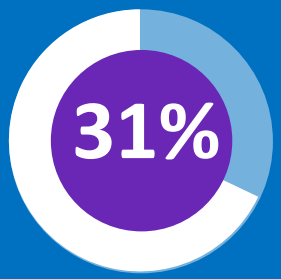
Company overview

Inpatient Rehabilitation

Largest owner and operator of IRFs



of licensed beds†



of Medicare patients served†

35
States & Puerto Rico

145
Inpatient Rehabilitation Hospitals

53
Operate as joint ventures with acute care hospitals

125
Hospitals hold one or more disease-specific certifications

~32,800
employees

~193,200*
patients

~$3.9 billion*
revenues

* Trailing four quarters
† Based on 2019 and 2020 data

Company overview

Home Health and Hospice

- 4th largest provider of Medicare-certified skilled home health services
- Top 8 provider of hospice services

249
Home Health locations

95
Hospice locations

34
States

98%
Home health agencies ≥3 stars for quality of care

98%
Home health agencies ≥3 stars in patient satisfaction

~11,000
employees

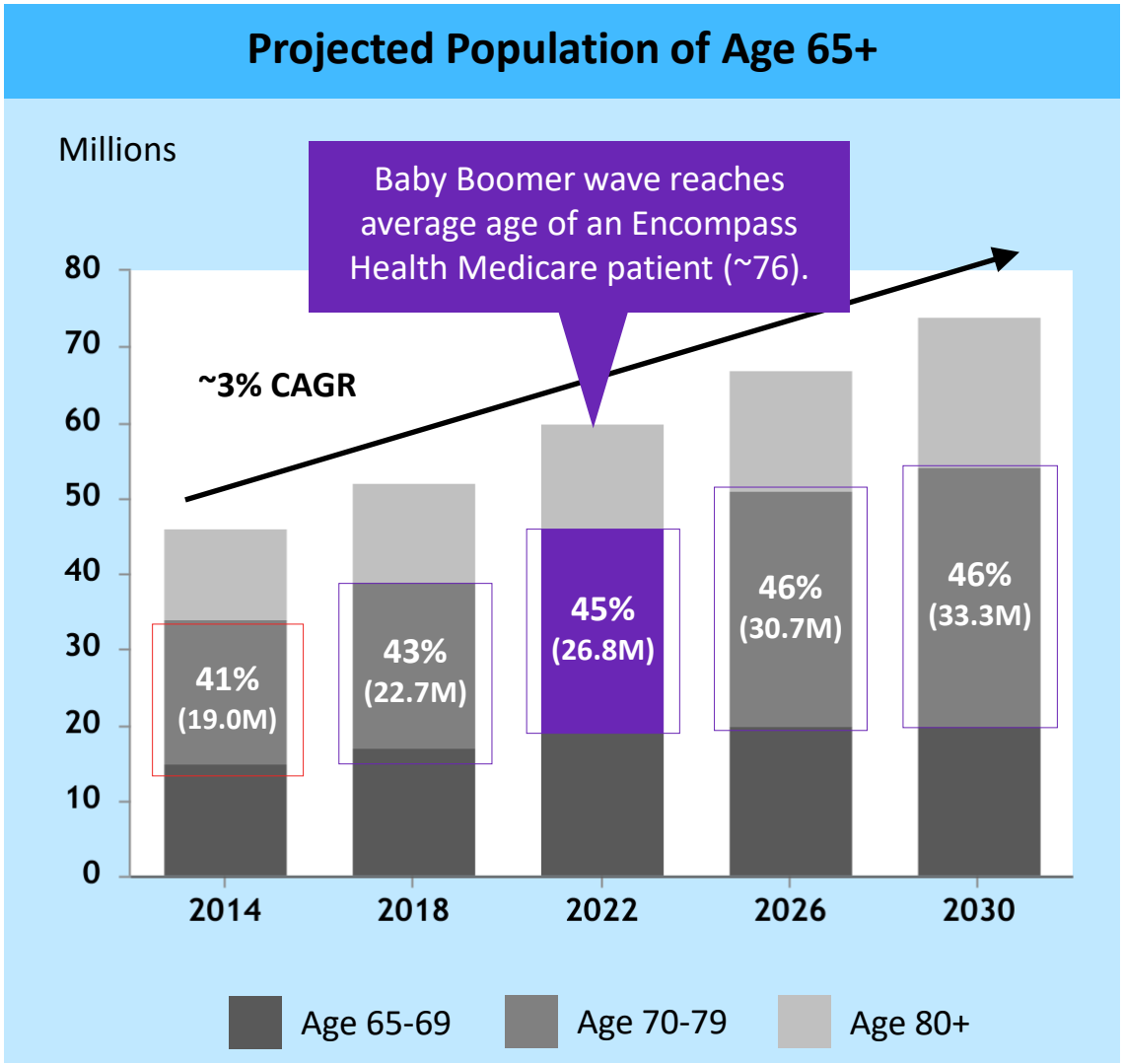
~158,300*
home health episodic admissions

~13,200*
hospice admissions

~$1.1 billion*
revenues

* Trailing four quarters

All business lines benefit from a demographic tailwind: growth in the Medicare beneficiary population



- The growth rate of Medicare beneficiaries increased in 2011 to an approx. **3% CAGR** as "Baby Boomers" started turning age 65.
  - ~10,000 Baby Boomers turn 65 each day
- **The CAGR for the population in Encompass Health's average patient age range is ~5%.**

CAGR (population growth by age)				
Age	2014 to 2018	2018 to 2022	2022 to 2026	2026 to 2030
65-69	2.8%	2.6%	1.6%	(0.1)%
70-74	4.9%	3.7%	2.5%	2.1%
75-79	4.0%	5.0%	4.9%	2.0%
80+	1.5%	2.4%	3.6%	5.2%
Total	**3.2%**	**3.3%**	**2.9%**	**2.2%**

Source: https://www.census.gov/data/datasets/2017/demo/popproj/2017-popproj.html

Strategic alternatives review for home health and hospice business

- On **December 9, 2020**, the Company announced it is exploring strategic alternatives for its home health and hospice business.

- On **October 27, 2021**, the Company announced that it expects to effect the partial or full separation of its home health and hospice business into an independent public company via a carve-out IPO, spin-off, or split-off.
  - A transaction is targeted in the first half of 2022.
  - The Company expects to announce a more precise timing and the form of the separation transaction in connection with its fourth quarter earnings release.

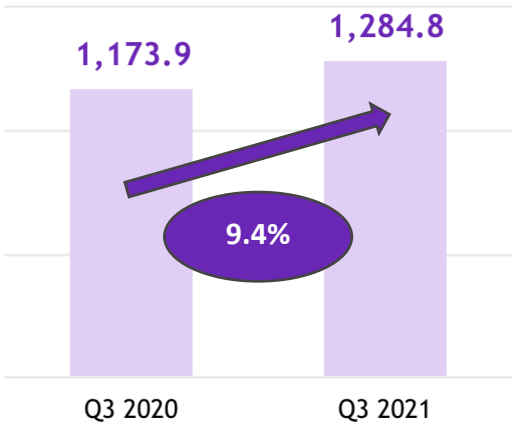
While there can be no assurance that a transaction of this nature will be consummated, the Company has made significant progress on the various tasks necessary to complete a separation transaction and will further its state of readiness over the balance of this year.

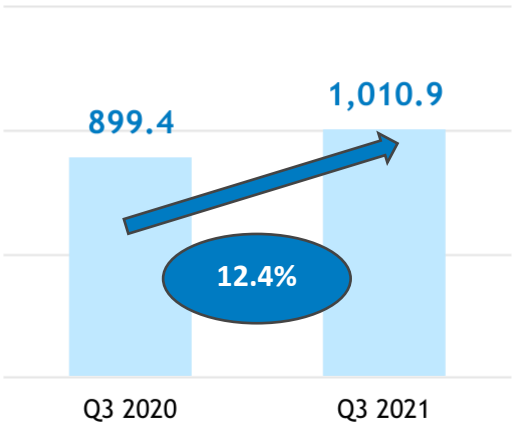
Q3 Results and Current Trends

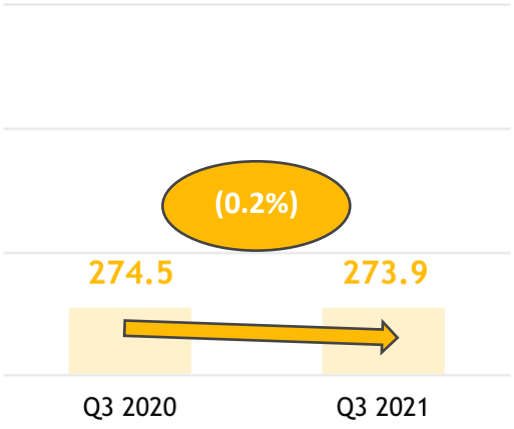
Q3 2021 summary

Encompass Health Consolidated	Inpatient Rehabilitation Segment	Home Health and Hospice Segment

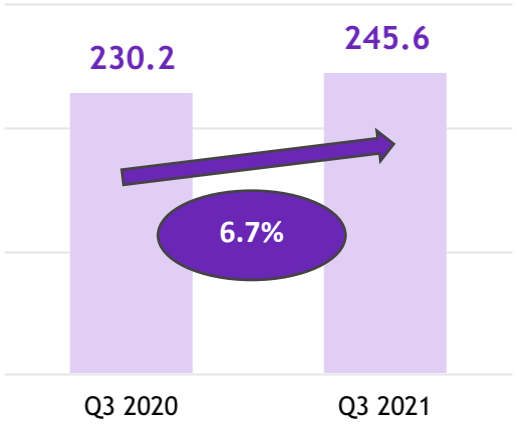
NET OPERATING REVENUES ($ millions)

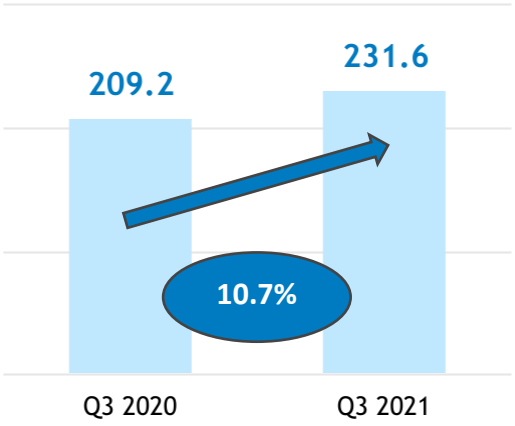


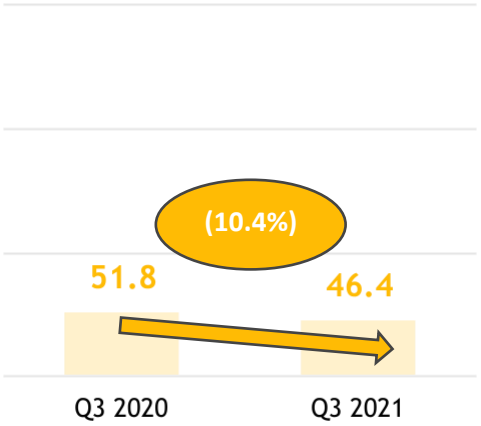




ADJUSTED EBITDA ($ millions)







Reconciliations to GAAP can be found on pages 16-19.

Q3 Key takeaways

Inpatient Rehabilitation Segment

Strong revenue growth of 12.4% and Adjusted EBITDA growth of 10.7% in inpatient rehabilitation business over Q3 2020

- Discharge growth of 8.7%, inclusive of same-store growth of 6.7%
- Growth in net patient revenue per discharge of 2.4% primarily resulted from an increase in reimbursement rates and higher patient acuity
- Salaries and benefits as a percent of revenue increased by 30 bps, primarily due to:
  - ✓ Higher sign-on shift bonuses plus contract labor to meet increased patient volumes
  - ✓ Pre-opening and ramp up costs associated with new stores

Home Health and Hospice Segment

Home health and hospice volumes and labor costs negatively impacted by COVID-19 surge

- While total home health patient referrals grew 12.3% YTD and 7.3% Q3 2021 vs. Q3 2020, staffing constraints, continued lower occupancy levels at senior living facilities, and limited elective procedures contributed to the volume decline of 0.9%
  - ✓ We lost approximately 2,500 admissions due to staffing constraints
  - ✓ Staffing constraints resulted primarily from quarantined employees and industry-wide nursing shortages
  - ✓ Episodic admissions of patients residing in senior living facilities declined by ~1,100 compared to Q3 2020
  - ✓ Episodic admissions of patients receiving elective procedures in acute care hospitals declined by ~400 compared to Q3 2020
- Cost per visit increased 9.3% due to lower clinician productivity associated with recent hires, market rate increases for nurses, and increased contract labor

▶ **2021 guidance was revised to reflect Q3 results and anticipated continuation of volume challenges in home health and hospice and continued higher labor costs in both segments**

Actions taken and October trends

Actions taken

- Staffing constraint mitigation strategies include offering more flexible work schedules, increasing our hiring incentives, and implementing market rate adjustments
  - ✓ 435 HH&H nurses were hired in the third quarter of 2021, a 42% increase from the third quarter of 2020
    - On average, it takes about 60 days before a new full-time clinician is operating at expected productivity levels
    - In Q3 2021, we had 793 employees that had been with us for 60 days or less that had not hit full productivity compared to 270 in Q3 2020
- We have actively encouraged our employees to become vaccinated, and employee vaccination rates continue to improve month over month
  - ✓ This has led to a continued decline in the number of quarantined HH&H field employees
- We added over 3,000 new HH&H referral sources in Q3 2021

Improving October trends (as of October 27, 2021, when the Company reported Q3 2021 results)

- Number of quarantined HH&H field employees averaged 179 in August, 155 in September and 109 in October
- During Q3 2021, the number of our home health locations with staffing limitations decreased from a high of 85 to a low of 62 as the quarter closed, and only 50 when the Company reported Q3 results
- Average home health admissions per day were up by 14 (~4%) in October compared to September

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

($ in millions, except per share data)	Initial Guidance January 26, 2021	Updated Guidance April 27, 2021	Updated Guidance July 27, 2021	Revised Guidance
Net Operating Revenue	$5,000 to $5,170	$5,060 to $5,230	$5,100 to $5,250	$5,080 to $5,130
Adjusted EBITDA [1]	$925 to $955	$1,000 to $1,030	$1,050 to $1,070	$1,025 to $1,045
Adjusted earnings per share from continuing operations attributable to Encompass Health [2]	$3.31 to $3.53	$3.94 to $4.16	$4.32 to $4.47	$4.23 to $4.38

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

Refer to end notes on page 20 for further detail.

Q4 2021 guidance considerations

Inpatient Rehabilitation

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

Home Health and Hospice

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

Both Segments

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

Encompass Health

Appendix

Adjusted EBITDA Reconciliations

Reconciliation of net income to Adjusted EBITDA[1]

	2021							
	Q1		Q2		Q3		9 Months	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	$ 132.8		$ 142.0		$ 126.7		$ 401.5	
Loss from disc ops, net of tax, attributable to Encompass Health	—		0.3		0.1		0.4	
Net income attributable to noncontrolling interests	(25.5)		(28.7)		(26.7)		(80.9)	
Income from continuing operations attributable to Encompass Health*	107.3	$ 1.07	113.6	$ 1.13	100.1	$ 1.00	321.0	$ 3.20
Provision for income tax expense	34.5		39.5		34.1		108.1	
Interest expense and amortization of debt discounts and fees	42.8		41.8		39.9		124.5	
Depreciation and amortization	62.5		63.4		64.9		190.8	
Loss on early extinguishment of debt[3]	—		1.0		—		1.0	
(Gain) loss on disposal or impairment of assets	(0.1)		2.9		(5.2)		(2.4)	
Stock-based compensation expense	2.8		12.0		6.9		21.7	
Costs associated with the strategic alternatives review	0.9		4.1		4.6		9.6	
Costs associated with the Frontier acquisition	—		1.3		—		1.3	
Gain on consolidation of former equity method location[4]	—		—		—		—	
Change in fair market value of equity securities	0.1		(0.7)		0.3		(0.3)	
Adjusted EBITDA	$ 250.8		$ 278.9		$ 245.6		$ 775.3	
Weighted average common shares outstanding:								
Basic		99.0		99.0		99.0		99.0
Diluted		100.2		100.2		100.2		100.1

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to end notes on page 20 for further detail.

Reconciliation of net income to Adjusted EBITDA[1]

	2020									
	Q1		Q2		Q3		Q4		Full Year	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	$ 108.7		$ 48.3		$ 100.1		$ 111.7		$ 368.8	
Loss (income) from disc ops, net of tax, attributable to Encompass Health	0.1		(0.1)		—		—		—	
Net income attributable to noncontrolling interests	(21.7)		(14.8)		(22.4)		(25.7)		(84.6)	
Income from continuing operations attributable to Encompass Health*	87.1	$ 0.87	33.4	$ 0.34	77.7	$ 0.78	86.0	$ 0.86	284.2	$ 2.85
Government, class action, and related settlements	2.8		—		—		—		2.8	
Provision for income tax expense	27.1		11.8		26.9		38.0		103.8	
Interest expense and amortization of debt discounts and fees	43.2		45.8		49.0		46.2		184.2	
Depreciation and amortization	58.8		60.7		61.2		62.3		243.0	
Loss on early extinguishment of debt[5]	—		—		—		2.3		2.3	
Loss on disposal or impairment of assets	0.1		3.0		7.5		1.0		11.6	
Stock-based compensation expense	7.1		9.9		8.3		4.2		29.5	
Gain on consolidation of former equity method location[4]	(2.2)		—		—		—		(2.2)	
Change in fair market value of equity securities	2.5		(2.4)		(0.4)		(0.1)		(0.4)	
Payroll taxes on SARs exercise[6]	1.5		—		—		—		1.5	
Adjusted EBITDA	$ 228.0		$ 162.2		$ 230.2		$ 239.9		$ 860.3	
Weighted average common shares outstanding:										
Basic		98.2		98.7		98.7		98.7		98.6
Diluted		99.6		99.9		99.9		100.1		99.8

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to end notes on page 20 for further detail.

Net cash provided by operating activities reconciled to Adjusted EBITDA[1]

(In Millions)	Q3 2021	Q3 2020	9 Months 2021	9 Months 2020	Full Year 2020
Net cash provided by operating activities	$ 177.6	$ 173.4	$ 592.0	$ 425.0	$ 704.7
Interest expense and amortization of debt discounts and fees	39.9	49.0	124.5	138.0	184.2
Equity in net income of nonconsolidated affiliates	0.9	1.0	2.9	2.5	3.5
Net income attributable to noncontrolling interests in continuing operations	(26.7)	(22.4)	(80.9)	(58.9)	(84.6)
Amortization of debt-related items	(1.8)	(2.0)	(5.8)	(5.1)	(7.2)
Distributions from nonconsolidated affiliates	(0.9)	(0.8)	(2.7)	(2.8)	(3.8)
Current portion of income tax expense	35.9	23.5	103.7	71.5	51.4
Change in assets and liabilities	16.0	7.2	27.0	47.7	7.3
Cash used in operating activities of discontinued operations	—	0.1	0.6	0.2	0.2
Costs associated with the strategic alternatives review	4.6	—	9.6	—	—
Costs associated with the Frontier acquisition	—	—	1.3	—	—
Payroll taxes on SARs exercise[6]	—	—	—	1.5	1.5
Change in fair market value of equity securities	0.3	(0.4)	(0.3)	(0.3)	(0.4)
Other	(0.2)	1.6	3.4	1.1	3.5
Adjusted EBITDA	$ 245.6	$ 230.2	$ 775.3	$ 620.4	$ 860.3

Refer to end notes on page 20 for further detail.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2021	2020	2021	2020	2020
	(In Millions)				
Total segment Adjusted EBITDA	**$ 278.0**	**$ 261.0**	**$ 879.4**	**$ 712.8**	**$ 986.3**
General and administrative expenses	(43.9)	(39.1)	(136.7)	(117.7)	(155.5)
Depreciation and amortization	(64.9)	(61.2)	(190.8)	(180.7)	(243.0)
Gain (loss) on disposal or impairment of assets	5.2	(7.5)	2.4	(10.6)	(11.6)
Government, class action, and related settlements[7]	—	—	—	(2.8)	(2.8)
Loss on early extinguishment of debt[3][5]	—	—	(1.0)	—	(2.3)
Interest expense and amortization of debt discounts and fees	(39.9)	(49.0)	(124.5)	(138.0)	(184.2)
Net income attributable to noncontrolling interests	26.7	22.4	80.9	58.9	84.6
Change in fair market value of equity securities	(0.3)	0.4	0.3	0.3	0.4
Gain on consolidation of former equity method location[4]	—	—	—	2.2	2.2
Payroll taxes on SARs exercise[6]	—	—	—	(1.5)	(1.5)
Income from continuing operations before income tax expense	**$ 160.9**	**$ 127.0**	**$ 510.0**	**$ 322.9**	**$ 472.6**

Refer to end notes on page 20 for further detail.

End notes

(1) Adjusted EBITDA is a non-GAAP financial measure. The Company's leverage ratio (total consolidated debt to Adjusted EBITDA for the trailing four quarters) is, likewise, a non-GAAP measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure and the leverage ratio as a liquidity measure on an ongoing basis. These measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance or liquidity. In evaluating Adjusted EBITDA, the reader should be aware that in the future the Company may incur expenses similar to the adjustments set forth.

(2) The Company is providing adjusted earnings per share from continuing operations attributable to Encompass Health ("adjusted earnings per share"), which is a non-GAAP measure. The Company believes the presentation of adjusted earnings per share provides useful additional information to investors because it provides better comparability of ongoing operating performance to prior periods given that it excludes the impact of government, class action, and related settlements, professional fees - accounting, tax, and legal, mark-to-market adjustments for stock appreciation rights, gains or losses related to hedging and equity instruments, loss on early extinguishment of debt, adjustments to its income tax provision (such as valuation allowance adjustments, settlements of income tax claims and windfall tax benefits), items related to corporate and facility restructurings, and certain other items deemed to be non-indicative of ongoing operating performance. It is reasonable to expect that one or more of these excluded items will occur in future periods, but the amounts recognized can vary significantly from period to period and may not directly relate to the Company's ongoing operating performance. Accordingly, they can complicate comparisons of the Company's results of operations across periods and comparisons of the Company's results to those of other healthcare companies. Adjusted earnings per share should not be considered as a measure of financial performance under generally accepted accounting principles in the United States as the items excluded from it are significant components in understanding and assessing financial performance. Because adjusted earnings per share is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, it may not be comparable as presented to other similarly titled measures of other companies.*

(3) In the second quarter of 2021, the Company redeemed a total of $200 million of 5.125% Senior Notes due 2023 ($100 million in April and $100 million in June). The redemptions were completed at 100% of par using cash on hand and drawings under the Company's revolving credit facility. As a result of the redemptions, the Company recorded a $1.0 million loss on early extinguishment of debt in the second quarter of 2021.

(4) As a result of an amendment to the joint venture agreement related to our home health location in Treasure Coast, Florida, the accounting for this agency changed from the equity method of accounting to a consolidated entity effective January 1, 2020. We accounted for this change in control as a business combination and consolidated this entity using the acquisition method. As a result of our consolidation of this agency and the remeasurement of our previously held equity interest at fair value, we recorded a $2.2 million gain as part of other income in the first quarter of 2020.

(5) In October 2020, the Company issued $400 million of 4.625% Senior Notes due 2031. The proceeds plus approximately $300 million of cash on hand were used to fully redeem $700 million of 5.75% Senior Notes due 2024 at par on November 1, 2020. As a result of this redemption, the Company recorded an approximate $2 million loss on early extinguishment of debt in the fourth quarter of 2020.

(6) In connection with the 2014 acquisition of Encompass Home Health and Hospice, the Company granted stock appreciation rights ("SARs") based on the fair value of the common stock of Home Health Holdings to certain members of that management team. Half of the SARs vested on Jan. 1, 2019, and the other half vested on Jan. 1, 2020. The fair value of the SARs was determined using the product of Home Health Holdings' EBITDA for the trailing 12-month period and a median market price multiple based on a basket of public home health companies and recent transactions, less the current balance of any intracompany note to the parent. In Q1 2019 and Q3 2019, holders exercised vested SARs for cash proceeds of approximately $13 million and approximately $55 million, respectively. In Q1 2020, holders exercised the remaining SARs for cash proceeds of approximately $101 million.

(7) As previously disclosed, from 2013 to 2019, the Company cooperated with an investigation of alleged improper or fraudulent Medicare and Medicaid claims. The investigation, under the direction of DOJ, produced no evidence of fraud, falsity or wrongdoing. However, based on discussions with DOJ, and having considered the burdens and distractions associated with continuing the investigation and the likely costs of future litigation, the Company estimated a settlement value of $48 million and accrued a loss contingency in that amount in the fourth quarter of 2018. Following further discussions, the Company entered into an agreement effective as of June 21, 2019 to settle all claims related to the DOJ investigation, together with related qui tam or "whistleblower" lawsuits, for cash payments totaling $48 million.