HEALTHSOUTH
Q4 2015 EARNINGS CALL
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PARTICIPANTS

Corporate Participants

Crissy Buchanan Carlisle – Chief Investor Relations Officer, HealthSouth Corp.
Jay F. Grinney – President, Chief Executive Officer & Director, HealthSouth Corp.
Douglas E. Coltharp – Chief Financial Officer & Executive Vice President, HealthSouth Corp.
Mark J. Tarr – Chief Operating Officer & Executive Vice President, HealthSouth Corp.

Other Participants

Gary Lieberman – Analyst, Wells Fargo Securities LLC
John W. Ransom – Analyst, Raymond James & Associates, Inc.
Sheryl R. Skolnick – Analyst, Mizuho Securities USA, Inc.
Whit Mayo – Analyst, Robert W. Baird & Co., Inc. (Broker)
A.J. Rice – Analyst, UBS Securities LLC
Joshua Raskin – Analyst, Barclays Capital, Inc.
Kevin Mark Fischbeck – Analyst, Bank of America Merrill Lynch
Toby Wann – Analyst, Obsidian Research Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to HealthSouth's Fourth Quarter and Full Year 2015 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, HealthSouth's Chief Investor Relations Officer.

Crissy Buchanan Carlisle, Chief Investor Relations Officer

Thank you, Jackie, and good morning, everyone. Thank you for joining HealthSouth's fourth quarter 2015 earnings call. With me on the call in Birmingham are Jay Grinney, President and Chief Executive Officer; Doug Coltharp, Chief Financial Officer; Mark Tarr, Chief Operating Officer; Patrick Darby, General Counsel and Corporate Secretary; Andy Price, Chief Accounting Officer; Ed Fay, Treasurer; and Julie Duck, Senior Vice President of Financial Operations.

Before we begin, if you do not already have a copy, the fourth quarter earnings release, supplemental slides and related Form 8-K filed with the SEC are available on our website at www.healthsouth.com. On page two of the supplemental slides, 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 risks, uncertainties and other factors that could cause actual results to differ materially from management's projections, forecasts, estimates and expectations are discussed in the company's SEC filings, including the earnings release and related Form 8-K and the Form 10-K for the year ended December 31, 2015, 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.

Statements made throughout this presentation are based on current estimates of future events and speak only as of today. The company does not undertake a duty to update or correct these forward-looking statements. Our slide presentation 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 slide presentation, at the end of the related press release and is part of the Form 8-K filed last night with the SEC, all of which are available on our website.

Before I turn it over to Jay, 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 Jay.

Jay F. Grinney, President, Chief Executive Officer & Director

Great. Thank you, Crissy, and good morning to everyone joining today's call. The fourth quarter was a solid conclusion to 2015 with strong volume and top-line growth in both segments generating $191.5 million of adjusted EBITDA for the quarter and $682.5 million for the year, increases of 36% and 18.2% respectively. Discharges in our inpatient segment grew 18.6% quarter-over-quarter, aided by the former Reliant hospitals. Same-store discharges grew a solid 3% in the quarter and 3.2% for the year.

As noted on page 22 of the supplemental slides, this represents the strongest annual same-store growth in over four years and compares very favorably to the UDS annual growth rate, excluding HealthSouth, of 0.7%. Encompass also finished the year strong, as admissions and episodes at locations owned by Encompass prior to 2014 increased an impressive 18.6% and 15.2%, respectively, in the fourth quarter. Adjusted EBITDA in the quarter increased by $50.7 million despite a $4.5 million increase to our group medical reserves and higher bad debt expense attributable to continued claims, denials and adjudication delays. As a reminder, we had a favorable group health adjustment of approximately $1 million in last year's fourth quarter.

This strong growth in adjusted EBITDA enabled us to generate $83 million of adjusted free cash flow compared to $45.4 million in the fourth quarter of 2014. Full-year adjusted free cash flow was $389 million, up $77.7 million or 25% from last year. In addition to a solid quarter from an operations perspective, we also redeemed $50 million of 7.75% senior notes due 2022 and continued our commitment to shareholder distributions with approximately $47 million of common stock repurchases, the payment of a $0.23 per share common stock dividend in October and the declaration of another $0.23 per share common stock dividend that was paid on January 15.

Before I turn it over to Doug, I want to note we are reaffirming our 2016 net operating revenues and adjusted EBITDA guidance ranges and raising our 2016 adjusted earnings per share guidance range. Full-year guidance for net operating revenues is between $3.55 billion and $3.65 billion, while full-year guidance for adjusted EBITDA is between $765 million and $785 million. Full-year adjusted EPS guidance is now between $2.32 and $2.44 per share.

As noted on page 14 of the supplemental slides, there are several key factors that will influence 2016 performance. The first relates to the repositioning and integration of the former Reliant hospitals and CareSouth agencies on to our operating platforms. For the former Reliant hospitals, this entails increasing staffing at most hospitals, primarily by adding therapists, so patients receive more than 50% of their therapy on an individualized basis, and nurses, so these hospitals can care for an increasing number of medically-complex high-acuity patients.

It also entails ensuring every hospital has a PPS coordinator and enhancing staffing in quality departments. It also involves implementing HealthSouth's teamwork initiatives, sales and marketing, care management and patient experience and installing our electronic clinical information system at all hospitals.

Finally, we will introduce training and acquire the necessary equipment to enable these hospitals to treat patients with a broader range of neurological conditions than they have been able to treat in the past. We anticipate that all former Reliant hospitals will be converted to HealthSouth's staffing profile by the end of the second quarter, while the remaining changes should be in place by year end. The run rates of the former Reliant hospitals in 2016 will be less than their recent historic run rates due to this repositioning.

At the same time, the former CareSouth agencies will be integrated on to the Encompass operating platform. This will require these agencies to transition to Encompass's sales and marketing, staffing, and productivity and quality protocols, while learning how to utilize the homecare home-based IT system consistent with how Encompass agencies utilize it. While all of these initiatives are underway, they will have an adverse effect on these agencies' growth in the first half.

Finally, in the 14 new overlap markets that were created by the acquisition of CareSouth, we will need to focus on establishing strong clinical collaboration between our hospitals and the former CareSouth agencies to promote improved continuity of care for patients requiring post-acute services.

In addition to integrating these acquisitions, we are assuming 2016 will be impacted by growth in our inpatient segment's group medical costs of between 6% and 10% and that this segment's bad debt expenses will remain level at approximately 1.8% of net operating revenues.

Finally, pricing growth in both segments is expected to be modest. Our IRF segment experienced net revenue per discharge growth of 1.1% in 2015 as the increase in Medicare pricing was partially offset by the shift in our payer mix. We expect this payer mix shift will continue in 2015, albeit at a more moderate rate. Our home health and hospice segment is subject to an expected decrease in its Medicare pricing of 1.7% effective January 1 of this year. As a consequence of this modest pricing outlook, our revenue growth in 2016 will be more heavily weighted toward volume rather than pricing.

One of HealthSouth's strengths is the ability to consistently generate strong free cash flow and to invest this free cash flow for the benefit of our shareholders. To understand what this means for shareholders in 2016, I'd like to draw your attention to pages 18 and 19 of the supplemental slides that accompanied the press release.

Using the 2016 adjusted EBITDA guidance range of $765 million to $785 million as a starting point, page 18 includes a schedule that estimate 2016 adjusted free cash flow of between $360 million and $445 million. As noted on page 19, from this adjusted free cash flow, we estimate we will invest between

$120 million and $180 million to facilitate continued growth through bed expansions at existing hospitals, the construction and acquisition of new hospitals, and the acquisition of new home health agencies.

It should be noted we have no intention to pursue any major acquisitions in 2016. We expect any IRF acquisition to be one-off transactions requiring modest investment. Likewise, we expect our home health acquisitions to be smaller transactions that, in aggregate, are not likely to exceed approximately $40 million. That would leave a substantial amount of free cash flow available to invest in debt repayment, share repurchases and common stock dividends.

We have a track record of managing our balance sheet and distributing excess cash to shareholders, as evidenced by the payment of dividends on our common stock, the redemption of a portion of our 2020 notes in the fourth quarter, yesterday's announcement that we plan to redeem another portion of these notes in the first quarter and the fourth quarter repurchase of shares of our common stock. Given the strong cash flow we expect to generate, we intend to keep these as our priorities in 2016.

With that, I'll now turn the agenda over to Doug.

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

Thank you, Jay, and good morning, everyone. The fourth quarter unfolded largely in line with our expectations. We continue to generate strong revenue and volume growth across both of our business segments, aided in Q4 by the acquisitions of Reliant and CareSouth.

IRF segment pricing and operating expenses were relatively consistent with the trends exhibited earlier in the year. As a result, for Q4, we generated consolidated adjusted EBITDA of $191.5 million, an increase of 36% over Q4 2014 and adjusted EPS of $0.59 versus $0.47 in the prior-year period.

For fiscal year 2015, adjusted consolidated EBITDA was $682.5 million, an increase of 18.2% over 2014 and adjusted EPS was $2.24 as compared to $2.06 in the prior year. Growth in adjusted EPS for both the quarter and the full year was impacted by higher interest expense associated with acquisition funding, higher depreciation and amortization resulting from our recent acquisitions and capital expenditures, and a higher effective income tax rate.

As Jay just noted, the strength and consistency of our free cash flow generation was further evidenced in 2015. Adjusted free cash flow for the year was $389 million, an increase of 25% over 2014. The magnitude of our free cash flow provides the flexibility to pursue core growth opportunities in both of our business segments as well as to opportunistically prepay debt and fund our shareholder distributions.

Turning now to the business segment results and beginning with the IRF segment, net operating revenues increased 19.8%, driven by discharge volume growth of 18.6% and a 1.1% increase in revenue per discharge. We posted another quarter of strong same-store discharge growth at 3%. New stores were responsible for the residual growth with contributions from the four hospitals opened in Q4 2014, the additions of Savannah and Cardinal Hill, the acquisition of Reliant, and the opening of Franklin. Revenue per discharge in Q4 was, again, impacted by disproportionate growth in Medicaid discharges, while average acuity was relatively constant with Q4 of last year.

For the full-year 2015, IRF segment net operating revenues increased 11.6% driven by discharge volume growth of 10.9%, which is inclusive of same-store growth of 3.2% and a 1.1% increase in net revenue per discharge. During 2015, we added 1,309 beds to our IRF franchise, representing an 18% increase over 2014. IRF segment adjusted EBITDA for Q4 was $189.9 million, an increase of 17.1% over Q4 last year. For 2015, IRF segment adjusted EBITDA was $691 million as compared to $665.3 million in 2014.

Bad debt expense for Q4 2015 was 1.8% versus 1.1% in Q4 2014. The rate of new denials and recoveries was comparable to that we experienced in Q3. Our success rate on denied claims is in excess of 70%. We are engaged in active open dialog with our largest MAC in an effort to reduce the incidence of future claims denials. Our backlog of claims in the adjudication process continues to grow as there has been no tangible progress in resolving the ALJ bottleneck. As a reminder, bad debt expense in Q4 2014 benefited from approximately $3 million reserve reduction related to an update in our loss expectancy estimates.

IRF segment SWB for the quarter increased as a percent of revenue primarily due to the year-over-year change in our group medical self-insurance accruals, which accounted for approximately 80 basis points in rate differential. The Q4 increase in group medical expenses was consistent with that exhibited in Q3. We discussed the increase in our group medical expenses in great detail on our third quarter call. Over the course of 2015, we experienced an increase in the total number of medical claims, the number of high-dollar medical claims and in the usage of high-value specialty pharmaceuticals.

We believe that much of this increase may be categorized as a reversion to mean, as from 2011 through 2014, our average medical plan cost per employee approximated 76% of the average cost for other self-insured healthcare companies. And in 2015, we did not implement any significant plan design changes, nor did we experience any significant change in the characteristics of our covered population. Our medical plan cost per employee increased approximately 22% in 2015. And as we have previously stated, we expect the rate of increase to moderate substantially in 2016 due both to the higher base level established and certain plan design changes we have initiated.

Our labor productivity, as measured by employee per occupied bed, or EPOB, improved declining to 3.46 in Q4 2015 from 3.48 in Q4 2014. This measure was impacted by a number of countervailing trends. It was favorably impacted by the inclusion of the former Reliant hospitals, which have historically run at lower staffing levels than our typical HealthSouth IRF. As we have previously stated and as Jay discussed earlier, this is changing as we transition the former Reliant hospitals to the HealthSouth operating model. EPOB for Q4 2015 was also impacted by the staffing investments in quality reporting and to increase our therapy coverage as we have previously discussed. As a reminder, EPOB for Q4 2014 was negatively impacted by the ramp-up of four new hospitals.

Our other hospital expenses for Q4 2015 declined by 70 basis points to 20.7% from 21.4% in Q4 2014. We realized additional supply chain efficiencies in Q4 gaining approximately 50 basis points of operating leverage, while occupancy cost increased by approximately 30 basis points due to the addition of the former Reliant hospitals. The balance of IRF operating expenses declined by 60 basis points in Q4 2015 over Q4 2014, benefiting from both a lower run rate of the former Reliant hospitals, which I again remind you are being transitioned to the HealthSouth operating model, and the expenses related to the ramp-up of four new hospitals in the prior-year period.

Our home health and hospice segment posted another strong quarter with Q4 revenue of $153.4 million and adjusted EBITDA of $26.5 million. For fiscal year 2015, our home health and hospice segment generated revenues of $509.8 million and adjusted EBITDA of $83.1 million. Our Q4 results benefited from the acquisition of CareSouth, which closed on November 2, and the core Encompass business continues to perform very well. In Q4 2015, for locations Encompass owned prior to 2014, admissions increased 18.6% and episodes increased 15.2%, both as compared to Q4 2014.

We currently have a home health presence in 71 of our 121 IRF markets, representing 59% coverage. And we continue to make tangible progress in the clinical collaboration activities between our facility-based and home-based service offerings. We believe the provision of the continuum of care leads to better patient outcomes and satisfaction as well as improved cost effectiveness.

Moving to the balance sheet, our funded debt at 12/31/15 was $3,171.5 million as compared to $2,111.2 million at 12/31/14. With the increase attributable to the debt used to fund the cash purchases of Reliant and CareSouth as well as the absorption of the capital lease obligations associated with Reliant, leverage, as measured by debt to adjusted EBITDA, stood at 4.6 times at year-end 2015. Pro forma leverage, which is inclusive of a full-year estimate of adjusted EBITDA for Reliant and CareSouth, was 4.2 times.

In spite of the increase in leverage, our balance sheet remains strong and our company is well-capitalized. As may be seen on page 21 of the supplemental slides, we have no significant debt maturities prior to 2020, nominal required principal amortization prior to maturity and considerable flexibility to prepay debt at our discretion. As an example of this last point, and as Jay mentioned in his remarks, we redeemed $50 million of our 7.75% notes due 2022 in Q4 and we have recently given notice of our intent to redeem an additional $50 million of these notes in the first quarter.

Our liquidity also remains strong and we ended 2015 with approximately $436 million of unfunded availability under our revolving credit facility. During Q4, we also continued our strategy of augmenting returns from our operating investments with shareholder distributions by paying a common dividend of $0.23 per share and repurchasing approximately $47 million of our common stock.

And now, we’ll open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Gary Lieberman with Wells Fargo.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Good morning. Thanks for taking the question. I believe in the past you'd given some statistics regarding the percentage of patients discharged from the IRFs going into the Encompass facilities. Do you have those statistics?

<A – Jay Grinney – HealthSouth Corp.>: I don't have the percent right offhand. I can tell you that in – to give you an idea of what we saw in December of 2015 and comparing that to December of 2014, and you'll recall we purchased Encompass at the end of 2014. In 2014, we had something like 34 discharges coming out of our IRFs and going into an Encompass Home Health agency. In December of 2015, that number was 900.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Okay. Great. So, you're happy with that kind of growth?

<A – Jay Grinney – HealthSouth Corp.>: Yeah. I mean there's more to go – certainly more to go. But, yes, we're very pleased with the status to-date and we look forward to continued collaboration into 2016 and beyond.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Okay. And there has been a lot of concern by investors about the impact of the BPCI and the CJR on post-acute facilities. Can you talk about anything that you're seeing or your updated thoughts there?

<A – Jay Grinney – HealthSouth Corp.>: Of course, CJR doesn't start until April 1. We've seen no impact, obviously, from that. First of all, most of the bundles that are in our markets and we pointed that out in the slide, I think, in the JPMorgan presentation and we'll include this in the IRB when we update it. Most of those were lower extremity joint replacement patients. So, most of the Model 2 bundles where the acute care hospital is a convener, they've convened around and bundled around knees and hips, which is, as we all know, the same diagnoses that are bundled under CJR.

And so, we think that if there is going to be an impact, it would be in the knees and hips. But as we peel back the onion and as we look at those patients, the vast majority of them have multiple comorbidities and complicating conditions that really require that they be in a facility with 24-hour/seven-day-a-week nursing care, close physician supervision, team initiatives on the therapy side. These are very sick patients. So, the simple knees and hips, we're not getting them today. And so, I don't think that there is any risk that we're going to lose, because we're not going to lose something that we're not getting today. So, right now, we're not seeing any impact.

The last comment I would make, Gary, and this is something that reinforced our decision to acquire Encompass and to get into the home health segment, we do believe that the value proposition of a patient requiring post-acute care – and let's take the simple knees and hips out of the equation just for a minute, because, again, we're not seeing them today, we don't think we're going to see them in the future. But let's take the balance of the conditions that we do treat.

We believe that the value proposition of a patient being able to stay in an inpatient rehabilitation hospital followed by continuity of care in a high-quality home health environment where that care is integrated and coordinated from literally the moment that the patient is admitted into the acute care hospital, we believe that that value proposition is very powerful. And we think that that will set us up very nicely in a bundled environment, in an ACO environment, in any kind of environment where care needs to be coordinated and the quality of care needs to be first-rate. So, our view is that the bundling and other payment changes that are going on really kind of play into our strong suit.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Great. Thanks very much.

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

<Q – John Ransom – Raymond James & Associates, Inc.>: Hi. Good morning. Can we just talk for a minute about Reliant? If I look at the purchase price, it was 9.6 times EBITDA when we take out the NOL. And you're talking about EBITDA going down in 2016. So, when do you think that deal will hit your return parameters and how much of a headwind is EBITDA going down at Reliant and CareSouth in your guidance? Thanks.

<A – Doug Coltharp – HealthSouth Corp.>: So, yeah, John, we've said right from the get-go that it was going to take a step back as we transformed those hospitals to meet the HealthSouth operating model. We think that beginning in 2017, they'll be back on a growth trajectory. When we looked at the markets in which the Reliant hospitals are located, we spent a lot of time looking at the demographics and we got very comfortable that the types of higher-acuity patients that we're accustomed to treating in our HealthSouth IRFs were present in those markets and there was an unmet demand for treating those patients.

What we're doing in terms of repositioning the Reliant hospitals will ultimately allow us to run those hospitals at a higher revenue level and at a higher occupancy level, albeit accompanied by a higher expense level. So, their margin structure will mirror the traditional HealthSouth hospitals, but the revenue will be higher. So, we'll see that growth trajectory begin in 2017. And we're very comfortable that it will generate returns that are in line with those that we have previously stated.

<Q – John Ransom – Raymond James & Associates, Inc.>: And how much of that – sorry, go ahead.

<A – Jay Grinney – HealthSouth Corp.>: John, the second part of your question on CareSouth, same dynamics in terms of repositioning and integrating, but we anticipate that the growth from the CareSouth agencies will then begin in the second half of 2016. That'll happen a little bit quicker, a little bit easier to turn those agencies and to turn the hospitals.

<Q – John Ransom – Raymond James & Associates, Inc.>: So, I mean, my follow-on is that it just looks like if you take your actual 4Q run rate, you layer in some acquisitions in home health, it looks like you're really modeling no growth in EBITDA in 2016 off the 4Q run rate. So, I'm just wondering if the headwind from Reliant and CareSouth maybe is a bigger part of the explanation than maybe we appreciate.

<A – Doug Coltharp – HealthSouth Corp.>: So, I wouldn't pin it just on CareSouth. I think one of the things you may be missing is the fact that there is a pricing decrease in home health. All right? There is a...

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

<A – Doug Coltharp – HealthSouth Corp.>: ...1.7% pricing decrease effective January 1. Then there is a step back in Reliant. But I think those are the two primary factors and we are anticipating same-store growth in EBITDA out of the IRF segment.

<A – Jay Grinney – HealthSouth Corp.>: And on other thing, John, and we've talked on this call, I think it's a tradition at every fourth quarter call to talk about guidance and how we said it and what our approach is when we said it. And we've always said and will continue to say that we feel that it's our responsibility to set guidance based on what we know we can deliver to our shareholders. There are other companies that take different views and they want to get a headline pop, because they're going to put out very ambitious or maybe stretch guidance numbers. And then, those are the companies that, inevitably during the subsequent quarter calls, have to explain this or have to walk back their guidance. We never had that experience.

Last year was a unusual year for year. We had a lot of things happen that were unexpected outside of our control and we're very consistent in the way we approach putting guidance together. So, I certainly don't want anyone to think that the $755 million to $785 million is sort of what we're aspiring to. As we've said consistently, what we want to do when we present guidance is to present numbers that we have a very high degree of confidence that we can deliver. And then, as any company, we want to try to do better. But it doesn't serve us, nor does it serve shareholders any benefit to going out and trying to be very aggressive in providing guidance at the beginning of the year. I mean, there are a lot of things that have to come into place and we think we've got the right plans. We think we have the right people. We think we can execute. But what we want to do is we want to, as I said, give you numbers and give our shareholders numbers that they can count on.

<Q – John Ransom – Raymond James & Associates, Inc.>: Great. Thanks so much.

Operator: Our next question comes from the line of Sheryl Skolnick with Mizuho Securities.

<A – Jay Grinney – HealthSouth Corp.>: Good morning, Sheryl.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Thanks. Good morning. Jay, I think everybody who is on this call appreciates to knowing how forthright you've been over so many years in presenting the guidance for the company. But forgive me if I have to go at this question one more time and forgive me if I'm a little frustrated with the lack of a clear answer here. We all, I think, want to believe that your guidance is conservative, because we want to believe that it's a guide-low perform-high HealthSouth that we know and love. Okay. But we need a little help getting there and we need specific numbers to get there. So, maybe you can help us out this way.

I had the sense and maybe it's my own fault, but I had the sense that the amount of dilution to EBITDA growth that we're going to see this year from a combined, not separate, but combined CareSouth/Reliant and all the other activities you're doing, including the rate decrease in home health, is a bit more than we thought. So, either please quantify the expected range of that headwind in dollars or tell us, in the absence of those deals, how much you would be forecasting for combined IRF and Encompass EBITDA growth. That would be really helpful.

<A – Jay Grinney – HealthSouth Corp.>: So, the second part of the question, combined Reliant and CareSouth growth?

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: No. No. How much your EBITDA would have been growing if you hadn't bought Reliant and CareSouth? In other words, what I'm trying to get at...

<A – Jay Grinney – HealthSouth Corp.>: Yeah.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: ...really is, how much is the dilution to your EBITDA guidance this year from those transactions.

<A – Doug Coltharp – HealthSouth Corp.>: Yeah. I think, Sheryl, probably the easiest way to get at that – and part of the reason that we haven't provided that kind of specificity previously is, because, as you know, specifically as it relates to the Reliant transaction, the vast number of those hospitals are in overlap markets. And so, the part of what is going on as well is those were viewed by us as capacity additions in markets in which we were already operating. And we're combining sales and marketing forces and trying to describe which discharges are directly attributable to a former Reliant Hospital versus a HealthSouth hospital, all that gets a little bit murky. Having said that, as an approximation, the EBITDA based on the model transformation and the addition of expenses, the EBITDA run rate for Reliant is expected to take a step back about $2 million to $3 million per quarter during the course of 2016.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Okay. That's the answer. So, it's $8 million to $12 million for the year.

<A – Doug Coltharp – HealthSouth Corp.>: That's a reasonable estimate.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Okay. And for CareSouth?

<A – Doug Coltharp – HealthSouth Corp.>: CareSouth, it's a little bit harder to quantify. Again, you got the pricing decrease, which is impacting the overall home health agency. So, it's a smaller number because it's smaller contribution. It might be $1 million a quarter. Again, that's just an estimate.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Okay. So, maybe ask the home health guidance question a little bit differently, and I get it the volumes are terrific and it's the right deal is done and all the rest of that. So, this is no criticism implied, just need data. In understanding the home health business, can you give us an estimate of what the dollar headwind would be for the price cut?

<A – Doug Coltharp – HealthSouth Corp.>: It's not a static number, because at the same time that you've got a decrease in the Medicare pricing, the patient mix change in the home health business is changing and it's changing at least in part due to the fact that as we increase the number of patients that are flowing from our IRFs to the Encompass platform, you're increasing the percentage of therapy, which has different pricing than some of the nursing component.

<A – Jay Grinney – HealthSouth Corp.>: You could easily take – on a static basis, you could look at year-to-date or the fourth quarter. And if you assume no change in the case mix and you look at the segment's revenues and you go back to whatever page it is, it shows the mix of the revenue by segment, you can then get a Medicare revenue base and then that would decrease by 1.7%. So, I mean, if you want to quantify, it's easily done. But it's just – it's looking at page 23.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: It's mitigating it by the real world that gets tough.

<A – Jay Grinney – HealthSouth Corp.>: Yeah. And then – but that just – that's on a static basis. So, you look at the home health is 83% in 2015 Q4, 83% Medicare. And as you saw on page eight, total net operating revenues for the segment in that quarter was $153 million. So, you got 83% of that. They just normalize, say, you're going to extrapolate that times four and then you take 1.7% off of that. You now have a sense of what that revenue is on a static basis.

<A – Doug Coltharp – HealthSouth Corp.>: And that would be $8 million to $9 million on an annual basis.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Okay. That's great. So, if I do the math then, and some puts and takes here, it looks like ex the dilution, you would probably be looking at the midpoint of the range at about 4% to 5% EBITDA growth?

<A – Jay Grinney – HealthSouth Corp.>: Yeah. And I think that that's probably – in fact, that is a very fair way to look at it. If you looked at – as we looked at Q4 and if you took out the group health and kind of normalize for a normal run rate on the bad debt, the business was growing just over 4% ex Reliant and ex new store. That was the same-store growth would have been about 4%. And you have additional growth on top of that with the new stores and then obviously with the acquisitions. So, that 4% to 5%, I think, is a very good number.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Thank you so much. Now I get it.

<A – Jay Grinney – HealthSouth Corp.>: Okay.

Operator: Our next question comes from the line of Whit Mayo with Robert W. Baird.

<A – Jay Grinney – HealthSouth Corp.>: Hey, Whit.

<Q – Whit Mayo – Robert W. Baird & Co., Inc. (Broker)>: Hey. Good morning. Just was curious if there's anything new emerging on the supply side, distributor opportunities, pharmacy, GPO, just anything new that you see as an opportunity going forward operationally to perhaps move the needle?

<A – Doug Coltharp – HealthSouth Corp.>: Well, I think, we demonstrated again in Q4 that we made some good progress gaining supply chain efficiencies. I think all of those things are on the table. One of the things that we have been able to do starting in 2015 and will continue into 2016 is to move Encompass into our GPO and there's some efficiencies to be gained there. Obviously, we'll be folding the former Reliant hospitals and CareSouth in, also the – I think the real answer there, Whit, is that we are in a constant process of looking for further opportunities for improvement through the supply chain. There isn't one specific large opportunity that I can point to. It's more about continuously picking up the nickels.

<Q – Whit Mayo – Robert W. Baird & Co., Inc. (Broker)>: Makes sense. And Doug, I know you're really enjoying your capital structure now and I think your 7.75% are callable this September, maybe I'm wrong. But does it make sense to revisit that later this year, and just maybe curious, just broader thoughts on rethinking a higher dividend as the year progresses? Thanks.

<A – Doug Coltharp – HealthSouth Corp.>: Well, first on the 7.75%, they became initially callable in September of 2015. And you may recall we called $50 million of those in the fourth quarter and paid those down. And we adjusted in conjunction with our earnings release yesterday, we also announced that we had issued a call notice for an incremental $50 million. Was your second question regarding potentially increasing the dividend?

<Q – Whit Mayo – Robert W. Baird & Co., Inc. (Broker)>: Yeah.

<A – Doug Coltharp – HealthSouth Corp.>: Yeah. Well – and again, that is at the board's discretion. I can tell you that on a quarterly basis when the board convenes, they look at an array of factors to decide whether or not to maintain the dividend at its current level or to increase it.

<Q – Whit Mayo – Robert W. Baird & Co., Inc. (Broker)>: Okay. Thanks.

<A – Jay Grinney – HealthSouth Corp.>: And Whit, I think it's also appropriate to say, in addition to what Doug said, is that those deliberations are made within the context of a full range of capital deployment and we've outlined what those are. It's paying down debt, buying back shares or doing something additional with the dividend. So, it's not an either/or. I mean, we have an opportunity to do multiple deployments, it's really what makes the most sense given all the circumstances that are in front of us.

<A – Doug Coltharp – HealthSouth Corp.>: And certainly, not speaking for the board right now, but just an observation is with the stock price at its current level, the dividend yield, even with the dividend maintained at its current level, is higher than it was previously. And at the same time, the valuation on the stock is attractive from a repurchase perspective.

<Q – Whit Mayo – Robert W. Baird & Co., Inc. (Broker)>: Thanks a lot.

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

<Q – A.J. Rice – UBS Securities LLC>: Hi, everybody. Thanks. Maybe first, just appreciate the comments around the SW&B that were made with respect to group health cost and the productivity. How about just any comments on what you're seeing with respect to turnover, wage rates for your therapists and your nurses?

<A – Mark Tarr – HealthSouth Corp.>: Hey, A.J. This is Mark. We don't see any across-the-board widespread pressure on nursing or therapists. We do have markets that are extremely competitive, particularly on the nursing side. So, we remain diligent staying ahead of those competitors, making sure that we have market valued rates for our staff as well as offer other areas that they see as value, such as clinical education and additional certification pay.

<A – Jay Grinney – HealthSouth Corp.>: And A.J., on the turnover, our nursing turnover hovers right there at the national average. Our therapy turnover is probably 200 basis points to 300 basis points below the national average and has been consistently at those levels for many years.

<Q – A.J. Rice – UBS Securities LLC>: Okay. Maybe just – and there maybe something obvious on this, in the 2016 guidance considerations on the inpatient rehab side, one of the comments is managed care and Medicaid increase is expected to moderate in 2016. Is that simply the rate update that you're referring to on the Medicare side and a lack of expansion on the Medicaid or is there something broader? And maybe just comment on payer mix trends and what you're seeing generally.

<A – Jay Grinney – HealthSouth Corp.>: No. It's a reflection of the number of patients in the categories of Medicaid and exchange or commercial that we saw big increases in 2015. We expect that those categories will continue to grow, but at a moderated level. And so, for example, we saw in 2015 the Medicaid patient increase by 25%. And that was, if you recall, result of a lot of different factors, one of which was the expansion of Medicaid in certain states. So, there were more enrolled, the inclusion of rehabilitation as a covered service, and then, of course, the acquisition of Cardinal Hill in the early part of the year really drove that number.

So, if you carved out the Cardinal Hill numbers, it'd be closer to 15% growth in Medicaid. As we go out and as we look at what's happening in Medicaid enrollment in the states where we have a presence, we're not getting anything that would suggest that there is a further expansion to include more individuals in that category. So, we expect that it's going to grow, but we don't expect that it's going to grow at that 15% year-over-year clip.

<Q – A.J. Rice – UBS Securities LLC>: Okay. And that's same for managed care.

<A – Jay Grinney – HealthSouth Corp.>: That's what we're saying.

<Q – A.J. Rice – UBS Securities LLC>: And managed care, same.

<A – Jay Grinney – HealthSouth Corp.>: Yeah. On the exchanges, we also think that – we saw that grow in 2015 around 14%. And based on what the reports are on exchange enrollment, we think that that's going to be probably closer to the 10% range.

<Q – A.J. Rice – UBS Securities LLC>: I got you. Okay. That makes sense. Thanks a lot.

Operator: Our next question comes from the line of Josh Raskin with Barclays.

<Q – Josh Raskin – Barclays Capital, Inc.>: Hi. Thanks. Good morning. Wanted to ask a little bit more broadly, I guess, on – I don't know if you want to call it bundling, but maybe ACOs or even the impact you're seeing in terms of Medicare Advantage growth. And I guess I'm just curious, is there anything that you see just even post-acute when people leave the hospitals, are you seeing a change in that dynamic? I think the market feels as though there has been a pretty rapid change. It doesn't seem like that that's case in the IRF market. But just wanted to see if you guys felt like there was any structural movement that you're seeing once people leave the hospital.

<A – Mark Tarr – HealthSouth Corp.>: We're not seeing a significant change from what we experienced in the past. And if you look at it from a diagnostic standpoint, it's the orthopedic population that has had the areas that people tend to go more towards either SNF or home health with those orthopedic patients that don't have a lot of comorbidities. So, if anything, we're anecdotally hearing more about patients going straight to home health that don't have the high percentage of comorbidities.

<Q – Josh Raskin – Barclays Capital, Inc.>: Okay. All right. So, nothing really there. And then, I just want to make sure I got this right in the guidance as well. It sounded like you thought the pressures in 1Q would be a little bit higher in terms of transitions of systems and getting the acquisitions on your platforms. Is there a change in the seasonality? Should we think about the growth rates in the first half differently than the second half?

<A – Jay Grinney – HealthSouth Corp.>: Let me just back up. What we said is that the impact on the repositioning of Reliant will be felt throughout the year. The staffing impact should be in place by the end of Q2. And then with respect to CareSouth, we said that most of the transition that needs to occur will – all of which will occur in the first half. But there is some seasonality in the numbers, especially in home health.

<A – Doug Coltharp – HealthSouth Corp.>: Yeah. Just two things to note with regard to seasonality, Josh, one of which you've heard us talk about in prior years and one of which may be new to you. The new one related to home health is simply that in the first quarter of every year, Encompass has a system-wide multi-day sales meeting. And it's necessary to reenergize the sales force and get everybody focused on the right things for the coming year. But for that particular quarter, it takes a couple of days of revenue out essentially.

The second thing is, as you may recall from our discussion in prior years, the timing of our stock-based long-term incentive plan grants is in the first quarter and that carries a disproportional increase in payroll taxes. So, you'll see some pressure on SWB during the first quarter.

<Q – Josh Raskin – Barclays Capital, Inc.>: Yeah. I was just trying to isolate any of the unusual ones, not the typical first quarter.

<A – Jay Grinney – HealthSouth Corp.>: Yes.

<Q – Josh Raskin – Barclays Capital, Inc.>: But is it fair to say it'll be a little bit more seasonally weighted to the second half as you get through the staffing changes, et cetera?

<A – Doug Coltharp – HealthSouth Corp.>: Yes.

<Q – Josh Raskin – Barclays Capital, Inc.>: Okay. And then, just lastly, on the benefit plans, your existing self-funded plan. The $4 million, I just want to understand, the $4.5 million this quarter, was that an incremental increase in your reserves, i.e., you saw further deterioration or is that just the plan is running $4.5 million higher than it did last year, which is the same level of increased cost that you saw in the third quarter?

<A – Doug Coltharp – HealthSouth Corp.>: It's more in line with your second statement.

<Q – Josh Raskin – Barclays Capital, Inc.>: Okay.

<A – Doug Coltharp – HealthSouth Corp.>: And it's really similar to what we saw in the second quarter as well. So, basically, the run rate for the year on a year-over-year basis came up. And as we look at 2016, we think that the new base level that was established in 2015 is the starting point and then we're anticipating a 6% to 10% inflationary rate on top of that.

<Q – Josh Raskin – Barclays Capital, Inc.>: Okay. Got you. Okay. Thanks, guys.

Operator: [Operator Instructions] Our next question comes from the line of Kevin Fischbeck with Bank of America Merrill Lynch.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Hi. Great. Thanks. Wanted to ask about the commentary on the two deals. I guess, I'm not used to hearing from you guys about doing deals that have a lot of investment and actually lower earnings kind of out of the gate. Is that something that normally happens or is there something unusual about these two deals? And prospectively, should we be factoring in something like that happening in every deal you do, there's an upfront investment and then it grows faster afterwards?

<A – Jay Grinney – HealthSouth Corp.>: I didn't hear all of that. But virtually all of the acquisitions that we've done, the one-offs, have been immediately accretive. When we looked at the Reliant from a strategic standpoint, we were looking at the opportunity to consolidate into some key markets in Texas where we had gaps geographically and a very strong home health presence. And so, the opportunity to acquire these assets was unique. As you know, there aren't a lot of portfolios of rehabilitation facilities. So, we were really trying to position those markets for the long haul. We knew going in that there was going to be some repositioning that would have to take place.

I would have to say that we see that as sort of an unusual set of circumstances because, as I said, all of the other acquisitions, we were looking at hospitals that were underperforming and we were taking them on and then immediately seeing improvement as we brought in our operating systems. Here, we're really repositioning them from a clinical capability and from a staffing standpoint to meet some of the new expectations from CMS as it relates to individual therapy and to prepare those hospitals to be better positioned to adhere to all of the quality reporting requirements that CMS has promulgated. So, in that sense, it's a little bit unusual.

On the CareSouth, what is occurring there is exactly what has occurred on all of the other Encompass acquisitions, even before our partnership with them. And that is that they would come in and, for a period of time, maybe it'd be a quarter, maybe it would be two quarters, they would recalibrate their operating platform, bring the home care high – home-based platform in, teach those agencies and the employees how to use that, how to use it most efficiently, revamp the sales and marketing. In some instances, they had to change out people in order to get the right folks in from a clinical standpoint in the sales and marketing. So, that part of it, I think, is pretty consistent.

So, again, stepping back and answering your question, I think that the Reliant is unusual, because we knew we had to make some significant changes there. But we did that looking at the long term and bringing on capacity to meet the needs of particularly those communities in Texas and then the two new hospitals up there in the Boston metro market.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Okay. That's helpful. And I guess, just specifically on Reliant as far as – one of the things you highlight there as growing neurological and, I guess, you do a decent amount of neurological in your core business. But I think MedPAC a few months ago was highlighting neurological as an area that they felt that they were over – that CMS was overpaying for and they were recommending adjustments there. Do you see any risk to that over time? And is that still a good business even if rates do come down?

<A – Jay Grinney – HealthSouth Corp.>: Yeah. MedPAC wasn't saying that they were overpaying for neurological.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: They were saying that facilities with high neurological had higher margins than industry average?

<A – Jay Grinney – HealthSouth Corp.>: That's...

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: [inaudible] (56:45).

<A – Jay Grinney – HealthSouth Corp.>: Yeah. But they – MedPAC never said that they were overpaying for neurological. They were just saying that the higher margin, higher profit hospitals had a higher percent of neurological cases. But I think MedPAC, where they missed, was the fact that if you would also look at the high-margin hospitals, the payments weren't any different than what you get in the low margin. The difference was in the cost structure.

<Q – Kevin Fischbeck – Bank of America Merrill Lynch>: Okay. So, you don't – I was connecting the dots of, hey, look, high neuro, high margins, you were probably overpaying. You're saying that there's another reason in there that you're working with MedPAC for them to understand?

<A – Jay Grinney – HealthSouth Corp.>: Well, we definitely are. In fact, we had a meeting with them two weeks ago helping them. And we actually prepared a report, be happy to get that to you, to anybody, that we submitted to MedPAC that helped to – we think helped them better understand the margin dynamics going on in the IRF industry. It's not a function of pricing, it's a function of cost management. And particularly, many of the low-margin hospitals, IRFs out there, are getting a disproportionate amount of outlier payments, not because their patients are any sicker, but because they're layering up all kinds of costs, transferring all kinds of costs from the acute care hospitals on to these units. Getting higher payments, the margins may be low and really that is as big of a problem as anything.

So, we're happy to get that to you. But to answer your basic question, first of all, the premise is not right. They didn't say they're paying too much, but we don't see that as being a risk. I mean, the reality is that's where – that's the kind of patients that are intended to go into inpatient rehabilitation facilities. High acuity...

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

<A – Jay Grinney – HealthSouth Corp.>: Okay.

Operator: Our next question comes from the line of Sheryl Skolnick with Mizuho Securities.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Thanks. I just wanted to follow-up on a couple of things, if I may. And I really do appreciate you giving me numbers here. That was incredibly helpful. But as we look out in terms of the mix of the business and the home heath business and the rehab business, the positioning for all of these – so this is a post-acute question and this is sort of a bundling question. I got to ask it again. But as we look out and we look at the way you're positioning the business, we look at the presence that you have and then we step back and we look at what's happening in the greater post-acute market where there's all of these methodology changes that are pushing patients out of facility based care and into lower-cost settings.

So, I have to ask the question. You're expanding your capacity. You're adding new hospitals. You're adding beds to existing hospitals in addition to doing acquisitions of existing hospitals. How do you get comfortable, because I know you do your work? How do you get comfortable knowing that you're going to need these beds when everybody else is going to be emptying out theirs?

<A – Jay Grinney – HealthSouth Corp.>: Well. I think, Sheryl, you're right that there is a change going on in the post-acute world out of facilities and into the home. In fact, that's clearly one of the reasons we looked at expanding into home health. What we're seeing, though, in the markets is that the facilities that the patients are leaving are the SNFs, not the inpatient rehabilitation hospitals. There is a built-in demand that is not replaceable going into a SNF. If you look at the kinds of patients that we treat, the kind of medications that they're on, the kind of nursing care that's required, we're licensed as hospitals. And so, we're a logical next step for those patients, those high-acuity, high-comorbidity patients, who no longer qualify for an inpatient acute stay, coming into our hospitals. So, you're absolutely right, we think that our home health segment is going to be the beneficiary of those patients who are going into SNFs, who really should be at home.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Right.

<A – Jay Grinney – HealthSouth Corp.>: In fact, we see that, in our hospitals, we discharge 20%, 30% of our patients to SNF, the vast majority of whom could easily go into a home care setting if they felt more comfortable, if the family member felt more comfortable that they could be cared for in the home. And one of the reasons why we're so excited about partnering with Encompass is, because we believe with Encompass, we are now able to provide that transition, obviating the need for the skilled stay.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Great. Okay. But in the actual new development module, I presume you're looking out at the market demand inclusive of these payment changes and still see a reasonable opportunity to fill those new beds.

<A – Jay Grinney – HealthSouth Corp.>: Absolutely. And furthermore, if we look all the way out – if we go out the end of our horizon, frankly, we envision a time where we won't be talking about SNF beds, IRF beds, LTAC beds, we'll be talking about post-acute beds. And in that kind of environment, I think that the market will open up for us, because in that kind of environment, if there are no arbitrary designations and CMS is no longer focused on making sure the right post-acute payment goes to the right provider because of bundling, because of ACOs, then the focus is going to be on what facility can provide the best care. The notion that every single patient being discharged from acute care hospital is automatically going to be able to go home is not an accurate assumption. And as our population ages, and we see that most of our Medicare patients are over the age of 75 years. Well, there's this huge cohort, called the baby boomers, as you well know, that are moving into that, we're getting – the Medicare population is growing right now at a faster clip than it's ever grown before and yet the patients who will require inpatient care haven't really started getting into the age where they need that care.

But another five years, 10 years, when the newly-minted baby – Medicare population is now 77 years, 78 years, I mean, we don't like to think about it, but inevitably a large number of those are going to have strokes, they're going to have chronic neurological conditions. They're going to find themselves in acute care hospitals with conditions that are going to require hospital-level post-acute care. And that's the niche that our facilities will provide. Now, we may change the name, we may change the level of service, but they're going to need some kind of post-acute care hospital care. And then, the specific reason we got into home health is because we know there are going to be many of those patients who can then go directly home.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Right.

<A – Jay Grinney – HealthSouth Corp.>: And there are a lot of patients who in that acute care environment coming out and they don't need to come to us. They're the simple knee or hip that are going into a SNF today. Absolutely, tomorrow, they'll be able to go home and we want to be there to provide that care in the home.

<Q – Sheryl Skolnick – Mizuho Securities USA, Inc.>: Great. Thank you so much.

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

<Q – John Ransom – Raymond James & Associates, Inc.>: Hi. Thanks. Just a real quick follow-up, shifting gears to home health, if you look at your Q4 EBITDA and you peel out CareSouth and compare it to kind of run rate a year ago, including Encompass, how should we think about the organic growth in that business year-over-year?

<A – Doug Coltharp – HealthSouth Corp.>: In what business?

<Q – John Ransom – Raymond James & Associates, Inc.>: Home health. Home health.

<A – Jay Grinney – HealthSouth Corp.>: Home health ex-CareSouth.

<A – Doug Coltharp – HealthSouth Corp.>: I think what we've given you, John, there it's – we're not able to give a comp-store figure in 2015, because we didn't own Encompass in 2014. But we've given you some of the volume metrics for those agencies that were owned by Encompass for all of 2014. And I think that's probably the best indication of the current run-rate in the business. And there, you're seeing double-digit increases in the key volume metrics.

<Q – John Ransom – Raymond James & Associates, Inc.>: So, if I remember, I think Encompass was running, what, $75 million of EBITDA when you bought it. What were your legacy home health businesses running at the time that you bought it?

<A – Doug Coltharp – HealthSouth Corp.>: Pretty de minimis, somewhere in kind of the $4 million to $5 million range.

<Q – John Ransom – Raymond James & Associates, Inc.>: Okay. So, if we took out, say, $5 million and we took out a couple of million for CareSouth and compared that $25 million run rate, those two things to $75 million, that would give you an idea of the growth, something like that.

<A – Doug Coltharp – HealthSouth Corp.>: I don't recall having the $75 million out there. I think there may be some apples-to-oranges going on there, John. It's probably best if we try to reconcile that offline.

<Q – John Ransom – Raymond James & Associates, Inc.>: Okay. No problem. It's always dangerous when a SEC guy starts doing math. So, I'll take that under advisement. I'm talking about myself, Doug, not you.

<A – Jay Grinney – HealthSouth Corp.>: Everything is number one, right?

<Q – John Ransom – Raymond James & Associates, Inc.>: I'm talking about myself, not you.

<A – Doug Coltharp – HealthSouth Corp.>: The other thing is we're comparing a segment number to a stand-alone Encompass numbers. So, I think there's some mapping issues there that we'd be happy to go through with you offline.

<Q – John Ransom – Raymond James & Associates, Inc.>: Sure. Sure. Okay. Thank you.

<A – Jay Grinney – HealthSouth Corp.>: You bet.

Operator: Our next question comes from the line of Toby Wann with Obsidian Research.

<Q – Toby Wann – Obsidian Research Group LLC>: Hey. Thanks for taking the question, guys. Just wanted to touch base quickly with regards to your MAC and continued issues there. And what options really kind of are still on the table for you guys in terms of maybe repositioning existing hospitals to more a geographic-based MAC orientation, et cetera? Can you just kind of provide some color on that?

<A – Jay Grinney – HealthSouth Corp.>: Yeah. We have repeatedly asked for the opportunity to have our hospital serviced by the MACs that have the contracts for the geographic jurisdiction they're in. And we've been told that that is not possible. I will say, though, Toby, that we have – over the last several months have had several discussions with Cahaba. They've been very productive. And I think that we're learning more about what they're looking at and why. They're learning more about what we do and why. I think some of the fixes are going to be, as we've said before, driven by enhancements to our EMR. And there may be some changes that could occur as this particular MAC or other MACs that we deal with recognize that there may be some inconsistencies in the way they're approaching denials.

So, to your specific question, can we move to a geographic-based approach? Thus far, we've been told no. That is something that we continue to raise. And perhaps, at some point, we'll be able to get a more favorable response.

<Q – Toby Wann – Obsidian Research Group LLC>: And is CMS the one that's ultimately making that decision?

<A – Jay Grinney – HealthSouth Corp.>: Yes. Yeah.

<Q – Toby Wann – Obsidian Research Group LLC>: Okay.

<A – Jay Grinney – HealthSouth Corp.>: Yes.

<Q – Toby Wann – Obsidian Research Group LLC>: Okay. Thanks for taking the question.

<A – Jay Grinney – HealthSouth Corp.>: You bet.

<A – Doug Coltharp – HealthSouth Corp.>: I just want to circle back on the question that John Ransom had with regard to home health. John, this may not completely answer your question, but if you look at the guidance that we had established at the beginning of 2015, we said that we expected the 2015 adjusted EBITDA contribution from Encompass, not inclusive of the legacy HealthSouth home health agencies, to be $72 million. We then said that we would be folding the HealthSouth agencies in. As I mentioned to you, on a historical basis, those have generated $4 million to $5 million in EBITDA. But as we acknowledged, through the course of 2015, there was some friction combining those in. And then, we had the addition of CareSouth for two months. Still with all of that, we posted $83 million in adjusted EBITDA for the year, so that tells you that there was good core year-over-year growth in the Encompass agencies. And that the $72 million initial estimate represented growth for those agencies over where they were in 2014. So, again, I'm not sure where you got the $75 million, but I think that your initial base was incorrect.

Operator: And there appear to be no further questions at this time. I'd like to turn the floor back over to Crissy Carlisle for any additional or closing remarks.

Crissy Buchanan Carlisle, Chief Investor Relations Officer

Thank you. If anyone has additional questions, I will be available later today and tomorrow. Please call me at 205-970-5860. Thank you again for joining today's call.

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