PARTICIPANTS

Corporate Participants

Crissy Buchanan Carlisle – Chief Investor Relations Officer, Encompass Health Corp.
Mark J. Tarr – President, Chief Executive Officer & Director, Encompass Health Corp.
Douglas E. Coltharp – Executive Vice President & Chief Financial Officer, 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

Brian Gil Tanquilut – Analyst, Jefferies LLC
Matt Larew – Analyst, William Blair & Co. LLC
A.J. Rice – Analyst, Credit Suisse Securities (USA) LLC
Kevin Fischbeck – Analyst, Bank of America Merrill Lynch
Steve J. Valiquette – Analyst, Barclays Capital, Inc.
Pito Chickering – Analyst, Deutsche Bank Securities, Inc.
Matt Borsch – Analyst, BMO Capital Markets Corp. (Broker)
Frank George Morgan – Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Encompass Health's First Quarter 2021 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'll 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 Crissy Carlisle, Encompass Health's Chief Investor Relations Officer.

Crissy Buchanan Carlisle, Chief Investor Relations Officer, Encompass Health Corp.

Thank you, operator, and good morning, everyone. Thank you for joining Encompass Health's first quarter 2021 earnings call. With me on the call today are Mark Tarr, President and Chief Executive Officer; Doug Coltharp, Chief Financial Officer; Barb Jacobsmeyer, President-Inpatient Rehabilitation Hospitals; April Anthony Chief Executive Officer of Encompass Home Health and Hospice; and Patrick Darby, General Counsel and Corporate Secretary.

Before we begin, if you do not already have a copy, the first 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, like those relating to our ongoing strategic review and its impact on our business and stockholder value, as well as the magnitude and impact of COVID-19 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, the Form 10-K for the year ended December 31, 2020 and the Form 10-Q for the quarter ended March 31, 2021 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 and 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.

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.

Good morning, everyone, and thank you, Crissy. We're off to an encouraging start in 2021. Compared to the first quarter of 2020, consolidated revenue is up 4.1%, consolidated adjusted EBITDA is up 10%, and adjusted EPS is up 20.7%, and we've increased our full year 2021 guidance. Our first quarter performance was characterized by promising volume trends that are contributing to solid revenue and EBITDA growth.

Our future growth is supported by attractive business development pipelines across all of our service lines. We're also seeing continued strength in Medicare Advantage discharges for our IRF segment and we are encouraged by the strong start to the United Healthcare national contract in home health.

Now, I'd like to take a moment to recognize our incredible employees. I continue to be in awe of how they respond to meet the needs of our patients and business partners despite the external noise in the world. The stories of their compassion and the positive impact they have had on patients are truly moving, and I'm grateful for such wonderful staff who help us put the patient experience at the center of all we do.

Let's turn now to our segments. In our inpatient rehabilitation segment, net operating revenues grew 5.6%, adjusted EBITDA increased 9% and volumes continue to improve. Our average daily census was generally above fourth quarter 2020 levels throughout the first quarter and we saw the return to discharge growth in March.

For the second quarter of 2021, we expect to report strong discharge growth since volumes were most significantly impacted by COVID in the second quarter of 2020. In addition, with the continued rollout of the vaccine, we had fewer hospitals experiencing census caps due to staffing constraints related to quarantines.

We're beginning to see the return of elective procedures in many of our markets. However, we believe our patients – elderly patients with complex medical conditions are not choosing to go first. Our numbers show this. We treated approximately 1,600 fewer orthopedic and lower extremity joint replacement patients in the first quarter of 2021 than we did in the first quarter of 2020. If we add back these 1,600 lost discharges, our total discharge growth for the first quarter would have been 2.2%.

We look forward to the full return of elective procedures as our patients' confidence in the safety of the healthcare system grows, and we believe elective surgeries for our patients will improve in the back half of the year. I also want to acknowledge the tremendous job our hospital teams continue to do in managing our labor costs.

For the first quarter of 2021, our employees per occupied bed, which we use as a metric to measure our efficiency, was 3.31 compared to 3.38 in the first quarter of 2020 and 3.46 in the fourth quarter of 2020. Our technology and real-time data, combined with our clinical know-how, continue to make us a best-in-class operator.

The aging demographic continues to drive increased demand for our services and we're investing to meet that demand. During the first quarter of 2021, we opened our new 40-bed inpatient rehabilitation hospital in San Angelo, Texas, and we added 15 beds to our existing hospital in Fort Worth, Texas. In April, we opened our new 50-bed hospital in North Tampa, Florida. We plan to open 6 additional hospitals in 2021 and add over 100 more beds to existing hospitals.

For 2022, we plan to open at least 12 new hospitals and we already have 3 new hospitals announced for 2023. This development pipeline is strong and we expect more growth-related announcements throughout 2021.

Our growth efforts also include continued dialogue with Medicare Advantage payers on our value proposition. During the first quarter of 2021, we continue to see evidence that our market-by-market efforts with local and regional MA directors are paying off, with same-store Medicare Advantage discharges increasing 34%.

We're also maintaining our focus on the continued development and implementation of post-acute solutions. We expect to begin piloting our falls prevention model in May, as part of our ongoing efforts to produce better outcomes for patients and lower the total cost of care. Leveraging data from our electronic medical records system, our goal is to reduce falls, optimize the quality of care, and reduce overall patient risk inside our rehabilitation hospitals.

In regards to regulatory updates, on April 7, CMS released its notice of proposed rulemaking for inpatient rehabilitation facilities for fiscal year 2022. The proposed rule focuses on routine updates and minor technical changes and is consistent with our prior guidance. It includes a net market basket update of 2.2%. There was no discussion of or reference to a Review Choice Demonstration program for IRFs in the proposal.

In our home health and hospice segment, we grew adjusted EBITDA by $9.8 million or 23.9%. Our margins, which were 380 basis points higher than Q1 of 2020, benefited from continued lower cost per visit and the suspension of sequestration.

While limitations on elective procedures and facility access restrictions continue to limit our volume growth, we have a lot to be positive about in regards to the volumes we saw in the first quarter of 2021 and how we exited the quarter. Non-Medicare admissions were at an all-time high in March 2021, primarily due to our new national contract with United Healthcare for our home health service line. We're also very pleased with the over 3,000 new referral sources we added during the quarter.

We remain confident that our traditional referral sources will return to their historic referral levels as seniors begin to return to the elective surgery market, and skilled nursing facilities and senior living communities begin to recover from their depressed census levels. The combination of the return of our former market, along with new referral sources we've added throughout COVID, leave us very encouraged about the strong organic growth opportunities beginning in the back half of the year.

Additionally, we are seeing a resumption of home health acquisition activity and have a solid pipeline of development opportunities. We recently announced a definitive agreement to acquire assets from Frontier Home Health and Hospice. This business is a $36 million revenue home health and hospice provider with 9 home health and 11 hospice locations across 5 states. We expect to close on this transaction in the second quarter of this year.

We're also pleased with the progress we're making in regards to our care planning approach and the further improvements we expect to achieve over the balance of the year associated with the use of the Medalogix care module. Based upon the strong results in regard to both quality outcomes and visit efficiency we've seen in markets with high levels of Medalogix adoption, we are adjusting our internal operating model to ensure greater adherence to the Medalogix recommendations and its proven results.

We are making these adjustments in an incremental fashion over the balance of 2021 in order to ensure the model delivers the desired balance between efficiency and outcomes. We expect to see sequential improvement in visits per episode over each of the next three quarters as this new approach is rolled out.

Let's turn now to the outlook for the remainder of the year. The past 12 months have proven resiliency of our business. And as you've heard me say many times, we are confident the fundamentals of our business are intact and strong. Our full year 2021 guidance has been increased to reflect our first quarter results and the recent legislative action by Congress to extend the Medicare sequestration suspension through the end of the year.

Guidance now includes the following: consolidated net operating revenues of $5.06 billion to $5.23 billion; consolidated adjusted EBITDA of $1 billion to $1.03 billion; and adjusted earnings per share of $3.94 to $4.16.

Before I turn it over to Doug, I want to touch on the strategic alternatives review of our home health and hospice segment. The review is well underway. We are following a rigorous and disciplined process and continue to evaluate and prepare for all scenarios, including the full or partial separation of the segment through an initial public offering, spin-off, merger, sale or other transaction.

We anticipate being able to provide an update on the status of this process with our Q2 earnings report at the end of July. Until then, we will not speculate on any particular outcome or make any additional comments rather than to say, we are dedicated to identifying the best path forward for our company to generate value creation for our shareholders.

While we actively pursue these strategic alternatives, we will maintain our focus on operational excellence. We've had a great start to the year, and I look forward to seeing what we can accomplish in 2021 and beyond.

With that, I'll turn over to Doug.

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

Thanks, Mark, and good morning, everyone. We're pleased with the performance of both of our segments. First quarter consolidated net operating revenues grew 4.1%, consolidated adjusted EBITDA increased 10%, and adjusted EPS increased 20.7%. We continue to generate high levels of free cash flow with adjusted free cash flow increasing 44% year-over-year to $107.4 million.

In our inpatient rehabilitation segment, revenue increased 5.6% and adjusted EBITDA increased 9%, with both increases primarily driven by pricing. Growth in revenue per discharge primarily resulted from a higher acuity patient mix, an increase in reimbursement rates, and the suspension of sequestrations. Volume growth in the quarter was impacted by COVID-related limitations on elective procedures as well as census caps in some of our hospitals due to isolations and quarantines. In January of 2021, approximately 30 of our hospitals were impacted by these census caps. By the end of the quarter, seven of our hospitals were experiencing census caps. And today, that number is down to five.

The rollout of the vaccine has assisted us in addressing these issues. As of today, approximately 50% of our IRF employees have been vaccinated. While we continue to experience a higher patient acuity than prior years, the rollout of the vaccine and onsite COVID testing capabilities are helping us make progress in lowering our patients' average length of stay.

By the end of the first quarter, we had rapid testing devices in all of our hospitals. For the first quarter of 2021, our average length of stay was 13 days compared to 12.7 days in the first quarter of 2020. By the end of the quarter, our average length of stay was trending lower as evidenced by a March average length of stay of 12.5 days.

Our net operating revenue was impacted in the first quarter of 2021 by an increase in bad debt expense, primarily due to aging-based reserves. As our Medicare Advantage book of business has grown, we are experiencing a higher amount of write-offs associated with patient co-pays and deductibles under certain plans. We are currently reassessing our collection procedures with regard to patient responsibility. We increased our guidance assumption around bad debt from a range of 1.4% to 1.6% of revenue to a range of 1.5% to 1.7% of revenue to reflect this trend.

In our home health and hospice segment, revenue was essentially flat, while adjusted EBITDA increased 23.9%. With regard to volumes, total starts of care, which includes both admissions and recertifications, were up 0.6% year-over-year. We achieved this growth despite entering the quarter with a COVID resurgence and a high level of quarantined employees as well as unusual winter storm activity in February in Texas and Oklahoma, two states with significant market density for us.

Recertifications increased 8.3% due to our servicing of patients with more comorbidities who stay on service longer as opposed to the shorter-term elective procedure patients we saw pre-COVID. Non-episodic admissions increased 3%, primarily due to the new national contract with United Healthcare, which began in February 2021 and which, as a reminder, moved out-of-network volume historically paid on an episodic basis to in-network volume paid on a per visit basis.

As Mark mentioned, we continue to see a decline in referrals from SNFs, patients residing in senior living facilities and elective surgeries. Combined, these three areas accounted for approximately 3,700 of our admissions decline in the first quarter of 2021. Had it not been for these 3,700 lost admissions, our episodic admissions growth would have been a year-over-year increase of approximately 3.4% and that's in spite of the United Healthcare contract shifting patients from episodic to a per visit basis.

Our home health cost per visit was down 5% year-over-year with the primary driver of this improved CPV being the compensation structure changes we made in May 202 coupled with effective management of productivity of our full-time staff. Within our hospice service line, same-store admissions continued their strong trend with over 11% year-over-year growth.

With regard to our capital structure, our net leverage was 3.5 times at the end of the quarter. In March, we issued notice for the redemption of $100 million of our 5.125% senior notes due 2023 and we completed the redemption of those notes in April. Our continued strong free cash flow and well-balanced capital structure support the investments we are making in our growth. We remain well-positioned financially and operationally for the future.

And with that, we'll open the line to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Brian Tanquilut of Jefferies.

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

<Q – Brian Tanquilut – Jefferies LLC>: Hey. Good morning. Congratulations, guys. I guess, my question for both of you. So as I think about the guidance raise, it seems to me like you raised it for the Q1 beat and the Medicare sequester extension. So, I guess, Mark, how are you thinking about the pace of recovery? It sounds like you're still assuming that nothing will really bounce back in terms of the elective procedures until the back half of the year. And then, I guess, for Doug, just as I think about the cadence from Q1 to Q2, just any color you can give us to help us model the quarter improvement sequentially. Thank you.

<A – Mark Tarr – Encompass Health Corp.>: Well, Brian, this is Mark, and I'll address your first point. We do carry a certain amount of very positive momentum out of March. And as we've noted, having the elective procedures come back will have an impact on both of the operating segments. There is a certain amount of uncertainty on exactly when that will happen. We do think that will be a latter part of the year, the second half of the year event. We certainly expect it to happen. We just don't have a lot of insight in terms of exactly when. But we are starting to see the electives come back in a number of our markets. So, we have reason to be positive on that for the second half of the year.

<A – Doug Coltharp – Encompass Health Corp.>: Brian, you're exactly right, the raise in guidance was solely attributable to those two factors: the Q1 performance and then the benefit of the sequestration suspension for the last three quarters of the year. Recall when we issued our initial guidance at the beginning of this year, we said that embedded in that was an assumption that business would improve and performance would improve in the second half of the year. So, some amount of continued improvement was already factored in.

As you think about the pacing through the year, some things to consider is second quarter will certainly be our easiest comparison because that was the most severe decline that we saw during 2020 in volumes. It also was the quarter in which we absorbed some $43 million in extra SWB related to the PTO benefit that we gave to our employees in both business segments. And then, just also a reminder that you went the first month of the quarter last year without the suspension of sequestration, and that was prior to us making the compensation changes at home health and hospice. So, all of those factor into the second quarter comparison.

As you think about Q3 and Q4, the one thing that I would point out is that our preopening expenses are going to be more heavily skewed towards those quarters. Normally, you wouldn't think about that in Q4, but we actually have three new hospitals which are slated to open in the first quarter of 2022.

<Q – Brian Tanquilut – Jefferies LLC>: Awesome. Thank you, guys.

Operator: Your next 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>: Hey. Good morning. Thanks for taking the questions. Wanted to ask about your – in terms of the M&A environment on the home health and hospice side, obviously, you just completed a deal. With the accelerated reimbursement reversing

and the [ph] Wrap (00:24:32) payment now gone, perhaps higher personnel costs, a bunch of cash flow applications for smaller providers, just kind of curious if there has been sort of a tick-up in maybe inbound interest or what the balance is in terms of opportunities you're seeing out there?

<A – April Anthony – Encompass Health Corp.>: Yeah, Matt. This is April. I would definitely say that I think this recovery, particularly in the home health, segment is underway, as far as M&A opportunities last year, most of what we saw come to market of significance was in the hospice sector. With some of those pressures that you identified, I think we're definitely beginning to see a little bit more activity this year on the home health side and anticipates that there's going to be good opportunities for us throughout the balance of the year to pursue some home health acquisitions, while continuing to look at hospice acquisitions that help us build our scale and density and market overlap.

<Q – Matt Larew – William Blair & Co. LLC>: Okay. And then just a follow-up, I'm trying to understand the timing in terms of the leadership transition for the home health and hospice business and the strategic review. I think the transition date is June 18, and Mark has alluded to sort of the end of July for the [ph] end of (00:25:36) review. My presumption is any new CEO would want to know the outcome of that – the review. So, just trying to understand that sort of gap there and what the plan is for leadership during that interim period.

<A – Mark Tarr – Encompass Health Corp.>: Yeah. Matt, this is Mark. We'll have a smooth transition there. Clearly, we have engaged a third-party firm to initiate a national search. In terms of the timing on that, it is a bit uncertain in terms of whether that is a 60- or a 90-day timeframe, but we are well underway with that. April and I will work collaboratively on a near-term interim transition to make sure everything operates smooth with a core group of the senior management staff there in Dallas.

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

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

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

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Hi, everybody. Best wishes to April on the future endeavors, obviously. So, maybe quickly on the comment on the home health, I know you highlighted that United contract did help you show growth in that non-episodic volume area. I wonder, how much further help – obviously, United is a huge player. So being in that, I wonder – because I don't think you got a full quarter's worth of that benefit. Is there any way to talk about what that may mean for you for the rest – when you get it fully implemented in the quarter in [ph] the quarter (00:27:21)?

<A – April Anthony – Encompass Health Corp.>: Yeah, we're happy to talk about that. So, we did begin that contract in February. So, we've really got kind of a mixed bag in the first quarter. So, we had strong volumes in April from that contract and – excuse me, in March and are continuing to see those into April. So, we feel like without, frankly, even a whole lot of sales push, we've seen significant increase, a little more than doubling of our monthly admissions coming from the United relationship.

I think until we get on the other side of some of the staffing challenges, we're going to want to kind of walk that tightrope carefully because what we don't want to do is over-pursue the United relationship to the detriment of our Medicare patient base. Obviously, the reimbursement rates are a bit different there. And we want to find that balance where we can serve both populations effectively.

And so, I think, hopefully, the biggest opportunity is going to be to improve our staffing balance so that we can run hard at those opportunities. But definitely feel like when we see a full quarter of United in the second quarter, it will be an upward trajectory from Q1 as it will be fully baked into the second quarter's numbers.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Okay. Maybe just my follow-up, on the Frontier acquisition you guys announced, it looks like if I net out the tax benefit, it's about 2.4 times revenues. I know you haven't said historically where you price home health acquisitions, but I know some of the peers have said, it tends to be historically a little less than 2 times revenues. I wonder is there something about that acquisition that warrants a little more fulsome price, or is that sort of where the market is these days coming out of the pandemic for home health assets? Some perspective on the pricing, I guess.

<A – Doug Coltharp – Encompass Health Corp.>: Yeah, A.J., I would say you need to look at a couple of things. First of all, you're looking at a trailing revenue number, and that revenue number was, obviously, impacted by COVID and is not necessarily representative of the run rate of the business. The second is, within the Frontier opportunity, we see great organic growth opportunities to come from adding additional scale and density into those western markets. And we see substantial margin improvement opportunities to be additive to EBITDA growth as well.

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

<A – Mark Tarr – Encompass Health Corp.>: A.J., we're excited about this acquisition and think the Frontier is a great asset that can be a great complement to what we have in our home health and hospice segment.

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

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

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

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

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Hello. Thanks. Great. So, I guess, first question here. I want to reconcile your comments about some of your referrals sources seeing depressed volumes. And as they rebuild, you'll see the benefit of that. So, I guess, some of those referral sources, one might think, are being pressured and yet the volume is coming to you, right? So, I mean, some of those is about volume skipping over, some of those sites of care, people staying in their home longer versus going to [ph] an out – (00:30:32) or a nursing home. And I would think that as they return volume, that might put pressure on your core business. I mean, are you saying that, net-net, you still think as those things grow, you will be a net positive? And why is that more of a give and a take at the same time?

<A – April Anthony – Encompass Health Corp.>: Well, I think you're absolutely right. There are some good guys. So, for example, seeing our admissions from skilled nursing facilities come down, seeing those patients discharged from SNFs to us is probably part of what's contributing to our admissions from acute care hospitals of patients that are bypassing that component. So, there are some puts and takes in that. We think that there's opportunity for both. We think the market has realized that not every patient needs to be admitted to SNF. But we also think in time that SNF admissions will recover as patients become more receptive to that environment. So, I think we'll see both. I think we'll see a continuation of our higher direct admissions, but I think we'll also see those facility types recover just as we've seen in our own IRF division, as those recoveries happen, we'll continue to see those downstream opportunities.

I think what you're going to see is kind of this overall acuity level increase, that the acuity level of the average [ph] SNF inpatient (00:31:52) is going to increase. The acuity level of the average home health patient is going to increase. Same with IRFs and then even, to some extent, patients residing in assisted living senior housing communities may even elevate. And so, I think as all that happens, it really presents an opportunity for both recovery from our prior referral sources and the continuation of maintaining these sort of net new opportunities that we're seeing.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Okay. That's helpful. And I guess, this dynamic you're talking about as far as MA growing fast, so that's creating growing co-pay collections and higher bad debt, is that a permanent thing? Does MA always have a higher collections issue or is this more a function of, you're growing MA so rapidly that it's kind of growing pains alongside that and you would expect that number to come down?

<A – Doug Coltharp – Encompass Health Corp.>: So, it's a combination of the two, Kevin. So, you've got the rapid growth in MA, which is certainly a component of it. But then there have also been some pretty significant structural changes within some of the larger MA plans that have increased the burden and the responsibility on the patients. And many of the patients simply don't understand that and they come in ill-prepared to meet that obligation.

I will say also that, historically, we haven't had to have personnel in our hospitals or in a centralized business office devote a lot of time to collecting on these. And we're in the process now of revising those procedures in an appropriate way to be a little bit more upfront about it, if you will; although, it's not always easy to do that based on the status of our patients at admission. It's not a significant movement, but it was noticeable and that's why we factored it in.

I should also note that when you're looking at bad debt associated with Medicare Advantage, there's not an ability to recover that through cost reports as there is with Medicare fee for service.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Okay. Great. Thanks.

Operator: Our next question comes from the line of Steven Valiquette of Barclays.

<A – Mark Tarr – Encompass Health Corp.>: Hello, Steven.

<Q – Steve Valiquette – Barclays Capital, Inc.>: Hey. Thanks. Good morning, everybody. Thanks for taking the question. So, within the inpatient rehab business and the higher acuity patient mix that drove some of the strength in those results, you've talked about that for a couple of quarters now. I guess I'm curious whether there were any notable changes around that in the first quarter of 2021 versus what you were seeing in the back half of 2020. And how are you thinking about the acuity levels in the remainder of 2021 based on what you're seeing today just given the rapidly changing environment over last 30, 60 days or so? Thanks.

<A – Mark Tarr – Encompass Health Corp.>: I'll let Barb Jacobsmeyer weigh in on that.

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Yeah. So, really, there's a component of – we're seeing similar acuity that we saw at the end of 2020. I think a big piece that's going to make a difference is as the COVID number of patients decreases, that will impact acuity. But a larger component is going to be the return of these elective surgeries. And again, as Doug mentioned earlier, we just don't know the timing on that. But as those patients come back into our hospitals, that will have an impact to lower the overall acuity, as those patients do tend to have a lower CMI.

<A – Mark Tarr – Encompass Health Corp.>: Steve, we discharged over 4,000 COVID patients in the first quarter of 2021. And as I mentioned, we had 1,600 orthopedic cases that we had in 2020 that didn't have in 2021. So, as Barb said, kind of a combination of two things happening. You have elective orthopedic procedures coming back in that had a lower acuity. At the same time, you'll

have fewer COVID patients that had a higher acuity. So, we would expect some normalization to return on our overall case mix index or acuity.

<Q – Steve Valiquette – Barclays Capital, Inc.>: Okay. That's perfect. Thanks.

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

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

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

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Hey. Good morning. Thanks for taking my questions. And April, it was a pleasure to work with you over the years. I know you aren't giving any commentary on the strategic review until July, but conceptually, do you think your home health assets have enough scale to be a stand-alone company or would it be more beneficial to merge with the larger asset in the market that is also looking for a strategic review?

<A – Doug Coltharp – Encompass Health Corp.>: I think the scale is sufficient to accommodate any of the array of alternatives that are currently on the table.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Okay. And then on the visits per episode, they decreased sort of during the quarter, you actually mentioned how that was going to decrease throughout the year. Can you quantify for us what inning we are in for the Medalogix rollout and how much more the visits per episode can decrease through 2021? And is there a room for more declines in 2022?

<A – April Anthony – Encompass Health Corp.>: Yeah, Pito. I think we're still fairly early. We really completed the deployment in the middle of last year. And with all the things going on during COVID, I will say that although we completed that deployment, it may not have been the top priority of each of our branches during that period to think about how to successfully deploy that.

But I think we're seeing steady progress with that tool. You see that in the continuing trends within our visits per episode quarter-over-quarter. And I think that trend will continue to improve throughout the balance of 2021 and probably even into the early parts of 2022. But I think we'll begin to see sort of full realization this time next year. But I would expect sequential improvement between now and then.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Okay. And then if I could squeeze in one more. I know that you're not giving [ph] multi stat (00:37:38) anymore. But the first quarter was extremely volatile with the COVID surge and the storms in February. So, just if you can just quantify for us how the home health admissions trended in March. Thanks so much.

<A – April Anthony – Encompass Health Corp.>: Yeah. So, we had a strong march. As I mentioned, the non-Medicare admissions in March were very strong, particularly from the United relationship as that became fully on line in March. And so, I think we came out of the quarter feeling good about the trajectory that we were on and we'll continue to see how it unfolds here in the second quarter. But we're encouraged, particularly when you think about the displacement. When you think about the United, you can't think about it as only the [ph] United – (00:38:19) non-Medicare additions. You really have to think about the net impact of those because we were bringing in about 700-ish a month admissions that were episodic.

And so, previously, they were in our episodic admissions. So, although we're excited about a doubling of that that we're seeing as we've moved into this contracted rate, you also have to take into account you've got some puts and takes with that. So, you're going to see our episodic jump, but we're going to be carrying about a 2,000 admit a month – 2,100 a quarter – 2,100 admission

per quarter impact on our episodic by having that shift to non-episodic. So, just keep that in mind as you look at the numbers.

In total, our total admissions for the quarter were the highest we've seen since COVID and continuing to make progress. So, I think we're encouraged by what we're seeing. We're encouraged by the recovery in acute care hospital discharges, so a lot of things moving in the right direction.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Great. Thanks so much.

<A – Mark Tarr – Encompass Health Corp.>: Pito, we're very happy with the volume in terms of both of our operating segments and the trends that we see upstream, that will carry over into Q2. So, very happy to see these trends turn around for us.

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. Without throwing any cold water on that, I do want to remind you that the effect of those winter storms in February will linger into the second quarter, because although it's not impacting new admissions growth, it is impacting recerts. The admissions that were lost due to the storm, you don't get a recert on those and that impacts the volume in the first month of the second quarter.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: All right. Thanks, Doug.

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

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

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

<Q – Matt Borsch – BMO Capital Markets Corp. (Broker)>: Good morning. Maybe if you could talk about – I think you said that at your IRFs that the vaccination rate today is about 50%. I'm just curious where you think you can get that? What you're doing to increase that? And how you think [ph] that can (00:40:32) affect or not the business over the course of the year?

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Yeah. So, currently, we are at 50%. We survey all of our staff on a regular basis and about 77% of our staff are saying that they ultimately want to receive the vaccine. The vaccine rollout has been slower in some markets than others as far as our availability. We do have the availability now in all of our markets. So, I think we'll continue to see that number rise. But our Chief Medical Officer has done a great job on doing education for our employees on the value of the vaccine. So, we're just going to continue to support it in our markets.

<A – Doug Coltharp – Encompass Health Corp.>: I will say that we were seeing a lot of interest in the one-dose J&J vaccine. And when you had the unfortunate news regarding that, even though it's been reinstated, that took a little bit of the wind out of our sales with regard to the progress we were making. We're getting people back focused on both the safety of the J&J vaccine and converting some of that volume over as well to the two-dose vaccines.

<Q – Matt Borsch – BMO Capital Markets Corp. (Broker)>: Well, I had the J&J shot and I'm fine. There's one data point for you.

<A – Mark Tarr – Encompass Health Corp.>: That's good.

<A – Doug Coltharp – Encompass Health Corp.>: All right.

<A – Mark Tarr – Encompass Health Corp.>: That's good.

<Q – Matt Borsch – BMO Capital Markets Corp. (Broker)>: All right. If I could just sneak in one last one, the patients that are coming to the IRFs bypassing the SNFs, does that create some challenge? I'm sure everything does. But I mean, is that just a good trend or is there some of that that isn't necessarily what you want?

<A – Barb Jacobsmeyer – Encompass Health Corp.>: No, it's actually a good trend. What's been great is that in the – historically, we did very well on getting the convergence of Medicare Advantage stroke patients, but many of the other diagnoses and they tend to push toward SNF mainly from a cost perspective. What COVID has allowed us to do is there has been patients who did not want to go to skilled. We had waivers for a short period of time. So, what's it allowed us to do is get some of those other types of patients so that we can have actual outcome to show these MA regional directors that these patients do well, they go home, they have a low return to acute. So, it's actually helped us reinforce that value proposition for other diagnoses outside of the stroke diagnoses.

<A – Mark Tarr – Encompass Health Corp.>: Matt, I think one of the things that the pandemic did show was that there clearly is a difference in the various post-acute settings and the types of patients that can be cared for in each. And clearly, the IRF segment was one of the winners in that in terms of the quality and the outcomes they were able to get with COVID patients, some because they have the resources and clinical know-how to treat these types of patients with the higher acuity. So, very proud of what we did on our IRFs and our home health services in terms of caring for the COVID patients.

<Q – Matt Borsch – BMO Capital Markets Corp. (Broker)>: Good stuff. Thank you.

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

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

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

<Q – Frank Morgan – RBC Capital Markets LLC>: Good morning. Hey, hopped on late, so hopefully this one hasn't been asked. Just in HCA's earnings call, they talked about expanding their post-acute continuum and specifically called out rehab hospitals as an area of focus, particularly in Florida. So, just curious about your thoughts on that and what you see is the likelihood of that occurring. And then, the second one was just more of a general question. When you talk about admission caps, obviously, that number coming down for you nicely in the quarter, is there a lag – much of a lag from the time you lift those and kind of go back to normal before you actually see volume pick up? [ph] That's it (00:44:17). Thanks.

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Okay. So, first on the question regarding HCA, we do have HCA in many of our markets. Obviously, the majority of those are units inside their hospitals. We've also heard locally in many of the Florida markets about them wanting to add a unit. In actuality, that's usually a good thing because it increases the awareness of their internal team on the value of inpatient rehab. And many times, those units can't take care of all of their IRF inpatients. So, we're used to working with them in our markets.

And then, on the capacity constraints being lifted, usually there's about a week or two delay because referral sources – when there's a cap in one of our hospitals, the referral sources need to find a place for those patients to go. So, it takes usually about a week or two to get back, letting them know there's bed availability. But the recovery is pretty quick after that.

<A – Doug Coltharp – Encompass Health Corp.>: Just one further comment, Frank, on the HCA. Historically, they have not ventured into free-standing IRFs. And so, as Barb said, most of what we see with regard to IRF volume for HCA is in units. And as you know, those tend to be considerably smaller, so they're really not a source of great incremental supply to the markets in which we have overlap.

<Q – Frank Morgan – RBC Capital Markets LLC>: Okay. Thank you very much.

Operator: Your next question is a follow-up from the line of Pito Chickering of Deutsche Bank.

<A – Doug Coltharp – Encompass Health Corp.>: [ph] Welcome (00:45:40) back, Pito.

<A – Mark Tarr – Encompass Health Corp.>: Back for more.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Hey, guys. Did you miss me? A quick follow-up here on Kevin's question, because you quantify the 3,000 referral sources and the pivot away from SNF and assisted living referral sources, I'm curious how active those new referrals were during the quarter. How they ramped throughout the quarter? Any numbers that you can give us on admissions from those referrals or how should we think about those changing throughout the year?

<A – April Anthony – Encompass Health Corp.>: Yeah. I don't know that I have the data right off the top of my head. The reality is, generally, when you bring in a new referral source, it is the beginning of a relationship and it creates the opportunity to prove your impact that you can make for their patients. And so, generally, as we see new referral sources come in, there is a ramp that occurs over time as they start to see the value and the quality of our services on their patients' behalves. And so, we would expect those to continue up.

And let me be clear that we are not pivoting away from the SNF or senior living businesses. It's just that right now the capacity levels within those particular housing alternatives for senior living and then the SNF environment are down, and we are kind of the – we're seeing the impact of that on our admissions. We believe confidently that those are going to return. And as they do, our referrals from those sources will go up as well. So, we're not leaving them. We're just recognizing that they're in a bit of a depressed time and that's having an impact on us. And so, we're seeking those alternative referrals. Knowing those potential residents and patients are still out there, it's just a matter of how do we access them more effectively in this period.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Okay. And then one more follow-up here. Costs per visit continue to be held very consistently at these levels since you announced the restructuring last year, despite the COVID costs you guys saw during the quarter. As we [ph] annualize (00:47:35) those costs in the third quarter, I'm curious how we should think about wage pressure from these levels, will it go up in the 3% to 5% range, or is there still a room for increased productivity to maintain cost per visit at these levels sort of throughout the next, say, 18, 24 months.

<A – April Anthony – Encompass Health Corp.>: Yes. I think we expect – cost per visit is something that we will continue to stay laser-focused on. We know we still have some productivity opportunity, but we also recognize, particularly in the nursing discipline, that salary and wage pressure is very real for us in those markets, that there is a lot of competition for nurses in the market. And so, I think we'll see, particularly in the nursing discipline, that we'll continue to seek productivity gains, but also recognize that there are going to probably be some salary increases, whether they come in the form of base salary increases, or hiring incentives, or retention incentives. So, we're looking at a whole array of things to make sure we control those, but we're not going to give up on continued productivity improvement either.

Operator: Thank you. I will now return the call to Crissy Carlisle for closing comments.

Crissy Buchanan Carlisle, Chief Investor Relations Officer, Encompass Health Corp.

If anyone has additional questions, please call me at 205-970-5860. Thank you again for joining today's call.

Operator: Thank you. That does conclude the Encompass Health's first quarter 2021 earnings conference call. You may now disconnect your line and have a wonderful day.