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): April 27, 2021

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, 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 April 27, 2021, Encompass Health Corporation (“Encompass Health” or the “Company”) issued a press release reporting the financial results of the Company for the three months ended March 31, 2021. 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 10:00 a.m. Eastern Time on Wednesday, April 28, 2021 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, 2020 (the "2020 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 2020 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 2020 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 March 31, 2021 (the "March 2021 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, including the ongoing strategic review and its impact on the business model, outlook and guidance, 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 2020 Form 10-K, the March 2021 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 April 27, 2021.
99.2	Supplemental information provided in connection with the first quarter 2021 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: April 27, 2021

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April 27, 2021

Encompass Health reports results for first quarter 2021 and increases full-year 2021 guidance

BIRMINGHAM, Ala. - Encompass Health Corporation (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 first quarter ended March 31, 2021.

“We're off to an encouraging start in 2021,” said President and Chief Executive Officer of Encompass Health Mark Tarr. “Our first quarter performance was characterized by promising volume trends that are contributing to solid revenue and EBITDA growth. We are increasing our 2021 guidance to reflect our strong performance and the extension of the suspension of sequestration.”

Consolidated results

	Q1 2021	Q1 2020	Growth	
			Dollars	Percent
	(In Millions, Except per Share Data)			
Net operating revenues	$ 1,230.4	$ 1,182.0	$ 48.4	4.1 %
Income from continuing operations attributable to Encompass Health per diluted share	1.07	0.87	0.20	23.0 %
Adjusted earnings per share	1.05	0.87	0.18	20.7 %
Cash flows provided by operating activities	158.5	29.3	129.2	441.0 %
Adjusted EBITDA	250.8	228.0	22.8	10.0 %
Adjusted free cash flow	107.4	74.6	32.8	44.0 %

Revenue growth resulted from favorable pricing partially offset by decreased volumes in both segments.

The increase in income from continuing operations attributable to Encompass Health per diluted share and adjusted earnings per share in 2021 primarily resulted from revenue growth and decreased stock-based compensation due to the reduction in long-term incentive compensation recorded in the first quarter of 2021.

The increase in full-year cash flows provided by operating activities and adjusted free cash flow primarily resulted from revenue growth and the timing of maintenance capital expenditures in 2021.

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

Inpatient rehabilitation segment results

	Q1 2021	Q1 2020	Growth Dollars	Growth Percent
Net operating revenues:		(In Millions)		
Inpatient	$ 942.3	$ 890.0	$ 52.3	5.9 %
Outpatient and other	17.6	19.2	(1.6)	(8.3) %
Total segment revenue	$ 959.9	$ 909.2	$ 50.7	5.6 %
		(Actual Amounts)		
Discharges	47,187	47,750	(563)	(1.2) %
Same-store discharge growth				(2.2) %
Net patient revenue per discharge	$ 19,969	$ 18,639	$ 1,330	7.1 %
Revenue reserves related to bad debt as a percent of revenue	1.7 %	1.2 %		50 basis points
		(In Millions)		
Adjusted EBITDA	$ 234.9	$ 215.5	$ 19.4	9.0 %

- *Revenue* - Inpatient revenue growth resulted from favorable pricing partially offset by decreased volumes. New-store discharge growth of 1.0% resulted from a joint venture in Coralville, Iowa (June 2020) and wholly owned hospitals in Murrieta, California (February 2020), Sioux Falls, South Dakota (June 2020) and Toledo, Ohio (November 2020). Discharge growth was impacted by COVID-related limitations on elective procedures and capacity and staffing constraints at certain of the Company's hospitals.

  Growth in net patient revenue per discharge primarily resulted from a higher acuity patient mix, an increase in reimbursement rates and the suspension of sequestration.

  Revenue reserves related to bad debt as a percent of revenue increased to 1.7% primarily due to aging-based reserves.

- *Adjusted EBITDA* - The increase in Adjusted EBITDA primarily resulted from revenue growth.

Home health and hospice segment results

	Q1 2021	Q1 2020	Growth Dollars	Growth Percent
Net operating revenues:		(In Millions)		
Home health revenue	$ 219.9	$ 224.8	$ (4.9)	(2.2) %
Hospice revenue	50.6	48.0	2.6	5.4 %
Total segment revenue	$ 270.5	$ 272.8	$ (2.3)	(0.8) %
Adjusted EBITDA	$ 50.8	$ 41.0	$ 9.8	23.9 %
	Home Health			
Starts of care:		(Actual Amounts)		
Episodic admissions	40,215	42,476	(2,261)	(5.3) %
Same-store episodic admissions growth				*(5.4) %*
Episodic recertifications	28,083	26,553	1,530	5.8 %
Total episodic starts of care	68,298	69,029	(731)	(1.1) %
Total admissions	50,799	52,754	(1,955)	(3.7) %
Same-store total admissions growth				*(3.8) %*
Total recertifications	31,902	29,463	2,439	8.3 %
Total starts of care	82,701	82,217	484	0.6 %
Revenue per episode	$ 2,923	$ 2,909	$ 14	0.5 %
	Hospice			
Admissions:				
Same store	3,325	2,986	339	11.4 %
New store	5	—	5	0.1 %
Total admissions	3,330	2,986	344	11.5 %

- *Revenue* - Total starts of care were up 0.6% due to increases in recertifications and non-episodic admissions. Non-episodic admissions increased 3% year over year primarily due to the new national contract with United Healthcare. Total home health admissions declined as a result of episodic admissions decreasing 22% from patients residing in senior living facilities, 35% from patients discharging from skilled nursing facilities, and 18% from patients receiving elective procedures in acute care hospitals. The combined impact of these declines represented a loss of approximately 3,700 admissions, or a 880 basis points negative impact on the episodic growth rate for the first quarter of 2021. During the first quarter of 2021, the segment averaged 250 home health employees per day on COVID-related quarantine, which further impacted its ability to accept referrals.

  The increase in revenue per episode resulted from an increase in reimbursement rates and the suspension of sequestration partially offset by the impact of the timing of completed episodes. Revenue per episode in the first quarter of 2020 benefited from the reversal of a $1.6 million reserve for a Zone Program Integrity Contractor audit.

  Hospice same-store admissions growth of 11.4% yielded a 5.4% increase in hospice revenue. Hospice revenue growth was impacted by a decrease in length of stay resulting from a change in patient mix.

- *Adjusted EBITDA* - The 23.9% increase in Adjusted EBITDA primarily resulted from lower cost per visit supported by the clinician compensation model changes implemented in May 2020, as well as effective management of overall productivity of full-time staff.

General and administrative expenses

		Q1 2021	% of Consolidated Revenue		Q1 2020	% of Consolidated Revenue
			(In Millions)			
General and administrative expenses, excluding stock-based compensation	$	34.9	2.8%	$	28.5	2.4%

General and administrative expenses increased as a percent of consolidated revenue due to a $3.5 million year-over-year change in the mark-to-market adjustment on the Company's non-qualified 401(k) liability (offset in other income within the inpatient rehabilitation segment) and higher costs associated with incentive compensation.

2021 guidance

The Company increased its full-year guidance to reflect its first quarter results and the extension of the suspension of sequestration.

	Full-Year 2021 Guidance Ranges	
	Previous Guidance	Updated Guidance
	(in millions, except per share data)	
Net operating revenues	$5,000 to $5,170	$5,060 to $5,230
Adjusted EBITDA	$925 to $955	$1,000 to $1,030
Adjusted earnings per share from continuing operations attributable to Encompass Health	$3.31 to $3.53	$3.94 to $4.16

On December 9, 2020, the Company announced it is exploring strategic alternatives for its home health and hospice business. The review is ongoing. The Company's 2021 guidance assumes the continuation of the current structure of the business. The guidance may change depending on the outcome of the review.

For additional considerations regarding the Company's 2021 guidance ranges, 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 10:00 a.m. Eastern Time on Wednesday, April 28, 2021 to discuss its results for the first quarter of 2021. 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 8188583. 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 139 hospitals and 241 home health locations and 82 hospice locations in 39 states and Puerto Rico, the Company provides high-quality, cost-effective integrated healthcare. 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 our newsroom, Twitter, Instagram and Facebook.

Other information

The information in this press release is summarized and should be read in conjunction with the Company's Annual Report on Form 10-K for the quarter ended March 31, 2021 (the “March 2021 Form 10-Q”), when filed, as well as the Company's Current Report on Form 8-K filed on April 27, 2021 (the “Q1 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 April 28, 2021 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, except with regard to non-GAAP guidance, are included below or in the Q1 Earnings Form 8-K. Readers are encouraged to review the “Note Regarding Presentation of Non-GAAP Financial Measures” included in the Q1 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 2021 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 $164 million to $174 million
- Amortization of debt-related items - approximately $9 million

The Q1 Earnings Form 8-K and, when filed, the March 2021 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 March 31,	
	2021	2020
	(In Millions, Except Per Share Data)	
Net operating revenues	$ 1,230.4	$ 1,182.0
Operating expenses:		
Salaries and benefits	687.2	679.1
Other operating expenses	162.3	159.6
Occupancy costs	20.2	20.2
Supplies	51.9	45.7
General and administrative expenses	38.6	35.6
Depreciation and amortization	62.5	58.8
Government, class action, and related settlements	—	2.8
Total operating expenses	1,022.7	1,001.8
Interest expense and amortization of debt discounts and fees	42.8	43.2
Other (income) expense	(1.4)	1.9
Equity in net income of nonconsolidated affiliates	(1.0)	(0.8)
Income from continuing operations before income tax expense	167.3	135.9
Provision for income tax expense	34.5	27.1
Income from continuing operations	132.8	108.8
Loss from discontinued operations, net of tax	—	(0.1)
Net and comprehensive income	132.8	108.7
Less: Net and comprehensive income attributable to noncontrolling interests	(25.5)	(21.7)
Net and comprehensive income attributable to Encompass Health	$ 107.3	$ 87.0
Weighted average common shares outstanding:		
Basic	99.0	98.2
Diluted	100.2	99.6
Earnings per common share:		
Basic earnings per share attributable to Encompass Health common shareholders:		
Continuing operations	$ 1.08	$ 0.88
Discontinued operations	—	—
Net income	$ 1.08	$ 0.88
Diluted earnings per share attributable to Encompass Health common shareholders:		
Continuing operations	$ 1.07	$ 0.87
Discontinued operations	—	—
Net income	$ 1.07	$ 0.87
Amounts attributable to Encompass Health common shareholders:		
Income from continuing operations	$ 107.3	$ 87.1
Loss from discontinued operations, net of tax	—	(0.1)
Net income attributable to Encompass Health	$ 107.3	$ 87.0

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

	March 31, 2021	December 31, 2020
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 223.9	$ 224.0
Restricted cash	62.2	65.4
Accounts receivable	633.6	572.8
Other current assets	81.4	86.4
Total current assets	1,001.1	948.6
Property and equipment, net	2,280.5	2,206.6
Operating lease right-of-use assets	248.3	245.7
Goodwill	2,318.7	2,318.7
Intangible assets, net	419.2	431.3
Other long-term assets	274.4	295.0
Total assets	$ 6,542.2	$ 6,445.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 137.2	$ 38.3
Current operating lease liabilities	44.2	44.8
Accounts payable	122.8	115.0
Accrued expenses and other current liabilities	508.0	519.2
Total current liabilities	812.2	717.3
Long-term debt, net of current portion	3,160.0	3,250.6
Long-term operating lease liabilities	214.2	209.6
Deferred income tax liabilities	60.6	51.8
Other long-term liabilities	220.5	215.0
	4,467.5	4,444.3
Commitments and contingencies		
Redeemable noncontrolling interests	31.7	31.6
Shareholders' equity:		
Encompass Health shareholders' equity	1,655.1	1,588.0
Noncontrolling interests	387.9	382.0
Total shareholders' equity	2,043.0	1,970.0
Total liabilities and shareholders' equity	$ 6,542.2	$ 6,445.9

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

	Three Months Ended March 31,	
	2021	**2020**
	(In Millions)	
Cash flows from operating activities:		
Net income	$ 132.8	$ 108.7
Loss from discontinued operations, net of tax	—	0.1
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	62.5	58.8
Stock-based compensation	2.8	7.1
Deferred tax expense	8.7	1.4
Other, net	2.0	7.7
Changes in assets and liabilities, net of acquisitions —		
Accounts receivable	(55.1)	(36.6)
Other assets	1.3	15.8
Accrued payroll	5.7	(24.0)
Other liabilities	(2.2)	(109.6)
Net cash used in operating activities of discontinued operations	—	(0.1)
Total adjustments	25.7	(79.5)
Net cash provided by operating activities	158.5	29.3
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	—	(1.1)
Purchases of property and equipment	(98.8)	(83.5)
Other, net	3.2	1.6
Net cash used in investing activities	(95.6)	(83.0)

(Continued)

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

	Three Months Ended March 31,	
	2021	2020
	(In Millions)	
Cash flows from financing activities:		
Borrowings on revolving credit facility	—	330.0
Payments on revolving credit facility	—	(25.0)
Dividends paid on common stock	(29.1)	(29.0)
Purchase of equity interests in consolidated affiliates	—	(162.3)
Distributions paid to noncontrolling interests of consolidated affiliates	(27.8)	(19.1)
Taxes paid on behalf of employees for shares withheld	(15.6)	(15.6)
Other, net	(5.0)	(7.9)
Net cash (used in) provided by financing activities	(77.5)	71.1
(Decrease) increase in cash, cash equivalents, and restricted cash	(14.6)	17.4
Cash, cash equivalents. and restricted cash at beginning of year	310.9	159.6
Cash, cash equivalents, and restricted cash at end of year	$ 296.3	$ 177.0
Reconciliation of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents at beginning of period	$ 224.0	$ 94.8
Restricted cash at beginning of period	65.4	57.4
Restricted cash included in other long-term assets at beginning of period	21.5	7.4
Cash, cash equivalents, and restricted cash at beginning of period	$ 310.9	$ 159.6
Cash and cash equivalents at end of period	$ 223.9	$ 104.9
Restricted cash at end of period	62.2	56.7
Restricted cash included in other long-term assets at end of period	10.2	15.4
Cash, cash equivalents, and restricted cash at end of period	$ 296.3	$ 177.0

Encompass Health Corporation and Subsidiaries
Supplemental Information
Earnings Per Share

	Three Months Ended March 31,	
	2021	2020
	(In Millions, Except Per Share Data)	
Adjusted EBITDA	$ 250.8	$ 228.0
Depreciation and amortization	(62.5)	(58.8)
Interest expense and amortization of debt discounts and fees	(42.8)	(43.2)
Stock-based compensation expense	(2.8)	(7.1)
Gain (loss) on disposal of assets	0.1	(0.1)
	142.8	118.8
Certain items non-indicative of ongoing operating performance:		
Costs associated with the strategic alternatives review	(0.9)	—
Gain on consolidation of former equity method location	—	2.2
Change in fair market value of equity securities	(0.1)	(2.5)
Government, class action, and related settlements	—	(2.8)
Payroll taxes on SARs exercise	—	(1.5)
Pre-tax income	141.8	114.2
Income tax expense	(34.5)	(27.1)
Income from continuing operations [1]	$ 107.3	$ 87.1
Basic shares	99.0	98.2
Diluted shares	100.2	99.6
Basic earnings per share [1]	$ 1.08	$ 0.88
Diluted earnings per share [1]	$ 1.07	$ 0.87

[1] Income from continuing operations attributable to Encompass Health

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	Q1	
	2021	**2020**
Earnings per share, as reported	**$ 1.07**	**$ 0.87**
Adjustments, net of tax:		
Government, class action, and related settlements	—	0.02
Costs associated with the strategic alternatives review	0.01	—
Income tax adjustments	(0.03)	(0.04)
Change in fair market value of equity securities	—	0.02
Gain on consolidation of former equity method location	—	(0.02)
Payroll taxes on SARs exercise	—	0.01
Adjusted earnings per share*	**$ 1.05**	**$ 0.87**

* Adjusted EPS may not sum due to rounding.

Encompass Health Corporation and Subsidiaries
Supplemental Information
Adjusted Earnings Per Share

	For the Three Months Ended March 31, 2021				
		Adjustments			
	As Reported	Income Tax Adjustments	Costs Associated with the Strategic Alternatives Review	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)				
Adjusted EBITDA*	**$ 250.8**	**$ —**	**$ —**	**$ —**	**$ 250.8**
Depreciation and amortization	(62.5)	—	—	—	(62.5)
Interest expense and amortization of debt discounts and fees	(42.8)	—	—	—	(42.8)
Stock-based compensation	(2.8)	—	—	—	(2.8)
Gain on disposal of assets	0.1	—	—	—	0.1
Costs associated with the strategic alternatives review	(0.9)	—	0.9	—	—
Change in fair market value of equity securities	(0.1)	—	—	0.1	—
Income from continuing operations before income tax expense	141.8	—	0.9	0.1	142.8
Provision for income tax expense	(34.5)	(3.3)	(0.2)	—	(38.0)
Income from continuing operations attributable to Encompass Health	**$ 107.3**	**$ (3.3)**	**$ 0.7**	**$ 0.1**	**$ 104.8**
Diluted earnings per share from continuing operations, as reported**	**$ 1.07**	**$ (0.03)**	**$ 0.01**	**$ —**	**$ 1.05**
Diluted shares used in calculation	**100.2**				

* Reconciliation to GAAP provided on page 14
** 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 March 31, 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 former equity method location	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA*	**$ 228.0**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 228.0**
Depreciation and amortization	(58.8)	—	—	—	—	—	(58.8)
Interest expense and amortization of debt discounts and fees	(43.2)	—	—	—	—	—	(43.2)
Stock-based compensation	(7.1)	—	—	—	—	—	(7.1)
Loss on disposal of assets	(0.1)	—	—	—	—	—	(0.1)
Gain on consolidation of former equity method location	2.2	—	—	—	(2.2)	—	—
Change in fair market value of equity securities	(2.5)	—	—	2.5	—	—	—
Government, class action, and related settlements	(2.8)	2.8	—	—	—	—	—
Payroll taxes on SARs exercise	(1.5)	—	—	—	—	1.5	—
Income from continuing operations before income tax expense	114.2	2.8	—	2.5	(2.2)	1.5	118.8
Provision for income tax expense	(27.1)	(0.7)	(4.3)	(0.6)	0.6	(0.4)	(32.5)
Income from continuing operations attributable to Encompass Health	**$ 87.1**	**$ 2.1**	**$ (4.3)**	**$ 1.9**	**$ (1.6)**	**$ 1.1**	**$ 86.3**
Diluted earnings per share from continuing operations**	**$ 0.87**	**$ 0.02**	**$ (0.04)**	**$ 0.02**	**$ (0.02)**	**$ 0.01**	**$ 0.87**
Diluted shares used in calculation	**99.6**						

* Reconciliation to GAAP provided on page 14
** 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 March 31,	
	2021	2020
	(In Millions)	
Net income	$ 132.8	$ 108.7
Loss from discontinued operations, net of tax, attributable to Encompass Health	—	0.1
Net income attributable to noncontrolling interests	(25.5)	(21.7)
Government, class action, and related settlements	—	2.8
Provision for income tax expense	34.5	27.1
Interest expense and amortization of debt discounts and fees	42.8	43.2
Depreciation and amortization	62.5	58.8
(Gain) loss on disposal of assets	(0.1)	0.1
Stock-based compensation expense	2.8	7.1
Costs associated with the strategic alternatives review	0.9	—
Gain on consolidation of former equity method location	—	(2.2)
Change in fair market value of equity securities	0.1	2.5
Payroll taxes on SARs exercise	—	1.5
Adjusted EBITDA	$ 250.8	$ 228.0

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

	Three Months Ended March 31,	
	2021	2020
	(In Millions)	
Total segment Adjusted EBITDA	$ 285.7	$ 256.5
General and administrative expenses	(38.6)	(35.6)
Depreciation and amortization	(62.5)	(58.8)
Gain (loss) on disposal of assets	0.1	(0.1)
Government, class action, and related settlements	—	(2.8)
Interest expense and amortization of debt discounts and fees	(42.8)	(43.2)
Net income attributable to noncontrolling interests	25.5	21.7
Change in fair market value of equity securities	(0.1)	(2.5)
Gain on consolidation of former equity method location	—	2.2
Payroll taxes on SARs exercise	—	(1.5)
Income from continuing operations before income tax expense	$ 167.3	$ 135.9

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

	Three Months Ended March 31,	
	2021	2020
	(In Millions)	
Net cash provided by operating activities	$ 158.5	$ 29.3
Interest expense and amortization of debt discounts and fees	42.8	43.2
Equity in net income of nonconsolidated affiliates	1.0	0.8
Net income attributable to noncontrolling interests in continuing operations	(25.5)	(21.7)
Amortization of debt-related items	(2.0)	(1.4)
Distributions from nonconsolidated affiliates	(1.0)	(1.0)
Current portion of income tax expense	25.8	25.7
Change in assets and liabilities	50.3	154.4
Cash used in operating activities of discontinued operations	—	0.1
Costs associated with the strategic alternatives review	0.9	—
Payroll taxes on SARs exercise	—	1.5
Change in fair market value of equity securities	0.1	2.5
Other	(0.1)	(5.4)
Adjusted EBITDA	$ 250.8	$ 228.0

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

	Three Months Ended March 31,	
	2021	2020
	(In Millions)	
Net cash provided by operating activities	$ 158.5	$ 29.3
Impact of discontinued operations	—	0.1
Net cash provided by operating activities of continuing operations	158.5	29.4
Capital expenditures for maintenance	(23.3)	(37.8)
Distributions paid to noncontrolling interests of consolidated affiliates	(27.8)	(19.1)
Items non-indicative of ongoing operations:		
Cash paid for SARs exercise (inclusive of payroll taxes)	—	102.1
Adjusted free cash flow	$ 107.4	$ 74.6

For the three months ended March 31, 2021, net cash used in investing activities was $95.6 million and primarily resulted from capital expenditures. Net cash used in financing activities during the three months ended March 31, 2021 was $77.5 million and primarily resulted from cash dividends paid on common stock, distributions to noncontrolling interests of consolidated affiliates and taxes paid of behalf of employees for shares withheld under stock compensation arrangements.

For the three months ended March 31, 2020, net cash used in investing activities was $83.0 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the three months ended March 31, 2020 was $71.1 million and primarily resulted from net borrowings on the revolving credit facility 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.

Statements contained in this press release and the supplemental information which are not historical facts, such as those relating to the strategic alternatives review, 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 possibility that the Company may not be able to realize higher values for its home health and hospice business through strategic transactions; the possibility that the Company may decide not to undertake a transaction following the review of strategic alternatives or that it is not able to consummate any proposed transactions resulting from the review due to, among other things, market, regulatory and other factors; the potential for disruption to the Company's business resulting from the review of strategic alternatives or the undertaking of any transactions following the review; any potential adverse effects of the Company's stock price resulting from the announcement of the results of the strategic review; 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) 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, 2020 and Form 10-Q for the quarter ended March 31, 2021, when filed.*



First Quarter

Earnings Call

April 28, 2021
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 ongoing strategic review and its impact on the business model, outlook and guidance, 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 April 27, 2021 (the "Q1 Earnings Release Form 8-K"), the Form 10-K for the year ended December 31, 2020, the Form 10-Q for the quarter ended March 31, 2021, 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 Q1 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.

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Key takeaways

Encouraging start to 2021

- First quarter performance characterized by promising volume trends that are contributing to solid revenue and Adjusted EBITDA growth
- Continued growth in Medicare Advantage discharges for our IRFs
  - ✓ Same-store Medicare Advantage discharges increased 34% year over year
- Strong start to the United Healthcare national contract in home health
  - ✓ Non-episodic admissions increased 3% year over year
- Effective productivity management
  - ✓ Employees per occupied bed of 3.31 in Q1 2021 v. 3.38 in Q1 2020
  - ✓ Home health cost per visit decreased $4 per visit, or 5.0%.
  - ✓ Visits per episode decreased from 16.3 in Q1 2020 to 15.8 in Q1 2021.

Attractive business development pipelines in both segments

Inpatient Rehabilitation Hospitals Opened or Under Development		
2021	2022	2023
8	12	3

- Announced definitive agreement to acquire assets from Frontier Home Health and Hospice
  - ✓ 9 home health and 11 hospice locations across five states (Alaska, Colorado, Montana, Washington and Wyoming)
  - ✓ $95 million cash purchase price
  - ✓ Income tax benefit with an estimated present value of ~$10 million
  - ✓ Expected to close in the second quarter of 2021

Increased full-year 2021 guidance to reflect Q1 performance and extension of suspension of sequestration

- Adjusted EBITDA range of $1,000 million to $1,030 million

Steady progress on the strategic alternatives review for our home health and hospice segment

- Anticipate providing an update on the status of this process with our Q2 earnings report at the end of July

Q1 2021 summary

	Q1		
($millions)	2021	2020	Growth
Encompass Health Consolidated			
Net operating revenues	$1,230.4	$1,182.0	4.1 %
Adjusted EBITDA	$ 250.8	$ 228.0	10.0 %
Adjusted EPS	$ 1.05	$ 0.87	20.7 %
Adjusted free cash flow	$ 107.4	$ 74.6	44.0 %
Inpatient Rehabilitation Segment			
Net operating revenues	$ 959.9	$ 909.2	5.6 %
Adjusted EBITDA	$ 234.9	$ 215.5	9.0 %
Home Health and Hospice Segment			
Net operating revenues	$ 270.5	$ 272.8	(0.8)%
Adjusted EBITDA	$ 50.8	$ 41.0	23.9 %

Q1 2021 summary (continued)

Expansion activity (see page 24)

- Opened a new 40-bed inpatient rehabilitation hospital in San Angelo, TX in joint venture with Shannon Health
- Announced plans to build six inpatient rehabilitation hospitals in:
  - ✓ Moline, IL - 40 beds (in joint venture with Unity Point Health)
  - ✓ Bowie, MD - 60 beds
  - ✓ Owasso, OK - 40 beds (in joint venture with St. John Medical Center)
  - ✓ Kissimmee, FL - 50 beds
  - ✓ Prosper, TX - 40 beds
  - ✓ Fort Mill, SC - 39 beds
- Added 15 beds to existing hospitals

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

- Approximately $962 million available under $1 billion revolving credit facility and $224 million of cash on hand at quarter end
- Net leverage ratio of 3.5x at quarter end
- Issued notice for redemption of $100 million of 5.125% Senior Notes due 2023 in March 2021[(1)]
  - ✓ Redemption completed in April 2021 at 100% of par using cash on hand and drawings under revolving credit facility

Shareholder and other distributions

- Paid quarterly cash dividend of $0.28 per share in January 2021
- Declared a $0.28 per share quarterly cash dividend in February 2021 (paid in April 2021)

Refer to pages 46-47 for end notes.

Inpatient rehabilitation segment

Revenue growth of 5.6%

- Inpatient revenue growth resulted from favorable pricing partially offset by lower volumes.
  - New-store discharge growth of 1.0% resulted from a joint venture in Coralville, IA (June 2020) and wholly owned hospitals in Murrieta, CA (February 2020), Sioux Falls, SD (June 2020) and Toledo, OH (November 2020).
  - Discharge growth was impacted by COVID-related:
    - ✓ limitations on elective procedures - treated approximately 1,600 fewer orthopedic and lower extremity joint replacement patients in Q1 2021 than in Q1 2020
    - ✓ capacity and staffing constraints - up to 30 hospitals with constraints in January 2021; ended quarter with seven hospitals with constraints
  - Growth in net patient revenue per discharge primarily resulted from a higher acuity patient mix, an increase in reimbursement rates and the suspension of sequestration.
- Revenue reserves related to bad debt as a percent of revenue increased to 1.7% primarily due to aging-based reserves.

Adjusted EBITDA increased 9.0%.

- Adjusted EBITDA growth primarily resulted from revenue growth.
  - Includes $3.5 million benefit from the year-over-year change in the mark-to-market adjustment on the Company's non-qualified 401(k) liability (offset in general and administrative expenses for the consolidated company - see page 13).
- Supply costs continue to be impacted by the increased use and cost of medical supplies due to COVID-19.
- Includes $3.5 million of pre-opening and new store ramp up costs in Q1 2021 ($2.5 million in Q1 2020)

Inpatient rehabilitation segment - revenue

($millions)	Q1 2021	Q1 2020	Favorable/ (Unfavorable)
Net operating revenues:			
Inpatient	$ 942.3	$ 890.0	5.9%
Outpatient and other	17.6	19.2	(8.3%)
Total segment revenue	**$ 959.9**	**$ 909.2**	5.6%
(Actual Amounts)			
Discharges	47,187	47,750	(1.2%)
Same-store discharge growth			(2.2%)
Net patient revenue per discharge	$ 19,969	$ 18,639	7.1%
Revenue reserves related to bad debt as a percent of revenue	1.7 %	1.2 %	50 basis points

Inpatient rehabilitation segment - Adjusted EBITDA

	($millions)	Q1 2021	% of Revenue	Q1 2020	% of Revenue
	Net operating revenues	$ 959.9		$ 909.2	
	Operating expenses:				
	Salaries and benefits	(501.9)	52.3 %	(482.3)	53.0 %
	Other operating expenses(a)	(140.0)	14.6 %	(134.7)	14.8 %
	Supplies	(45.2)	4.7 %	(39.6)	4.4 %
	Occupancy costs	(15.1)	1.6 %	(15.3)	1.7 %
	Hospital operating expenses	(200.3)	20.9 %	(189.6)	20.9 %
	Other income (expense)(b)	1.5		(1.6)	
	Equity in nonconsolidated affiliates	0.8		0.6	
	Noncontrolling interests	(25.1)		(20.8)	
	Segment Adjusted EBITDA	**$ 234.9**		**$ 215.5**	
	Percent change	9.0 %			
	In arriving at Adjusted EBITDA, the following were excluded:				
(a)	Loss on disposal of assets	$ —		$ 0.1	
(b)	Change in fair market value of equity securities	$ 0.1		$ 2.5	

Home health and hospice segment

Revenue decreased 0.8%.

- Total starts of care were up 0.6% due to increases in recertifications and non-episodic admissions.
  - Non-episodic admissions increased 3% year over year primarily due to the new national contract with United Healthcare.
- Total home health admissions declined as a result of episodic admissions decreasing:
  - 22% from patients residing in senior living facilities;
  - 35% from patients discharging from skilled nursing facilities; and
  - 18% from patients receiving elective procedures in acute care hospitals.
    - ✓ The combined impact of these declines represented a loss of ~3,700 admissions, or an 880 basis points negative impact on the episodic growth rate for Q1 2021.
  - During Q1 2021, we averaged 250 employees per day on COVID-related quarantine, which further impacted our ability to accept referrals.
- The increase in revenue per episode resulted from an increase in reimbursement rates and the suspension of sequestration partially offset by the impact of the timing of completed episodes.
  - Revenue per episode in Q1 2020 benefited from the reversal of a $1.6 million reserve for a Zone Program Integrity Contractor audit.
- Hospice same-store admissions growth of 11.4% yielded a 5.4% increase in hospice revenue.
  - Hospice revenue growth was impacted by a decrease in length of stay resulting from a change in patient mix.

Adjusted EBITDA increased 23.9%.

- Costs of services decreased as a percent of revenue primarily due to lower cost per visit supported by the clinician compensation model changes implemented in May 2020, as well as effective management of overall productivity of full-time staff.
  - Home health cost per visit improved $4 per visit, or 5.0%, during Q1 2021 compared to Q1 2020.
  - Visits per episode decreased from 16.3 in Q1 2020 to 15.8 in Q1 2021.

Home health and hospice segment - revenue

($millions)	Q1 2021	Q1 2020	Favorable/ (Unfavorable)
Net operating revenues:			
Home health revenue	$ 219.9	$ 224.8	(2.2)%
Hospice revenue	50.6	48.0	5.4 %
Total segment revenue	**$ 270.5**	**$ 272.8**	**(0.8)%**
		Home Health	
Starts of care:			
Episodic admissions	40,215	42,476	(5.3)%
Same-store episodic admissions growth			*(5.4)%*
Episodic recertifications	28,083	26,553	5.8 %
Total episodic starts of care	**68,298**	**69,029**	**(1.1)%**
Total admissions	50,799	52,754	(3.7)%
Same-store total admissions growth			*(3.8)%*
Total recertifications	31,902	29,463	8.3 %
Total starts of care	**82,701**	**82,217**	**0.6 %**
Revenue per episode	**$ 2,923**	**$ 2,909**	**0.5 %**
		Hospice	
Admissions:			
Same store	3,325	2,986	11.4 %
New store	5	—	0.1 %
Total admissions	**3,330**	**2,986**	**11.5 %**

Home health and hospice segment - Adjusted EBITDA

($millions)	Q1 2021	% of Revenue	Q1 2020	% of Revenue
Net operating revenues	$ 270.5		$ 272.8	
Cost of services	(118.1)	43.7 %	(130.9)	48.0 %
Support and overhead costs	(101.4)	37.5 %	(100.2)	36.7 %
Operating expenses[(a)(b)]	(219.5)	81.1 %	(231.1)	84.7 %
Equity in net income of nonconsolidated affiliates	0.2		0.2	
Noncontrolling interests[(c)]	(0.4)		(0.9)	
Segment Adjusted EBITDA	$ 50.8		$ 41.0	
Percent change	23.9 %			

	In arriving at Adjusted EBITDA, the following were excluded:			
(a)	Gain on disposal of assets	$ (0.1)	$ –	
(b)	Payroll taxes on SARs exercise	$ –	$ 1.5	
(c)	Gain on consolidation of former equity method location[(2)]	$ –	$ (2.2)	

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA for the quarter of $250.8 million

- **General and administrative expenses increased as a percent of consolidated revenue due to the $3.5 million year-over-year change in the mark-to-market adjustment on the Company's non-qualified 401(k) liability (offset in other income within the inpatient rehabilitation segment) and higher costs associated with incentive compensation.**

($millions)	Q1 2021	% of Consolidated Revenue	Q1 2020	% of Consolidated Revenue
Inpatient rehabilitation segment Adjusted EBITDA	$ 234.9		$ 215.5	
Home health and hospice segment Adjusted EBITDA	50.8		41.0	
General and administrative expenses*	(34.9)	2.8%	(28.5)	2.4%
Consolidated Adjusted EBITDA	$ 250.8		$ 228.0	
Percentage change	10.0 %			

* General and administrative expenses in the above table exclude stock compensation of $2.8 million and $7.1 million for the first quarter of 2021 and 2020, respectively, as well as $0.9 million in costs associated with the strategic alternatives review of our home health and hospice segment for the first quarter of 2021.

Reconciliations to GAAP provided on pages 39-45

Earnings per share - as reported

(In Millions, Except Per Share Data)	Q1 2021	Q1 2020
Adjusted EBITDA	250.8	228.0
Depreciation and amortization	(62.5)	(58.8)
Interest expense and amortization of debt discounts and fees	(42.8)	(43.2)
Stock-based compensation expense	(2.8)	(7.1)
Gain (loss) on disposal of assets	0.1	(0.1)
	142.8	118.8
Certain items non-indicative of ongoing operating performance:		
Costs associated with the strategic alternatives review	(0.9)	—
Gain on consolidation of former equity method location[2]	—	2.2
Change in fair market value of equity securities	(0.1)	(2.5)
Government, class action, and related settlements[3]	—	(2.8)
Payroll taxes on SARs exercise[4]	—	(1.5)
Pre-tax income	141.8	114.2
Income tax expense	(34.5)	(27.1)
Income from continuing operations*	$ 107.3	$ 87.1
Diluted shares (see page 36)	100.2	99.6
Diluted earnings per share*	$ 1.07	$ 0.87

- The increase in EPS in the first quarter of 2021 primarily resulted from increased Adjusted EBITDA and decreased stock-based compensation due to the reduction in long-term incentive compensation recorded in Q1 2021.

* Earnings per share are determined using income from continuing operations attributable to Encompass Health.
Refer to pages 46-47 for end notes.

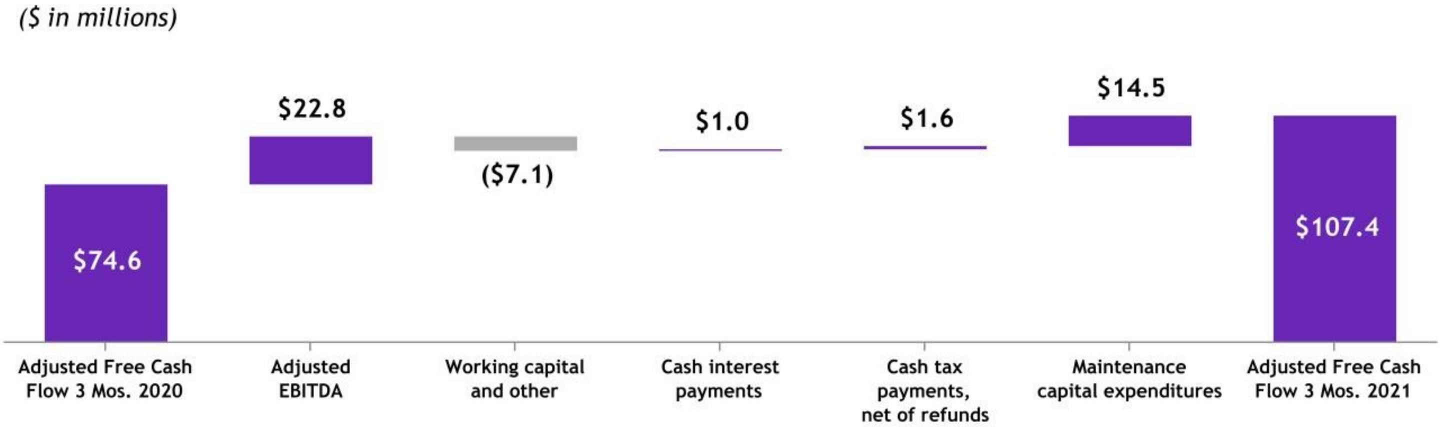
Adjusted earnings per share[5]

	Q1	
	2021	2020
Earnings per share, as reported	**$ 1.07**	**$ 0.87**
Adjustments, net of tax:		
Government, class action, and related settlements[3]	—	0.02
Costs associated with the strategic alternatives review	0.01	—
Income tax adjustments	(0.03)	(0.04)
Change in fair market value of equity securities	—	0.02
Gain on consolidation of former equity method location[2]	—	(0.02)
Payroll taxes on SARs exercise	—	0.01
Adjusted earnings per share*	**$ 1.05**	**$ 0.87**

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 44-45.
Refer to pages 46-47 for end notes.

2021 Adjusted free cash flow(6)



- Adjusted free cash flow was higher in Q1 2021 than Q1 2020 primarily due to an increase in Adjusted EBITDA and the timing of maintenance capital expenditures in 2021.

2021 Guidance - Updated as of April 27, 2021

Previous 2021 Full-Year Guidance	Updated 2021 Full-Year Guidance
Net operating revenues	**Net operating revenues**
$5,000 million to $5,170 million	$5,060 million to $5,230 million
Adjusted EBITDA(7)	**Adjusted EBITDA(7)**
$925 million to $955 million	$1,000 million to $1,030 million*
Adjusted earnings per share from continuing operations attributable to Encompass Health(5)	**Adjusted earnings per share from continuing operations attributable to Encompass Health(5)**
$3.31 to $3.53	$3.94 to $4.16

On December 9, 2020, the Company announced it is exploring strategic alternatives for its home health and hospice segment. The review is ongoing, and no decision has been made. Accordingly, the Company's 2021 guidance and longer term growth targets assume the continuation of the current structure of the business. The guidance and growth targets may change depending on the outcome of the review.

* Approximately $55 million to $57 million of the guidance increase is attributable to the extension of the sequestration suspension through the end of 2021.

Refer to pages 46-47 for end notes.

2021 Guidance considerations

Inpatient Rehabilitation

- Estimated 2.3% increase in Medicare pricing
- Revenue reserve related to bad debt of 1.5% to 1.7% of net operating revenues
- Pre-opening and new store ramp up costs of $15 million to $20 million

Home Health and Hospice

- Estimated 1.9% increase in Medicare pricing for home health; estimated 2.4% pricing increase for hospice
- Inclusive of $50 million to $100 million of home health and hospice acquisitions

Both Segments

- Salary increase of approx. 3%; benefits increase of approx. 5% to 8% (weighted towards Q2 through Q4)
- Includes the suspension of sequestration through December 31, 2021
- Continued higher utilization and costs of personal protective equipment

Changes from previous guidance considerations are underlined.

Adjusted free cash flow[6] assumptions

Certain cash flow items (millions)	3 Months 2021 Actuals	2021 Assumptions	2020 Actuals
Cash interest payments (net of amortization of debt discounts and fees)	$40.8	$155 to $165	$177.0
Cash payments for income taxes, net of refunds	($0.7)	$100 to $130	$32.9
Working capital and other	$80.0	$120 to $140	($84.4)
Maintenance CAPEX	$23.3	$165 to $195	$154.9
Adjusted free cash flow	**$107.4**	**$370 to $490**	**$579.9**

- Lower average interest rate expected in 2021 due to the redemption of the 5.75% Senior Notes due 2024 in October 2020 and the redemption of $100 million of 5.125% Senior Notes due 2023 in April 2021
- Higher cash payments for taxes expected in 2021 due to:
  - higher expected book income
  - tax relief in 2020 under the CARES Act
  - lower stock-based compensation due to the final payout of the Home Health Holdings SARs in Q1 2020[4]
- Increased working capital expected in 2021 resulting from the payroll tax deferrals under the CARES Act in 2020 and the payout of the remaining $20 million of the COVID-related paid-time-off accrual in January 2021
- Increased maintenance CAPEX due to expanding hospital portfolio

Reconciliations to GAAP provided on pages 39-45; Refer to pages 46-47 for end notes.

Uses of free cash flow

($millions)		3 Months 2021 Actuals	2021 Assumptions	2020 Actuals
Growth in core business	IRF bed expansions	$10.8	$50 to $70	$44.8
	New IRFs			
	- De novos	56.5	325 to 350	173.0
	- Acquisitions	—	opportunistic	—
	- Replacement IRFs and other	10.0	40 to 50	35.5
	Home health and hospice acquisitions	—	50 to 100	1.1
		$77.3	$465 to $570	$254.4
Debt reduction	Debt (borrowings) redemptions, net	($8.3)	opportunistic	($226.3)
Shareholder and other distributions	Cash dividends on common stock	29.1	~$112	111.9
	Purchase of Home Health Holdings rollover shares and exercise of SARs[4]	—	N/A	262.9
	Common stock repurchases	—	opportunistic	6.1

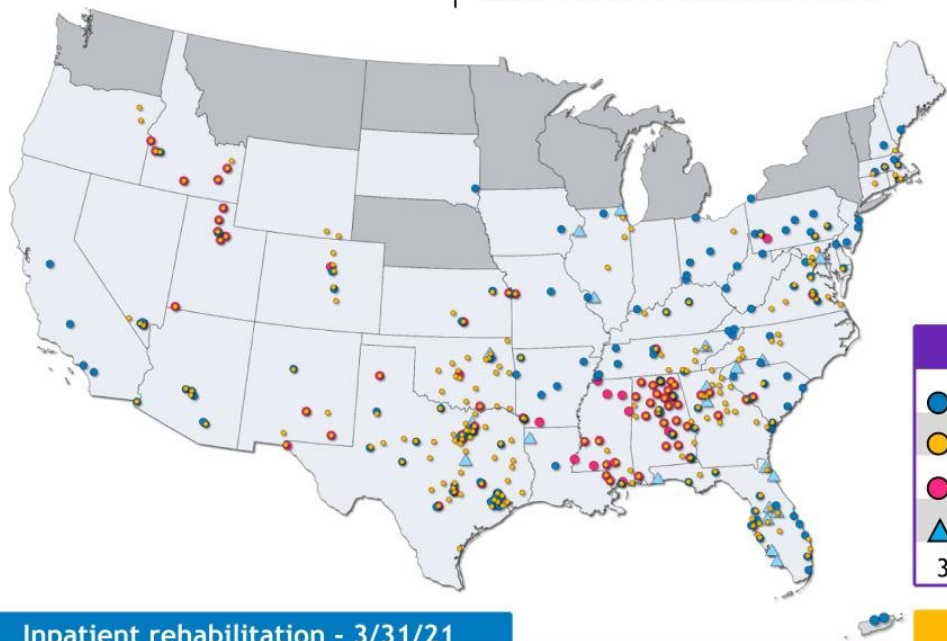
Quarterly cash dividend currently set at $0.28 per common share

~$198 million authorization remaining as of March 31, 2021[8]

See the debt schedule on page 29. Refer to pages 46-47 for end notes.

Appendix

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



Largest owner and operator of IRFs

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

Portfolio as of March 31, 2021
Inpatient rehabilitation hospitals ("IRFs")
Home health locations
Hospice locations
21 Future IRFs**
39 States and Puerto Rico ~42,800 employees

Inpatient rehabilitation - 3/31/21	
138	IRFs (52 are joint ventures)
35	States and Puerto Rico
~31,900	Employees
23 %	of licensed beds†
31 %	of Medicare patients served†
Key statistics - trailing 4 quarters	
~181,300	Inpatient discharges
~$3.6	Billion in revenue

Market overlap

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

One of the 2021 FORTUNE® "World's Most Admired Companies"

Home health and hospice - 3/31/21	
241	Home health locations
82	Hospice locations
31	States
~10,900	Employees
Key statistics - trailing 4 quarters	
~156,700	Home health episodic admissions
~13,200	Hospice admissions
~$1.1	Billion in revenue

* Excluding markets that have home health licensure barriers ** Future IRFs - Previously announced under development as of April 27, 2021
† Based on 2017 and 2018 data
Note: One of the 241 home health locations is nonconsolidated. This location is accounted for using the equity method of accounting.

2020-2025 Growth Targets

INPATIENT REHABILITATION	**6 to 10** De Novos per year	**100 to 150** bed additions per year	**6% to 8%** Discharge CAGR
HOME HEALTH AND HOSPICE	**10%+** Home Health admissions CAGR	**10% to 15%** Hospice admissions CAGR	**$50 million to $100 million** Acquisitions per year
	Not inclusive of larger scale acquisitions		
CONSOLIDATED CAGR TARGETS	**8% to 10%** Consolidated net operating revenues	**8% to 10%** Consolidated adjusted EBITDA	**5% to 7%** Adjusted free cash flow*

2020 through 2025

On December 9, 2020, the Company announced it is exploring strategic alternatives for its home health and hospice segment. The review is ongoing, and no decision has been made. Accordingly, the Company's 2021 guidance and longer term growth targets assume the continuation of the current structure of the business. The guidance and growth targets may change depending on the outcome of the review.

* Base year 2020 adjusted free cash flow benefited from a temporary payroll tax holiday. Exclusive of this item, the adjusted free cash flow CAGR target would be 8% to 10%.

Reconciliations to GAAP provided on pages 39-45

Expansion activity

Inpatient Rehabilitation Facilities Opened or Under Development*

		Operations date	Joint venture?	# of New Beds 2021	2022	2023
De novo IRFs:						
	San Angelo, TX	Q1 2021	Yes	40	–	–
	North Tampa, FL	Q2 2021		50	–	–
1	Cumming, GA	Q2 2021		50	–	–
2	Greenville, SC	Q3 2021		40	–	–
3	Shreveport, LA	Q3 2021		40	–	–
4	Waco, TX	Q3 2021		40	–	–
5	Pensacola, FL	Q3 2021		40	–	–
6	Stockbridge, GA	Q4 2021		50	–	–
7	Libertyville, IL	Q1 2022		–	60	–
8	St. Augustine, FL	Q1 2022		–	40	–
9	Shiloh, IL	Q1 2022	Yes	–	40	–
10	Lakeland, FL	Q2 2022		–	50	–
11	Knoxville, TN	Q3 2022	Yes	–	73	–
12	Clermont, FL	TBD 2022		–	50	–
13	Naples, FL	TBD 2022		–	50	–
14	Cape Coral, FL	TBD 2022		–	40	–
15	Jacksonville, FL	TBD 2022		–	50	–
16	Moline, IL	TBD 2022	Yes	–	40	–
17	Owasso, OK	TBD 2022	Yes	–	40	–
18	Bowie, MD	TBD 2022		–	60	–
19	Kissimmee, FL	TBD		–	–	50
20	Prosper, TX	TBD		–	–	40
21	Fort Mill, SC	TBD		–	–	39
Bed expansions, net*				~100	~100	~100
				~450	~690	~230

21 **IRF development projects announced and underway**

Q1 2021 expansion activity highlights

- **Opened a 40-bed IRF in San Angelo, TX with Shannon Health**
- **Added 15 beds to existing hospitals**
- **Announced plans to build six inpatient rehabilitation hospitals:**
  - **40-bed IRF in Moline, IL with UnityPoint Health**
  - **60-bed IRF in Bowie, MD**
  - **40-bed IRF in Owasso, OK with St. John Medical Center**
  - **40-bed IRF in Prosper, TX**
  - **50-bed IRF in Kissimmee, FL**
  - **39-bed IRF in Fort Mill, SC**

In April 2021, opened a 50-bed inpatient rehabilitation hospital in North Tampa, FL

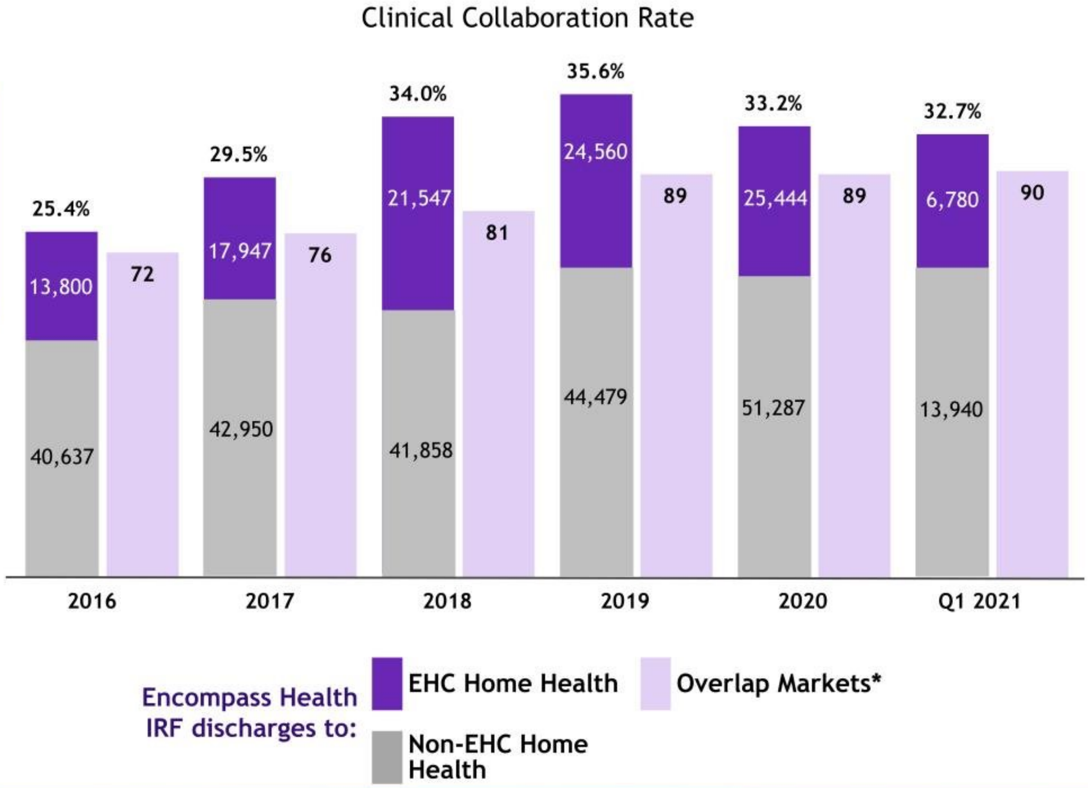
* Net bed expansions in each year may change due to the timing of certain regulatory approvals and/or construction delays. For 2021 and 2022, the currently expected range for bed expansions is 100 to 150.

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

- The lower clinical collaboration rate for Q1 2021 primarily was driven by a higher mix of Medicare Advantage patients (see page 33).
  - Medicare fee-for-service clinical collaboration rate decreased 60 bps from 43.8% in Q1 2020 to 43.2% in Q1 2021.
  - Medicare Advantage clinical collaboration rate increased 70 bps from 16.3% in Q1 2020 to 17.0% in Q1 2021.

- **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 8x 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	828,000	$ 10,400	$ 533,000	5.3
RESPIRATORS	5,000	61,000	$ 2,200	$ 131,000	3.7
GOWNS	137,500	252,000	$ 45,375	$ 471,000	4.9
GLOVES	9,500,000	11,399,000	$ 350,000	$ 796,000	1.0
Total PPE			$ 407,975	$ 1,931,000	

HOME HEALTH AND HOSPICE

	Avg. Monthly Utilization		Avg. Monthly Spend		Months of Current Utilization in Inventory
	Historical	Current*	Historical	Current*	
MASKS	-	108,000	-	$ 88,000	1.5
RESPIRATORS	-	27,000	-	$ 123,000	3.5
GOWNS	-	38,000	-	$ 131,000	2.6
GLOVES	1,735,400	2,427,000	$ 58,700	$ 126,000	3.3
Total PPE			$ 58,700	$ 468,000	

*April 2020 through March 2021

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.
  - 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 6,900 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 August 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)		
Q1 2021	$(0.2)	$(5.2)	$—	$—
Q4 2020	(0.4)	(7.2)	—	4.5
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	—

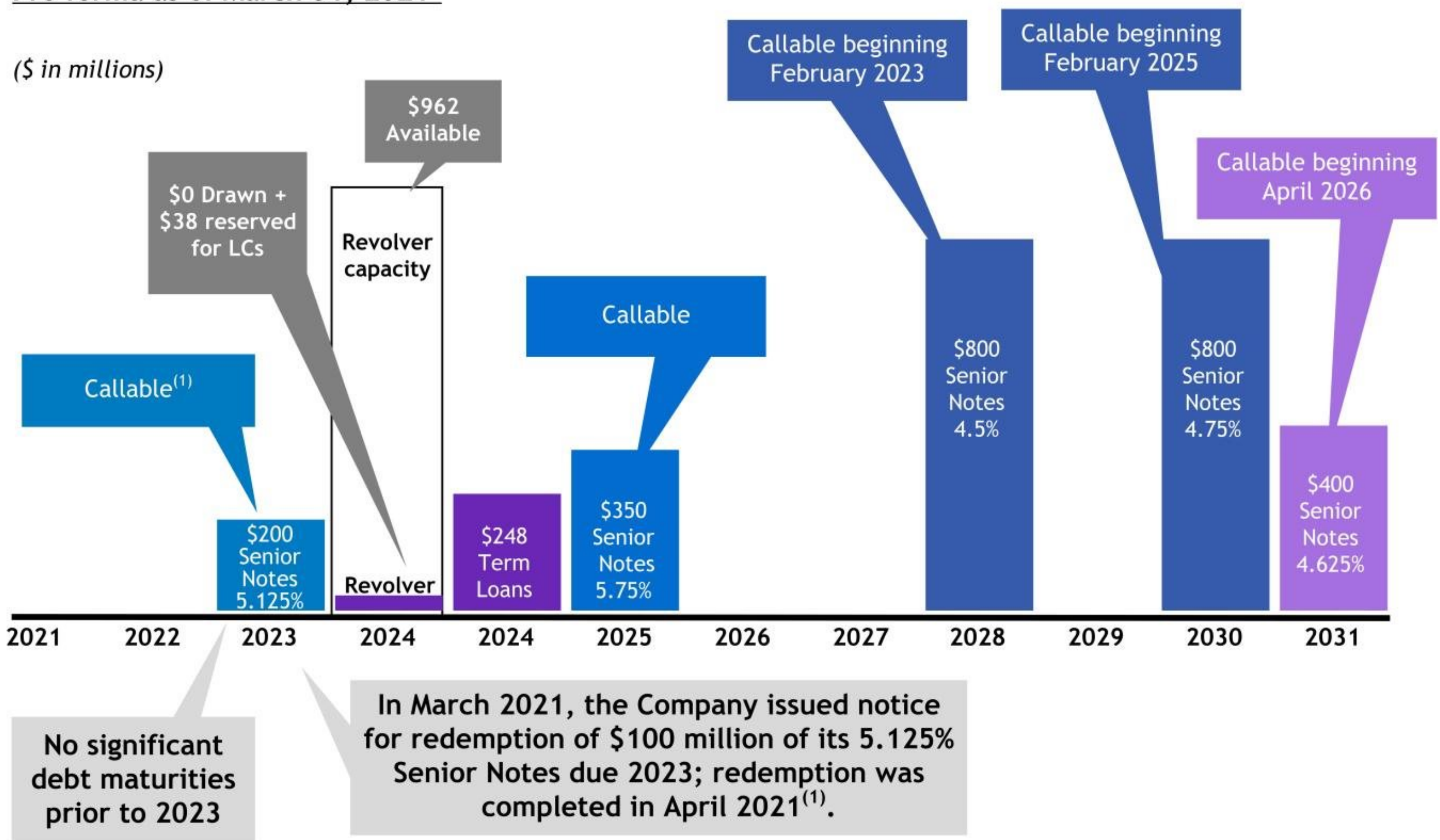
Impact to Balance Sheet

	Mar. 31, 2021	Dec. 31, 2020	Dec. 31, 2019
		(In Millions)	
Pre-payment claims denials	$ 115.3	$ 122.8	$ 155.3
Recorded reserves	(38.9)	(41.3)	(46.6)
Net accounts receivable from pre-payment claims denials	**$ 76.4**	**$ 81.5**	**$ 108.7**

* 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

Debt maturity profile - face value

Pro forma as of March 31, 2021*(1)



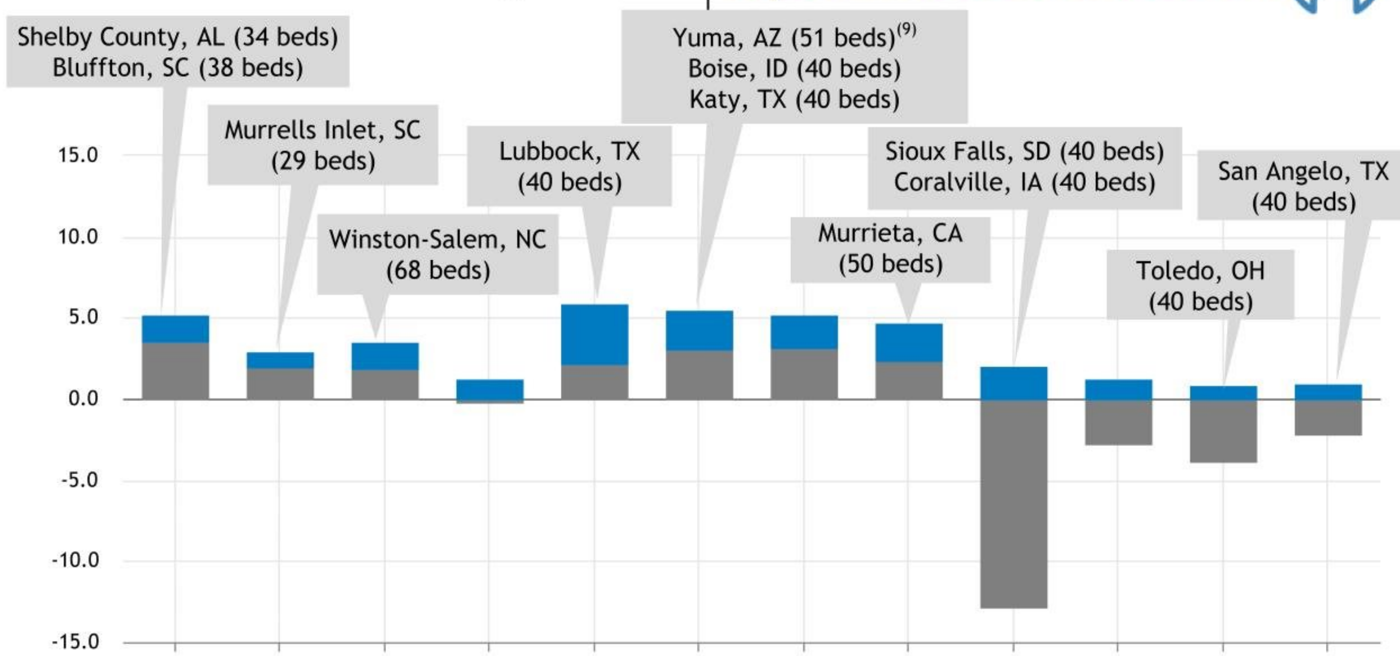
* This chart does not include ~$402 of finance lease obligations or ~$40 of other notes payable.
See the debt schedule on page 29; Refer to pages 46-47 for end notes.

Debt schedule

($millions)	Pro forma March 31, 2021[1]	March 31, 2021	December 31, 2020	Change in Debt vs. YE 2020
Advances under $1 billion revolving credit facility, November 2024 - LIBOR +150bps	$ —	$ —	$ —	$ —
Term loan facility, November 2024 - LIBOR +150bps	248.3	248.3	251.6	(3.3)
Bonds Payable:				
5.125% Senior Notes due 2023[1]	198.3	298.3	298.1	0.2
5.75% Senior Notes due 2025	346.5	346.5	346.3	0.2
4.50% Senior Notes due 2028	785.5	785.5	785.0	0.5
4.75% Senior Notes due 2030	783.5	783.5	783.2	0.3
4.625% Senior Notes due 2031	393.3	393.3	393.2	0.1
Other notes payable	39.7	39.7	39.8	(0.1)
Finance lease obligations	402.1	402.1	391.7	10.4
Long-term debt	$ 3,197.2	$ 3,297.2	$ 3,288.9	$ 8.3
Debt to Adjusted EBITDA	3.6 x	3.7 x	3.8 x	
Leverage net of cash on balance sheet	3.5 x	3.5 x	3.6 x	

Reconciliations to GAAP provided on pages 39-45; Refer to pages 46-47 for end notes.

New-store/same-store growth | Inpatient Rehabilitation



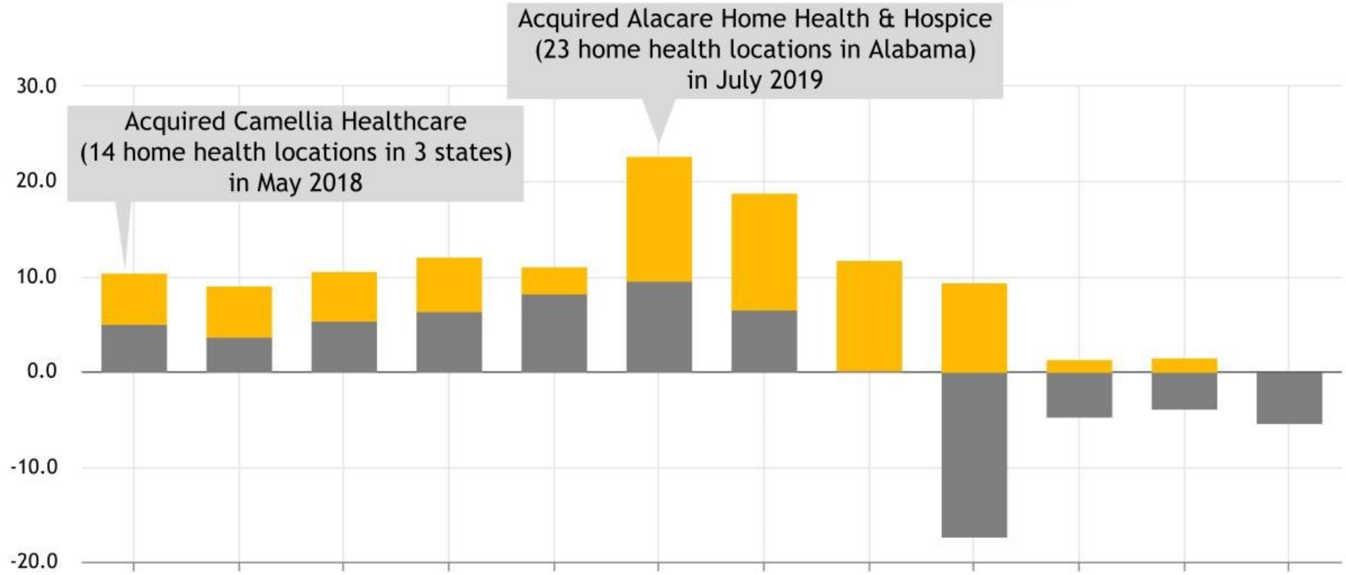
Discharges	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
New store	1.6%	1.0%	1.7%	1.3%	1.5%	2.4%	2.0%	2.3%	2.1%	1.3%	0.9%	1.0%
Same store*	3.6%	2.0%	1.9%	(0.2)%	2.2%	3.1%	3.2%	2.4%	(12.8)%	(2.8)%	(3.8)%	(2.2)%
Total by qtr.	5.2%	3.0%	3.6%	1.1%	3.7%	5.5%	5.2%	4.7%	(10.7)%	(1.5)%	(2.9)%	(1.2)%
Total by year			4.6%				3.9%				(2.6)%	
Same-store year*			2.8%				1.8%				(4.4)%	
Same-store year UDS[10]			1.1%				1.3%				(3.2)%	

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

* Includes consolidated inpatient rehabilitation hospitals classified as same store during each period

Refer to pages 46-47 for end notes.

New-store/same-store growth | Home Health



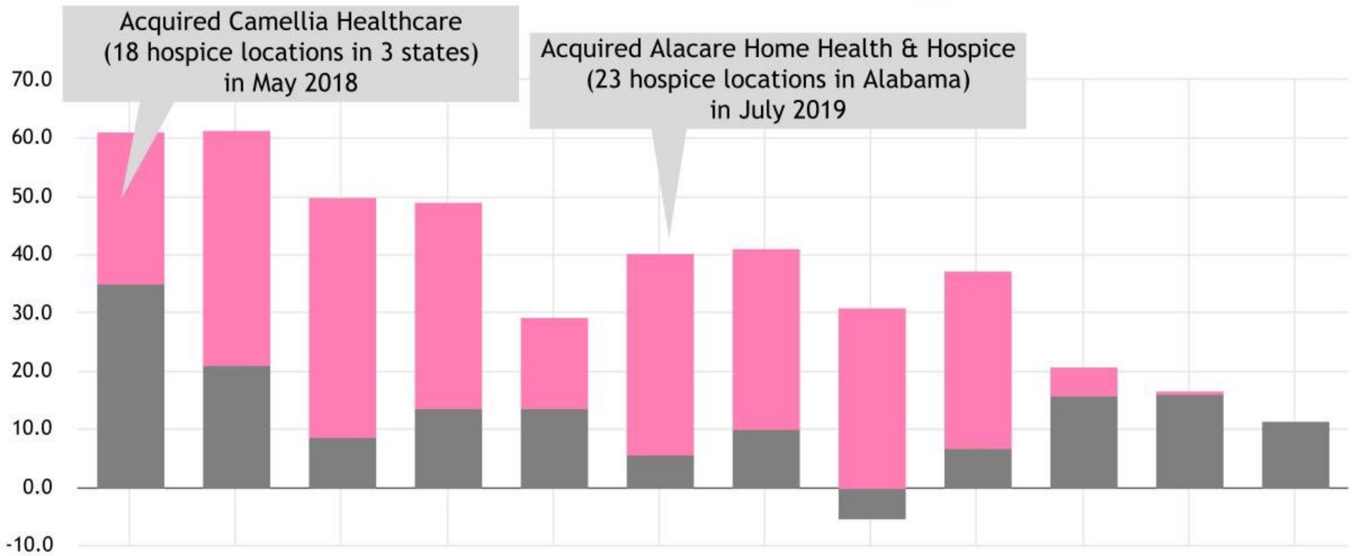
Episodic admissions	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
New store	5.3%	5.4%	5.3%	5.7%	2.9%	13.0%	12.3%	11.7%	9.4%	1.3%	1.5%	0.1%
Same store*	5.1%	3.8%	5.4%	6.4%	8.3%	9.7%	6.6%	0.2%	(17.3)%	(4.6)%	(3.8)%	(5.4)%
Total by quarter	10.4%	9.2%	10.7%	12.1%	11.2%	22.7%	18.9%	11.9%	(7.9)%	(3.3)%	(2.3)%	(5.3)%
Total by year			10.0%				16.3%				(0.5)%	
Same-store year*			5.6%				7.7%				(6.1)%	

- 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[2].

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

* Includes consolidated home health agencies classified as same store during each period
Refer to pages 46-47 for end notes.

New-store/same-store growth | Hospice



Admissions	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
New store	26.1%	40.3%	41.2%	35.5%	15.7%	34.6%	31.1%	30.9%	30.6%	0.5%	0.7%	0.1%
Same store*	35.2%	21.1%	8.6%	13.7%	13.6%	5.8%	10.1%	(5.3)%	6.7%	15.8%	16.1%	11.4%
Total by quarter	61.3%	61.4%	49.8%	49.2%	29.3%	40.4%	41.2%	25.6%	37.3%	16.3%	16.8%	11.5%
Total by year			53.5%				39.8%				23.2%	
Same-store year*			24.6%				12.2%				8.1%	

- 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		
	Q1		Q1		Q1		Full Year
	2021	2020	2021	2020	2021	2020	2020
Medicare	63.9 %	70.5 %	82.7 %	83.0 %	68.1 %	73.4 %	70.5 %
Medicare Advantage	16.5 %	12.3 %	10.4 %	10.8 %	15.1 %	11.9 %	14.2 %
Managed care	11.7 %	9.9 %	5.3 %	4.4 %	10.3 %	8.7 %	9.0 %
Medicaid	4.1 %	3.4 %	1.4 %	1.5 %	3.5 %	3.0 %	3.4 %
Other third-party payors	1.3 %	1.2 %	— %	— %	1.0 %	0.9 %	0.9 %
Workers' compensation	0.6 %	0.8 %	— %	0.1 %	0.5 %	0.6 %	0.5 %
Patients	0.5 %	0.6 %	0.1 %	0.1 %	0.4 %	0.5 %	0.4 %
Other income	1.4 %	1.3 %	0.1 %	0.1 %	1.1 %	1.0 %	1.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Inpatient rehabilitation operational metrics

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Full Year 2020
			(In Millions)			
Net patient revenue-inpatient	$ 942.3	$ 914.9	$ 883.2	$ 808.0	$ 890.0	$ 3,496.1
Net patient revenue-outpatient and other revenues	17.6	18.2	16.2	16.5	19.2	70.1
Net operating revenues	$ 959.9	$ 933.1	$ 899.4	$ 824.5	$ 909.2	$ 3,566.2
			(Actual Amounts)			
Discharges[11]	47,187	46,503	45,962	41,682	47,750	181,897
Net patient revenue per discharge	$19,969	$ 19,674	$ 19,216	$ 19,385	$ 18,639	$ 19,220
Outpatient visits	40,194	48,786	51,968	15,760	69,743	186,257
Average length of stay	13.0	12.9	13.0	13.2	12.7	12.9
Occupancy %	71.4 %	68.7 %	68.8 %	64.5 %	71.3 %	67.7 %
# of licensed beds	9,560	9,505	9,437	9,401	9,322	9,505
Occupied beds	6,826	6,530	6,493	6,064	6,647	6,435
Full-time equivalents (FTEs)[12]	22,383	22,383	22,147	20,809	22,318	21,915
Contract labor	221	192	176	116	161	161
Total FTE and contract labor	22,604	22,575	22,323	20,925	22,479	22,076
EPOB[13]	3.31	3.46	3.44	3.45	3.38	3.43

Refer to pages 46-47 for end notes.

Home health and hospice operational metrics

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Full Year 2020
			(In Millions)			
Net home health revenue	$ 219.9	$ 227.7	$ 223.3	$ 201.8	$ 224.8	$ 877.6
Net hospice revenue	50.6	53.6	51.2	47.8	48.0	200.6
Net operating revenues	$ 270.5	$ 281.3	$ 274.5	$ 249.6	$ 272.8	$ 1,078.2
Home Health:			(Actual Amounts)			
Total admissions[14]	50,799	48,533	48,838	44,124	52,754	194,249
Episodic admissions[14]	40,215	40,830	40,765	34,841	42,476	158,912
Total recertifications	31,902	33,497	33,786	31,952	29,463	128,698
Episodic recertifications	28,083	30,064	29,830	28,328	26,553	114,775
Episodes	66,435	71,441	68,261	60,154	68,652	268,508
Average revenue per episode	$ 2,923	$ 2,883	$ 2,910	$ 2,920	$ 2,909	$ 2,905
Episodic visits per episode	15.8	15.7	16.4	17.4	16.3	16.4
Total visits	1,239,073	1,281,830	1,300,866	1,250,546	1,306,230	5,139,472
Cost per visit	$ 77	$ 76	$ 75	$ 89	$ 81	$ 80
Hospice:						
Admissions[15]	3,330	3,348	3,354	3,190	2,986	12,878
Patient days	334,400	349,989	346,019	336,507	334,545	1,367,060
Average daily census	3,716	3,804	3,761	3,698	3,676	3,735
Revenue per day	$ 151	$ 153	$ 148	$ 142	$ 144	$ 147

Refer to pages 46-47 for end notes.

Share information

(In Millions)	Weighted Average for the Period: Q1 2021	Q1 2020	Full Year 2020	Full Year 2019	Full Year 2018
Basic shares outstanding	99.0	98.2	98.6	98.0	97.9
Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants	1.2	1.4	1.2	1.4	1.9
Diluted shares outstanding	100.2	99.6	99.8	99.4	99.8

(In Millions)	End of Period: Q1 2021	Q1 2020	Full Year 2020	Full Year 2019	Full Year 2018
Basic shares outstanding	99.6	99.4	99.4	98.6	98.9

Segment operating results

(In Millions)	Q1 2021 IRF	Q1 2021 Home Health and Hospice	Q1 2021 Reclasses	Q1 2021 Consolidated	Q1 2020 IRF	Q1 2020 Home Health and Hospice	Q1 2020 Reclasses	Q1 2020 Consolidated
Net operating revenues	$ 959.9	$ 270.5	$ —	$ 1,230.4	$ 909.2	$ 272.8	$ —	$ 1,182.0
Operating Expenses:								
Inpatient Rehabilitation:								
Salaries and benefits	(501.9)	—	(185.3)	(687.2)	(482.3)	—	(195.3)	(677.6)
Other operating expenses[a]	(140.0)	—	(22.4)	(162.4)	(134.7)	—	(24.8)	(159.5)
Supplies	(45.2)	—	(6.7)	(51.9)	(39.6)	—	(6.1)	(45.7)
Occupancy costs	(15.1)	—	(5.1)	(20.2)	(15.3)	—	(4.9)	(20.2)
Home Health and Hospice:								
Cost of services (excluding depreciation and amortization)	—	(118.1)	118.1	—	—	(130.9)	130.9	—
Support and overhead costs[b]	—	(101.4)	101.4	—	—	(100.2)	100.2	—
	(702.2)	(219.5)	—	(921.7)	(671.9)	(231.1)	—	(903.0)
Other income (expense)[c][d]	1.5	—	—	1.5	(1.6)	—	—	(1.6)
Equity in net income of nonconsolidated affiliates	0.8	0.2	—	1.0	0.6	0.2	—	0.8
Noncontrolling interests	(25.1)	(0.4)	—	(25.5)	(20.8)	(0.9)	—	(21.7)
Segment Adjusted EBITDA	**$ 234.9**	**$ 50.8**	**$ —**	**285.7**	**$ 215.5**	**$ 41.0**	**$ —**	**256.5**
General and administrative expenses[e][f]				(34.9)				(28.5)
Adjusted EBITDA				**$ 250.8**				**$ 228.0**

In arriving at Adjusted EBITDA, the following were excluded:	Q1 2021 IRF	Q1 2021 Home Health and Hospice	Q1 2021 Reclasses	Q1 2021 Consolidated	Q1 2020 IRF	Q1 2020 Home Health and Hospice	Q1 2020 Reclasses	Q1 2020 Consolidated
(a) (Gain) loss on disposal of assets	$ —	$ (0.1)	$ —	$ (0.1)	$ 0.1	$ —	$ —	$ 0.1
(b) Payroll taxes on SARs exercise	$ —	$ —	$ —	$ —	$ —	$ 1.5	$ —	$ 1.5
(c) Change in fair market value of equity securities	$ 0.1	$ —	$ —	$ 0.1	$ 2.5	$ —	$ —	$ 2.5
(d) Gain on consolidation of former equity method location[2]	$ —	$ —	$ —	$ —	$ —	$ (2.2)	$ —	$ (2.2)
(e) Stock-based compensation	$ —	$ —	$ —	$ 2.8	$ —	$ —	$ —	$ 7.1
(f) Costs associated with the strategic alternatives review	$ —	$ —	$ —	$ 0.9	$ —	$ —	$ —	$ —

Reconciliations to GAAP provided on pages 39-45; Refer to pages 46-47 for end notes.

Segment operating results

	Year Ended December 31, 2020			
(In Millions)	IRF	Home Health and Hospice	Reclasses	Consolidated
Net operating revenues	$ 3,566.2	$ 1,078.2	$ –	$ 4,644.4
Operating Expenses:				
Inpatient Rehabilitation:				
Salaries and benefits	(1,903.8)	–	(776.7)	(2,680.5)
Other operating expenses[(a)]	(534.7)	–	(88.1)	(622.8)
Supplies	(171.0)	–	(29.5)	(200.5)
Occupancy costs	(61.4)	–	(19.8)	(81.2)
Home Health and Hospice:				
Cost of services (excluding depreciation and amortization)	–	(511.3)	511.3	–
Support and overhead costs[(b)]	–	(402.8)	402.8	–
	(2,670.9)	(914.1)	–	(3,585.0)
Other income[(c)(d)]	8.0	–	–	8.0
Equity in net income of nonconsolidated affiliates	3.0	0.5	–	3.5
Noncontrolling interests	(83.3)	(1.3)	–	(84.6)
Segment Adjusted EBITDA	**$ 823.0**	**$ 163.3**	**$ –**	**986.3**
General and administrative expenses[(e)]				(126.0)
Adjusted EBITDA				**$ 860.3**
In arriving at Adjusted EBITDA, the following were excluded:				
(a) Loss on disposal or impairment of assets	$ 10.4	$ 1.2	$ –	$ 11.6
(b) Payroll taxes on SARs exercise	$ –	$ 1.5	$ –	$ 1.5
(c) Change in fair market value of equity securities	$ (0.4)	$ –	$ –	$ (0.4)
(d) Gain on consolidation of former equity method location[(2)]	$ –	$ (2.2)	$ –	$ (2.2)
(e) Stock-based compensation	$ –	$ –	$ –	$ 29.5

Reconciliation of net income to Adjusted EBITDA(7)

(in millions, except per share data)	2021 Q1 Total	2021 Q1 Per Share
Net Income	$ 132.8	
Net income attributable to noncontrolling interests	(25.5)	
Income from continuing operations attributable to Encompass Health*	107.3	$ 1.07
Provision for income tax expense	34.5	
Interest expense and amortization of debt discounts and fees	42.8	
Depreciation and amortization	62.5	
Gain on disposal of assets	(0.1)	
Stock-based compensation expense	2.8	
Costs associated with the strategic alternatives review	0.9	
Change in fair market value of equity securities	0.1	
Adjusted EBITDA	$ 250.8	
Weighted average common shares outstanding:		
Basic		99.0
Diluted		100.2

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 46-47 for end notes.

Reconciliation of net income to Adjusted EBITDA[7]

	2020									
	Q1		Q2		Q3		Q4		Full Year	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net Income	$ 108.7		$ 48.3		$ 100.1		$ 111.7		$ 368.8	
Loss (income) from disc ops, net of tax, attributable to Encompass Health	0.1		(0.1)		–		–		–	
Net income attributable to noncontrolling interests	(21.7)		(14.8)		(22.4)		(25.7)		(84.6)	
Income from continuing operations attributable to Encompass Health*	87.1	$ 0.87	33.4	$ 0.34	77.7	$ 0.78	86.0	$ 0.86	284.2	$ 2.85
Government, class action, and related settlements	2.8		–		–		–		2.8	
Provision for income tax expense	27.1		11.8		26.9		38.0		103.8	
Interest expense and amortization of debt discounts and fees	43.2		45.8		49.0		46.2		184.2	
Depreciation and amortization	58.8		60.7		61.2		62.3		243.0	
Loss on early extinguishment of debt[16]	–		–		–		2.3		2.3	
Loss on disposal or impairment of assets	0.1		3.0		7.5		1.0		11.6	
Stock-based compensation expense	7.1		9.9		8.3		4.2		29.5	
Gain on consolidation of former equity method location[2]	(2.2)		–		–		–		(2.2)	
Change in fair market value of equity securities	2.5		(2.4)		(0.4)		(0.1)		(0.4)	
Payroll taxes on SARs exercise	1.5		–		–		–		1.5	
Adjusted EBITDA	$ 228.0		$ 162.2		$ 230.2		$ 239.9		$ 860.3	
Weighted average common shares outstanding:										
Basic		98.2		98.7		98.7		98.7		98.6
Diluted		99.6		99.9		99.9		100.1		99.8

* Per share amounts for each period presented are based on diluted weighted-average shares outstanding.
Refer to pages 46-47 for end notes.

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

	Q1		Full Year
(In Millions)	2021	2020	2020
Net cash provided by operating activities	$ 158.5	$ 29.3	$ 704.7
Interest expense and amortization of debt discounts and fees	42.8	43.2	184.2
Equity in net income of nonconsolidated affiliates	1.0	0.8	3.5
Net income attributable to noncontrolling interests in continuing operations	(25.5)	(21.7)	(84.6)
Amortization of debt-related items	(2.0)	(1.4)	(7.2)
Distributions from nonconsolidated affiliates	(1.0)	(1.0)	(3.8)
Current portion of income tax expense	25.8	25.7	51.4
Change in assets and liabilities	50.3	154.4	7.3
Cash used in operating activities of discontinued operations	—	0.1	0.2
Costs associated with the strategic alternatives review	0.9	—	—
Payroll taxes on SARs exercise	—	1.5	1.5
Change in fair market value of equity securities	0.1	2.5	(0.4)
Other	(0.1)	(5.4)	3.5
Adjusted EBITDA	$ 250.8	$ 228.0	$ 860.3

Refer to pages 46-47 for end notes.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Year Ended December 31, 2020
	(In Millions)		
Total segment Adjusted EBITDA	$ 285.7	$ 256.5	$ 986.3
General and administrative expenses	(38.6)	(35.6)	(155.5)
Depreciation and amortization	(62.5)	(58.8)	(243.0)
Gain (loss) on disposal or impairment of assets	0.1	(0.1)	(11.6)
Government, class action, and related settlements[3]	—	(2.8)	(2.8)
Loss on early extinguishment of debt[16]	—	—	(2.3)
Interest expense and amortization of debt discounts and fees	(42.8)	(43.2)	(184.2)
Net income attributable to noncontrolling interests	25.5	21.7	84.6
Change in fair market value of equity securities	(0.1)	(2.5)	0.4
Gain on consolidation of former equity method location[2]	—	2.2	2.2
Payroll taxes on SARs exercise	—	(1.5)	(1.5)
Income from continuing operations before income tax expense	$ 167.3	$ 135.9	$ 472.6

Refer to pages 46-47 for end notes.

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

(In Millions)	Q1 2021	Q1 2020	Full Year 2020
Net cash provided by operating activities	$ 158.5	$ 29.3	$ 704.7
Impact of discontinued operations	—	0.1	0.2
Net cash provided by operating activities of continuing operations	158.5	29.4	704.9
Capital expenditures for maintenance	(23.3)	(37.8)	(154.9)
Distributions paid to noncontrolling interests of consolidated affiliates	(27.8)	(19.1)	(72.2)
Items non-indicative of ongoing operating performance:			
Cash paid for SARs exercise (inclusive of payroll taxes)[4]	—	102.1	102.1
Adjusted free cash flow	**$ 107.4**	**$ 74.6**	**$ 579.9**
Cash dividends on common stock	**$ 29.1**	**$ 29.0**	**$ 111.9**

Refer to pages 46-47 for end notes.

Adjusted EPS[5] - Q1 2021

	For the Three Months Ended March 31, 2021				
		Adjustments			
	As Reported	Income Tax Adjustments	Costs Associated with the Strategic Alternatives Review	Change in Fair Market Value of Equity Securities	As Adjusted
	(In Millions, Except Per Share Amounts)				
Adjusted EBITDA	$ 250.8	$ —	$ —	$ —	$ 250.8
Depreciation and amortization	(62.5)	—	—	—	(62.5)
Interest expense and amortization of debt discounts and fees	(42.8)	—	—	—	(42.8)
Stock-based compensation	(2.8)	—	—	—	(2.8)
Gain on disposal of assets	0.1	—	—	—	0.1
Costs associated with the strategic alternatives review	(0.9)	—	0.9	—	—
Change in fair market value of equity securities	(0.1)	—	—	0.1	—
Income from continuing operations before income tax expense	141.8	—	0.9	0.1	142.8
Provision for income tax expense	(34.5)	(3.3)	(0.2)	—	(38.0)
Income from continuing operations attributable to Encompass Health	$ 107.3	$ (3.3)	$ 0.7	$ 0.1	$ 104.8
Diluted earnings per share from continuing operations*	$ 1.07	$ (0.03)	$ 0.01	$ —	$ 1.05
Diluted shares used in calculation	100.2				

* Adjusted EPS may not sum across due to rounding.
Refer to pages 46-47 for end notes.

Adjusted EPS[5] - Q1 2020

	For the Three Months Ended March 31, 2020						
		Adjustments					
	As Reported	Gov't, Class Action, & Related Settlements	Income Tax Adj.	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Former Equity Method Location	Payroll Taxes on SARs Exercise	As Adjusted
	(In Millions, Except Per Share Amounts)						
Adjusted EBITDA	$ 228.0	$ —	$ —	$ —	$ —	$ —	$ 228.0
Depreciation and amortization	(58.8)	—	—	—	—	—	(58.8)
Government, class action, and related settlements[3]	(2.8)	2.8	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(43.2)	—	—	—	—	—	(43.2)
Stock-based compensation	(7.1)	—	—	—	—	—	(7.1)
Loss on disposal of assets	(0.1)	—	—	—	—	—	(0.1)
Change in fair market value of equity securities	(2.5)	—	—	2.5	—	—	—
Gain on consolidation of former equity method location[2]	2.2	—	—	—	(2.2)	—	—
Payroll taxes on SARs exercise	(1.5)	—	—	—	—	1.5	—
Income from continuing operations before income tax expense	114.2	2.8	—	2.5	(2.2)	1.5	118.8
Provision for income tax expense	(27.1)	(0.7)	(4.3)	(0.6)	0.6	(0.4)	(32.5)
Income from continuing operations attributable to Encompass Health	**$ 87.1**	**$ 2.1**	**$ (4.3)**	**$ 1.9**	**$ (1.6)**	**$ 1.1**	**$ 86.3**
Diluted earnings per share from continuing operations*	**$ 0.87**	**$ 0.02**	**$ (0.04)**	**$ 0.02**	**$ (0.02)**	**$ 0.01**	**$ 0.87**
Diluted shares used in calculation	**99.6**						

* Adjusted EPS may not sum across due to rounding.
Refer to pages 46-47 for end notes.

End notes

(1) In March 2021, the Company issued notice for the redemption of $100 million of its 5.125% Senior Notes due 2023. The redemption was completed in April 2021 at 100% of par using cash on hand and drawings under the Company's revolving credit facility. As a result of the transaction, the Company expects to record a $0.6 million loss on early extinguishment of debt in the second quarter of 2021.

(2) 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.

(3) 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.

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

(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 March. 31, 2021, the remaining repurchase authorization was approximately $198 million.

* Reconciliations to GAAP provided on pages 39-45.

End notes, continued

(9) 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.

(10) 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

(11) Represents discharges from 138 consolidated hospitals in Q1 2021; 137 consolidated hospitals in Q4 2020; 136 consolidated hospitals in Q3 and Q2 2020; and 134 consolidated hospitals in Q1 2020.

(12) 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.

(13) 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.

(14) Represents home health admissions from 240 consolidated locations in Q1 2021 and Q4 2020; 241 consolidated locations in Q3 2020; 244 consolidated locations in Q2 and Q1 2020.

(15) Represents hospice admissions from 82 locations in Q1 2021 and Q4 2020; 83 locations in Q3, Q2 and Q1 2020.

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