

## Encompass Health reports results for third quarter 2019 and affirms full-year 2019 guidance

BIRMINGHAM, Ala., Oct. 28, 2019 /PRNewswire/ -- Encompass Health Corp. (NYSE: EHC), a national leader in integrated healthcare, offering facility-based and home-based patient care through its network of inpatient rehabilitation hospitals, home health agencies and hospice agencies, today reported its results of operations for the third quarter ended September 30, 2019.

"Both segments experienced strong volume and revenue growth in the third quarter with inpatient discharges increasing 5.5% and home health admissions increasing 22.7% year over year," said President and Chief Executive Officer of Encompass Health Mark Tarr. "We also made excellent progress in the quarter on our development priorities by opening two new inpatient rehabilitation hospitals, adding 31 beds to existing hospitals, and closing on the acquisition of Alacare Home Health and Hospice."



### Consolidated results

	Q3 2019	Q3 2018	Growth	
			Dollars	Percent
	(In Millions, Except per Share Data)			
Net operating revenues	\$ 1,161.6	\$ 1,067.6	\$ 94.0	8.8 %
Income from continuing operations attributable to Encompass Health per diluted share	0.98	0.89	0.09	10.1 %
Adjusted earnings per share	0.93	0.91	0.02	2.2 %
Cash flows provided by operating activities	114.4	198.5	(84.1)	(42.4) %
Adjusted EBITDA	231.6	224.3	7.3	3.3 %
Adjusted free cash flow	109.6	143.4	(33.8)	(23.6) %
<b>Nine Months Ended September 30,</b>				
	<b>2019</b>	<b>2018</b>		
Cash flows provided by operating activities	\$ 419.7	\$ 584.0	\$ (164.3)	(28.1) %
Adjusted free cash flow	379.6	424.8	(45.2)	(10.6) %

Revenue growth was driven by volume and pricing growth in the inpatient rehabilitation segment and volume growth in the home health and hospice segment.

Income from continuing operations attributable to Encompass Health per diluted share for the third quarter of 2019 compared to the third quarter of 2018 reflected an increase in revenue and a gain on the consolidation of Yuma Rehabilitation Hospital offset by increases in depreciation and amortization, interest, and stock-based compensation. Effective July 1, 2019, the Company's joint venture hospital in Yuma, Arizona changed from the equity method of accounting to a consolidated entity, resulting in an approximate \$19 million, or \$0.14 per share, gain on the remeasurement of the Company's previously held equity interest to fair value.

The decrease in cash flows provided by operating activities and adjusted free cash flow for the nine months ended September 30, 2019 resulted primarily from increased working capital.

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

### Inpatient rehabilitation segment results

	Q3 2019	Q3 2018	Growth	
			Dollars	Percent
	(In Millions)			
<b>Net operating revenues:</b>				
Inpatient	\$ 850.6	\$ 798.4	\$ 52.2	6.5 %
Outpatient and other	21.7	27.2	(5.5)	(20.2) %
<b>Total segment revenue</b>	<b>\$ 872.3</b>	<b>\$ 825.6</b>	<b>\$ 46.7</b>	<b>5.7 %</b>
	(Actual Amounts)			
<b>Discharges</b>	46,669	44,230	2,439	5.5 %
Same-store discharge growth				3.1 %
<b>Net patient revenue per discharge</b>	\$ 18,226	\$ 18,051	\$ 175	1.0 %
<b>Revenue reserves related to bad debt as a percent of revenue</b>	1.5 %	1.3 %		20 basis points
	(In Millions)			
<b>Adjusted EBITDA</b>	\$ 210.6	\$ 212.9	\$ (2.3)	(1.1) %

- **Revenue** - Revenue growth resulted from volume growth and an increase in net patient revenue per discharge. New-store discharge growth resulted from joint ventures in Murrells Inlet, South Carolina (September 2018), Winston-Salem, North Carolina (October 2018), Lubbock, Texas (May 2019), and Boise, Idaho (July 2019), and a wholly owned hospital in Katy, Texas (September 2019). New-store growth also resulted from a joint venture hospital in Yuma, Arizona changing from the equity method of accounting to a consolidated entity effective July 1, 2019. Same-store discharge growth in the third quarter of 2019 was negatively impacted by approximately 20 basis points due to the ongoing effects of Hurricane Michael on operations in the Panama City, Florida market. Growth in net patient revenue per discharge primarily resulted from increases in reimbursement rates. Revenue reserves related to bad debt as a percent of revenue increased 20 basis points to 1.5% primarily due to Targeted Probe and Educate reviews at certain hospitals.

Other revenue in the third quarter of 2018 included \$4.5 million of business interruption insurance recoveries related to the 2017 hurricanes.

- **Adjusted EBITDA** - The decrease in Adjusted EBITDA primarily resulted from higher salaries and benefits expense, as well as the inclusion of \$4.5 million of business interruption insurance recoveries related to the 2017 hurricanes in the third quarter of 2018. Salaries and benefits increased as a percent of revenue primarily due to the ramp up of new stores and approximately \$2 million of training costs associated with the transition to the CARE Tool payment system.

### Home health and hospice segment results

	Q3 2019	Q3 2018	Growth	
			Dollars	Percent
	(In Millions)			
<b>Net operating revenues:</b>				
Home health	\$ 238.9	\$ 209.2	\$ 29.7	14.2 %
Hospice	50.4	32.8	17.6	53.7 %
<b>Total segment revenue</b>	<b>\$ 289.3</b>	<b>\$ 242.0</b>	<b>\$ 47.3</b>	<b>19.5 %</b>
<b>Home Health Metrics</b>				
	(Actual Amounts)			
<b>Admissions</b>	42,174	34,364	7,810	22.7 %
Same-store admissions growth				9.7 %
<b>Episodes</b>	72,016	61,765	10,251	16.6 %
Same-store episode growth				3.8 %
<b>Revenue per episode</b>	\$ 2,980	\$ 2,995	\$ (15)	(0.5) %
	(In Millions)			
<b>Adjusted EBITDA</b>	\$ 50.8	\$ 43.2	\$ 7.6	17.6 %

- **Revenue** - Revenue growth resulted from volume growth. Volume growth included the impact of the acquisition of Alacare on July 1, 2019. Revenue per episode decreased due primarily to the patient mix of the former Alacare locations.

Hospice revenue increased primarily due to the acquisition of Alacare and same-store admissions growth of 5.8%.

- **Adjusted EBITDA** - Growth in Adjusted EBITDA primarily resulted from revenue growth and improvements in caregiver optimization and productivity in home health partially





	(In Millions)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 355.6	\$ 327.7
Loss from discontinued operations, net of tax	0.6	0.4
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	160.3	146.8
Loss on early extinguishment of debt	2.3	—
Stock-based compensation	87.0	65.6
Deferred tax expense (benefit)	20.8	(8.0)
Gain on consolidation of Yuma Rehabilitation Hospital	(19.2)	—
Other, net	2.3	5.1
Change in assets and liabilities, net of acquisitions—		
Accounts receivable	(37.8)	12.3
Other assets	(11.1)	15.3
Accounts payable	(4.2)	—
Accrued payroll	(21.0)	(6.7)
Accrued interest payable	7.4	8.2
Other liabilities	(118.7)	18.0
Net cash used in operating activities of discontinued operations	(4.6)	(0.7)
Total adjustments	63.5	255.9
<b>Net cash provided by operating activities</b>	<b>419.7</b>	<b>584.0</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(259.9)	(171.5)
Additions to capitalized software costs	(9.2)	(13.2)
Acquisitions of businesses, net of cash acquired	(231.2)	(135.8)
Other, net	(11.4)	(5.8)
<b>Net cash used in investing activities</b>	<b>(511.7)</b>	<b>(326.3)</b>

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

	Nine Months Ended September 30,	
	2019	2018
	(In Millions)	
<b>Cash flows from financing activities:</b>		
Proceeds from bond issuance	1,000.0	—
Principal payments on debt, including pre-payments	(115.8)	(16.1)
Borrowings on revolving credit facility	525.0	285.0
Payments on revolving credit facility	(555.0)	(315.0)
Principal payments under finance lease obligations	(14.2)	(13.0)
Debt issuance costs	(15.2)	—
Repurchases of common stock, including fees and expenses	(45.9)	—
Dividends paid on common stock	(81.3)	(74.4)
Purchase of equity interests in consolidated affiliates	(162.9)	(65.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(57.6)	(56.5)
Taxes paid on behalf of employees for shares withheld	(16.2)	(8.3)
Other, net	11.4	9.9
<b>Net cash provided by (used in) financing activities</b>	<b>472.3</b>	<b>(253.5)</b>
<b>Increase in cash, cash equivalents, and restricted cash</b>	<b>380.3</b>	<b>4.2</b>
<b>Cash, cash equivalents, and restricted cash at beginning of period</b>	<b>133.5</b>	<b>116.8</b>
<b>Cash, cash equivalents, and restricted cash at end of period</b>	<b>\$ 513.8</b>	<b>\$ 121.0</b>
<b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash</b>		
Cash and cash equivalents at beginning of period	\$ 69.2	\$ 54.4
Restricted cash at beginning of period	59.0	62.4
Restricted cash included in other long-term assets at beginning of period	5.3	—
Cash, cash equivalents, and restricted cash at beginning of period	\$ 133.5	\$ 116.8
Cash and cash equivalents at end of period	\$ 422.0	\$ 56.9
Restricted cash at end of period	66.8	62.1
Restricted cash included in other long-term assets at end of period	25.0	2.0
Cash, cash equivalents, and restricted cash at end of period	\$ 513.8	\$ 121.0

**Encompass Health Corporation and Subsidiaries**  
**Supplemental Information**  
**Earnings Per Share**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In Millions, Except Per Share Data)			
<b>Consolidated Adjusted EBITDA</b>	\$ 231.6	\$ 224.3	\$ 726.7	\$ 679.2
Depreciation and amortization	(55.1)	(51.2)	(160.3)	(146.8)
Interest expense and amortization of debt discounts and fees	(40.3)	(37.3)	(115.2)	(110.6)
Stock-based compensation expense	(21.7)	(18.1)	(87.0)	(65.6)
(Loss) gain on disposal of assets	(0.9)	1.0	(3.3)	(2.2)
	113.6	118.7	360.9	354.0
Certain items non-indicative of ongoing operating performance:				
Loss on early extinguishment of debt	—	—	(2.3)	—
Transaction costs	(1.0)	—	(2.0)	(1.0)
Gain on consolidation of Yuma	19.2	—	19.2	—
SARs mark-to-market impact on noncontrolling interests	0.9	0.3	4.3	2.2
Change in fair market value of equity securities	—	(0.1)	1.2	(1.1)
Payroll taxes on SARs exercise	(0.8)	—	(1.0)	—
<b>Pre-tax income</b>	<b>131.9</b>	<b>118.9</b>	<b>380.3</b>	<b>354.1</b>
Income tax expense	(34.3)	(30.2)	(88.6)	(89.5)
<b>Income from continuing operations <sup>(1)</sup></b>	<b>\$ 97.6</b>	<b>\$ 88.7</b>	<b>\$ 291.7</b>	<b>\$ 264.6</b>
Basic shares	97.8	98.0	98.1	97.9
Diluted shares	99.4	100.0	99.5	99.7
<b>Basic earnings per share <sup>(1)</sup></b>	<b>\$ 0.99</b>	<b>\$ 0.90</b>	<b>\$ 2.97</b>	<b>\$ 2.69</b>

Diluted earnings per share <sup>(1)</sup> \$ 0.98 \$ 0.89 \$ 2.94 \$ 2.65

(1) Income from continuing operations attributable to Encompass Health

**Encompass Health Corporation and Subsidiaries  
Supplemental Information  
Adjusted Earnings Per Share**

	Q3		9 Months	
	2019	2018	2019	2018
<b>Earnings per share, as reported</b>	<b>\$ 0.98</b>	<b>\$ 0.89</b>	<b>\$ 2.94</b>	<b>\$ 2.65</b>
Adjustments, net of tax:				
Mark-to-market adjustments for stock appreciation rights	0.08	0.03	0.36	0.18
Transaction costs	0.01	—	0.02	0.01
Income tax adjustments	—	(0.01)	(0.13)	(0.01)
Loss on early extinguishment of debt	—	—	0.02	—
Change in fair market value of equity securities	—	—	(0.01)	0.01
Gain on consolidation of Yuma	(0.14)	—	(0.14)	—
Payroll taxes on SARs exercise	0.01	—	0.01	—
<b>Adjusted earnings per share<sup>(1)</sup></b>	<b>\$ 0.93</b>	<b>\$ 0.91</b>	<b>\$ 3.05</b>	<b>\$ 2.83</b>

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

**Encompass Health Corporation and Subsidiaries  
Supplemental Information  
Adjusted Earnings Per Share**

For the Three Months Ended September 30, 2019

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

(1) See reconciliation of net income to Adjusted EBITDA.

(2) Adjusted EPS may not sum across due to rounding.

**Encompass Health Corporation and Subsidiaries  
Supplemental Information  
Adjusted Earnings Per Share**

For the Three Months Ended September 30, 2018

	Adjustments				As Adjusted
	As Reported	Mark-to-Market Adjustment for Stock Compensation Expense	Income Tax Adjustments	Change in Fair Market Value of Equity Securities	
	(In Millions, Except Per Share Amounts)				
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 224.3</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 224.3</b>
Depreciation and amortization	(51.2)	—	—	—	(51.2)
Interest expense and amortization of debt discounts and fees	(37.3)	—	—	—	(37.3)
Stock-based compensation	(18.1)	4.2	—	—	(13.9)
Gain on disposal of assets	1.0	—	—	—	1.0
SARs mark-to-market impact on noncontrolling interests	0.3	(0.3)	—	—	—
Change in fair market value of equity securities	(0.1)	—	—	0.1	—
<b>Income from continuing operations before income tax expense</b>	<b>118.9</b>	<b>3.9</b>	<b>—</b>	<b>0.1</b>	<b>122.9</b>
Provision for income tax expense	(30.2)	(1.1)	(0.7)	—	(32.0)
<b>Income from continuing operations attributable to Encompass Health</b>	<b>\$ 88.7</b>	<b>\$ 2.8</b>	<b>\$ (0.7)</b>	<b>\$ 0.1</b>	<b>\$ 90.9</b>
<b>Diluted earnings per share from continuing operations<sup>(2)</sup></b>	<b>\$ 0.89</b>	<b>\$ 0.03</b>	<b>\$ (0.01)</b>	<b>\$ —</b>	<b>\$ 0.91</b>
<b>Diluted shares used in calculation</b>	<b>100.0</b>				

(1) See reconciliation of net income to Adjusted EBITDA.

(2) Adjusted EPS may not sum across due to rounding.

**Encompass Health Corporation and Subsidiaries  
Supplemental Information  
Adjusted Earnings Per Share**

**For the Nine Months Ended September 30, 2019**

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

(1) See reconciliation of net income to Adjusted EBITDA.

(2) Adjusted EPS may not sum across due to rounding.

**Encompass Health Corporation and Subsidiaries  
Supplemental Information  
Adjusted Earnings Per Share**

**For the Nine Months Ended September 30, 2018**

	Adjustments						As Adjusted
	As Reported	Mark-to-Market Adjustment for Stock Compensation Expense	Income Tax Adjustments	Transaction Costs	Change in Fair Market Value of Equity Securities		
	(In Millions, Except Per Share Amounts)						
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 679.2</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 679.2</b>
Depreciation and amortization	(146.8)	—	—	—	—	—	(146.8)
Interest expense and amortization of debt discounts and fees	(110.6)	—	—	—	—	—	(110.6)
Stock-based compensation	(65.6)	26.6	—	—	—	—	(39.0)
Loss on disposal of assets	(2.2)	—	—	—	—	—	(2.2)
Transaction costs	(1.0)	—	—	1.0	—	—	—
SARs mark-to-market impact on noncontrolling interests	2.2	(2.2)	—	—	—	—	—
Change in fair market value of equity securities	(1.1)	—	—	—	1.1	—	—
<b>Income from continuing operations before income tax expense</b>	<b>354.1</b>	<b>24.4</b>	<b>—</b>	<b>1.0</b>	<b>1.1</b>	<b>—</b>	<b>380.6</b>
Provision for income tax expense	(89.5)	(6.8)	(1.4)	(0.3)	(0.3)	—	(98.3)
<b>Income from continuing operations attributable to Encompass Health</b>	<b>\$ 264.6</b>	<b>\$ 17.6</b>	<b>\$ (1.4)</b>	<b>\$ 0.7</b>	<b>\$ 0.8</b>	<b>\$ —</b>	<b>\$ 282.3</b>
<b>Diluted earnings per share from continuing operations<sup>(2)</sup></b>	<b>\$ 2.65</b>	<b>\$ 0.18</b>	<b>\$ (0.01)</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ —</b>	<b>\$ 2.83</b>
<b>Diluted shares used in calculation</b>	<b>99.7</b>						

(1) See reconciliation of net income to Adjusted EBITDA.

(2) Adjusted EPS may not sum across due to rounding.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In Millions)			
<b>Net income</b>	\$ 119.5	\$ 109.3	\$ 355.6	\$ 327.7
Loss from discontinued operations, net of tax, attributable to Encompass Health	—	0.1	0.6	0.4
Net income attributable to noncontrolling interests	(21.9)	(20.7)	(64.5)	(63.5)
Provision for income tax expense	34.3	30.2	88.6	89.5
Interest expense and amortization of debt discounts and fees	40.3	37.3	115.2	110.6
Depreciation and amortization	55.1	51.2	160.3	146.8
Loss on early extinguishment of debt	—	—	2.3	—
Loss (gain) on disposal of assets	0.9	(1.0)	3.3	2.2
Stock-based compensation expense	21.7	18.1	87.0	65.6
Transaction costs	1.0	—	2.0	1.0
Gain on consolidation of Yuma	(19.2)	—	(19.2)	—
SARs mark-to-market impact on noncontrolling interests	(0.9)	(0.3)	(4.3)	(2.2)
Change in fair market value of equity securities	—	0.1	(1.2)	1.1
Payroll taxes on SARs exercise	0.8	—	1.0	—
<b>Adjusted EBITDA</b>	<b>\$ 231.6</b>	<b>\$ 224.3</b>	<b>\$ 726.7</b>	<b>\$ 679.2</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31, 2018
	2019	2018	2019	2018	
	(In Millions)				
<b>Total segment Adjusted EBITDA</b>	\$ 261.4	\$ 256.1	\$ 820.7	\$ 778.5	\$ 1,000.0
General and administrative expenses	(52.5)	(49.9)	(183.0)	(165.9)	(200.0)
Depreciation and amortization	(55.1)	(51.2)	(160.3)	(146.8)	(150.0)
(Loss) gain on disposal of assets	(0.9)	1.0	(3.3)	(2.2)	(1.0)
Government, class action, and related settlements	—	—	—	—	(0.5)
Loss on early extinguishment of debt	—	—	(2.3)	—	(0.5)
Interest expense and amortization of debt discounts and fees	(40.3)	(37.3)	(115.2)	(110.6)	(100.0)
Net income attributable to noncontrolling interests	21.9	20.7	64.5	63.5	(1.0)
SARs mark-to-market impact on noncontrolling interests	0.9	0.3	4.3	2.2	—
Change in fair market value of equity securities	—	(0.1)	1.2	(1.1)	—
Gain on consolidation of Yuma	19.2	—	19.2	—	—
Payroll taxes on SARs exercise	(0.8)	—	(1.0)	—	—
<b>Income from continuing operations before income tax expense</b>	<b>\$ 153.8</b>	<b>\$ 139.6</b>	<b>\$ 444.8</b>	<b>\$ 417.6</b>	<b>\$ 400.0</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31, 2018
	2019	2018	2019	2018	
	(In Millions)				
<b>Net cash provided by operating activities</b>	\$ 114.4	\$ 198.5	\$ 419.7	\$ 584.0	\$ 679.2
Interest expense and amortization of debt discounts and fees	40.3	37.3	115.2	110.6	100.0
Equity in net income of nonconsolidated affiliates	1.2	2.1	5.5	6.4	—
Net income attributable to noncontrolling interests in continuing operations	(21.9)	(20.7)	(64.5)	(63.5)	(1.0)
Amortization of debt-related items	(1.1)	(1.0)	(3.1)	(3.0)	—
Distributions from nonconsolidated affiliates	(0.2)	(2.0)	(4.8)	(5.5)	—
Current portion of income tax expense	14.1	34.6	67.8	97.5	—
Change in assets and liabilities	83.7	(24.8)	185.4	(47.1)	—
Cash used in (provided by) operating activities of discontinued operations	0.1	0.1	4.6	0.7	—
Transaction costs	1.0	—	2.0	1.0	—
SARs mark-to-market impact on noncontrolling interests	(0.9)	(0.3)	(4.3)	(2.2)	—
Payroll taxes on SARs exercise	0.8	—	1.0	—	—
Change in fair market value of equity securities	—	0.1	(1.2)	1.1	—
Other	0.1	0.4	3.4	(0.8)	—
<b>Consolidated Adjusted EBITDA</b>	<b>\$ 231.6</b>	<b>\$ 224.3</b>	<b>\$ 726.7</b>	<b>\$ 679.2</b>	<b>\$ 679.2</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In Millions)			
<b>Net cash provided by operating activities</b>	\$ 114.4	\$ 198.5	\$ 419.7	\$ 584.0
Impact of discontinued operations	0.1	0.1	4.6	0.7
Net cash provided by operating activities of continuing operations	114.5	198.6	424.3	584.7
Capital expenditures for maintenance	(41.0)	(33.2)	(105.1)	(105.3)
Distributions paid to noncontrolling interests of consolidated affiliates	(21.1)	(21.3)	(57.6)	(56.5)
<b>Items non-indicative of ongoing operations:</b>				
Cash paid for government, class action, and related settlements	—	—	46.4	—
Transaction costs and related assumed liabilities	1.0	(0.7)	2.0	(2.4)
Cash paid for SARs exercise (inclusive of payroll taxes)	56.2	—	69.6	4.3
<b>Adjusted free cash flow</b>	<b>\$ 109.6</b>	<b>\$ 143.4</b>	<b>\$ 379.6</b>	<b>\$ 424.8</b>

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

For the three months ended September 30, 2018, net cash used in investing activities was \$65.3 million and primarily resulted from capital expenditures. Net cash provided by financing activities during the three months ended September 30, 2018 was \$137.0 million and primarily resulted from net debt payments, cash dividends paid on common stock, and distributions paid to noncontrolling interests of consolidated affiliates.

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

For the nine months ended September 30, 2018, net cash used in investing activities was \$326.3 million and primarily resulted from capital expenditures and the acquisition of Camellia Healthcare. Net cash used in financing activities during the nine months ended September 30, 2018 was \$253.5 million and primarily resulted from cash dividends paid on common stock, purchasing one-third of the rollover shares held by members of the home health and hospice management team, net debt payments, 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 financial guidance and assumptions, balance sheet and cash flow plans, and anticipated acquisitions, are forward-looking statements. 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 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 and other payment system reforms); 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 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 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, 2018 and Form 10-Q for the quarters ended March 31, 2019, June 30, 2019, and September 30, 2019, when filed.*

**Media Contact**

Casey Lassiter, 205 447-6410  
[casey.lassiter@encompasshealth.com](mailto:casey.lassiter@encompasshealth.com)

**Investor Relations Contact**

Crissy Carlisle, 205 970-5860  
[crissy.carlisle@encompasshealth.com](mailto:crissy.carlisle@encompasshealth.com)

**SOURCE** Encompass Health Corp.

---

<http://healthsouth.mediaroom.com/2019-10-28-Encompass-Health-reports-results-for-third-quarter-2019-and-affirms-full-year-2019-guidance>