UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): October 28, 2020

Encompass Health Corporation

(Exact name of Registrant as specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

001-10315	**63-0860407**
(Commission File Number)	(IRS Employer Identification No.)

9001 Liberty Parkway, Birmingham, Alabama 35242
(Address of Principal Executive Offices, Including Zip Code)

(205) 967-7116
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934. Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	EHC	New York Stock Exchange

The information contained herein is being furnished pursuant to Item 2.02 of Form 8-K, "Results of Operations and Financial Condition," and Item 7.01 of Form 8-K, "Regulation FD Disclosure." This information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, (the "Securities Act") or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

ITEM 2.02. *Results of Operations and Financial Condition.*

On October 28, 2020, Encompass Health Corporation ("Encompass Health" or the "Company") issued a press release reporting the financial results of the Company for the three and nine months ended September 30, 2020. A copy of the press release is attached to this report as Exhibit 99.1 and incorporated herein by reference.

The Company uses "same-store" comparisons to explain the changes in certain performance metrics and line items within its financial statements. Same-store comparisons are calculated based on hospitals open throughout both the full current and prior periods presented. These comparisons include the financial results of market consolidation transactions in existing markets, as it is difficult to determine, with precision, the incremental impact of these transactions on the Company's results of operations.

ITEM 7.01. *Regulation FD Disclosure.*

See Item 2.02, "Results of Operations and Financial Condition," above.

In addition, a copy of the supplemental information which will be discussed during the Company's earnings call at 9:00 a.m. Eastern Time on Thursday, October 29, 2020 is attached to this report as Exhibit 99.2 and incorporated herein by reference.

Note Regarding Presentation of Non-GAAP Financial Measures

The financial data contained in the press release and supplemental information include non-GAAP financial measures, including the Company's adjusted earnings per share, leverage ratio, Adjusted EBITDA, and adjusted free cash flow.

The Company is providing adjusted earnings per share from continuing operations attributable to Encompass Health ("adjusted earnings per share"). The Company believes the presentation of adjusted earnings per share provides useful additional information to investors because it provides better comparability of ongoing operating performance to prior periods given that it excludes the impact of government, class action, and related settlements; professional fees—accounting, tax, and legal; mark-to-market adjustments for stock appreciation rights; gains or losses related to hedging and equity instruments; loss on early extinguishment of debt; adjustments to its income tax provision (such as valuation allowance adjustments and settlements of income tax claims); items related to corporate and facility restructurings; and certain other items the Company believes to be non-indicative of its ongoing operating performance. It is reasonable to expect that one or more of these excluded items will occur in future periods, but the amounts recognized can vary significantly from period to period and may not directly relate to the Company's ongoing operating performance. Accordingly, they can complicate comparisons of the Company's results of operations across periods and comparisons of the Company's results to those of other healthcare companies. Adjusted earnings per share should not be considered as a measure of financial performance under generally accepted accounting principles in the United States ("GAAP") as the items excluded from it are significant components in understanding and assessing financial performance. Because adjusted earnings per share is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, it may not be comparable as presented to other similarly titled measures of other companies. The Company reconciles adjusted earnings per share to earnings per share in the press release attached as Exhibit 99.1 and the supplemental information attached as Exhibit 99.2.

The leverage ratio referenced therein is defined as the ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. The Company believes its leverage ratio and Adjusted EBITDA are measures of its ability to service its debt and its ability to make capital expenditures. Additionally, the leverage ratio is a standard measurement used by investors to gauge the creditworthiness of an institution. The Company's credit agreement also includes a maximum leverage ratio financial covenant which allows the Company to deduct up to $300 million of cash on hand from consolidated total debt. The Company reconciles Adjusted EBITDA to net income and to net cash provided by operating activities in the press release attached as Exhibit 99.1 and the supplemental information attached as Exhibit 99.2. Adjusted EBITDA for the Company's reportable segments is reconciled to net income from continuing operations before income tax expense in the press release attached as Exhibit 99.1 and the supplemental information attached as Exhibit 99.2.

The Company uses Adjusted EBITDA on a consolidated basis as a liquidity measure. The Company believes this financial measure on a consolidated basis is important in analyzing its liquidity because it is the key component of certain material covenants contained within the Company's credit agreement, which is discussed in more detail in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* "Liquidity and Capital Resources," and Note 10, *Long-term Debt*, to the consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K"). These covenants are material terms of the credit agreement. Noncompliance with these financial covenants under the credit agreement—its interest coverage ratio and its leverage ratio—could result in the Company's lenders requiring the Company to immediately repay all amounts borrowed. If the Company anticipated a potential covenant violation, it would seek relief from its lenders, which would have some cost to the Company, and such relief might be on terms less favorable to those in the Company's existing credit agreement. In addition, if the Company cannot satisfy these financial covenants, it would be prohibited under the credit agreement from engaging in certain activities, such as incurring additional indebtedness, paying common stock dividends, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to the Company's assessment of its liquidity.

In general terms, the credit agreement definition of Adjusted EBITDA, therein referred to as "Adjusted Consolidated EBITDA," allows the Company to add back to consolidated net income interest expense, income taxes, and depreciation and amortization and then add back to consolidated net income (1) all unusual or nonrecurring items reducing consolidated net income (of which only up to $10 million in a year may be cash expenditures), (2) any losses from discontinued operations, (3) non-ordinary course fees, costs and expenses incurred with respect to any litigation or settlement, (4) share-based compensation expense, (5) costs and expenses associated with changes in the fair value of marketable securities, (6) costs and expenses associated with the issuance or prepayment debt and acquisitions, and (7) any restructuring charges not in excess of 20% of Adjusted Consolidated EBITDA. The Company also subtracts from consolidated net income all unusual or nonrecurring items to the extent they increase consolidated net income.

The calculation of Adjusted EBITDA under the credit agreement does not require us to deduct net income attributable to noncontrolling interests or gains on fair value adjustments of hedging and equity instruments, disposal of assets, and development activities. It also does not allow us to add back losses on fair value adjustments of hedging instruments or unusual or nonrecurring cash expenditures in excess of $10 million. These items and amounts, in addition to the items falling within the credit agreement's "unusual or nonrecurring" classification, may occur in future periods, but can vary significantly from period to period and may not directly relate to, or be indicative of, the Company's ongoing liquidity or operating performance. Accordingly, the Adjusted EBITDA calculation presented here includes adjustments for them.

Adjusted EBITDA is not a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for net income or cash flows from operating, investing, or financing activities. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements accompanying the 2019 Form 10-K.

The Company also uses adjusted free cash flow as an analytical indicator to assess its performance. Management believes the presentation of adjusted free cash flow provides investors an efficient means by which they can evaluate the Company's capacity to reduce debt, pursue development activities, and return capital to its common stockholders. The calculation of adjusted free cash flow and a reconciliation of net cash provided by operating activities to adjusted free cash flow are included in the press release attached as Exhibit 99.1 and the supplemental information attached as Exhibit 99.2. This measure is not a defined measure of financial performance under GAAP and should not be considered as an alternative to net cash provided by operating activities. The Company's definition of adjusted free cash flow is limited and does not represent residual cash flows available for discretionary spending. Because this measure is not determined in accordance with GAAP and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies. See the consolidated statements of cash flows included in the 2019 Form 10-K and the condensed consolidated statements of cash flows included in the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 2020 (the "September 2020 Form 10-Q"), when filed, and in the press release attached as Exhibit 99.1 for the GAAP measures of cash flows from operating, investing, and financing activities.

Forward-Looking Statements

The information contained in the press release and supplemental information includes certain estimates, projections, and other forward-looking statements that involve known and unknown risks and relate to, among other things, future events, the expected impact of the COVID-19 pandemic on Encompass Health's business and financial assumptions, the Company's business strategy, financial plans, dividend strategies or payments, effective income tax rates, plans to repurchase its debt or equity securities, future financial performance, projected business results or model, ability to return value to its shareholders, projected capital expenditures, leverage ratio, acquisition opportunities, and the impact of future legislation or regulation. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "targets," "potential," or "continue" or the negative of these terms or other comparable terminology. These estimates, projections, and other forward-looking statements are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual results, and those differences may be material.

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

All such estimates, projections, and forward-looking statements speak only as of the date hereof. The Company undertakes no duty to publicly update or revise that information.

You are cautioned not to place undue reliance on the estimates, projections, and other forward-looking statements in this report, the press release, and supplemental information as they are based on current expectations and general assumptions and are subject to various risks, uncertainties, and other factors, including those set forth in the attached press release and in the 2019 Form 10-K, the September 2020 Form 10-Q when filed, and in other documents the Company previously filed with the SEC, many of which are beyond the Company's control. These factors may cause actual results to differ materially from the views, beliefs, and estimates expressed herein.

ITEM 9.01. *Financial Statements and Exhibits*.

(d) Exhibits.

Exhibit Number	Description
99.1	Press release of Encompass Health Corporation, dated October 28, 2020.
99.2	Supplemental information provided in connection with the third quarter 2020 earnings call of Encompass Health Corporation.
104	Cover Page Interactive Data File - the cover page iXBRL tags are embedded within the Inline XBRL document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

ENCOMPASS HEALTH CORPORATION

By:	/s/ DOUGLAS E. COLTHARP	
	Name:	Douglas E. Coltharp
	Title:	Executive Vice President and Chief Financial Officer

Dated: October 28, 2020

Exhibit 99.1

Media Contact
Casey Lassiter, 205 447-6410
casey.lassiter@encompasshealth.com

Investor Relations Contact
Crissy Carlisle, 205 970-5860
crissy.carlisle@encompasshealth.com

October 28, 2020

Encompass Health reports results for third quarter 2020

BIRMINGHAM, Ala. - Encompass Health Corp. (NYSE: EHC), a national leader in integrated healthcare, offering facility-based and home-based patient care through its network of inpatient rehabilitation hospitals, home health agencies and hospice agencies, today reported its results of operations for the third quarter ended September 30, 2020.

“Our teams are doing an extraordinary job in managing through the COVID-19 pandemic,” said President and Chief Executive Officer of Encompass Health Mark Tarr. “Our volumes recovered substantially in the third quarter, and we remain confident in the longer-term outlook for our company.”

Consolidated results

	Q3 2020	Q3 2019	Growth: Dollars	Growth: Percent
	(In Millions, Except per Share Data)			
Net operating revenues	$ 1,173.9	$ 1,161.6	$ 12.3	1.1 %
Income from continuing operations attributable to Encompass Health per diluted share	0.78	0.98	(0.20)	(20.4)%
Adjusted earnings per share	0.78	0.93	(0.15)	(16.1)%
Cash flows provided by operating activities	173.4	114.4	59.0	51.6 %
Adjusted EBITDA	230.2	231.6	(1.4)	(0.6)%
Adjusted free cash flow	124.1	109.6	14.5	13.2 %
	Nine Months Ended September 30,			
	2020	2019		
Cash flows provided by operating activities	$ 425.0	$ 419.7	$ 5.3	1.3 %
Adjusted free cash flow	366.9	379.6	(12.7)	(3.3)%

Revenue growth resulted from favorable pricing in the inpatient rehabilitation segment partially offset by decreased volumes in both segments and a pricing decrease in the home health and hospice segment.

Income from continuing operations attributable to Encompass Health per diluted share for the third quarter of 2019 included a $19 million, or $0.14 per share, gain on the consolidation of Yuma Rehabilitation Hospital.

The decrease in adjusted earnings per share in the third quarter of 2020 compared to the third quarter of 2019 resulted from higher depreciation and amortization and higher interest expense primarily resulting from funding the purchase of the Home Health Holdings rollover shares and exercise of SARs in the first quarter of 2020.

Cash flows provided by operating activities in the first nine months increased slightly year over year. Adjusted free cash flow was lower in the first nine months of 2020 than the first nine months of 2019 primarily due to a decrease in revenues and increased cash interest payments partially offset by a decrease in working capital and lower payments for cash taxes. The decrease in working capital primarily resulted from the timing of and increase in payroll accruals.

See attached supplemental information for calculations of non-GAAP measures and reconciliations to their most comparable GAAP measure.

Inpatient rehabilitation segment results

	Q3 2020	Q3 2019	Growth: Dollars	Growth: Percent
Net operating revenues:		(In Millions)		
Inpatient	$ 883.2	$ 850.6	$ 32.6	3.8 %
Outpatient and other	16.2	21.7	(5.5)	(25.3) %
Total segment revenue	$ 899.4	$ 872.3	$ 27.1	3.1 %
		(Actual Amounts)		
Discharges	45,962	46,669	(707)	(1.5) %
Same-store discharge growth				(2.8) %
Net patient revenue per discharge	$ 19,216	$ 18,226	$ 990	5.4 %
Revenue reserves related to bad debt as a percent of revenue	1.4 %	1.5 %		(10 basis points)
		(In Millions)		
Adjusted EBITDA	$ 209.2	$ 210.6	$ (1.4)	(0.7) %

- *Revenue* - Inpatient revenue growth resulted from favorable pricing partially offset by decreased volumes. New-store discharge growth of 1.3% resulted from joint ventures in Boise, Idaho (July 2019) and Coralville, Iowa (June 2020) and wholly owned hospitals in Katy, Texas (September 2019) Murrieta, California (February 2020) and Sioux Falls, South Dakota (June 2020). Growth in net patient revenue per discharge primarily resulted from a higher acuity patient mix and the temporary suspension of sequestration.

  The decrease in outpatient and other revenue resulted from the COVID-19 pandemic related suspension of hospital-based outpatient services in mid-March 2020 and the closure of certain hospital-based outpatient programs in 2019.

  Revenue reserves related to bad debt as a percent of revenue decreased to 1.4% as Medicare Administrative Contractors did not resume targeted probe and educate audits during the third quarter of 2020.

- *Adjusted EBITDA* - The decrease in Adjusted EBITDA primarily related to the COVID-19 pandemic.

Home health and hospice segment results

	Q3 2020	Q3 2019	Growth Dollars	Growth Percent
Net operating revenues:		(In Millions)		
Home health	$ 223.3	$ 238.9	$ (15.6)	(6.5) %
Hospice	51.2	50.4	0.8	1.6 %
Total segment revenue	$ 274.5	$ 289.3	$ (14.8)	(5.1) %
	Home Health Metrics			
	(Actual Amounts)			
Admissions	40,765	42,174	(1,409)	(3.3) %
Same-store admissions growth				(4.6) %
Episodes	68,261	72,016	(3,755)	(5.2) %
Same-store episode growth				(6.2) %
Revenue per episode	$ 2,910	$ 2,980	$ (70)	(2.3) %
		(In Millions)		
Adjusted EBITDA	$ 51.8	$ 50.8	$ 1.0	2.0 %

- *Revenue* - Decreased volumes and pricing resulted in a decline in home health revenue. New-store admissions growth primarily resulted from one acquired location in Virginia (Q1 2020) and one de novo location in Florida (Q2 2020). Revenue per episode was negatively impacted by the implementation of the Patient Driven Groupings Model ("PDGM"), the effects of which were exacerbated by the COVID-19 pandemic. The revenue per episode decrease of 2.3% was favorably impacted by the temporary suspension of sequestration and an increase in new episode starts late in the quarter.

  Hospice same-store admissions growth of 15.8% yielded a 1.6% increase in hospice revenue. Hospice revenue growth was impacted by a decrease in length of say resulting from a change in patient mix.

- *Adjusted EBITDA* - The increase in Adjusted EBITDA primarily resulted from a decrease in cost of services as a percent of revenue in the third quarter of 2020. Cost of services decreased as a percent of revenue primarily due to changes in the clinician compensation structure implemented in May 2020. The segment's support and overhead costs increased year over year due to an increase in sales force full-time equivalents and increased administrative costs associated with the implementation of PDGM and the Review Choice Demonstration program.

General and administrative expenses

	Q3 2020	% of Consolidated Revenue	Q3 2019	% of Consolidated Revenue
		(In Millions)		
General and administrative expenses, excluding stock-based compensation and transaction costs	$ 30.8	2.6%	$ 29.8	2.6%

- *General and administrative expenses* were flat as a percent of consolidated revenue.

Expansion Activity

During the third quarter of 2020, the Company announced plans to build seven new inpatient rehabilitation hospitals and added 36 beds to existing hospitals. These announcements bring the Company's planned new hospital openings in 2021 and 2022 to eight in each year.

Shareholder and other distributions

In the third quarter of 2020, the Company paid a quarterly cash dividend of $0.28 per share on its common stock and declared a quarterly cash dividend of $0.28 per share that was paid in October 2020. In October 2020, the Company declared a quarterly cash dividend of $0.28 per share on its common stock to be paid in January 2021.

Balance sheet and liquidity

As of September 30, 2020, the Company had approximately $450 million in cash and approximately $964 million available to it under its $1.0 billion revolving credit facility. The Company's leverage ratio at the end of the third quarter of 2020 was 4.2x (3.6x net of cash on hand).

In October 2020, the Company issued $400 million of 4.625% Senior Notes due 2031. The proceeds from this issuance together with approximately $300 million of available cash will be used to fully redeem $700 million of 5.75% Senior Notes due 2024 at par on November 1, 2020, resulting in a pro forma leverage ratio of 3.8x (3.6x net of cash on hand).

Q4 2020 Guidance

The Company provided the following guidance for the fourth quarter of 2020.

	Q4 2020 Guidance
	(In Millions, Except Per Share Data)
Net operating revenues	$1,150 to $1,220
Adjusted EBITDA	$225 to $240
Adjusted earnings per share from continuing operations attributable to Encompass Health	$0.79 to $0.90

For additional considerations regarding the Company's Q4 2020 guidance, see the supplemental information posted on the Company's website at http://investor.encompasshealth.com. See also the "Other Information" section below for an explanation of why the Company does not provide guidance for comparable GAAP measures for Adjusted EBITDA and adjusted earnings per share.

Earnings conference call and webcast

The Company will host an investor conference call at 9:00 a.m. Eastern Time on Thursday, October 29, 2020, to discuss its results for the third quarter of 2020. For reference during the call, the Company will post certain supplemental information at http://investor.encompasshealth.com.

The conference call may be accessed by dialing 877 587-6761 and giving the pass code 1451026. International callers should dial 706 679-1635 and give the same pass code. Please call approximately ten minutes before the start of the call to ensure you are connected. The conference call will also be webcast live and will be available for on-line replay at http://investor.encompasshealth.com by clicking on an available link.

About Encompass Health

As a national leader in integrated healthcare services, Encompass Health (NYSE: EHC) offers both facility-based and home-based patient care through its network of inpatient rehabilitation hospitals, home health agencies and hospice agencies. With a national footprint that includes 136 hospitals, 242 home health locations and 83 hospice locations in 39 states and Puerto Rico, the Company is committed to delivering high-quality, cost-effective integrated care across the healthcare continuum. Driven by a set of shared values, Encompass Health is ranked as one of Fortune's 100 Best Companies to Work For. For more information, visit encompasshealth.com, or follow us on Twitter and Facebook.

Other information

The information in this press release is summarized and should be read in conjunction with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the “September 2020 Form 10-Q”), when filed, as well as the Company's Current Report on Form 8-K filed on October 28, 2020 (the “Q3 Earnings Form 8-K”), to which this press release is attached as Exhibit 99.1. In addition, the Company will post supplemental information today on its website at http://investor.encompasshealth.com for reference during its October 29, 2020 earnings call.

The financial data contained in the press release and supplemental information include non-GAAP financial measures, including the Company’s adjusted earnings per share, leverage ratio, Adjusted EBITDA, and adjusted free cash flow. Reconciliations to their most comparable GAAP measure are included below, in the supplemental information, or in the Q3 Earnings Form 8-K. Readers are encouraged to review the “Note Regarding Presentation of Non-GAAP Financial Measures” included in the Q3 Earnings Form 8-K which provides further explanation and disclosure regarding the Company’s use of these non-GAAP financial measures.

Excluding net operating revenues, the Company does not provide guidance on a GAAP basis because it is unable to predict, with reasonable certainty, the future impact of items that are deemed to be outside the control of the Company or otherwise non-indicative of its ongoing operating performance. Such items include government, class action, and related settlements; professional fees-accounting, tax, and legal; mark-to-market adjustments for stock appreciation rights; gains or losses related to hedging instruments; loss on early extinguishment of debt; adjustments to its income tax provision (such as valuation allowance adjustments and settlements of income tax claims); items related to corporate and facility restructurings; and certain other items the Company believes to be non-indicative of its ongoing operations. These items cannot be reasonably predicted and will depend on several factors, including industry and market conditions, and could be material to the Company's results computed in accordance with GAAP.

However, the following reasonably estimable GAAP measures for Q4 2020 would be included in a reconciliation for Adjusted EBITDA if the other reconciling GAAP measures could be reasonably predicted:

- Interest expense and amortization of debt discounts and fees - estimate of $39 million to $49 million
- amortization of debt-related items - approximately $2 million

The Q3 Earnings Form 8-K and, when filed, the September 2020 Form 10-Q can be found on the Company's website at http://investor.encompasshealth.com and the SEC's website at www.sec.gov.

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In Millions, Except per Share Data)			
Net operating revenues	$ 1,173.9	$ 1,161.6	$ 3,430.0	$ 3,420.6
Operating expenses:				
Salaries and benefits	664.9	660.8	1,995.9	1,904.5
Other operating expenses	163.4	156.6	471.3	456.5
Occupancy costs	20.3	21.8	60.8	61.7
Supplies	52.5	42.9	148.8	124.7
General and administrative expenses	39.1	52.5	117.7	183.0
Depreciation and amortization	61.2	55.1	180.7	160.3
Government, class action, and related settlements	—	—	2.8	—
Total operating expenses	1,001.4	989.7	2,978.0	2,890.7
Loss on early extinguishment of debt	—	—	—	2.3
Interest expense and amortization of debt discounts and fees	49.0	40.3	138.0	115.2
Other income	(2.5)	(21.0)	(6.4)	(26.9)
Equity in net income of nonconsolidated affiliates	(1.0)	(1.2)	(2.5)	(5.5)
Income from continuing operations before income tax expense	127.0	153.8	322.9	444.8
Provision for income tax expense	26.9	34.3	65.8	88.6
Income from continuing operations	100.1	119.5	257.1	356.2
Loss from discontinued operations, net of tax	—	—	—	(0.6)
Net and comprehensive income	100.1	119.5	257.1	355.6
Less: Net and comprehensive income attributable to noncontrolling interests	(22.4)	(21.9)	(58.9)	(64.5)
Net and comprehensive income attributable to Encompass Health	$ 77.7	$ 97.6	$ 198.2	$ 291.1
Weighted average common shares outstanding:				
Basic	98.7	97.8	98.5	98.1
Diluted	99.9	99.4	99.7	99.5
Earnings per common share:				
Basic earnings per share attributable to Encompass Health common shareholders:				
Continuing operations	$ 0.78	$ 0.99	$ 2.01	$ 2.97
Discontinued operations	—	—	—	(0.01)
Net income	$ 0.78	$ 0.99	$ 2.01	$ 2.96
Diluted earnings per share attributable to Encompass Health common shareholders:				
Continuing operations	$ 0.78	$ 0.98	$ 1.99	$ 2.94
Discontinued operations	—	—	—	(0.01)
Net income	$ 0.78	$ 0.98	$ 1.99	$ 2.93
Amounts attributable to Encompass Health common shareholders:				
Income from continuing operations	$ 77.7	$ 97.6	$ 198.2	$ 291.7
Loss from discontinued operations, net of tax	—	—	—	(0.6)
Net income attributable to Encompass Health	$ 77.7	$ 97.6	$ 198.2	$ 291.1

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2020	December 31, 2019
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 450.0	$ 94.8
Restricted cash	57.2	57.4
Accounts receivable	593.3	506.1
Other current assets	73.9	97.5
Total current assets	1,174.4	755.8
Property and equipment, net	2,094.9	1,959.3
Operating lease right-of-use assets	267.2	276.5
Goodwill	2,318.7	2,305.2
Intangible assets, net	441.9	476.3
Deferred income tax assets	7.5	2.9
Other long-term assets	305.9	304.7
Total assets	$ 6,610.5	$ 6,080.7
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 37.0	$ 39.3
Current operating lease liabilities	47.1	40.4
Accounts payable	119.6	94.6
Accrued expenses and other current liabilities	478.8	546.7
Total current liabilities	682.5	721.0
Long-term debt, net of current portion	3,539.4	3,023.3
Long-term operating lease liabilities	228.9	243.8
Other long-term liabilities	230.0	159.9
	4,680.8	4,148.0
Commitments and contingencies		
Redeemable noncontrolling interests	34.0	239.6
Shareholders' equity:		
Encompass Health shareholders' equity	1,520.8	1,352.2
Noncontrolling interests	374.9	340.9
Total shareholders' equity	1,895.7	1,693.1
Total liabilities and shareholders' equity	$ 6,610.5	$ 6,080.7

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2020	**2019**
	(In Millions)	
Cash flows from operating activities:		
Net income	$ 257.1	$ 355.6
Loss from discontinued operations, net of tax	—	0.6
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	180.7	160.3
Loss on early extinguishment of debt	—	2.3
Stock-based compensation	25.3	87.0
Deferred tax (benefit) expense	(5.7)	20.8
Gain on consolidation of Yuma Rehabilitation Hospital	—	(19.2)
Other, net	15.5	2.3
Change in assets and liabilities, net of acquisitions—		
Accounts receivable	(71.8)	(37.8)
Other assets	17.3	(11.1)
Accounts payable	10.3	(4.2)
Accrued payroll	86.7	(21.0)
Accrued interest payable	(0.2)	7.4
Other liabilities	(90.0)	(118.7)
Net cash used in operating activities of discontinued operations	(0.2)	(4.6)
Total adjustments	167.9	63.5
Net cash provided by operating activities	425.0	419.7
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(1.1)	(231.2)
Purchases of property and equipment	(256.2)	(259.9)
Additions to capitalized software costs	(5.7)	(9.2)
Other, net	(1.8)	(11.4)
Net cash used in investing activities	(264.8)	(511.7)

(Continued)

Encompass Health Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	Nine Months Ended September 30,			
	2020		2019	
	(In Millions)			
Cash flows from financing activities:				
Proceeds from bond issuance		592.5		1,000.0
Principal payments on debt, including pre-payments		(14.7)		(115.8)
Borrowings on revolving credit facility		330.0		525.0
Payments on revolving credit facility		(375.0)		(555.0)
Principal payments under finance lease obligations		(16.7)		(14.2)
Debt issuance costs		(13.5)		(15.2)
Taxes paid on behalf of employees for shares withheld		(15.7)		(16.2)
Dividends paid on common stock		(84.3)		(81.3)
Distributions paid to noncontrolling interests of consolidated affiliates		(52.9)		(57.6)
Repurchases of common stock, including fees and expenses		(4.9)		(45.9)
Purchase of equity interests in consolidated affiliates		(162.3)		(162.9)
Other, net		25.8		11.4
Net cash provided by financing activities		208.3		472.3
Increase in cash, cash equivalents, and restricted cash		368.5		380.3
Cash, cash equivalents, and restricted cash at beginning of period		159.6		133.5
Cash, cash equivalents, and restricted cash at end of period	$	528.1	$	513.8
Reconciliation of Cash, Cash Equivalents, and Restricted Cash				
Cash and cash equivalents at beginning of period	$	94.8	$	69.2
Restricted cash at beginning of period		57.4		59.0
Restricted cash included in other long-term assets at beginning of period		7.4		5.3
Cash, cash equivalents, and restricted cash at beginning of period	$	159.6	$	133.5
Cash and cash equivalents at end of period	$	450.0	$	422.0
Restricted cash at end of period		57.2		66.8
Restricted cash included in other long-term assets at end of period		20.9		25.0
Cash, cash equivalents, and restricted cash at end of period	$	528.1	$	513.8

Encompass Health Corporation and Subsidiaries
Supplemental Information
Earnings Per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Millions, Except Per Share Data)			
Consolidated Adjusted EBITDA	$ 230.2	$ 231.6	$ 620.4	$ 726.7
Depreciation and amortization	(61.2)	(55.1)	(180.7)	(160.3)
Interest expense and amortization of debt discounts and fees	(49.0)	(40.3)	(138.0)	(115.2)
Stock-based compensation expense	(8.3)	(21.7)	(25.3)	(87.0)
Loss on disposal or impairment of assets	(7.5)	(0.9)	(10.6)	(3.3)
	104.2	113.6	265.8	360.9
Certain items non-indicative of ongoing operating performance:				
Loss on early extinguishment of debt	—	—	—	(2.3)
Transaction costs	—	(1.0)	—	(2.0)
Gain on consolidation of former equity method location	—	19.2	2.2	19.2
SARs mark-to-market impact on noncontrolling interests	—	0.9	—	4.3
Change in fair market value of equity securities	0.4	—	0.3	1.2
Government, class action, and related settlements	—	—	(2.8)	—
Payroll taxes on SARs exercise	—	(0.8)	(1.5)	(1.0)
Pre-tax income	104.6	131.9	264.0	380.3
Income tax expense	(26.9)	(34.3)	(65.8)	(88.6)
Income from continuing operations [(1)]	$ 77.7	$ 97.6	$ 198.2	$ 291.7
Basic shares	98.7	97.8	98.5	98.1
Diluted shares	99.9	99.4	99.7	99.5
Basic earnings per share [(1)]	$ 0.78	$ 0.99	$ 2.01	$ 2.97
Diluted earnings per share [(1)]	$ 0.78	$ 0.98	$ 1.99	$ 2.94

[(1)] Income from continuing operations attributable to Encompass Health

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	Q3		9 Months	
	2020	**2019**	**2020**	**2019**
Earnings per share, as reported	**$ 0.78**	**$ 0.98**	**$ 1.99**	**$ 2.94**
Adjustments, net of tax:				
Government, class action, and related settlements	—	—	0.02	—
Mark-to-market adjustments for stock compensation expense	—	0.08	—	0.36
Transaction costs	—	0.01	—	0.02
Income tax adjustments	—	—	(0.05)	(0.13)
Loss on early extinguishment of debt	—	—	—	0.02
Change in fair market value of equity securities	—	—	—	(0.01)
Gain on consolidation of former equity method location	—	(0.14)	(0.02)	(0.14)
Payroll taxes on SARs exercise	—	0.01	0.01	0.01
Adjusted earnings per share(1)	**$ 0.78**	**$ 0.93**	**$ 1.96**	**$ 3.05**

(1) Adjusted EPS may not sum due to rounding.

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	For the Three Months Ended September 30, 2020			
		Adjustments		
	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)			
Adjusted EBITDA[1]	**$ 230.2**	**$ —**	**$ —**	**$ 230.2**
Depreciation and amortization	(61.2)	—	—	(61.2)
Interest expense and amortization of debt discounts and fees	(49.0)	—	—	(49.0)
Stock-based compensation	(8.3)	—	—	(8.3)
Loss on disposal or impairment of assets	(7.5)	—	—	(7.5)
Change in fair market value of equity securities	0.4	—	(0.4)	—
Income from continuing operations before income tax expense	104.6	—	(0.4)	104.2
Provision for income tax expense	(26.9)	0.1	0.1	(26.7)
Income from continuing operations attributable to Encompass Health	**$ 77.7**	**$ 0.1**	**$ (0.3)**	**$ 77.5**
Diluted earnings per share from continuing operations[2]	**$ 0.78**	**$ —**	**$ —**	**$ 0.78**
Diluted shares used in calculation	**99.9**			

(1) Reconciliation to GAAP provided on page 16
(2) Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	For the Three Months Ended September 30, 2019						
		Adjustments					
	As Reported	Mark-to-Market Adjustment for Stock Compensation Expense	Income Tax Adjustments	Transaction Costs	Gain on Consolidation of Yuma	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA[1]	$ 231.6	$ —	$ —	$ —	$ —	$ —	$ 231.6
Depreciation and amortization	(55.1)	—	—	—	—	—	(55.1)
Interest expense and amortization of debt discounts and fees	(40.3)	—	—	—	—	—	(40.3)
Stock-based compensation	(21.7)	12.0	—	—	—	—	(9.7)
Loss on disposal of assets	(0.9)	—	—	—	—	—	(0.9)
Transaction costs	(1.0)	—	—	1.0	—	—	—
SARs mark-to-market impact on noncontrolling interests	0.9	(0.9)	—	—	—	—	—
Gain on consolidation of Yuma	19.2	—	—	—	(19.2)	—	—
Payroll taxes on SARs exercise	(0.8)	—	—	—	—	0.8	—
Income from continuing operations before income tax expense	131.9	11.1	—	1.0	(19.2)	0.8	125.6
Provision for income tax expense	(34.3)	(3.0)	(0.2)	(0.2)	5.2	(0.2)	(32.7)
Income from continuing operations attributable to Encompass Health	**$ 97.6**	**$ 8.1**	**$ (0.2)**	**$ 0.8**	**$ (14.0)**	**$ 0.6**	**$ 92.9**
Diluted earnings per share from continuing operations[2]	**$ 0.98**	**$ 0.08**	**$ —**	**$ 0.01**	**$ (0.14)**	**$ 0.01**	**$ 0.93**
Diluted shares used in calculation	**99.4**						

(1) Reconciliation to GAAP provided on page 16
(2) Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	For the Nine Months Ended September 30, 2020						
		Adjustments					
	As Reported	Gov't, Class Action, & Related Settlements	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Treasure Coast	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA[1]	620.4	—	—	—	—	—	$ **620.4**
Depreciation and amortization	(180.7)	—	—	—	—	—	(180.7)
Government, class action and related settlements	(2.8)	2.8	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(138.0)	—	—	—	—	—	(138.0)
Stock-based compensation	(25.3)	—	—	—	—	—	(25.3)
Loss on disposal or impairment of assets	(10.6)	—	—	—	—	—	(10.6)
Change in fair market value of equity securities	0.3	—	—	(0.3)	—	—	—
Gain on consolidation of Treasure Coast	2.2	—	—	—	(2.2)	—	—
Payroll taxes on SARs exercise	(1.5)	—	—	—	—	1.5	—
Income from continuing operations before income tax expense	264.0	2.8	—	(0.3)	(2.2)	1.5	265.8
Provision for income tax expense	(65.8)	(0.7)	(4.6)	0.1	0.6	(0.4)	(70.8)
Income from continuing operations attributable to Encompass Health	$ **198.2**	$ **2.1**	$ **(4.6)**	$ **(0.2)**	$ **(1.6)**	$ **1.1**	$ **195.0**
Diluted earnings per share from continuing operations[2]	$ **1.99**	$ **0.02**	$ **(0.05)**	$ **—**	$ **(0.02)**	$ **0.01**	$ **1.96**
Diluted shares used in calculation	**99.7**						

(1) Reconciliation to GAAP provided on page 16
(2) Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	For the Nine Months Ended September 30, 2019								
		Adjustments							
	As Reported	Mark-to-Market Adjustment for Stock Comp. Expense	Loss on Early Exting. of Debt	Income Tax Adjustments	Transaction Costs	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Yuma	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)								
Adjusted EBITDA[1]	**$ 726.7**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 726.7**
Depreciation and amortization	(160.3)	—	—	—	—	—	—	—	(160.3)
Loss on early extinguishment of debt	(2.3)	—	2.3	—	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(115.2)	—	—	—	—	—	—	—	(115.2)
Stock-based compensation	(87.0)	53.0	—	—	—	—	—	—	(34.0)
Loss on disposal of assets	(3.3)	—	—	—	—	—	—	—	(3.3)
Transaction costs	(2.0)	—	—	—	2.0	—	—	—	—
SARs mark-to-market impact on noncontrolling interests	4.3	(4.3)	—	—	—	—	—	—	—
Change in fair market value of equity securities	1.2	—	—	—	—	(1.2)	—	—	—
Gain on consolidation of Yuma	19.2	—	—	—	—	—	(19.2)	—	
Payroll taxes on SARs exercise	(1.0)	—	—	—	—	—	—	1.0	—
Income from continuing operations before income tax expense	380.3	48.7	2.3	—	2.0	(1.2)	(19.2)	1.0	413.9
Provision for income tax expense	(88.6)	(13.2)	(0.6)	(12.6)	(0.5)	0.3	5.2	(0.2)	(110.2)
Income from continuing operations attributable to Encompass Health	**$ 291.7**	**$ 35.5**	**$ 1.7**	**$ (12.6)**	**$ 1.5**	**$ (0.9)**	**$ (14.0)**	**$ 0.8**	**$ 303.7**
Diluted earnings per share from continuing operations[2]	**$ 2.94**	**$ 0.36**	**$ 0.02**	**$ (0.13)**	**$ 0.02**	**$ (0.01)**	**$ (0.14)**	**$ 0.01**	**$ 3.05**
Diluted shares used in calculation	**99.5**								

[1] Reconciliation to GAAP provided on page 16
[2] Adjusted EPS may not sum across due to rounding.

Encompass Health Corporation and Subsidiaries
Supplemental Information
Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Millions)			
Net income	$ 100.1	$ 119.5	$ 257.1	$ 355.6
Loss from discontinued operations, net of tax, attributable to Encompass Health	—	—	—	0.6
Net income attributable to noncontrolling interests	(22.4)	(21.9)	(58.9)	(64.5)
Provision for income tax expense	26.9	34.3	65.8	88.6
Interest expense and amortization of debt discounts and fees	49.0	40.3	138.0	115.2
Government, class action, and related settlements	—	—	2.8	—
Depreciation and amortization	61.2	55.1	180.7	160.3
Loss on early extinguishment of debt	—	—	—	2.3
Loss on disposal or impairment of assets	7.5	0.9	10.6	3.3
Stock-based compensation expense	8.3	21.7	25.3	87.0
Transaction costs	—	1.0	—	2.0
Gain on consolidation of former equity method location	—	(19.2)	(2.2)	(19.2)
SARs mark-to-market impact on noncontrolling interests	—	(0.9)	—	(4.3)
Change in fair market value of equity securities	(0.4)	—	(0.3)	(1.2)
Payroll taxes on SARs exercise	—	0.8	1.5	1.0
Adjusted EBITDA	$ 230.2	$ 231.6	$ 620.4	$ 726.7

Reconciliation of Segment Adjusted EBITDA to Income from Continuing Operations Before Income Tax Expense

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
	(In Millions)				
Total segment Adjusted EBITDA	$ 261.0	$ 261.4	$ 712.8	$ 820.7	$ 1,095.4
General and administrative expenses	(39.1)	(52.5)	(117.7)	(183.0)	(247.0)
Depreciation and amortization	(61.2)	(55.1)	(180.7)	(160.3)	(218.7)
Loss on disposal or impairment of assets	(7.5)	(0.9)	(10.6)	(3.3)	(11.1)
Government, class action, and related settlements	—	—	(2.8)	—	—
Loss on early extinguishment of debt	—	—	—	(2.3)	(7.7)
Interest expense and amortization of debt discounts and fees	(49.0)	(40.3)	(138.0)	(115.2)	(159.7)
Net income attributable to noncontrolling interests	22.4	21.9	58.9	64.5	87.1
SARs mark-to-market impact on noncontrolling interests	—	0.9	—	4.3	5.0
Change in fair market value of equity securities	0.4	—	0.3	1.2	0.8
Gain on consolidation of former equity method location	—	19.2	2.2	19.2	19.2
Payroll taxes on SARs exercise	—	(0.8)	(1.5)	(1.0)	(1.0)
Income from continuing operations before income tax expense	$ 127.0	$ 153.8	$ 322.9	$ 444.8	$ 562.3

Encompass Health Corporation and Subsidiaries
Supplemental Information
Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
			(In Millions)		
Net cash provided by operating activities	$ 173.4	$ 114.4	$ 425.0	$ 419.7	$ 635.3
Interest expense and amortization of debt discounts and fees	49.0	40.3	138.0	115.2	159.7
Equity in net income of nonconsolidated affiliates	1.0	1.2	2.5	5.5	6.7
Net income attributable to noncontrolling interests in continuing operations	(22.4)	(21.9)	(58.9)	(64.5)	(87.1)
Amortization of debt-related items	(2.0)	(1.1)	(5.1)	(3.1)	(4.5)
Distributions from nonconsolidated affiliates	(0.8)	(0.2)	(2.8)	(4.8)	(6.6)
Current portion of income tax expense	23.5	14.1	71.5	67.8	75.9
Change in assets and liabilities	7.2	83.7	47.7	185.4	180.1
Cash used in operating activities of discontinued operations	0.1	0.1	0.2	4.6	4.4
Transaction costs	—	1.0	—	2.0	2.1
Payroll taxes on SARs exercise	—	0.8	1.5	1.0	1.0
SARs mark-to-market impact on noncontrolling interests	—	(0.9)	—	(4.3)	(5.0)
Change in fair market value of equity securities	(0.4)	—	(0.3)	(1.2)	(0.8)
Other	1.6	0.1	1.1	3.4	3.7
Consolidated Adjusted EBITDA	$ 230.2	$ 231.6	$ 620.4	$ 726.7	$ 964.9

Encompass Health Corporation and Subsidiaries
Supplemental Information
Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Millions)			
Net cash provided by operating activities	$ 173.4	$ 114.4	$ 425.0	$ 419.7
Impact of discontinued operations	0.1	0.1	0.2	4.6
Net cash provided by operating activities of continuing operations	173.5	114.5	425.2	424.3
Capital expenditures for maintenance	(34.0)	(41.0)	(107.5)	(105.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(15.4)	(21.1)	(52.9)	(57.6)
Items non-indicative of ongoing operations:				
Cash paid for SARs exercise (inclusive of payroll taxes)	—	56.2	102.1	69.6
Transaction costs and related assumed liabilities	—	1.0	—	2.0
Cash paid for government, class action, and related settlements	—	—	—	46.4
Adjusted free cash flow	$ 124.1	$ 109.6	$ 366.9	$ 379.6

For the three months ended September 30, 2020, net cash used in investing activities was $89.7 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended September 30, 2020 was $45.6 million and primarily resulted from cash dividends paid on common stock and distributions paid to noncontrolling interests of consolidated affiliates.

For the three months ended September 30, 2019, net cash used in investing activities was $320.1 million and primarily resulted from the acquisition of Alacare and capital expenditures. Net cash provided by financing activities during the three months ended September 30, 2019 was $431.8 million and primarily resulted from the issuance of $1.0 billion of senior notes offset by repayments on the Company's revolving credit facility and the purchase of one-third of the rollover shares held by members of the home health and hospice management team.

For the nine months ended September 30, 2020, net cash used in investing activities was $264.8 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the nine months ended September 30, 2020 was $208.3 million and primarily resulted from the issuance of additional senior notes in May 2020 offset by the settlement of the final put and exercise of the Home Health Holdings rollover shares and SARs, cash dividends paid on common stock, and distributions paid to noncontrolling interests of consolidated affiliates.

For the nine months ended September 30, 2019, net cash used in investing activities was $511.7 million and primarily resulted from the acquisition of Alacare and capital expenditures. Net cash provided by financing activities during the nine months ended September 30, 2019 was $472.3 million and primarily resulted from the issuance of $1.0 billion of senior notes offset by repayments on the Company's revolving credit facility, the purchase of one-third of the rollover shares held by members of the home health and hospice management team, dividends paid common stock, distributions paid to noncontrolling interests of consolidated affiliates, and repurchases of common stock.

Statements contained in this press release and the supplemental information which are not historical facts, such as those relating to the nature of the COVID-19 pandemic and its impact on Encompass Health's business and financial assumptions, financial guidance, balance sheet and cash flow plans, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, Encompass Health, through its senior management, may from time to time make forward-looking public statements concerning the matters described herein. All such estimates, projections, and forward-looking information speak only as of the date hereof, and Encompass Health undertakes no duty to publicly update or revise such forward-looking information, whether as a result of new information, future events, or otherwise. Such forward-looking statements are necessarily estimates based upon current information, involve a number of risks and uncertainties, and relate to, among other things, future events, Encompass Health's plan to repurchase its debt or equity securities, dividend strategies, effective income tax rates, its business strategy, its financial plans, its future financial performance, its projected business results or model, its ability to return value to shareholders, its projected capital expenditures, its leverage ratio, its acquisition opportunities, and the impact of future legislation or regulation. Actual events or results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors which could cause actual events or results to differ materially from those estimated by Encompass Health include, but are not limited to, the continued spread of COVID-19, including the speed, depth, geographic reach and duration of the spread, which could decrease our patient volumes and revenues and lead to staffing and supply shortages and associated cost increases; actions to be taken by the Company in response to the pandemic; the legal, regulatory and administrative developments that occur at the federal, state and local levels; the Company's infectious disease prevention and control efforts; the demand for the Company's services, including based on any downturns in the economy, consumer confidence, or the capital markets and unemployment among family members; the price of Encompass Health's common stock as it affects the Company's willingness and ability to repurchase shares and the financial and accounting effects of any repurchases; any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings involving Encompass Health, including any matters related to yet undiscovered issues, if any, in acquired operations; Encompass Health's ability to attract and retain key management personnel; any adverse effects on Encompass Health's stock price resulting from the integration of acquired operations; potential disruptions, breaches, or other incidents affecting the proper operation, availability, or security of Encompass Health's or its vendors' information systems, including unauthorized access to or theft of patient, business associate, or other sensitive information or inability to provide patient care because of system unavailability as well as unforeseen issues, if any, related to integration of acquired systems; the ability to successfully integrate acquired operations, including realization of anticipated tax benefits, revenues, and cost savings, minimizing the negative impact on margins arising from the changes in staffing and other operating practices, and avoidance of unforeseen exposure to liabilities; Encompass Health's ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with its growth strategy; increases in Medicare audit activity, including increased use of sampling and extrapolation, resulting in additional unpaid reimbursement claims and an increase in the backlog of appealed claims denials; changes, delays in (including in connection with resolution of Medicare payment reviews or appeals), or suspension of reimbursement for Encompass Health's services by governmental or private payors; changes in the regulation of the healthcare industry at either or both of the federal and state levels, including as part of national healthcare reform and deficit reduction (such as the Patient-Driven Groupings Model for home health, the new patient assessment measures, referred to as "Section GG functional measures," for inpatient rehabilitation, and other payment system reforms) and Encompass Health's ability to adapt operations to those changes; competitive pressures in the healthcare industry and Encompass Health's response thereto; Encompass Health's ability to obtain and retain favorable arrangements with third-party payors; Encompass Health's ability to control costs, particularly labor and employee benefit costs, including group medical expenses; adverse effects resulting from coverage determinations made by Medicare Administrative Contractors regarding its Medicare reimbursement claims and lengthening delays in Encompass Health's ability to recover improperly denied claims through the administrative appeals process on a timely basis; Encompass Health's ability to adapt to changes in the healthcare delivery system, including value-based purchasing and involvement in coordinated care initiatives or programs that may arise with its referral sources; Encompass Health's *ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages, which may be worsened by the pandemic, and the impact on Encompass Health's labor expenses from potential union activity and staffing shortages; general conditions in the economy and capital markets, including any instability or uncertainty related to armed conflict or an act of terrorism, governmental impasse over approval of the United States federal budget, an increase in the debt ceiling, or an international sovereign debt crisis; the increase in the costs of defending and insuring against alleged professional liability claims, including claims associated with patient and employee exposures to COVID-19, and Encompass Health's ability to predict the estimated costs related to such claims; and other factors which may be identified from time to time in Encompass Health's SEC filings and other public announcements, including Encompass Health's Form 10-K for the year ended December 31, 2019 and Form 10-Q for the quarters ended March 31, 2020, June 30, 2020, and September 30, 2020, when filed.*

Third Quarter

Earnings Call

October 29, 2020

Supplemental information

Encompass Health

Forward-looking statements

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

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

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

You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the earnings release attached as Exhibit 99.1 to the Company's Form 8-K dated October 28, 2020 (the "Q3 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2019, the Form 10-Q for the quarters ended March 31, 2020, June 30, 2020, and September 30, 2020, when filed, and in other documents Encompass Health previously filed with the SEC, many of which are beyond Encompass Health's control, that may cause actual events or results to differ materially from the views, beliefs and estimates expressed herein.

Note regarding presentation of non-GAAP financial measures
The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934, including Adjusted EBITDA, leverage ratios, adjusted earnings per share, and adjusted free cash flow. Schedules are attached that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States. The Q3 Earnings Release Form 8-K, to which the following presentation is attached as Exhibit 99.2, provides further explanation and disclosure regarding Encompass Health's use of non-GAAP financial measures and should be read in conjunction with this supplemental information.

Table of contents

Q3 2020 summary 4-5
Year-over-year volume trends 6-8
Inpatient rehabilitation segment 9-10
Home health & hospice segment 11-12
Consolidated Adjusted EBITDA 13
Earnings per share 14-15
Adjusted free cash flow 16
Guidance and considerations for Q4 2020 17-18
Adjusted free cash flow assumptions 19
Uses of free cash flow 20

Appendix

Map of locations 22
Expansion activity 23
Clinical collaboration 24
Personal protective equipment - utilization, cost and inventory 25
Pre-payment claims denials - inpatient rehabilitation segment 26
Overview of rollover shares and SARs 27
Debt maturity profile and schedule 28-29
New-store/same-store growth 30-32
Payment sources (percent of revenues) 33
Inpatient rehabilitation operational and labor metrics 34
Home health & hospice operational metrics 35
Share information 36
Segment operating results 37-39
Reconciliations to GAAP 40-48
End notes 49-50

Q3 2020 summary

($millions)	Q3 2020	Q3 2019	Q3 Growth	9 Months 2020	9 Months 2019	9 Months Growth
Encompass Health Consolidated						
Net operating revenues	$ 1,173.9	$ 1,161.6	1.1 %	$ 3,430.0	$ 3,420.6	0.3 %
Adjusted EBITDA	$ 230.2	$ 231.6	(0.6)%	$ 620.4	$ 726.7	(14.6)%
Inpatient Rehabilitation Segment						
Net operating revenues	$ 899.4	$ 872.3	3.1 %	$ 2,633.1	$ 2,616.3	0.6 %
Adjusted EBITDA	$ 209.2	$ 210.6	(0.7)%	$ 605.0	$ 674.5	(10.3)%
Home Health and Hospice Segment						
Net operating revenues	$ 274.5	$ 289.3	(5.1)%	$ 796.9	$ 804.3	(0.9)%
Adjusted EBITDA	$ 51.8	$ 50.8	2.0 %	$ 107.8	$ 146.2	(26.3)%

Major takeaways:

- Inpatient rehabilitation segment
  - Discharges decreased 1.5%; same store decreased 2.8%
  - Net revenue per discharge increase of 5.4%
- Home health and hospice segment
  - Home health admissions decreased 3.3%; same store decreased 4.6%
  - Revenue per episode decrease of 2.3%
- Consolidated Adjusted EBITDA decreased $1.4 million, or 0.6%.
- Adjusted EPS of $0.78 per diluted share decreased $0.15 per share, or 16.1% - see pages 14-15.
- Adjusted free cash flow in Q3 2020 increased 13.2% to $124.1 million; year-to-date adjusted free cash flow of $366.9 million - see page 16.

Reconciliations to GAAP provided on pages 40-48

Q3 2020 summary (continued)

Expansion activity (see page 23)

- Announced plans to build inpatient rehabilitation hospitals in the following locations:
  - ✓ Knoxville, Tennessee (total of 73 beds at two locations; in joint venture with Covenant Health)
  - ✓ St. Augustine, Florida (40 beds)
  - ✓ Lakeland, Florida (50 beds)
  - ✓ Clermont, Florida (50 beds)
  - ✓ Naples, Florida (50 beds)
  - ✓ Cape Coral, Florida (40 beds)
  - ✓ Jacksonville, Florida (50 beds)
- Added 36 beds to existing hospitals (89 beds added year to date)

Balance sheet - See debt schedule and maturity profile on pages 28-29.

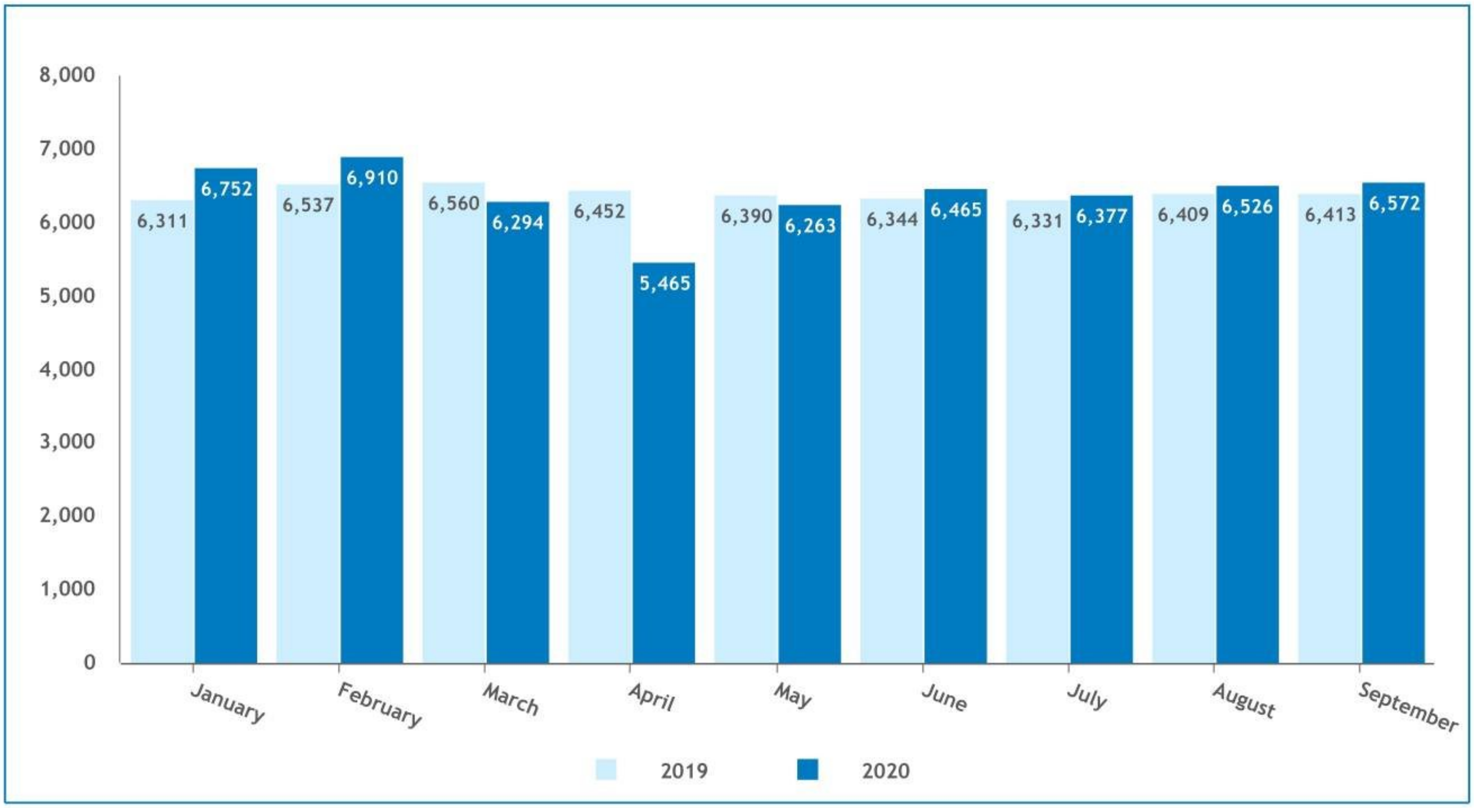
- Approximately $964 million available under $1 billion revolving credit facility and $450 million of cash on balance sheet at quarter end
- Leverage ratio of 4.2x at quarter end (net leverage = 3.6x)
- Issued $400 million of 4.625% Senior Notes due 2031 in October 2020
  - ✓ Use proceeds plus approximately $300 million of cash on hand to fully redeem $700 million of 5.75% Senior Notes due 2024 at par on November 1, 2020

Shareholder and other distributions

- Paid quarterly cash dividend of $0.28 per share in July 2020
- Declared a $0.28 per share quarterly cash dividend in July 2020 (paid in October 2020)
- Declared a $0.28 per share quarterly cash dividend in October 2020 (to be paid in January 2021)

Inpatient Rehabilitation - Patient Census Information

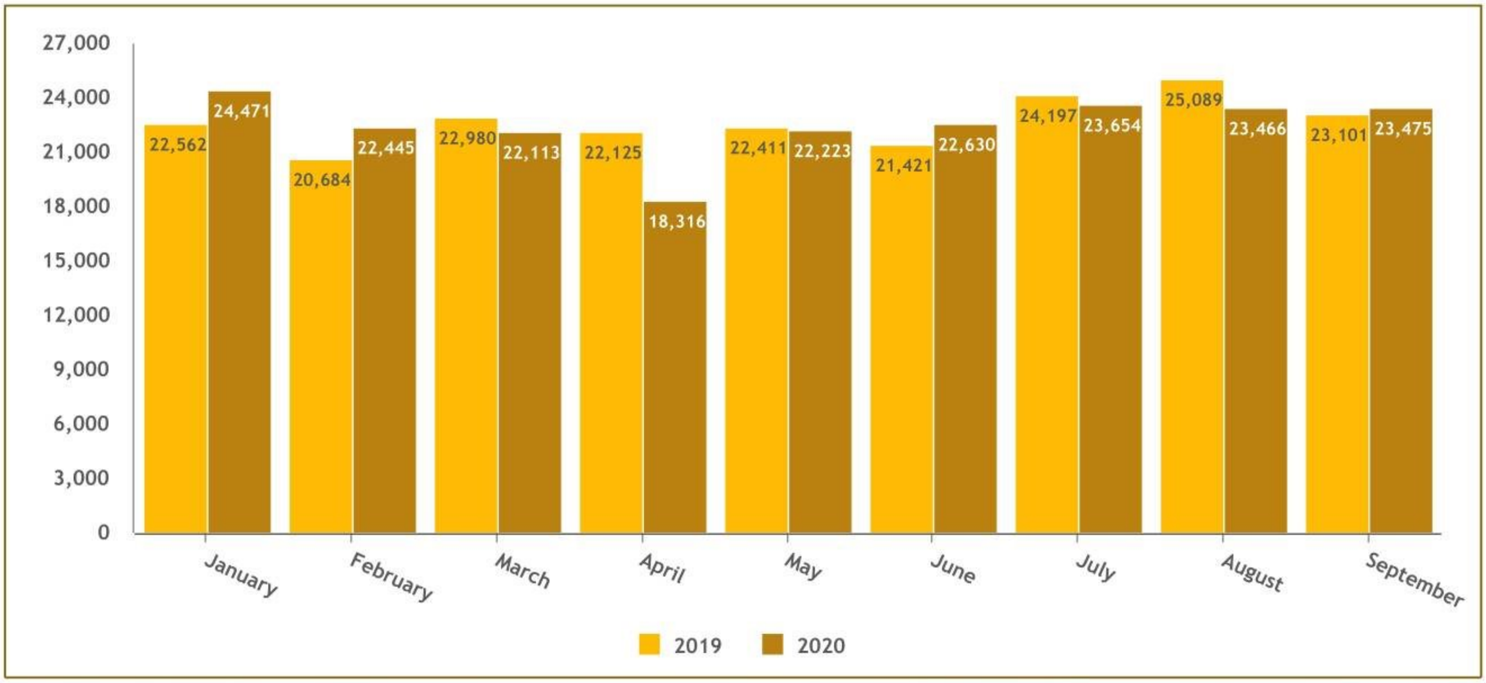
- Beginning in mid-March 2020, patient census was impacted by the COVID-19 pandemic.



Patient census presented in this table represents the average daily census for the designated period.

Home Health - Starts of Episodes (Includes Starts of Care and Recertifications)

- Beginning in mid-March 2020, starts of episodes were impacted by the COVID-19 pandemic.
- The acquisition of Alacare anniversaried on July 1, 2020.
- Home health starts of episodes decreased sequentially in August 2020 primarily due to the resurgence of COVID-19 cases and corresponding limitations on elective procedures in certain states.
  - ✓ Florida and Texas represent approximately 40% of our home health revenue.



Hospice - Admissions

- Hospice admissions experienced an initial drop in March 2020 but rebounded quickly.
- The acquisition of Alacare anniversaried on July 1, 2020.

Inpatient rehabilitation segment - revenue

($millions)	Q3 2020	Q3 2019	Favorable/ (Unfavorable)
Net operating revenues:			
Inpatient	$ 883.2	$ 850.6	3.8%
Outpatient and other	16.2	21.7	(25.3%)
Total segment revenue	**$ 899.4**	**$ 872.3**	3.1%
(Actual Amounts)			
Discharges	45,962	46,669	(1.5%)
Same-store discharge growth			(2.8%)
Net patient revenue per discharge	$ 19,216	$ 18,226	5.4%
Revenue reserves related to bad debt as a percent of revenue	1.4 %	1.5 %	(10 basis points)

- **Inpatient revenue growth resulted from favorable pricing partially offset by decreased volumes.**
  - **New-store discharge growth of 1.3% resulted from joint ventures in Boise, ID (July 2019) and Coralville, IA (June 2020) and wholly owned hospitals in Katy, TX (September 2019), Murrieta, CA (February 2020) and Sioux Falls, SD (June 2020).**
  - **Growth in net patient revenue per discharge primarily resulted from a higher acuity patient mix and the temporary suspension of sequestration.**
- **The decrease in outpatient and other revenue resulted from the COVID-19 pandemic related suspension of hospital-based outpatient services in mid-March 2020 and the closure of certain hospital-based outpatient programs in 2019.**
- **Revenue reserves related to bad debt as a percent of revenue decreased to 1.4% as Medicare Administrative Contractors did not resume targeted probe and educate audits during the third quarter of 2020.**

Inpatient rehabilitation segment - Adjusted EBITDA

($millions)	Q3 2020	% of Revenue	Q3 2019	% of Revenue
Net operating revenues	$ 899.4		$ 872.3	
Operating expenses:				
Salaries and benefits	(475.0)	52.8 %	(459.1)	52.6 %
Other operating expenses[a]	(135.5)	15.1 %	(131.3)	15.1 %
Supplies	(45.3)	5.0 %	(37.0)	4.2 %
Occupancy costs	(15.3)	1.7 %	(17.0)	1.9 %
Hospital operating expenses	(196.1)	21.8 %	(185.3)	21.2 %
Other income[b][c]	2.1		1.8	
Equity in nonconsolidated affiliates	0.9		1.0	
Noncontrolling interests	(22.1)		(20.1)	
Segment Adjusted EBITDA	$ 209.2		$ 210.6	
Percent change	(0.7)%			

		Q3 2020	Q3 2019
	In arriving at Adjusted EBITDA, the following were excluded:		
(a)	Loss on disposal of assets	$ 7.5	$ 0.9
(b)	Change in fair market value of equity securities	$ (0.4)	$ —
(c)	Gain on consolidation of Yuma[1]	$ —	$ (19.2)

- Expenses as a percent of revenue increased primarily due to the COVID-19 pandemic.

Reconciliations to GAAP provided on pages 40-48
Refer to pages 49-50 for end notes.

Home health and hospice segment - revenue

($millions)	Q3 2020	Q3 2019	Favorable/ (Unfavorable)
Net operating revenues:			
Home health revenue	$ 223.3	$ 238.9	(6.5)%
Hospice revenue	51.2	50.4	1.6 %
Total segment revenue	**$ 274.5**	**$ 289.3**	(5.1)%
***Home Health Metrics** (Actual Amounts)*			
Admissions	40,765	42,174	(3.3)%
Same-store admissions growth			(4.6)%
Episodes	68,261	72,016	(5.2)%
Same-store episode growth			(6.2)%
Revenue per episode	$ 2,910	$ 2,980	(2.3)%

- Decreased volumes and pricing resulted in a decline in home health revenue.
  - New-store admissions growth primarily resulted from one acquired location in Virginia (Q1 2020) and one de novo location in Florida (Q2 2020).
  - Revenue per episode was negatively impacted by the implementation of the Patient Driven Groupings Model (PDGM), the effects of which were exacerbated by the COVID-19 pandemic.
    - ✓ The revenue per episode decrease of 2.3% was favorably impacted by the temporary suspension of sequestration and an increase in new episode starts late in the quarter.
- Hospice same-store admissions growth of 15.8% yielded a 1.6% increase in hospice revenue.
  - Hospice revenue growth was impacted by a decrease in length of stay resulting from a change in patient mix.
    - ✓ The percentage of our referrals from institutional settings increased while the percentage of referrals from senior living facilities decreased.

Home health and hospice segment - Adjusted EBITDA

($millions)	Q3 2020	% of Revenue	Q3 2019	% of Revenue
Net operating revenues	$ 274.5		$ 289.3	
Cost of services sold	(121.8)	44.4 %	(136.4)	47.1 %
Support and overhead costs[(a)]	(100.7)	36.7 %	(99.6)	34.4 %
Operating expenses	(222.5)	81.1 %	(236.0)	81.6 %
Equity in net income of nonconsolidated affiliates	0.1		0.2	
Noncontrolling interests[(b)]	(0.3)		(2.7)	
Segment Adjusted EBITDA	$ 51.8		$ 50.8	
Percent change	2.0 %			

In arriving at Adjusted EBITDA, the following were excluded:	Q3 2020	Q3 2019
(a) Payroll taxes on SARs exercise	$ —	$ 0.8
(b) SARs mark-to-market impact on noncontrolling interests (see page 27)	$ —	$ (0.9)

- All expense ratios in Q3 2020 were impacted by a decrease in revenues primarily related to the implementation of PDGM and the COVID-19 pandemic.
- Cost of services decreased as a percent of revenue primarily due to changes in the clinician compensation structure implemented in May 2020.
- Support and overhead costs increased primarily due to an increase in sales force full-time equivalents and increased administrative costs associated with the implementation of PDGM and the Review Choice Demonstration program.

Reconciliations to GAAP provided on pages 40-48

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA for the quarter of $230.2 million

▶ **General and administrative expenses were flat as a percent of consolidated revenue.**

($millions)	Q3 2020	% of Consolidated Revenue	Q3 2019	% of Consolidated Revenue
Inpatient rehabilitation segment Adjusted EBITDA	$ 209.2		$ 210.6	
Home health and hospice segment Adjusted EBITDA	51.8		50.8	
General and administrative expenses*	(30.8)	2.6%	(29.8)	2.6%
Consolidated Adjusted EBITDA	$ 230.2		$ 231.6	
Percentage change	(0.6)%			

* General and administrative expenses in the above table exclude stock compensation of $8.3 million and $21.7 million for the third quarter of 2020 and 2019, respectively, as well as $1.0 million in transition costs for the third quarter of 2019.

Reconciliations to GAAP provided on pages 40-48

Earnings per share - as reported

(In Millions, Except Per Share Data)	Q3 2020	Q3 2019	9 Months 2020	9 Months 2019
Adjusted EBITDA	$ 230.2	$ 231.6	$ 620.4	$ 726.7
Depreciation and amortization	(61.2)	(55.1)	(180.7)	(160.3)
Interest expense and amortization of debt discounts and fees	(49.0)	(40.3)	(138.0)	(115.2)
Stock-based compensation expense	(8.3)	(21.7)	(25.3)	(87.0)
Loss on disposal or impairment of assets	(7.5)	(0.9)	(10.6)	(3.3)
	104.2	113.6	265.8	360.9
Certain items non-indicative of ongoing operating performance:				
Loss on early extinguishment of debt[2]	—	—	—	(2.3)
Transaction costs	—	(1.0)	—	(2.0)
Gain on consolidation of former equity method location[1][3]	—	19.2	2.2	19.2
SARs mark-to-market impact on noncontrolling interests (see page 27)	—	0.9	—	4.3
Change in fair market value of equity securities	0.4	—	0.3	1.2
Government, class action, and related settlements[4]	—	—	(2.8)	—
Payroll taxes on SARs exercise (see page 27)	—	(0.8)	(1.5)	(1.0)
Pre-tax income	104.6	131.9	264.0	380.3
Income tax expense	(26.9)	(34.3)	(65.8)	(88.6)
Income from continuing operations*	$ 77.7	$ 97.6	$ 198.2	$ 291.7
Diluted shares (see page 36)	99.9	99.4	99.7	99.5
Diluted earnings per share*	$ 0.78	$ 0.98	$ 1.99	$ 2.94

- The decrease in EPS primarily resulted from decreased Adjusted EBITDA, higher depreciation and amortization, higher interest expense, and a gain on the consolidation of Yuma Rehabilitation Hospital[1] in Q3 2019, offset by a decrease in stock-based compensation.
- Higher interest expense resulted from increased debt, including the funding of the Alacare acquisition on July 1, 2019 and purchase of the Home Health Holdings rollover shares and exercise of SARs (see page 27).
- Stock-based compensation decreased due to the final exercise of the Home Health Holdings SARs in Q1 2020 (see page 27).
- The lower effective tax rate in year-to-date 2019 primarily resulted from the deductible portion of settlements[4] and windfall tax benefits related to the vesting of share-based compensation.

* Earnings per share are determined using income from continuing operations attributable to Encompass Health.
Refer to pages 49-50 for end notes.

Adjusted earnings per share[5]

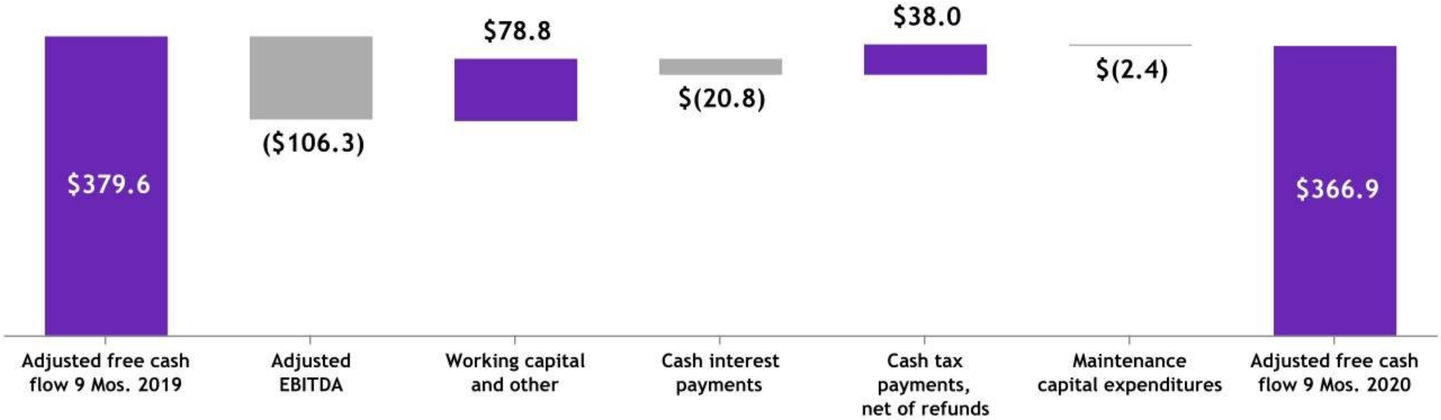
	Q3		9 Months	
	2020	2019	2020	2019
Earnings per share, as reported	$ 0.78	$ 0.98	$ 1.99	$ 2.94
Adjustments, net of tax:				
Government, class action, and related settlements[4]	—	—	0.02	—
Mark-to-market adjustment for stock compensation expense (see page 27)	—	0.08	—	0.36
Transaction costs	—	0.01	—	0.02
Income tax adjustments	—	—	(0.05)	(0.13)
Loss on early extinguishment of debt[2]	—	—	—	0.02
Change in fair market value of equity securities	—	—	—	(0.01)
Gain on consolidation of former equity method location[1][3]	—	(0.14)	(0.02)	(0.14)
Payroll taxes on SARs exercise	—	0.01	0.01	0.01
Adjusted earnings per share*	$ 0.78	$ 0.93	$ 1.96	$ 3.05

Adjusted earnings per share removes from the GAAP earnings per share calculation the impact of items the Company believes are non-indicative of its ongoing operating performance.

* Adjusted EPS may not sum due to rounding. See complete calculations of adjusted earnings per share on pages 45-48.

Refer to pages 49-50 for end notes.

2020 Adjusted free cash flow[(6)]



- Adjusted free cash flow was lower in the first nine months of 2020 than the first nine months of 2019 primarily due to a decrease in Adjusted EBITDA and increased cash interest payments partially offset by a decrease in working capital and lower payments for cash taxes.
  - Decreased working capital primarily resulted from the timing of and increase in payroll accruals.
    - ✓ Accrued payroll increased due to the award of additional PTO to employees during Q2 2020 in response to the COVID-19 pandemic, as well as the deferral of payroll taxes resulting from government relief efforts during the COVID-19 pandemic.
  - Cash payments for taxes decreased due to the overpayment of cash taxes in 2019, lower book income in 2020, additional bonus depreciation resulting from the CARES Act and the expected deduction for the exercise of 2020 SARs (see page 27).
  - Cash interest payments increased primarily due to the funding of the Alacare acquisition and the purchase of the Home Health Holdings rollover shares and exercise of SARs (see page 27).

Guidance for Q4 2020

	Q4 2019 Actuals	Q4 2020 Guidance
Net operating revenues	$1,184.4 million	$1,150 million to $1,220 million
Adjusted EBITDA[7]	$238.2 million	$225 million to $240 million
Adjusted earnings per share from continuing operations attributable to Encompass Health[5]	$0.85	$0.79 to $0.90

Refer to pages 49-50 for end notes.

Q4 2020 Guidance considerations

Adjusted EBITDA of $238.2 million in Q4 2019 was impacted by:	
(in millions)	
Self-insurance programs reserve adjustments	$7.0
Business interruption insurance recovery	2.5
Net impact to Q4 2019 Adjusted EBITDA	$9.5

Inpatient Rehabilitation

- Estimated increase in Medicare pricing of 2.3% (FY21 Medicare IRF Rule effective October 1, 2020)
- Outpatient revenue down 40% from Q4 2019 due to ongoing impact of the COVID-19 pandemic
- Salary increase of ~3%; benefits increase of ~20% (due to the expectation of increased claims activity and Q4 2019 favorable self-insurance reserve adjustments)
- Continued higher cost and utilization of personal protective equipment
- Revenue reserve related to bad debt of 1.4% to 1.6% of net operating revenues

Home Health and Hospice

- Estimated 2% to 3% net Medicare home health pricing decrease related to PDGM
- Estimated hospice pricing increase of 2.4% (FY21 Medicare Hospice Rule effective October 1, 2020)
- Salary increase of ~3%; benefits increase of 5% to 10%
- Continued higher cost and utilization of personal protective equipment
- Administrative costs related to expansion of Review Choice Demonstration program

Consolidated

- Increased interest expense (see page 19)
- Increased depreciation and amortization
- Diluted share count of ~100 million shares

Adjusted free cash flow[6] assumptions

Certain cash flow items (millions)	9 Months 2020 Actuals	2020 Assumptions	2019 Actuals
Cash interest payments (net of amortization of debt discounts and fees)	$132.9	$170 to $180	$155.2
Cash payments for income taxes, net of refunds	$30.2	$45 to $65	$104.1
Working capital and other	($17.1)	($25 to $5)	$22.0
Maintenance CAPEX	$107.5	$155 to $165	$167.1
Adjusted free cash flow	$366.9	$440 to $515	$516.5

- Increased cash interest payments expected in 2020 due to new borrowings in 2019 to fund the acquisition of Alacare and the exercise of the home health rollover shares and SARs plus 2020 borrowings to fund the final tranche of rollover shares and SARs (see page 27)
- Decreased cash payments for income taxes expected in 2020 due to overpayments in 2019, lower book income in 2020, additional bonus depreciation resulting from the CARES Act and the expected deduction for the exercise of 2020 SARs (see page 27)

Uses of free cash flow

($millions)		9 Months 2020 Actuals	2020 Assumptions	2019 Actuals
Growth in core business	IRF bed expansions	$33.2	$40 to $50	$39.8
	New IRFs			
	- De novos	97.2	180 to 190	114.2
	- Acquisitions	—	opportunistic	—
	- Replacement IRFs and other	27.4	35 to 45	83.1
	Home health and hospice acquisitions (includes Alacare in 2019)	1.1	50 to 100	231.5
		$158.9	$305 to $385	$468.6
Debt reduction	Debt (borrowings) redemptions, net	$(513.8)	opportunistic	$(548.2)
Shareholder and other distributions	Cash dividends on common stock	84.3	~$112	108.7
	Purchase of Home Health Holdings rollover shares and exercise of SARs (see page 27)	262.9	262.9	231.4
	Common stock repurchases	4.9	opportunistic	45.9

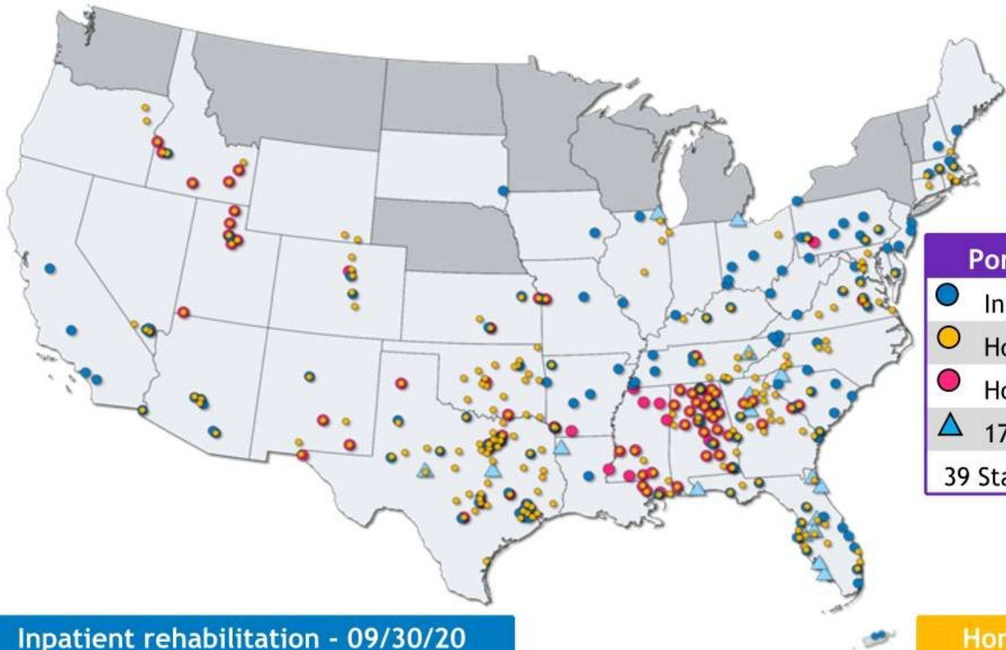
Quarterly cash dividend currently set at $0.28 per common share

~$199 million authorization remaining as of September 30, 2020[8]

See the debt schedule on page 29. Refer to pages 49-50 for end notes.

Appendix

Encompass Health | a leading provider of inpatient rehabilitation and home-based care



Market overlap

89 of EHC's IRFs have an EHC home health location within the service area.*

Portfolio as of September 30, 2020**

- Inpatient rehabilitation hospitals ("IRFs")
- Home health locations
- Hospice locations
- 17 Future IRFs**

39 States and Puerto Rico ~42,700 employees

Inpatient rehabilitation - 09/30/20	
136	IRFs (49 are joint ventures)
35	States and Puerto Rico
~31,400	Employees
23 %	of licensed beds†
31 %	of Medicare patients served†
Key statistics - trailing 4 quarters	
~183,300	Inpatient discharges
~$3.5	Billion in revenue

Largest owner and operator of IRFs

4th Largest provider of Medicare-certified skilled home health services

Home health and hospice - 09/30/20	
242	Home health locations
83	Hospice locations
31	States
~11,300	Employees
Key statistics - trailing 4 quarters	
~159,900	Home health admissions
~12,400	Hospice admissions
~$1.1	Billion in revenue

* Excluding markets that have home health licensure barriers ** Future IRFs - Previously announced under development as of September 30, 2020

† Based on 2017 and 2018 data

Note: One of the 242 home health locations is nonconsolidated. This location is accounted for using the equity method of accounting.

Expansion activity

	Inpatient Rehabilitation Facilities Opened or Under Development	# of New Beds		
		2020	2021	2022
	De novo:			
	Murrieta, CA	50	–	–
	Sioux Falls, SD	40	–	–
1	Toledo, OH	40		–
2	Cumming, GA	–	50	–
3	North Tampa, FL	–	50	–
4	Stockbridge, GA	–	50	–
5	Greenville, SC	–	40	–
6	Pensacola, FL	–	40	–
7	Shreveport, LA	–	40	–
8	Waco, TX	–	40	–
9	Libertyville, IL	–	–	60
10	St. Augustine, FL	–	–	40
11	Lakeland, FL	–	–	50
12	Clermont, FL	–	–	50
13	Naples, FL	–	–	50
14	Cape Coral, FL	–	–	40
15	Jacksonville, FL	–	–	50
	Joint ventures:			
	Coralville, IA	40	–	–
16	San Angelo, TX	–	40	–
17	Knoxville, TN	–	–	73
	Bed expansions, net*	~120	~100	~100
		~290	~450	~513

Certain development projects may be delayed due to the COVID-19 pandemic.

Q3 2020 expansion activity highlights:

- Announced plans to build inpatient rehabilitation hospitals in the following locations:
  - ✓ Knoxville, Tennessee (total of 73 beds at two locations; in joint venture with Covenant Health)
  - ✓ St. Augustine, Florida (40 beds)
  - ✓ Lakeland, Florida (50 beds)
  - ✓ Clermont, Florida (50 beds)
  - ✓ Naples, Florida (50 beds)
  - ✓ Cape Coral, Florida (40 beds)
  - ✓ Jacksonville, Florida (50 beds)
- Added 36 beds to existing hospitals

Home Health and Hospice Locations	# of Locations
December 31, 2019	328
Acquisitions	1
Opening of new locations	2
Merging of locations	(6)
September 30, 2020	325

2 New states

17 Previously announced IRF development projects underway

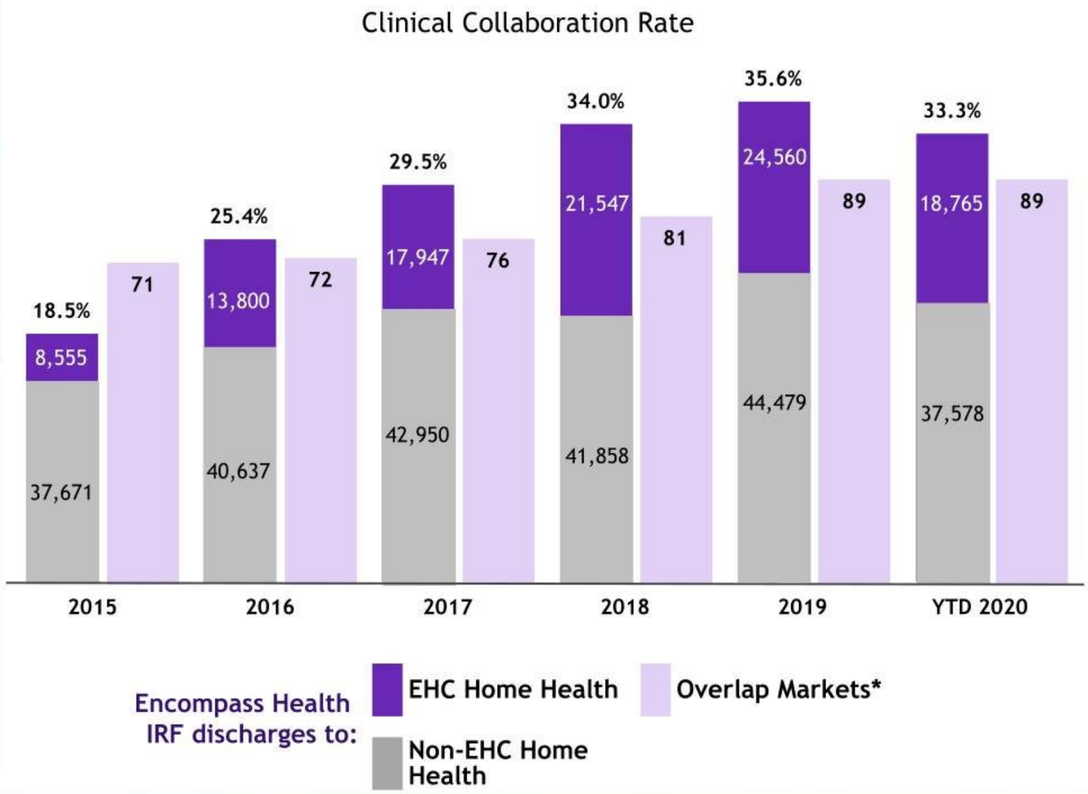
* Net bed expansions in each year may change due to the timing of certain regulatory approvals and/or construction delays. For 2021 and 2022, the currently expected range for bed expansions is 100 to 150.

The Company continues to improve the patient experience and outcomes through integrated care delivery.

- The lower clinical collaboration rate for YTD 2020 was driven by a higher mix of Medicare Advantage patients (see page 33).
  - Medicare fee-for-service clinical collaboration rate increased 50 bps from 43.0% in YTD 2019 to 43.5% in YTD 2020.
  - Medicare Advantage clinical collaboration rate increased 300 bps from 13.0% in YTD 2019 to 16.0% in YTD 2020.

- **Clinical collaboration objectives:**
  - Improve patient experience and outcomes
  - Reduce total cost of care across a post-acute episode
- Coordination between our IRFs and HH teams is resulting in lower discharges to SNFs and higher discharges home.

Inpatient rehabilitation-home health clinical collaboration (all payors) overlap markets*



* Overlap markets have an Encompass Health IRF and an Encompass Health home health location within an approximate 30-mile radius, excluding markets that have home health licensure barriers. Overlap markets are open for 12 months before inclusion in the clinical collaboration rate.

Personal Protective Equipment (PPE) – Utilization, Cost and Inventory

Increased PPE Utilization due to COVID-19

- Utilization of PPE has increased as a result of new infection control policies in response to the COVID-19 pandemic, including mandatory masking for employees and patients.

Impact on Pricing

- As the pandemic spread, our demand for PPE increased beyond the capacity of our primary suppliers. We have diversified sourcing to secondary vendors, generally at significantly higher prices. Average pricing for masks and gowns have increased 12x and 6x, respectively, during the pandemic.
- We have implemented a multi-tier approach to obtaining necessary PPE that includes maximizing the allocated inventory from our primary suppliers (at a lower contractual price) and contracting with multiple secondary suppliers to source clinically-approved, price-protected products which are distributed through our centralized warehouses.

INPATIENT REHABILITATION

	Avg. Monthly Utilization		Avg. Monthly Spend		Months of Current Utilization in Inventory
	Historical	Current*	Historical	Current*	
MASKS	130,000	947,000	$ 10,400	$ 951,000	3.9
RESPIRATORS	5,000	59,000	$ 2,200	$ 211,000	3.0
GOWNS	137,500	294,000	$ 45,375	$ 625,000	4.2
**GLOVES	9,500,000	10,597,000	$ 350,000	$ 658,000	-
Total PPE			**$ 407,975**	**$ 2,445,000**	

HOME HEALTH AND HOSPICE

	Avg. Monthly Utilization		Avg. Monthly Spend		Months of Current Utilization in Inventory
	Historical	Current*	Historical	Current*	
MASKS	-	154,000	-	$ 125,000	3.9
RESPIRATORS	-	39,000	-	$ 147,000	6.5
GOWNS	-	55,000	-	$ 141,000	6.2
GLOVES	1,735,400	2,964,000	$ 58,657	$ 96,000	1.0
Total PPE			**$ 58,657**	**$ 509,000**	

*April through September 2020

** Purchases made in October are expected to provide 2 to 3 months of glove inventory in Q4.

Pre-payment claims denials - inpatient rehabilitation segment

Background

- For several years prior to 2018, under programs designated as "widespread probes," certain Medicare Administrative Contractors ("MACs") conducted pre-payment claim reviews and denied payment for certain diagnosis codes.
- Encompass Health appeals most denials. On claims it takes to an administrative law judge ("ALJ"), Encompass Health historically has experienced an approximate 70% success rate.
  - MACs identify medical documentation issues as a leading basis for denials.
  - Encompass Health's investment in clinical information systems and its medical services department has further improved its documentation and reduced technical denials.
- By statute, ALJ decisions are due within 90 days of a request for hearing, but appeals are taking years. HHS has implemented rule changes to address the backlog of appeals, but their effect is uncertain.
- In November 2018, a federal court ordered HHS to reduce the backlog in the following increments: a 19% reduction by the end of FY 2019; a 49% reduction by the end of FY 2020; a 75% reduction by the end of FY 2021; and elimination of the backlog by the end of FY 2022.
- After years of delay in processing appeals, ALJs recently increased the frequency of hearings and the number of claims set at each hearing. Notwithstanding the recent acceleration, Encompass Health still has over 8,500 claims in the backlog, including claims from up to 10 years ago.
- Since 2018, CMS has replaced the "widespread probes" with the Targeted Probe and Educate ("TPE") initiative.*
- Effective March 2020, CMS suspended most Medicare fee-for-service medical reviews during the public health emergency, including TPE and current post-payment reviews, allowing reviews for potential fraud. CMS authorized its contractors to resume reviews as of Aug. 3, 2020.

Encompass Health reserves pre-payment claim denials as a reduction of net operating revenues upon notice from a MAC a claim is under review.

Impact to Income Statement

Period	New Denials	Collections of Previously Denied Claims	Revenue Reserve for New Denials	Update of Reserve for Prior Denials
		(In Millions)		
Q3 2020	$(0.6)	$(6.3)	$—	$—
Q2 2020	(1.5)	(3.5)	—	—
Q1 2020	4.2	(5.0)	1.3	—
Q4 2019	3.8	(4.6)	1.1	—
Q3 2019	11.3	(6.1)	3.4	—
Q2 2019	3.5	(1.7)	1.1	—
Q1 2019	1.6	(2.5)	0.5	—
Q4 2018	4.6	(3.2)	1.4	—
Q3 2018	0.7	(1.3)	0.2	—
Q2 2018	1.8	(2.8)	0.5	—
Q1 2018	3.1	(6.8)	0.9	—
Q4 2017	0.7	(7.8)	0.2	—

Impact to Balance Sheet

	Sept. 30, 2020	Dec. 31, 2019	Dec. 31, 2018
		(In Millions)	
Pre-payment claims denials	$ 135.3	$ 155.3	$ 158.1
Recorded reserves	(40.6)	(46.6)	(47.4)
Net accounts receivable from pre-payment claims denials	**$ 94.7**	**$ 108.7**	**$ 110.7**

* For more information regarding TPE, see https://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/Medicare-FFS-Compliance-Programs/Medical-Review/Targeted-Probe-and-EducateTPE.html

Overview of rollover shares and SARs previously held by members of the home health and hospice management

Background

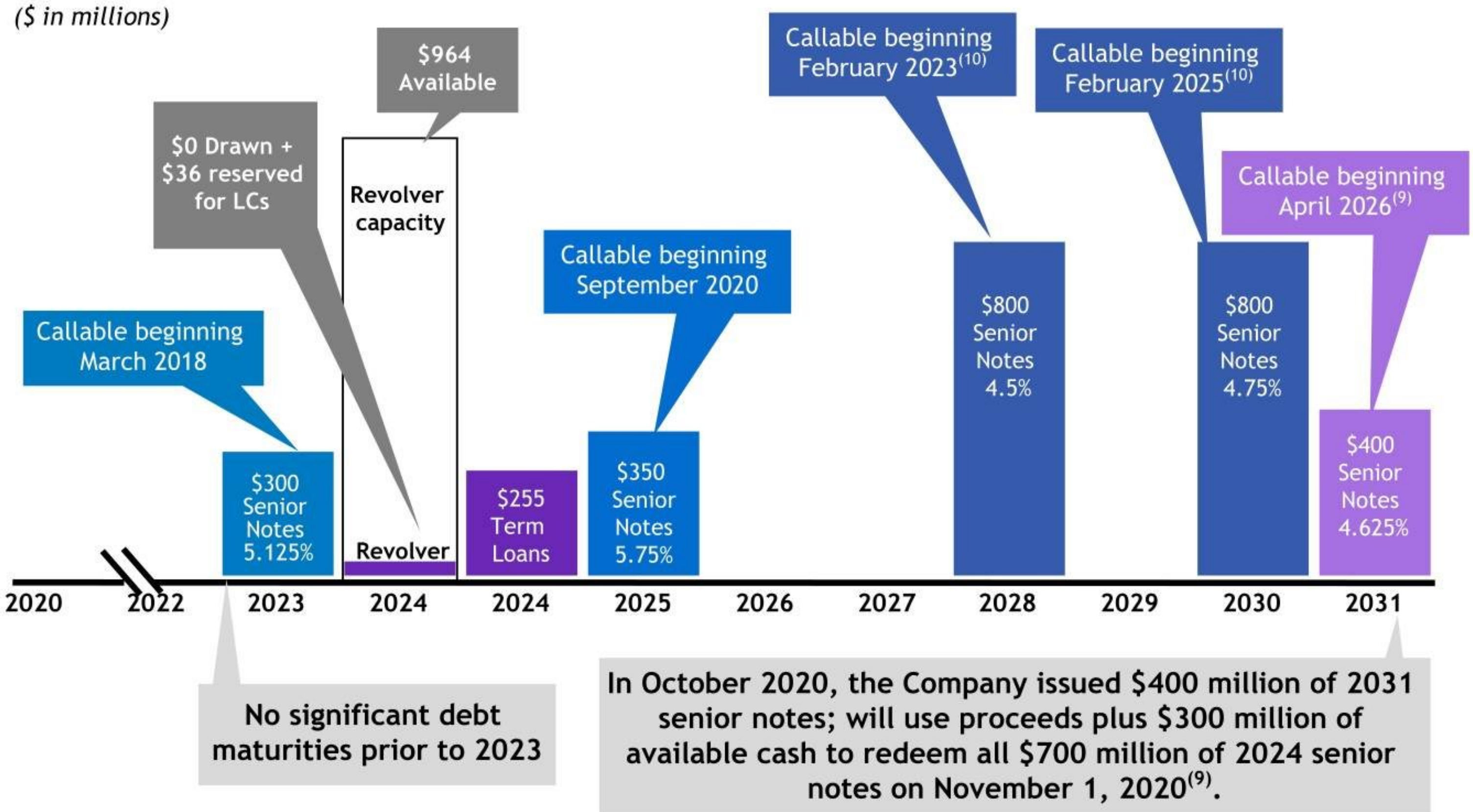
In connection with the 2014 acquisition of Encompass Home Health and Hospice:

- Certain members of that management team rolled a portion of their pre-acquisition equity into the post-acquisition entity (“Home Health Holdings”) resulting in a 16.7% ownership interest (the “Rollover Shares”).
- The Company also granted stock appreciation rights (“SARs”) based on the fair value of the common stock of Home Health Holdings to certain members of that management team. Half of the SARs vested on Jan. 1, 2019, and the other half vested on Jan. 1, 2020.
- Home Health Holdings was capitalized with a promissory note to the parent company totaling approximately $385 million (equal to 5.5x the segment’s 2014 EBITDA). This was done to provide the opportunity for leveraged returns on the equity, thereby mimicking a private equity transaction structure.
- To the extent Home Health Holdings needed cash (e.g., acquisitions, capex, etc.), such amounts were added to the principal amount of the original note and subsequent new notes. Cash generated from the operations of Home Health Holdings has been used to pay interest and a portion of the principal on the notes.

Options	**Holder** – The right (but not the obligation) to sell for cash up to 1/3 of the Rollover Shares to the parent after 1/1/18; 2/3 after 1/1/19; and all outstanding Rollover Shares after 1/1/20
	Company – The right (but not the obligation) to purchase for cash all or any portion of the Rollover Shares after 1/1/20
Valuation	Fair value of the Rollover Shares and SARs was determined using the product of Home Health Holdings’ EBITDA for the trailing 12-month period and a median market price multiple based on a basket of public home health companies and recent transactions, less the current balance of the intracompany note(s) to the parent.
Activity	In Feb. 2018, July 2019, and Jan. 2020, holders exercised their rights to sell Rollover Shares to EHC. EHC settled the exercises upon payment of approximately $65 million, approximately $163 million, and approximately $162 million in Q1 2018, Q3 2019 and Q1 2020, respectively. After the approximate $162 million payment was made in February 2020, only $46 million of the rollover shares remained outstanding, or approximately 1.2% of Home Health Holdings.
	In Q1 2019 and Q3 2019, holders exercised vested SARs for cash proceeds of approximately $13 million and approximately $55 million, respectively. In Q1 2020, holders exercised the remaining SARs for cash proceeds of approximately $101 million.
	On Feb. 20, 2020, the Company and each of April Anthony and Luke James agreed to exchange the remaining rollover shares (approximately $45 million and $1 million, respectively) for an equal value of shares of EHC. The exchange settled in March 2020.

Debt maturity profile - face value

Pro forma as of September 30, 2020*[9]



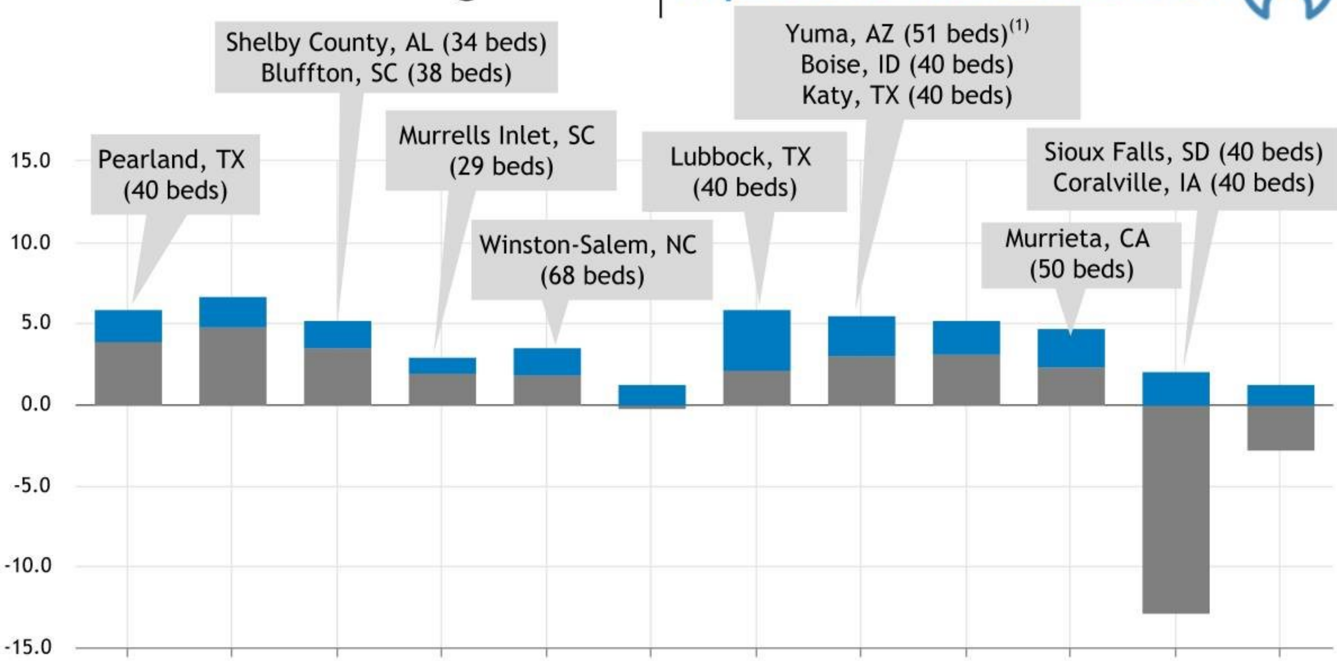
* This chart does not include ~$372 million of finance lease obligations or ~$40 million of other notes payable.
See the debt schedule on page 29; Refer to pages 49-50 for end notes.

Debt schedule

($millions)	Pro forma September 30, 2020[9]	September 30, 2020	December 31, 2019	Change in Debt vs. YE 2019
Advances under $1 billion revolving credit facility, November 2024 - LIBOR +150bps	$ —	$ —	$ 45.0	$ (45.0)
Term loan facility, November 2024 - LIBOR +150bps	254.8	254.8	265.2	(10.4)
Bonds Payable:				
5.125% Senior Notes due 2023	297.9	297.9	297.3	0.6
5.75% Senior Notes due 2024[2][9]	—	697.7	697.3	0.4
5.75% Senior Notes due 2025	346.1	346.1	345.6	0.5
4.50% Senior Notes due 2028[10]	784.6	784.6	491.7	292.9
4.75% Senior Notes due 2030[10]	782.8	782.8	491.7	291.1
4.625% Senior Notes due 2031[9]	400.0	—	—	—
Other notes payable	40.2	40.2	44.7	(4.5)
Finance lease obligations	372.3	372.3	384.1	(11.8)
Long-term debt	**$ 3,278.7**	**$ 3,576.4**	**$ 3,062.6**	$ 513.8
Debt to Adjusted EBITDA	**3.8 x**	**4.2 x**	**3.2 x**	
Leverage net of cash on balance sheet	**3.6 x**	**3.6 x**	**3.1 x**	

Reconciliations to GAAP provided on pages 40-48; Refer to pages 49-50 for end notes.

New-store/same-store growth | Inpatient Rehabilitation

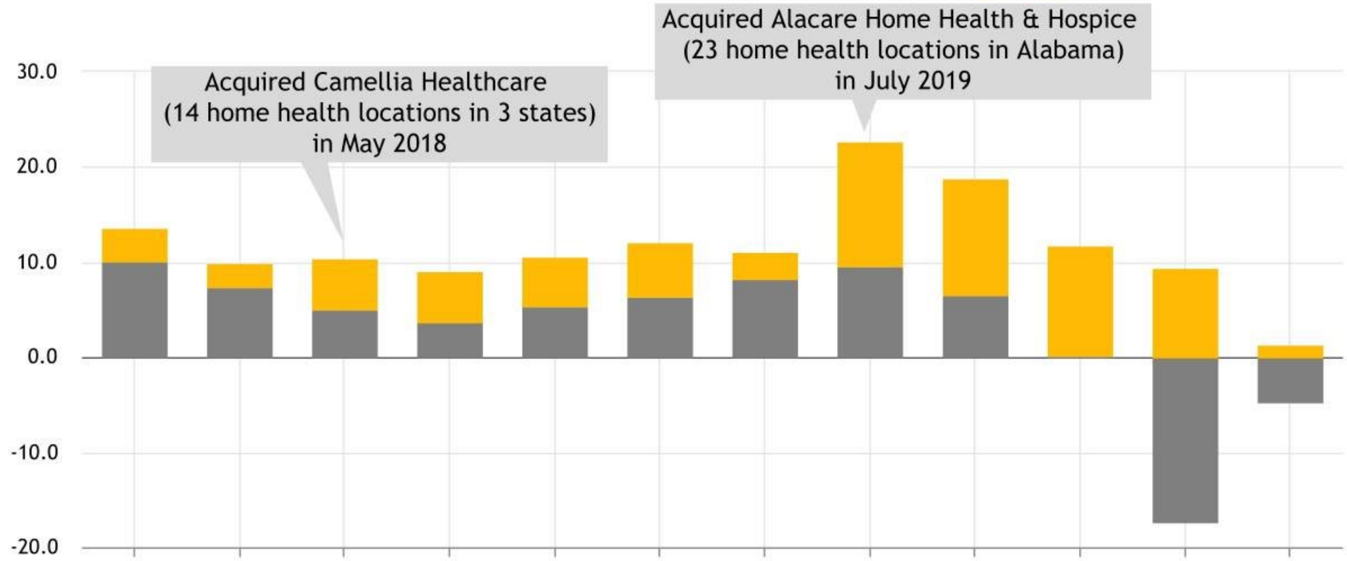


Discharges	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
New store	2.0%	1.9%	1.6%	1.0%	1.7%	1.3%	1.5%	2.4%	2.0%	2.3%	2.1%	1.3%
Same store*	3.9%	4.8%	3.6%	2.0%	1.9%	(0.2)%	2.2%	3.1%	3.2%	2.4%	(12.8)%	(2.8)%
Total by qtr.	5.9%	6.7%	5.2%	3.0%	3.6%	1.1%	3.7%	5.5%	5.2%	4.7%	(10.7)%	(1.5)%
Total by year	4.0%				4.6%				3.9%			
Same-store year*	1.8%				2.8%				1.8%			
Same-store year UDS[11]	(0.5)%				1.1%				1.3%			

Beginning in mid-March 2020, volume growth was impacted by the COVID-19 pandemic.

* Includes consolidated inpatient rehabilitation hospitals classified as same store during each period
Refer to pages 49-50 for end notes.

New-store/same-store growth | Home Health



Admissions	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
New store	3.5%	2.5%	5.3%	5.4%	5.3%	5.7%	2.9%	13.0%	12.3%	11.7%	9.4%	1.3%
Same store*	10.1%	7.4%	5.1%	3.8%	5.4%	6.4%	8.3%	9.7%	6.6%	0.2%	(17.3)%	(4.6)%
Total by quarter	13.6%	9.9%	10.4%	9.2%	10.7%	12.1%	11.2%	22.7%	18.9%	11.9%	(7.9)%	(3.3)%
Total by year	17.0%				10.0%				16.3%			
Same-store year*	11.4%				5.6%				7.7%			

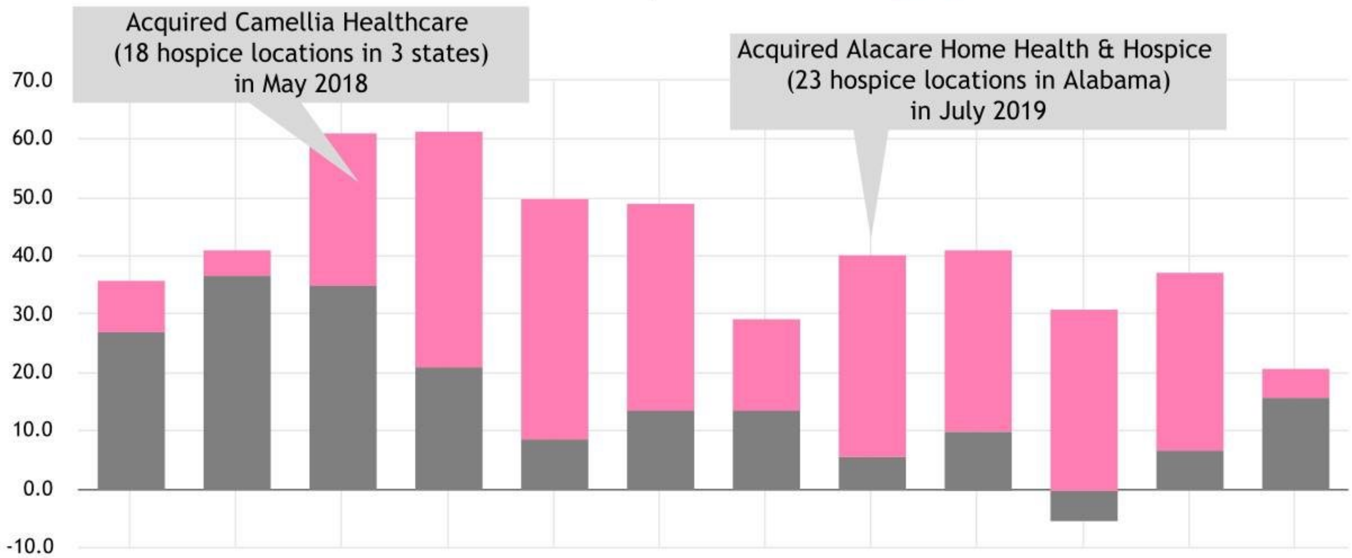
- In 2017, the Company acquired or opened 15 home health locations.
- In 2018, the Company acquired or opened 23 home health locations.
- In 2019, the Company acquired or opened 27 home health locations.
- In 2020, the Company acquired or opened two home health locations and consolidated one former equity method location[3].

Beginning in mid-March 2020, volume growth was impacted by the COVID-19 pandemic.

* Includes consolidated home health agencies classified as same store during each period

Refer to pages 49-50 for end notes.

New-store/same-store growth | Hospice



Admissions	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
New store	8.8%	4.4%	26.1%	40.3%	41.2%	35.5%	15.7%	34.6%	31.1%	30.9%	30.6%	0.5%
Same store*	27.2%	36.8%	35.2%	21.1%	8.6%	13.7%	13.6%	5.8%	10.1%	(5.3)%	6.7%	15.8%
Total by quarter	36.0%	41.2%	61.3%	61.4%	49.8%	49.2%	29.3%	40.4%	41.2%	25.6%	37.3%	16.3%
Total by year	45.9%				53.5%				39.8%			
Same-store year*	20.9%				24.6%				12.2%			

- In 2017, the Company acquired or opened 2 hospice locations.
- In 2018, the Company acquired or opened 22 hospice locations.
- In 2019, the Company acquired or opened 25 hospice locations.
- In 2020, the Company opened one hospice location.

* Includes consolidated hospice agencies classified as same store during each period

Payment sources (percent of revenues)

	Inpatient Rehabilitation Segment		Home Health and Hospice Segment		Consolidated				
	Q3		Q3		Q3		9 Months		Full Year
	2020	2019	2020	2019	2020	2019	2020	2019	2019
Medicare	65.8 %	71.5 %	83.3 %	85.8 %	69.9 %	75.3 %	69.8 %	75.3 %	75.1 %
Medicare Advantage	15.7 %	10.9 %	10.8 %	8.7 %	14.5 %	10.3 %	14.8 %	10.3 %	10.6 %
Managed care	10.7 %	10.0 %	4.5 %	3.6 %	9.2 %	8.4 %	9.0 %	8.3 %	8.3 %
Medicaid	4.3 %	3.2 %	1.2 %	1.7 %	3.6 %	2.8 %	3.4 %	2.8 %	2.8 %
Other third-party payors	1.2 %	1.4 %	— %	— %	0.9 %	1.0 %	0.9 %	1.0 %	0.9 %
Workers' compensation	0.5 %	0.8 %	0.1 %	0.1 %	0.4 %	0.6 %	0.5 %	0.7 %	0.7 %
Patients	0.6 %	0.7 %	0.1 %	— %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Other income	1.2 %	1.5 %	— %	0.1 %	1.0 %	1.1 %	1.1 %	1.1 %	1.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Growth in Medicare Advantage as a percent of revenue within the inpatient rehabilitation segment for Q3 and year-to-date 2020 resulted in part from suspension of prior authorization requirements.

Inpatient rehabilitation operational and labor metrics

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Full Year 2019
				(In Millions)				
Net patient revenue-inpatient	$ 883.2	$ 808.0	$ 890.0	$ 873.5	$ 850.6	$ 851.8	$ 847.6	$ 3,423.5
Net patient revenue-outpatient and other revenues	16.2	16.5	19.2	23.2	21.7	22.1	22.5	89.5
Net operating revenues	$ 899.4	$ 824.5	$ 909.2	$ 896.7	$ 872.3	$ 873.9	$ 870.1	$ 3,513.0
				(Actual Amounts)				
Discharges[12]	45,962	41,682	47,750	47,885	46,669	46,679	45,609	186,842
Net patient revenue per discharge	$19,216	$19,385	$18,639	$ 18,242	$ 18,226	$ 18,248	$ 18,584	$ 18,323
Outpatient visits	51,968	15,760	69,743	82,536	86,395	104,566	102,028	375,525
Average length of stay	13.0	13.2	12.7	12.4	12.6	12.5	12.8	12.6
Occupancy %	68.8 %	64.5 %	71.3 %	70.0 %	69.2 %	70.6 %	72.3 %	69.5 %
# of licensed beds	9,437	9,401	9,322	9,249	9,219	9,062	8,941	9,249
Occupied beds	6,493	6,064	6,647	6,474	6,380	6,398	6,464	6,428
Full-time equivalents (FTEs)[13]	22,147	20,809	22,318	22,096	22,037	21,570	21,345	21,762
Contract labor	176	116	161	159	187	227	246	205
Total FTE and contract labor	22,323	20,925	22,479	22,255	22,224	21,797	21,591	21,967
EPOB[14]	3.44	3.45	3.38	3.44	3.48	3.41	3.34	3.42

Refer to pages 49-50 for end notes.

Home health and hospice operational metrics

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Full Year 2019
				(In Millions)				
Net home health revenue	$ 223.3	$ 201.8	$ 224.8	$ 236.9	$ 238.9	$ 222.7	$ 219.5	$ 918.0
Net hospice revenue	51.2	47.8	48.0	50.8	50.4	38.4	34.4	174.0
Net operating revenues	$ 274.5	$ 249.6	$ 272.8	$ 287.7	$ 289.3	$ 261.1	$ 253.9	$ 1,092.0
Home Health:				(Actual Amounts)				
Admissions[15]	40,765	34,841	42,476	41,781	42,174	37,828	37,944	159,727
Recertifications	29,830	28,328	26,553	29,460	30,213	28,129	28,282	116,084
Episodes	68,261	60,154	68,652	73,055	72,016	66,881	63,626	275,578
Average revenue per episode	$ 2,910	$ 2,920	$ 2,909	$ 2,901	$ 2,980	$ 2,959	$ 3,057	$ 2,972
Episodic visits per episode	16.4	17.4	16.3	16.4	17.3	17.1	17.7	17.1
Total visits	1,300,866	1,250,546	1,306,230	1,372,326	1,425,323	1,325,362	1,308,610	5,431,621
Cost per visit	$ 75	$ 89	$ 81	$ 79	$ 78	$ 76	$ 75	$ 77
Hospice:								
Admissions[16]	3,354	3,190	2,986	2,866	2,884	2,324	2,378	10,452
Patient days	346,019	336,507	334,545	345,855	353,549	259,501	239,022	1,197,927
Average daily census	3,761	3,698	3,676	3,759	3,843	2,852	2,656	3,282
Revenue per day	$ 148	$ 142	$ 144	$ 147	$ 142	$ 148	$ 144	$ 145

Refer to pages 49-50 for end notes.

Share information

(In Millions)	Weighted Average for the Period						
	Q3		9 Months		Full Year		
	2020	2019	2020	2019	2019	2018	2017
Basic shares outstanding[17]	98.7	97.8	98.5	98.1	98.0	97.9	93.7
Convertible senior subordinated notes[17]	—	—	—	—	—	—	4.0
Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants	1.2	1.6	1.2	1.4	1.4	1.9	1.6
Diluted shares outstanding	99.9	99.4	99.7	99.5	99.4	99.8	99.3

(In Millions)	End of Period						
	Q3		9 Months		Full Year		
	2020	2019	2020	2019	2019	2018	2017
Basic shares outstanding	99.4	98.6	99.4	98.6	98.6	98.9	98.3

Refer to pages 49-50 for end notes.

Segment operating results

(In Millions)	Q3 2020 IRF	Q3 2020 Home Health and Hospice	Q3 2020 Reclasses	Q3 2020 Consolidated	Q3 2019 IRF	Q3 2019 Home Health and Hospice	Q3 2019 Reclasses	Q3 2019 Consolidated
Net operating revenues	$ 899.4	$ 274.5	$ –	$ 1,173.9	$ 872.3	$ 289.3	$ –	$ 1,161.6
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(475.0)	–	(189.9)	(664.9)	(459.1)	–	(200.9)	(660.0)
Other operating expenses[a]	(135.5)	–	(20.4)	(155.9)	(131.3)	–	(24.4)	(155.7)
Supplies	(45.3)	–	(7.2)	(52.5)	(37.0)	–	(5.9)	(42.9)
Occupancy costs	(15.3)	–	(5.0)	(20.3)	(17.0)	–	(4.8)	(21.8)
Home Health and Hospice:								
Cost of services sold (excluding depreciation and amortization)	–	(121.8)	121.8	–	–	(136.4)	136.4	–
Support and overhead costs[b]	–	(100.7)	100.7	–	–	(99.6)	99.6	–
	(671.1)	(222.5)	–	(893.6)	(644.4)	(236.0)	–	(880.4)
Other income[c][d]	2.1	–	–	2.1	1.8	–	–	1.8
Equity in net income of nonconsolidated affiliates	0.9	0.1	–	1.0	1.0	0.2	–	1.2
Noncontrolling interests[e]	(22.1)	(0.3)	–	(22.4)	(20.1)	(2.7)	–	(22.8)
Segment Adjusted EBITDA	**$ 209.2**	**$ 51.8**	**$ –**	**261.0**	**$ 210.6**	**$ 50.8**	**$ –**	**261.4**
General and administrative expenses[f][g]				(30.8)				(29.8)
Adjusted EBITDA				**$ 230.2**				**$ 231.6**
In arriving at Adjusted EBITDA, the following were excluded:								
(a) Loss on disposal or impairment of assets	$ 7.5	$ –	$ –	$ 7.5	$ 0.9	$ –	$ –	$ 0.9
(b) Payroll taxes on SARs exercise	$ –	$ –	$ –	$ –	$ –	$ 0.8	$ –	$ 0.8
(c) Change in fair market value of equity securities	$ (0.4)	$ –	$ –	$ (0.4)	$ –	$ –	$ –	$ –
(d) Gain on consolidation of Yuma[1]	$ –	$ –	$ –	$ –	$ (19.2)	$ –	$ –	$ (19.2)
(e) SARs mark-to-market impact on noncontrolling interests (see page 27)	$ –	$ –	$ –	$ –	$ –	$ (0.9)	$ –	$ (0.9)
(f) Stock-based compensation	$ –	$ –	$ –	$ 8.3	$ –	$ –	$ –	$ 21.7
(g) Transaction costs	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 1.0

Reconciliations to GAAP provided on pages 40-48; Refer to pages 49-50 for end notes.

Segment operating results

(In Millions)	IRF (Nine Months Ended September 30, 2020)	Home Health and Hospice (Nine Months Ended September 30, 2020)	Reclasses (Nine Months Ended September 30, 2020)	Consolidated (Nine Months Ended September 30, 2020)	IRF (Nine Months Ended September 30, 2019)	Home Health and Hospice (Nine Months Ended September 30, 2019)	Reclasses (Nine Months Ended September 30, 2019)	Consolidated (Nine Months Ended September 30, 2019)
Net operating revenues	$ 2,633.1	$ 796.9	$ —	$ 3,430.0	$ 2,616.3	$ 804.3	$ —	$ 3,420.6
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(1,408.7)	—	(585.7)	(1,994.4)	(1,347.7)	—	(555.8)	(1,903.5)
Other operating expenses[a]	(394.5)	—	(66.2)	(460.7)	(386.1)	—	(67.1)	(453.2)
Supplies	(126.9)	—	(21.9)	(148.8)	(109.3)	—	(15.4)	(124.7)
Occupancy costs	(46.0)	—	(14.8)	(60.8)	(49.1)	—	(12.6)	(61.7)
Home Health and Hospice:								
Cost of services sold (excluding depreciation and amortization)	—	(389.4)	389.4	—	—	(372.8)	372.8	—
Support and overhead costs[b]	—	(299.2)	299.2	—	—	(278.1)	278.1	—
	(1,976.1)	(688.6)	—	(2,664.7)	(1,892.2)	(650.9)	—	(2,543.1)
Other income[c][d]	3.9	—	—	3.9	6.5	—	—	6.5
Equity in net income of nonconsolidated affiliates	2.1	0.4	—	2.5	4.5	1.0	—	5.5
Noncontrolling interests[e]	(58.0)	(0.9)	—	(58.9)	(60.6)	(8.2)	—	(68.8)
Segment Adjusted EBITDA	**$ 605.0**	**$ 107.8**	**$ —**	**712.8**	**$ 674.5**	**$ 146.2**	**$ —**	**820.7**
General and administrative expenses[f][g]				(92.4)				(94.0)
Adjusted EBITDA				**$ 620.4**				**$ 726.7**
In arriving at Adjusted EBITDA, the following were excluded:								
(a) Loss (gain) on disposal or impairment of assets	$ 9.4	$ 1.2	$ —	$ 10.6	$ 3.4	$ (0.1)	$ —	$ 3.3
(b) Payroll taxes on SARs exercise	$ —	$ 1.5	$ —	$ 1.5	$ —	$ 1.0	$ —	$ 1.0
(c) Change in fair market value of equity securities	$ (0.3)	$ —	$ —	$ (0.3)	$ (1.2)	$ —	$ —	$ (1.2)
(d) Gain on consolidation of former equity method location[1][3]	$ —	$ (2.2)	$ —	$ (2.2)	$ (19.2)	$ —	$ —	$ (19.2)
(e) SARs mark-to-market impact on noncontrolling interests (see p. 27)	$ —	$ —	$ —	—	$ —	$ (4.3)	$ —	$ (4.3)
(f) Stock-based compensation	$ —	$ —	$ —	$ 25.3	$ —	$ —	$ —	$ 87.0
(g) Transaction costs	$ —	$ —	$ —	—	$ —	$ —	$ —	$ 2.0

Segment operating results

(In Millions)	IRF	Home Health and Hospice	Reclasses	Consolidated
	Year Ended December 31, 2019			
Net operating revenues	$ 3,513.0	$ 1,092.0	$ —	$ 4,605.0
Operating Expenses:				
Inpatient Rehabilitation:				
Salaries and benefits	(1,813.1)	—	(758.9)	(2,572.0)
Other operating expenses[(a)]	(521.9)	—	(90.6)	(612.5)
Supplies	(147.0)	—	(20.9)	(167.9)
Occupancy costs	(64.8)	—	(17.5)	(82.3)
Home Health and Hospice:				
Cost of services sold (excluding depreciation and amortization)	—	(506.2)	506.2	—
Support and overhead costs[(b)]	—	(381.7)	381.7	—
	(2,546.8)	(887.9)	—	(3,434.7)
Other income[(c)(d)]	10.5	—	—	10.5
Equity in net income of nonconsolidated affiliates	5.5	1.2	—	6.7
Noncontrolling interests[(e)]	(82.6)	(9.5)	—	(92.1)
Segment Adjusted EBITDA	**$ 899.6**	**$ 195.8**	**$ —**	**1,095.4**
General and administrative expenses[(f)(g)]				(130.5)
Adjusted EBITDA				**$ 964.9**

In arriving at Adjusted EBITDA, the following were excluded:	IRF	Home Health and Hospice	Reclasses	Consolidated
(a) Loss (gain) on disposal of assets	$ 11.2	$ (0.1)	$ —	$ 11.1
(b) Payroll taxes on SARs exercise	$ —	$ 1.0	$ —	$ 1.0
(c) Change in fair market value of equity securities	$ (0.8)	$ —	$ —	$ (0.8)
(d) Gain on consolidation of Yuma[(1)]	$ (19.2)	$ —	$ —	$ (19.2)
(e) SARs mark-to-market impact on noncontrolling interests (see page 27)	$ —	$ (5.0)	$ —	$ (5.0)
(f) Stock-based compensation	$ —	$ —	$ —	$ 114.4
(g) Transaction costs	$ —	$ —	$ —	$ 2.1

Reconciliation of net income to Adjusted EBITDA(7)

	2020							
	Q1		Q2		Q3		9 Months	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	$ 108.7		$ 48.3		$ 100.1		$ 257.1	
Loss (income) from disc ops, net of tax, attributable to Encompass Health	0.1		(0.1)		—		—	
Net income attributable to noncontrolling interests	(21.7)		(14.8)		(22.4)		(58.9)	
Income from continuing operations attributable to Encompass Health*	87.1	$ 0.87	33.4	$ 0.34	77.7	$ 0.78	198.2	$ 1.99
Government, class action, and related settlements	2.8		—		—		2.8	
Provision for income tax expense	27.1		11.8		26.9		65.8	
Interest expense and amortization of debt discounts and fees	43.2		45.8		49.0		138.0	
Depreciation and amortization	58.8		60.7		61.2		180.7	
Loss on disposal or impairment of assets	0.1		3.0		7.5		10.6	
Stock-based compensation expense	7.1		9.9		8.3		25.3	
Gain on consolidation of Treasure Coast(3)	(2.2)		—		—		(2.2)	
Change in fair market value of equity securities	2.5		(2.4)		(0.4)		(0.3)	
Payroll taxes on SARs exercise	1.5		—		—		1.5	
Adjusted EBITDA	$ 228.0		$ 162.2		$ 230.2		$ 620.4	
Weighted average common shares outstanding:								
Basic		98.2		98.7		98.7		98.5
Diluted		99.6		99.9		99.9		99.7

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 49-50 for end notes.

Reconciliation of net income to Adjusted EBITDA[7]

(in millions, except per share data)	2019 Q1 Total	Q1 Per Share	Q2 Total	Q2 Per Share	Q3 Total	Q3 Per Share	Q4 Total	Q4 Per Share	Full Year Total	Full Year Per Share
Net Income	$ 125.2		$ 110.9		$ 119.5		$ 90.2		$ 445.8	
Loss from disc ops, net of tax, attributable to Encompass Health	0.5		0.1		—		—		0.6	
Net income attributable to noncontrolling interests	(22.9)		(19.7)		(21.9)		(22.6)		(87.1)	
Income from continuing operations attributable to Encompass Health*	102.8	$ 1.04	91.3	$ 0.92	97.6	$ 0.98	67.6	$ 0.68	359.3	$ 3.62
Provision for income tax expense	30.8		23.5		34.3		27.3		115.9	
Interest expense and amortization of debt discounts and fees	37.2		37.7		40.3		44.5		159.7	
Depreciation and amortization	52.5		52.7		55.1		58.4		218.7	
Loss on early extinguishment of debt	—		2.3		—		5.4		7.7	
Loss on disposal of assets	1.1		1.3		0.9		7.8		11.1	
Stock-based compensation expense	19.4		45.9		21.7		27.4		114.4	
Transaction costs	0.6		0.4		1.0		0.1		2.1	
Gain on consolidation of Yuma[1]	—		—		(19.2)		—		(19.2)	
SARs mark-to-market impact on noncontrolling interests (see page 27)	(0.8)		(2.6)		(0.9)		(0.7)		(5.0)	
Change in fair market value of equity securities	(0.9)		(0.3)		—		0.4		(0.8)	
Payroll taxes on SARs exercise	0.2		—		0.8		—		1.0	
Adjusted EBITDA	$ 242.9		$ 252.2		$ 231.6		$ 238.2		$ 964.9	
Weighted average common shares outstanding:										
Basic		98.4		98.0		97.8		97.8		98.0
Diluted		99.7		99.3		99.4		99.5		99.4

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 49-50 for end notes.

Net cash provided by operating activities reconciled to Adjusted EBITDA[7]

(In Millions)	Q3 2020	Q3 2019	9 Months 2020	9 Months 2019	Full Year 2019
Net cash provided by operating activities	$ 173.4	$ 114.4	$ 425.0	$ 419.7	$ 635.3
Interest expense and amortization of debt discounts and fees	49.0	40.3	138.0	115.2	159.7
Equity in net income of nonconsolidated affiliates	1.0	1.2	2.5	5.5	6.7
Net income attributable to noncontrolling interests in continuing operations	(22.4)	(21.9)	(58.9)	(64.5)	(87.1)
Amortization of debt-related items	(2.0)	(1.1)	(5.1)	(3.1)	(4.5)
Distributions from nonconsolidated affiliates	(0.8)	(0.2)	(2.8)	(4.8)	(6.6)
Current portion of income tax expense	23.5	14.1	71.5	67.8	75.9
Change in assets and liabilities	7.2	83.7	47.7	185.4	180.1
Cash used in operating activities of discontinued operations	0.1	0.1	0.2	4.6	4.4
Transaction costs	—	1.0	—	2.0	2.1
Payroll taxes on SARs exercise	—	0.8	1.5	1.0	1.0
SARs mark-to-market impact on noncontrolling interests (see page 27)	—	(0.9)	—	(4.3)	(5.0)
Change in fair market value of equity securities	(0.4)	—	(0.3)	(1.2)	(0.8)
Other	1.6	0.1	1.1	3.4	3.7
Adjusted EBITDA	$ 230.2	$ 231.6	$ 620.4	$ 726.7	$ 964.9

Refer to pages 49-50 for end notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
			(In Millions)		
Total segment Adjusted EBITDA	$ 261.0	$ 261.4	$ 712.8	$ 820.7	$ 1,095.4
General and administrative expenses	(39.1)	(52.5)	(117.7)	(183.0)	(247.0)
Depreciation and amortization	(61.2)	(55.1)	(180.7)	(160.3)	(218.7)
Loss on disposal or impairment of assets	(7.5)	(0.9)	(10.6)	(3.3)	(11.1)
Government, class action, and related settlements[4]	—	—	(2.8)	—	—
Loss on early extinguishment of debt[2][10]	—	—	—	(2.3)	(7.7)
Interest expense and amortization of debt discounts and fees	(49.0)	(40.3)	(138.0)	(115.2)	(159.7)
Net income attributable to noncontrolling interests	22.4	21.9	58.9	64.5	87.1
SARs mark-to-market impact on noncontrolling interests (see page 27)	—	0.9	—	4.3	5.0
Change in fair market value of equity securities	0.4	—	0.3	1.2	0.8
Gain on consolidation of former equity method location[1][3]	—	19.2	2.2	19.2	19.2
Payroll taxes on SARs exercise	—	(0.8)	(1.5)	(1.0)	(1.0)
Income from continuing operations before income tax expense	$ 127.0	$ 153.8	$ 322.9	$ 444.8	$ 562.3

Refer to pages 49-50 for end notes.

Reconciliation of net cash provided by operating activities to adjusted free cash flow[6]

(In Millions)	Q3 2020	Q3 2019	9 Months 2020	9 Months 2019	Full Year 2019
Net cash provided by operating activities	$ 173.4	$ 114.4	$ 425.0	$ 419.7	$ 635.3
Impact of discontinued operations	0.1	0.1	0.2	4.6	4.4
Net cash provided by operating activities of continuing operations	173.5	114.5	425.2	424.3	639.7
Capital expenditures for maintenance	(34.0)	(41.0)	(107.5)	(105.1)	(167.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(15.4)	(21.1)	(52.9)	(57.6)	(79.8)
Items non-indicative of ongoing operating performance:					
Cash paid for SARs exercise (inclusive of payroll taxes)	—	56.2	102.1	69.6	69.6
Transaction costs and related assumed liabilities	—	1.0	—	2.0	2.1
Cash paid for government, class action, and related settlements	—	—	—	46.4	52.0
Adjusted free cash flow	**$ 124.1**	**$ 109.6**	**$ 366.9**	**$ 379.6**	**$ 516.5**
Cash dividends on common stock	**$ 27.6**	**$ 26.4**	**$ 84.3**	**$ 81.3**	**$ 108.7**

Refer to pages 49-50 for end notes.

Adjusted EPS(5) - Q3 2020

	For the Three Months Ended September 30, 2020			
		Adjustments		
	As Reported	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)			
Adjusted EBITDA	$ 230.2	$ —	$ —	$ 230.2
Depreciation and amortization	(61.2)	—	—	(61.2)
Interest expense and amortization of debt discounts and fees	(49.0)	—	—	(49.0)
Stock-based compensation	(8.3)	—	—	(8.3)
Loss on disposal or impairment of assets	(7.5)	—	—	(7.5)
Change in fair market value of equity securities	0.4	—	(0.4)	—
Income from continuing operations before income tax expense	104.6	—	(0.4)	104.2
Provision for income tax expense	(26.9)	0.1	0.1	(26.7)
Income from continuing operations attributable to Encompass Health	$ 77.7	$ 0.1	$ (0.3)	$ 77.5
Diluted earnings per share from continuing operations*	$ 0.78	$ —	$ —	$ 0.78
Diluted shares used in calculation	99.9			

* Adjusted EPS may not sum across due to rounding.
Refer to pages 49-50 for end notes.

Adjusted EPS[5] - Q3 2019

	For the Three Months Ended September 30, 2019						
		Adjustments					
	As Reported	Mark-to-Market Adjustment for Stock Comp. Expense	Income Tax Adjustments	Transaction Costs	Gain on Consolidation of Yuma	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA	$ 231.6	$ —	$ —	$ —	$ —	$ —	$ 231.6
Depreciation and amortization	(55.1)	—	—	—	—	—	(55.1)
Interest expense and amortization of debt discounts and fees	(40.3)	—	—	—	—	—	(40.3)
Stock-based compensation	(21.7)	12.0	—	—	—	—	(9.7)
Loss on disposal of assets	(0.9)	—	—	—	—	—	(0.9)
Transaction costs	(1.0)	—	—	1.0	—	—	—
SARs mark-to-market impact on noncontrolling interests (see page 27)	0.9	(0.9)	—	—	—	—	—
Gain on consolidation of Yuma[1]	19.2	—	—	—	(19.2)	—	—
Payroll taxes on SARs exercise	(0.8)	—	—	—	—	0.8	—
Income from continuing operations before income tax expense	131.9	11.1	—	1.0	(19.2)	0.8	125.6
Provision for income tax expense	(34.3)	(3.0)	(0.2)	(0.2)	5.2	(0.2)	(32.7)
Income from continuing operations attributable to Encompass Health	$ 97.6	$ 8.1	$ (0.2)	$ 0.8	$ (14.0)	$ 0.6	$ 92.9
Diluted earnings per share from continuing operations*	$ 0.98	$ 0.08	$ —	$ 0.01	$ (0.14)	$ 0.01	$ 0.93
Diluted shares used in calculation	99.4						

* Adjusted EPS may not sum across due to rounding.
Refer to pages 49-50 for end notes.

Adjusted EPS(5) - YTD 2020

	For the Nine Months Ended September 30, 2020						
		Adjustments					
	As Reported	Gov't, Class Action, & Related Settlements	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Treasure Coast	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA	$ 620.4	$ —	$ —	$ —	$ —	$ —	$ 620.4
Depreciation and amortization	(180.7)	—	—	—	—	—	(180.7)
Government, class action and related settlements	(2.8)	2.8	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(138.0)	—	—	—	—	—	(138.0)
Stock-based compensation	(25.3)	—	—	—	—	—	(25.3)
Loss on disposal or impairment of assets	(10.6)	—	—	—	—	—	(10.6)
Change in fair market value of equity securities	0.3	—	—	(0.3)	—	—	—
Gain on consolidation of Treasure Coast(3)	2.2	—	—	—	(2.2)	—	—
Payroll taxes on SARs exercise	(1.5)	—	—	—	—	1.5	—
Income from continuing operations before income tax expense	264.0	2.8	—	(0.3)	(2.2)	1.5	265.8
Provision for income tax expense	(65.8)	(0.7)	(4.6)	0.1	0.6	(0.4)	(70.8)
Income from continuing operations attributable to Encompass Health	$ 198.2	$ 2.1	$ (4.6)	$ (0.2)	$ (1.6)	$ 1.1	$ 195.0
Diluted earnings per share from continuing operations*	$ 1.99	$ 0.02	$ (0.05)	$ —	$ (0.02)	$ 0.01	$ 1.96
Diluted shares used in calculation	99.7						

* Adjusted EPS may not sum across due to rounding.
Refer to pages 49-50 for end notes.

Adjusted EPS(5) - YTD 2019

For the Nine Months Ended September 30, 2019

(In Millions, Except Per Share Amounts)

	As Reported	Adjustments: Mark-to-Market Adjustment for Stock Comp. Expense	Loss on Early Exting. of Debt	Income Tax Adjustments	Transaction Costs	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Yuma	Payroll Taxes on SARs Exercise	As Adjusted
Adjusted EBITDA	$ 726.7	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 726.7
Depreciation and amortization	(160.3)	—	—	—	—	—	—	—	(160.3)
Loss on early extinguishment of debt	(2.3)	—	2.3	—	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(115.2)	—	—	—	—	—	—	—	(115.2)
Stock-based compensation	(87.0)	53.0	—	—	—	—	—	—	(34.0)
Loss on disposal of assets	(3.3)	—	—	—	—	—	—	—	(3.3)
Transaction costs	(2.0)	—	—	—	2.0	—	—	—	—
SARs mark-to-market impact on noncontrolling interests (see page 27)	4.3	(4.3)	—	—	—	—	—	—	—
Change in fair market value of equity securities	1.2	—	—	—	—	(1.2)	—	—	—
Gain on consolidation of Yuma[1]	19.2	—	—	—	—	—	(19.2)	—	—
Payroll taxes on SARs exercise	(1.0)	—	—	—	—	—	—	1.0	—
Income from continuing operations before income tax expense	380.3	48.7	2.3	—	2.0	(1.2)	(19.2)	1.0	413.9
Provision for income tax expense	(88.6)	(13.2)	(0.6)	(12.6)	(0.5)	0.3	5.2	(0.2)	(110.2)
Income from continuing operations attributable to Encompass Health	$ 291.7	$ 35.5	$ 1.7	$ (12.6)	$ 1.5	$ (0.9)	$ (14.0)	$ 0.8	$ 303.7
Diluted earnings per share from continuing operations*	$ 2.94	$ 0.36	$ 0.02	$ (0.13)	$ 0.02	$ (0.01)	$ (0.14)	$ 0.01	$ 3.05
Diluted shares used in calculation	99.5								

* Adjusted EPS may not sum across due to rounding.
Refer to pages 49-50 for end notes.

End notes

(1) As a result of negotiations with our partner to amend the joint venture agreement related to Yuma Rehabilitation Hospital, the accounting for this hospital changed from the equity method of accounting to a consolidated entity effective July 1, 2019. We accounted for this change in control as a business combination and consolidated this entity using the acquisition method. As a result of our consolidation of this hospital and the remeasurement of our previously held equity interest at fair value, we recorded a $19.2 million gain as part of other income in the third quarter of 2019.

(2) In June 2019, the Company redeemed $100 million of its 5.75% Senior Notes due 2024 at a price of 101.917%, which resulted in a total cash outlay of approximately $102 million. The redemption was funded using cash on hand and funding under the Company's revolving credit facility. As a result of this redemption, the Company recorded an approximate $2 million loss on early extinguishment of debt in the second quarter of 2019. In November 2019, the Company redeemed $400 million of its 5.75% Senior Notes due 2024 at a price of 100.958%, which resulted in a total cash outlay of approximately $404 million. The redemption was funded using a portion of the proceeds from the Company's September 2019 public offering of $1 billion of senior unsecured notes (see end note 10). As a result of the redemption, the Company recorded an approximate $5 million loss on early extinguishment of debt in the fourth quarter of 2019.

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

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

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

(6) Definition of adjusted free cash flow, which is a non-GAAP measure, is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, dividends paid on preferred stock, distributions to noncontrolling interests, and certain other items deemed to be non-indicative of ongoing operating performance. Common stock dividends are not included in the calculation of adjusted free cash flow. Because this measure is not determined in accordance with GAAP and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies.

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

(8) On Oct. 28, 2013, the Company announced its board of directors authorized the repurchase of up to $200 million of its common stock. On Feb. 14, 2014, the Company's board approved an increase in this common stock repurchase authorization from $200 million to $250 million. As of June 30, 2018, the remaining repurchase authorization was approximately $58 million. On July 24, 2018, the Company's board approved resetting the aggregate common stock repurchase authorization to $250 million. As of Sept. 30, 2020, the remaining repurchase authorization was approximately $199 million.

* Reconciliations to GAAP provided on pages 40-48

End notes, continued

(9) In October 2020, the Company issued $400 million of 4.625% Senior Notes due 2031. The proceeds plus approximately $300 million of cash on hand were used to fully redeem $700 million of 5.75% Senior Notes due 2024 at par on November 1, 2020.

(10) In September 2019, the Company issued $500 million of 4.5% Senior Notes due 2028 and $500 million of 4.75% Senior Notes due 2030. The proceeds were used to fund the purchase of the home health rollover shares and exercise of SARs in Q3 2019, fund a call of $400 million of 5.75% Senior Notes due 2024 in Q4 2019, and repay borrowings under the Company's revolving credit facility. In May 2020, the Company re-opened these notes and issued an additional $300 million of 4.5% Senior Notes due 2028 and $300 million of 4.75% Senior Notes due 2030. The proceeds were used to repay borrowings under the Company's revolving credit facility.

(11) Data provided by Uniform Data System for Medical Rehabilitation, a division of UB Foundation Activities, Inc., a data gathering and analysis organization for the rehabilitation industry; represents ~80% of industry, including Encompass Health inpatient rehabilitation sites

(12) Represents discharges from 136 consolidated hospitals in Q3 and Q2 2020; 134 consolidated hospitals in Q1 2020; 133 consolidated hospitals in Q4 and Q3 2019; 130 consolidated hospitals in Q2 2019; and 129 consolidated hospitals in Q1 2019

(13) Full-time equivalents included in the table represent Encompass Health employees who participate in or support the operations of our hospitals and include an estimate of full-time equivalents related to contract labor.

(14) Employees per occupied bed, or "EPOB," is calculated by dividing the number of full-time equivalents, including an estimate of full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period. The number of occupied beds is determined by multiplying the number of licensed beds by the Company's occupancy percentage.

(15) Represents home health admissions from 241 consolidated locations in Q3 2020; 244 consolidated locations in Q2 2020 and Q1 2020; 243 consolidated locations in Q4 2019; 243 consolidated locations in Q3 2019; 220 consolidated locations in Q2 2019; and 219 consolidated locations in Q1 2019

(16) Represents hospice admissions from 83 locations in Q3 and Q2 2020, Q1 2020 and Q4 2019; 82 locations in Q3 2019; and 59 locations in Q2 and Q1 2019

(17) In November 2013, the Company closed separate, privately negotiated exchanges in which it issued $320 million of 2.0% Convertible Senior Subordinated Notes due 2043 in exchange for 257,110 shares of its 6.5% Series A Convertible Perpetual Preferred Stock. The Company recorded ~$249 million as debt and ~$71 million as equity. In May 2017, the Company provided notice of its intent to redeem all $320 million of outstanding convertible notes. In lieu of receiving the redemption price, the holders had the right to convert their notes into shares of the Company's common stock at a conversion rate of 27.2221 shares per $1,000 principal amount of Notes, which rate was increased by a make-whole premium. In the aggregate, holders of $319.4 million in principal elected to convert, which resulted in the Company issuing 8,895,483 shares of common stock (approximately 8.6 million shares were previously included in the diluted share count). The remaining $0.6 million of principal was redeemed by cash payment.