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 – Chief Financial Officer & Executive Vice President, Encompass Health Corp.
Barbara A. Jacobsmeyer – Chief Executive Officer of Home Health and Hospice, Encompass Health Corp.

Other Participants

Kevin Fischbeck – Analyst, BofA Securities, Inc.
Brian Tanquilut – Analyst, Jefferies LLC
A.J. Rice – Analyst, Credit Suisse Securities (USA) LLC
Matt Larew – Analyst, William Blair & Co. LLC
Frank G. Morgan – Analyst, RBC Capital Markets LLC
Pito Chickering – Analyst, Deutsche Bank Securities, Inc.
John W. Ransom – Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Encompass Health Second 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 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 Crissy Carlisle, Encompass Health's Chief Investor Relations Officer. Please go ahead.

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

Thank you, operator; and good morning, everyone. Thank you for joining Encompass Health's second-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, 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 second-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 quarters ended March 31, 2021 and June 30, 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, 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.

Crissy, thank you. And good morning, everyone. Business momentum accelerated in the second quarter of 2021. We had strong revenue and adjusted EBITDA growth in both segments over Q2 2020 and Q2 2019. Our second quarter performance reflects the resiliency and sustainability of our business model. As a result of our strong operating trends and year-to-date performance, we are again raising our full year 2021 guidance.

Our clinical teams remains focused on the patient experience. It's their commitment to our patients that truly drive the results of our business. And I thank them for the outstanding work they do.

In our inpatient rehabilitation business, revenue increased 21.5%, discharges were up 18.7%, and adjusted EBITDA increased 40.9%. We have successfully positioned Encompass Health inpatient rehabilitation hospitals as the trusted choice for patients, providers, and payers. As the trusted national leader in rehabilitative care, we have developed and continuously enhanced clinical programs and protocols that have proven to be highly effective in treating patients requiring care in an inpatient rehabilitation hospital. We continue to improve care through advanced technology and innovative treatments that maximize recovery for our patients and prevent costly readmissions to acute care hospitals.

Let me give you examples of these post-acute solutions. First, we completed the rollout of our readmission prevention model in October 2020. While it's too early to draw any conclusions regarding the complete rollout, I remind you that our pilot program for this model resulted in a 280-basis point decrease in readmission rates. We expect to see similar results from the complete rollout.

Second, we began piloting our fall prevention program in 11 of our hospitals in May. Throughout this pilot, we are focused on determining the effectiveness of the model and our existing fall prevention precautions, identifying additional fall mitigation practices, and making refinements to the model based on our learnings.

We expect to begin enterprise-wide rollout of this model in the fourth quarter of this year or early in the first quarter of 2022. In addition, we began piloting Cerner's Virtual Patient Observer platform in May in two of our hospitals. This platform is a remote patient monitoring system that allows a trained technician to monitor multiple patient rooms from a central monitoring station. We believe it can improve patient safety by reducing patient falls and lowering costs by reducing adverse events.

Third, our expertise in treating stroke patients continues to contribute to our growth. In May of this year, we announced an extension through 2024 of our strategic sponsorship with American Stroke Association for its national Together to End Stroke campaign. A primary goal of the campaign, which is also an essential part of Encompass Health's longstanding mission is to transition more patients back to their communities with greater functional recovery, develop evidence-based tools to inspire hope in stroke community, and reduce stroke mortality across the US.

During both 2019 and 2020, our rehabilitation hospitals served more than 34,000 stroke patients. That number is expected to grow to over 36,000 in 2021. The strength of our value proposition to payers is also evident via our continued success with Medicare Advantage plans. Approximately 50% of new Medicare beneficiaries in our markets are choosing to enroll in Medicare Advantage plans over traditional Medicare. Compared to the second quarter of 2019, our same-store Medicare Advantage discharges increased 41.3%. We will continue to focus on capturing the growth in this payer.

We also continue to benefit from new store growth and have a robust development pipeline intact. During the second quarter of 2021, we added 41 beds to existing hospitals and opened two new inpatient rehabilitation hospitals; one in North Tampa, Florida and the other in Cumming, Georgia. That brings our openings in 2021 to three new hospitals, and we expect to open an additional five in the back half of the year. Specifically, we plan to open hospitals in Waco, Texas; Greenville, South Carolina; Shreveport, Louisiana; and Pensacola, Florida during the third quarter.

In addition, we expect to open 12 new hospitals in 2022 and we already had 9 hospitals slated to open in 2023. Last week, we announced our first hospital scheduled to open in 2024. That represents over 1,300 new beds from 2021 through 2024 and that's before we add 100 to 150 beds to existing hospitals in each of those years.

Turning now to our home health and hospice business, revenue increased 14.6%. Total admissions increased 14.7%. Total starts of care were up 10.9%. And adjusted EBITDA increased 311.3%. Operationally, we continue to execute against a solid backdrop that includes aging demographics and the fact that 75% of patients seeking care would prefer to receive it in the comfort of their home.
We remain focused on the overall quality of our payer mix which prioritizes those payers that recognize our value proposition. Value-based contracts are a growing focus for us, and an increasing portion of our Medicare Advantage admissions are being tied to a value-based payment model. As payers emphasize reimbursement models driven by value, we believe they will continue to seek out leading clinical outcomes and cost-efficient services.

We're also collaborating with two home care organizations that provide personal care to support a SNF at home program in order to meet a growing need for these services in our markets. Early results from these efforts are encouraging, and we have more potential providers in the queue.

Additionally, we've rolled out a virtual visit platform with a national payers capitated program. The virtual platform app allows patients to participate in a secure video call via personal device such as a smartphone, tablet, or computer with their physician, nurse, care manager, or other medical staff. We continue to assess the effectiveness of these interventions and identify opportunities to drive better outcomes through their appropriate use.

We are also pleased with the progress we're making in regard to our care planning approach associated with the use of Medalogix care module. Our visits per episode were 17.1 in 2019, and 16.4 in 2020. For the second quarter of 2021, visits per episode were 15.6. And throughout this period when visits per episode have been declining, we've continued to enjoy industry-leading low hospitalization rates with no degradation in our quality. We believe the measured approach we are taking to care planning and adoption of Medalogix is the best approach for our patients and our company.

Our teams are also focused on the integration of the assets of Frontier Home Health and Hospice which added 9 home health and 11 hospice locations to our portfolio in June. I also want to express my excitement about the appointments of Barb Jacobsmeyer as CEO and Crissy Carlisle as CFO to our home health and hospice business. Barb is a proven leader with extensive healthcare operating experience. We are confident she is the right person to lead this business going forward. Crissy's extensive financial expertise and familiarity with our business make her ideally suited to take on the CFO role. I worked closely with both Barb and Crissy for many years and know they will do an excellent job.

Next, in regards to regulatory updates. On June 28, CMS released its notice of proposed rulemaking for home health agencies for calendar year 2022. The proposed rule includes a 1.7% net rate update and includes a proposal to expand CMMI's home health value-based purchasing demonstration nationwide from its current nine-state footprint. CMS also provided its preliminary analysis of the first year of PDGM.

As we look ahead in the remainder of the year, we've increased our full year 2021 guidance based on results to-date and strong operating trends. Our full year 2021 guidance now includes the following: consolidated net operating revenues of $5.1 Billion to $5.25 billion, consolidated adjusted EBITDA of $1.05 billion to $1.07 billion, and adjusted earnings per share of $4.32 to $4.47.

Before I turn it over to Doug, I want to touch on the strategic alternative review of our home health and hospice segment. As we mentioned in our earnings release, based on the analysis of alternatives to date, our Board of Directors believes a full or partial separation of the home health and hospice business will enhance the long-term success and value of the business. The final form is still to be determined as we continue to pursue a separation transaction by either public or private means.

Many of the key preparatory actions required for a separation have been completed, including but not limited to, audited carve-out financial statements for the home health and hospice business, a confidential submission of a draft registration statement on Form S-1 with the SEC, and certain required regulatory filings. While no assurance can be provided, we expect to announce a transaction in the second half of 2021. As we continue to pursue a transaction, we cannot comment further at this time.

With that, I'll turn it over to Doug.

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

Thanks, Mark. And good morning, everyone. As Mark stated, we're very pleased with the strong performance of both of our business segments. As compared to 2020, second quarter consolidated net operating revenues grew 19.9%, consolidated adjusted EBITDA increased 71.9% and adjusted EPS increased 277.4%. We also generated significant growth over Q2 2019 with consolidated adjusted EBITDA of 10.6%, IRF-adjusted EBITDA of 8.6% and home health and hospice adjusted EBITDA of 25.9%. We continue to generate high levels of free cash flow with adjusted free cash flow increasing 20.9% year-over-year for the first six months of 2021, and we exited the second quarter with our net leverage ratio down to 3.1 times.

In our Inpatient Rehabilitation segment, revenue increased 21.5% and adjusted EBITDA increased 40.9%. The revenue increase was driven by both volume and pricing. Total discharges increased 18.7% in Q2, including same-store growth of 16.9%. Compared to Q2 2019, same-store volumes increased 1.6%. Our average daily census improved sequentially from Q1 as volumes continue to recover. Elective procedures are steadily returning. We treated approximately 5,000 orthopedic and

lower extremity joint replacement patients in the second quarter of 2021. That's approximately 1,400 more than we treated in the second quarter of 2020 and approximately 650 fewer than we treated in the second quarter of 2019.

We believe elective surgeries for our patients, elderly patients with complex medical conditions, will continue to improve in the back half of the year. Growth in revenue per discharge of 1.8% primarily resulted from an increase in reimbursement rates, the suspension of sequestration, improvements in discharge destination, and prior-period cost report adjustments partially offset by the timing of discharges between quarters. While patient acuity remained above pre-COVID levels with our average case mix index at 1.43 in Q2 2021 as compared to 1.44 in Q2 2020 and 1.38 in Q2 2019, we continue to expect acuity to moderate in the back half of the year as elective procedures accelerate.

The rollout of the vaccine and onsite COVID testing capabilities continue to help us lower our patients' average length of stay. Our average length of stay decreased from 13.2 days in the first quarter of 2021 to 12.7 days in the second quarter. Growth in adjusted EBITDA in the quarter primarily resulted from improved revenue and labor productivity. Employees per occupied bed in Q2 2021 was 3.31 as compared to 3.45 in the prior-year quarter. In addition, please recall that SWB in Q2 2020 included approximately $29 million of additional paid time off awarded to frontline employees. We did see a tick up in salaries and wages per FTE year-over-year due to employee furloughs during Q2 2020 and the ramp up of new stores in 2021. Medical supply costs are moderating but they continue to be higher than pre-COVID levels.

In our home health and hospice segment, revenue increased 14.6% and adjusted EBITDA increased 311.3% to $61.7 million. The revenue increase was driven by both volume and pricing. Total home health admissions increased 14.7% year-over-year. Compared to Q2 2019, total admissions increased 10%.

We are experiencing staffing challenges in certain markets primarily around nursing. Despite these challenges, we remain focused on the growth opportunities in the back half of the year. Our non-Medicare admissions are at an all-time high. Elective procedures have returned to historic levels. And we have been adding new referral sources at a pace of approximately 3,000 per quarter.

The 1.6% increase in revenue per episode resulted from an increase in reimbursement rates as the timing of completed episodes offset the benefit of the suspension of sequestration. Within our hospice service line, total admissions increased 3.4% primarily due to the acquisition of Frontier in June of this year. Same-store admissions decreased 1.9% due in part to lower occupancies at skilled nursing and senior living facilities.

Cost of services continues to benefit from effective productivity management. Home health cost per visit decreased $1 per visit compared to Q1 2021, and visits per episode decreased from 15.8 in Q1 2021 to 15.6 in Q2.

As we head into the back half of the year, we will anniversary the compensation structure changes we made in May 2020. Cost per visit may increase sequentially as we address staffing challenges in certain markets. And we will seek further reductions in visits per episode as we continue to refine our care planning approach and the use of Medalogix. Our continued strong free cash flow and well-balanced capital structure support the investments we are making in our growth.

During the second quarter, we funded our development activities, including the $99 million acquisition of Frontier. We also redeemed $200 million of our 5.125% senior notes due 2023, drawing minimally on our revolving credit facility.

I want to make just one comment on guidance before I conclude. Based primarily on the pacing of our de novo start-up costs and the impact on pricing from the 2021 IRF rule, we expect the year-over-year improvement in revenue and EBITDA to be greater in Q3 than in Q4.

And with that, we'll open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Stephen Fischbeck (sic) [Kevin Fischbeck] (00:23:39) with Bank of America.

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

<Q – Kevin Fischbeck – BofA Securities, Inc.>: Hello. Hey. Hey, glad you caught that. So, I guess a couple of questions. The first question being on labor costs. I guess it seems like you're seeing some pressure there. It looks like your guidance assumes a little bit higher wage and a little bit higher benefit costs. And it seems like it's back-end loaded. Should we expect that number to be even higher, I guess, as we think about 2022?

And you mentioned that you have some labor issues geographically but you don't expect it to be a headwind to growth. We've seen some other companies talk about potentially impacting growth. I guess, why aren't you concerned about that?

<A – Mark Tarr – Encompass Health Corp.>: Kevin, I'll make couple of comments and then perhaps Doug and Barb want to pitch in as well. But I think what we saw in the second quarter was a continuation of trends that we saw developing in the first quarter, where certainly the nursing market in both of our segments had a developing pressure. If you think about nursing, there's been a lot of pressure on nursing levels for a number of years, but it's certainly exacerbated in 2020 as it came out from COVID.

I will say as it continues to be a market-by-market-driven issue with some markets certainly having higher degrees than others. It seems to be primarily limited to nursing. We've seen more pressure in home health than we have with the hospitals. The hospitals have had to go back in and make a number of market adjustments to some of their support staff and housekeeping and dietary. With regards to nursing and home health, that's certainly been an early priority for Barb Jacobsmeyer in her new role. And I'm going to ask her to comment on some of the details there.

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Sure. So, I think first on the part of staffing, it is certainly market-by-market. I think the good news, though, is that we achieved our highest total nursing hires in quarter two since we had back in 2019. So, we do feel good about where we're headed as it relates to RN and LPN hires. Based on that, we do have dashboards that show us where we're having staffing challenges versus where we are sufficiently staffed. And so, it's really about that blocking and tackling and knowing where we have the staffing challenges and focus on talent acquisition in those markets.

And then, the markets where we do have the amount of staff we need, then we're focused with the sales force and making sure that we have the right number of sales team members. So that, we can continue to increase those referral sources and the referrals that are coming from our current sources. So, it's both things. We think we're going to continue to see the growth as we focus on the talent acquisition, but we're already focused on the markets that have good staffing in place.

<A – Doug Coltharp – Encompass Health Corp.>: And then, Kevin, it's Doug. We do not feel like it served as any kind of limitation on growth in the second quarter in the IRF segment nor do we anticipate it'll serve to limit growth for the balance of the year. As a specific example, we're not having any great degree of difficulty staffing our de novos as we bring those online. It has been a limitation in certain of our home health locations on a year-to-date basis. We do believe that we're taking appropriate steps to address that and we don't anticipate it to be a limitation on growth moving forward.

<Q – Kevin Fischbeck – BofA Securities, Inc.>: That's helpful. And I guess, you made the comment back half of the year seasonality and I guess the timing of de novos and the headwind

that creates. Can you just remind us, I guess, for the year, what the total de novo start-up losses are expected to be this year and maybe with more de novos opening next year, how should we think about that kind of drag year-over-year into next year?

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. So, we stated that we anticipated that the total startup and ramp up costs associated with the de novos this year would be an impact of somewhere between $15 million and $20 million on EBITDA. That range remains appropriate. We think that the quarters that are – we know that the quarters that are going to be most significantly impacted are Q2 and Q3. And Q3 is the heaviest of them all.

You know as we go into Q – as we start thinking about 2022, and obviously we haven't put any guidance out there around it, I think as a proxy you can kind of use the same aggregate cost that we're seeing this year divided by the number of de novos and recognize that we now announced 12 locations that will open up in 2022.

That's a proxy. Some of it is really going to depend on specific opening dates, right. The earlier in the year they open, the more there's an opportunity for a new location to be generating, at least, breakeven EBITDA by the back end of the year. But we'll provide more color on that as we move into the first quarter of next year.

Operator: Your next question...

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. I was going to say partially offsetting the ramp up cost next year will be that we'll start to see a positive contribution from the eight that we opened up this year as we move into the back half of 2022.

Operator: Okay. Your next question comes from the line of Brian Tanquilut with Jefferies.

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

<Q – Brian Tanquilut – Jefferies LLC>: Hey. Good morning, guys. Good morning. Yeah. Hey, Doug, thanks for all those comments. I guess I'll just go back first to the labor questions, right. And maybe this is for both you and Barb. So, as we think about the RN and LPN mix, is that an opportunity that you're seeing? And then maybe drilling further down into kind of like staffing metrics. So, in the markets where you're saying that there are challenges, is it more of a turnover issue or is it just in terms of adding new clinicians to drive and fuel the growth going forward?

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Yeah. I would say it's a combination of both of those. Obviously, we've always had the focus on retention, we're going to continue that focus. But it is also, it's the focus on finding the hires, the recruitment, that's why we've added some flexibility around part-time and PRN in addition to our full-time position. I think what nurses are looking for today is a lot more flexibility as there are still some questions on what things look like in the future with school. So, and I think that's also why we're seeing some success in our recruitment is because we are offering increased flexibility.

<A – Mark Tarr – Encompass Health Corp.>: Brian, I will say that we've had, and this goes for both segments of added resources around talent acquisition, people whose sole job is recruitment. And we're starting to see a return on that investment that we first started heavily in the second half of 2020 for the hospitals, particularly those new de novos, and then Barb has addressed that issue with home health.

<Q – Brian Tanquilut – Jefferies LLC>: That's awesome. And then, I guess, Mark, since I have you, you've already announced nine openings for 2023 year-to-date. And obviously, we're kind of like halfway through the year. So, just wondering, are you seeing more opportunities pop up more than what you probably would have expected when you gave your long-term guidance ranges for

de novo openings? Because it seems like it has accelerated with all the announcements in the past few weeks.

<A – Mark Tarr – Encompass Health Corp.>: Brian, we're certainly very positive about the pipeline we have. We talked about the Florida markets, that was an area that – that's a state that we had a long-term legacy of hospitals there. We have 12 hospitals. We knew all along that if the CON in that state were ever to be abolished that we knew exactly what markets we would want to move in as well as what markets we'd want to add beds to existing hospitals.

So the state of Florida has been a big opportunity for us. And then, we've been very pleasantly surprised and as we have moved in to either new states or certain markets in states where we didn't have such a density of facilities. And so, yeah, we're very positive on the long-term outlook and the demographic tailwind that continues to drive the need for our services.

<A – Doug Coltharp – Encompass Health Corp.>: And Brian, just to add to that, in those long-term targets for the ERF segment, we had anticipated that we would add between 6 and 10 de novos per year over that five-year period. And obviously, based on the numbers you just cited with 12 coming onboard, next year, 9 already identified for 2023, we're running at or above the top end of that range and feel good about our ability to do so for the next four to five years at a minimum.

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

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

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

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Hey, how are you, guys?

<A – Mark Tarr – Encompass Health Corp.>: We're good.

<Q – A.J. Rice – Credit Suisse Securities (USA) LLC>: Maybe just two quick things here. One, you've got in your slide deck that you think you faced an admissions headwind versus 2019 in the home health business because of the SNF and senior housing depressed occupancy. You've picked up all these additional referral sources. Do you think you're getting those patients in another way or do you think that 3,200 admission headwind is still out there to be had as incremental to the current baseline?

And then also in your slide deck, you have a payer mix shift. It looks like in the IRF business where Medicare fee for service was up pretty significantly, but Medicare Advantage was down. I just wondered, is that just the pandemic or is there anything to account for about a 400-basis-point to 500-basis-point swing in payer mix between those two sources?

<A – Mark Tarr – Encompass Health Corp.>: Yeah. A.J., I'm going to let Barb address the first question involving home health.

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Yes. So on home health, you're right, we've increased the referral sources over the last several quarters to about 3,000 new referral sources per quarter. I think it's a little bit of a blend on what that's helping us from a recovery and new growth. So for example, when you saw that our electives are actually back up pre-COVID levels, some of that is about increasing the number of referral sources that are direct orthopedic physicians.

And so, we've been able to market directly to them. So that is they're doing some of these surgeries and particularly ambulatory surgery centers. That has helped increase those types of referrals. But we're also seeing new referral sources that are helping with some of the other

diagnoses mixes. So I think it's a combination, but certainly increasing that number of referral sources is helping us with that headwind of the SNF and senior living.

<A – Mark Tarr – Encompass Health Corp.>: A.J., longer term, we do think that the SNF and senior living volumes will come back. It's just that they have been slower to respond post-pandemic than other referral sources.

<A – Doug Coltharp – Encompass Health Corp.>: Yeah. Our anecdotal evidence tells us they're still running on average about 15% below their pre-pandemic occupancy levels.

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

<A – Doug Coltharp – Encompass Health Corp.>: Hey, AJ. This is Doug. On the Medicare Advantage side, there's no doubt that the pandemic has caused some fluctuations in our payer mix. And those fluctuations are more pronounced in Q2 than any other quarter. A, because we were at kind of the height of the impact of the pandemic in Q2. And then also it was for Q2 last year that the preauthorization requirements by virtually all of the MA plans were waived, and then those were re-implemented in July of last year.

But just to give you some sense and context around the numbers. Recall that in Q2 of last year, our MA discharges in the IRF segment were up 66%. In Q2 of this year on same-store basis, they're down 13.2%, but were still up 5.6% on a year-to-date basis. And perhaps as importantly, if you compare year-to-date 2021 to 2019, we're up 41.3%.

With regard to sustainability and where we see the payer mix going, what we can say is that if you look at MA as a portion of our patient mix, in Q2 2021 it was 15.3%. In the same quarter last year, it was 20.1%. If you go all the way back to Q2 of 2019, it was 11%. So, it's still elevated over that level. And the last eight quarters on a blended basis, it's about 14.5%.

So, we do expect that now that we've kind of moved past the second quarter, we'll continue to see MA growth in the back half of the year. And I would expect it to be probably modestly higher than what we see in fee for service. So, that would suggest that from that current level of about 15% in the payer mix, we're probably going to continue to hover pretty close to that area with maybe inching up just a bit.

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

Operator: Your next question comes from the line of Matt Larew with William Blair.

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

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

<Q – Matt Larew – William Blair & Co. LLC>: Hey, good morning. Just curious you've obviously commented on elective procedures returning and just more broadly [indiscernible] (00:37:49) returning. Just curious how things have looked in July with the Delta variant obviously moving out. I presume at this point your staff is more vaccinated. You have PPE in place. Patient care algorithms around vaccines are a bit more established obviously than they were in recent surges, but just curious what you've seen in terms of any changes in the momentum that you picked up during Q2.

<A – Mark Tarr – Encompass Health Corp.>: Yeah, Matt. We're not seeing any changes in the momentum that we've picked up. Certainly, in the marketplaces where we're seeing evidence that there is an increase in the COVID patient population and in the acute care hospitals, we've had less than a handful of our own hospitals or agencies that have seen an increase in the COVID patients

being treated. What we have seen is an uptick in a number of our own staff that may be in quarantine at this point due to either exposure outside of work or during the workplace.

But, as you noted, we have a great amount of confidence in our teams. They're well-prepared with PPE, the protocols that they put in place last year and have been working from since then. All of our hospitals have the Abbott rapid testing equipment in-house that allows us to test individuals within 15 minutes. So, we're prepared for what lies ahead. But, at this point, we've not seen any direct impact on our business.

<A – Doug Coltharp – Encompass Health Corp.>: And Matt, I would add to that, recall that for the types of patients that we're treating in the IRF setting, elective procedures are only elective in the short-term. Ultimately what they are is deferred procedures that need to be done. And when you combine that with the fact that, look at the average age of the patient that we're treating, and the focus of the vaccination programs on prioritizing the senior population, we don't expect that we're going to see the progress that we're making in elective surgeries recede.

<Q – Matt Larew – William Blair & Co. LLC>: Yeah. That's great context there, Doug. On the hospice side, can you maybe help us understand what you're seeing on the ground? Obviously, there were some ADC issues earlier in the year that were industry wide. But in terms of the negative pattern of growth year-over-year, was that isolated to certain geographies, is that also related to staffing? Maybe it would be helpful to get an update there.

<A – Barb Jacobsmeyer – Encompass Health Corp.>: Yeah. So, mainly it was due to the – again, the lower occupancies that we're seeing in the SNF and senior living facilities. But there were some key markets where we had some staffing challenges. And again, those were also mostly nursing. We are seeing those agencies get hired up as far as their nursing staff. So, I would say that the other piece has been the length of stay. We saw kind of a decrease in the length of stay as it impacted with COVID patients. But we're kind of seeing that come back return more to a normal pre-COVID length of stay and pre-COVID diagnosis mix.

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

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

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

<Q – Frank Morgan – RBC Capital Markets LLC>: Hello. How's it going?

<A – Mark Tarr – Encompass Health Corp.>: We're good.

<Q – Frank Morgan – RBC Capital Markets LLC>: I guess I'll stay on that last question. In the last commentary going back to hospice, I think you said that, I think that length of stay in hospice was reaching sort of pre-pandemic levels. Just curious about any – in terms of the momentum across the months of the quarter in terms of admissions, you may not want to give specific numbers. But could you just describe what the movement was across the months of the second quarter and really how you exited the quarter in terms of admission trends in the hospice business and also in the home healthcare business?

<A – Barb Jacobsmeyer – Encompass Health Corp.>: I don't have this actually on me, the specific trend that was month by month.

<A – Doug Coltharp – Encompass Health Corp.>: You got to be careful about that, particularly in the second quarter, as well because of the holidays and the summer season. Generally speaking, we don't see any of the limitations within hospice or home health as being more permanent issues.

<Q – Frank Morgan – RBC Capital Markets LLC>: Got you. And I think when you talked about labor, you mentioned some specific regions and I think that was in the hospice business. Any particular regions that you could call out and any explanations that might be market specific?

<A – Barb Jacobsmeyer – Encompass Health Corp.>: [indiscernible] (00:42:28) would say that that changes. We've had a really nice increase in our hires over the second quarter. So, I think what I would potentially call today is already changing. So, I don't know that there's anything in particular that we have major concerns over.

<A – Mark Tarr – Encompass Health Corp.>: But, Frank, [indiscernible] (00:42:44) the same for the hospitals. There's really no trends to see in terms of geography. It is really a market by market phenomenon.

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

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

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

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Hey, guys. Thanks for taking my questions here. I know you guys don't want to talk about the strategic review, but let me see if I can ask some questions that you are able to answer. Can you walk us through the process of the confidential S-1 filing? Is that why you made the public announcements of Barb and Crissy as CEO and CFO in order to [indiscernible] (00:43:23) the S-1? Can we take Crissy's announcement on June 28 as a rough proxy when the S-1 was submitted? And finally, if you decided to do the spin, now, that you've filed the S-1, how fast can you do so?

<A – Mark Tarr – Encompass Health Corp.>: Yeah. Pito, that's detail that we're not in a position to provide at this point.

<Q – Pito Chickering – Deutsche Bank Securities, Inc.>: Couldn't you just provide the simple answer of you filed the S-1? If that was the route you decided to go, how fast could that be transacted?

<A – Doug Coltharp – Encompass Health Corp.>: That's not completely within our control.

Operator: Your next question comes from the line of John Ransom with Raymond James.

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

<Q – John Ransom – Raymond James & Associates, Inc.>: Hey, guys.

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

<Q – John Ransom – Raymond James & Associates, Inc.>: Yeah. I'm going to try to ask the question you guys can actually answer. So just on value-based care, that means a lot of things. If we look at the IRF business, for example, approximately what percentage of your cases are now in a value-based arrangement and what does that look like? Is this fee for service with a kicker? Are you taking [indiscernible] (00:44:36)? Are you contracting downstream?

And then, is this – my impression is this is all developing a lot slower than we might have thought five years ago. Is there any reason to think that it won't continue just to kind of inch along or do you think we might be at a point where this might pick up a little bit of momentum? And if so, is that a good guy, bad guy or kind of a neutral to pick up?

<A – Doug Coltharp – Encompass Health Corp.>: So virtually everything that we're doing with regard to value-based care contract is in the home health segment and is within the MA book of business. You're correct that it's a relatively small but it is a growing portion of our business. I think the reason that it's in home health versus on the IRF side is because of the complexity associated with it and it's just something that the MA companies are not setup to tackle on the IRF side yet even though we've expressed a willingness to try to address that.

I think it's definitely versus the expectations we had around that as recently as three or five years ago. I think it's definitely developing more slowly than we would have anticipated. We do think it's going to continue to move forward, but we don't see any kind of catalyst for it to be a sudden jump. We think it's going to be kind of slow and steady and we'll continue to be a participant in those models where they make economic sense for us and we'll continue to refine our learning through that participation.

<A – Mark Tarr – Encompass Health Corp.>: John, we do think it will work in our favor just based upon our quality that we have. We think we have a lot of value to provide as part of our value proposition in both of our segments. Clearly, as we work with our trade associations, as you noted, this has gone at a snail's pace and we'll see what the new administration wants to do relative to the use of CMMI and moving forward with the programs either voluntary or mandated. But, yes, it has moved at a very slow pace up to this point.

<A – Doug Coltharp – Encompass Health Corp.>: Specifically when you look at home health and get into the M&A book of business, one of the things we've struggled with before is that the MA plans have historically not differentiated between providers based on their quality and, therefore, they've just gone to the lowest common denominator from a rate perspective. We believe that our quality shines through. And so if we can get into arrangements that have a stipend that is based at least in part on the quality of care, we think that [ph] inures (00:47:06) to our benefit.

<Q – John Ransom – Raymond James & Associates, Inc.>: And just as a quick follow-up, I mean one of your competitors bought a business that's seeking to bypass hospital admissions altogether for about 150 DRGs. And do like this three day intensive home care model with post-acute follow up. What's your – I'm sure you've got to look at that business. And you talked about SNF at home. But if you look out two or three or four years, do you think we're going to have models that sort of obviates the need for both a SNF and a hospital and just kind of go kind of start and begin at the home with some tech-enabled care capabilities?

<A – Mark Tarr – Encompass Health Corp.>: Well, we certainly think from a SNF at home setting there has been a number of different types of diagnostic backgrounds that historically have gone to skilled nursing facilities that given the advancements of home health, a number of those could be done in the home setting. And that's what we are preparing to meet the demand for. I think hospital home has a long way to go. Certainly, the patients that are in our hospitals are non-discretionary. They need a high intensity of care. And it would be – it would be hard to imagine that that can be provided in a home setting in a more efficient manner than what we're providing for in hospital.

<A – Doug Coltharp – Encompass Health Corp.>: If you try to push that kind of acuity into the home, you lose all of the benefits of scale. You have to go to essentially one-on-one staffing in the home as opposed to being able to run at the kind of ratios and the kind of EPOB, for instance, that we do in our hospitals.

Operator: [Operator Instructions] Your next question comes from the line of Matthew Borsch with BMO Capital Market.

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

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

<Q>: Good morning. You actually have [ph] Ben (00:49:08) filling in for Matt. Appreciate you taking my question. So when assessing the results for inpatient rehab, we've seen some nice growth in discharges in EBITDA as well as the de novo opportunities that you previously mentioned. My question is around growth expectations and what do you think the IRF business will benefit in a sustained manner beyond the pandemic concern of the patient utilization shifts?

<A – Doug Coltharp – Encompass Health Corp.>: Well, obviously, we remain very bullish about the growth there, evidence the amount of capital we're deploying towards both the de novos and the capacity expansions on the bedside. As we've said, for quite a few years, the demographics are definitely in our favor. The age cohort that we addressed through our inpatient rehabilitation hospitals is the fastest growing cohort of the US population at a multiple of the overall population growth and that's expected to continue for the foreseeable future.

In addition to that, the supply of licensed IRF beds in the US has simply not kept up with the increasing demand and the aging of the population. And we don't see the risk of any kind of technological obsolescence as high as well. So we remain very optimistic about the IRF space. We've also said, even though the dialogue around moving toward some kind of site neutral, post-acute inpatient setting has really kind of died down over the last several years. If ultimately, we begin to head in that direction, we believe that IRF-ing – investing in the IRF space is an even better bet and that is because you're going to continue to have a need for post-acute inpatient services.

It may address a spectrum of what is currently provided from an LTAC through an IRF to a SNF. And if you had to have a single box that from a physical standpoint and a staffing standpoint had to flex to be able to address that broader acuity, you'd want to do it with your starting point being an IRF versus an LTAC or a SNF. And when you move to that kind of model, if in fact it ever gets here, the total addressable market for our services will have been expanded exponentially.

<A – Mark Tarr – Encompass Health Corp.>: Matt, we think last year was an opportunity for us to show the level of quality that we can provide for our patients that have a high acuity. And COVID certainly exposed certain areas of post-acute that could not handle a higher acuity patient. Others prove themselves such as the IRF sector and we think that Encompass Health came through in very strong fashion, and we think some of that reputational impact that we've had, that we developed last year will carry over into future years with the reputation and the ability to handle a higher acuity patient and get them back on to high functioning levels. So, we're very bullish on the continued demand for IRF services.

<Q>: Excellent. Appreciate the commentary.

Operator: This concludes today's Q&A session. I will now turn the call back to Crissy Carlisle for closing remarks.

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: This concludes today's conference call. You may now disconnect.