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): June 7, 2022

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

ITEM 7.01. *Regulation FD Disclosure.*

Encompass Health Corporation (the "Company" or "Encompass Health") today issued separate full-year 2022 guidance for its inpatient rehabilitation business and its home health and hospice business ("Enhabit") in the attached press release and supplemental information attached to this Current Report on Form 8-K as Exhibit 99.1 and 99.2, respectively (the "Exhibits"). The Company also updated its 2022 consolidated guidance in the Exhibits, as previously reported in the Current Report on Form 8-K, dated April 27, 2022, and during the Company's earnings conference call held on April 28, 2022.

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 and Enhabit's adjusted earnings per share, Adjusted EBITDA, and adjusted free cash flow. These measures are not measures of financial performance under generally accepted accounting principles in the United States of America ("GAAP"), and the items excluded therefrom are significant components in understanding and assessing financial performance. Therefore, these measures should not be considered a substitute for GAAP financial measures. Because these financial measures are not determined in accordance with GAAP, they are susceptible to varying calculations and may not be comparable to other similarly titled measures of other companies.

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 timing and effects, such as the tax-free treatment and the incremental costs, of the spin off and rebranding of the home health and hospice business 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 Annual Report on Form 10-K for the year ended December 31, 2021, Form 10-Q for the three months ended March 31, 2022, Enhabit's Form 10 registration statement, 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 June 7, 2022.
99.2	Supplemental information provided in connection with Encompass Health and Enhabit 2022 guidance update.
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: June 7, 2022

Exhibit 99.1

Media Contact
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June 7, 2022

Encompass Health issues full-year 2022 guidance for Encompass Health and Enhabit

BIRMINGHAM, Ala. - Encompass Health Corporation (NYSE: EHC) ("Encompass Health" or the "Company"), today issued separate full-year 2022 guidance for its inpatient rehabilitation business and its home health and hospice business ("Enhabit"). The Company is also updating its 2022 consolidated guidance.

Encompass Health expects to spin off Enhabit to form an independent, publicly traded company on July 1, 2022, subject to customary conditions, including the effectiveness of a Form 10 registration statement, regulatory approvals and receipt of a favorable IRS private letter ruling. With the expected distribution date less than a month away, the Company is providing separate full-year 2022 guidance for both Encompass Health and Enhabit. This guidance reflects the challenging operating environment and the expectation of substantial improvement in the second half of the year.

2022 Encompass Health consolidated guidance*

	2022 Prior Guidance	2022 Updated Guidance
	(In Millions, Except Per Share Data)	
Net operating revenues	$5,380 to $5,500	$5,330 to $5,420
Adjusted EBITDA	$1,015 to $1,065	$1,005 to $1,045
Adjusted earnings per share from continuing operations attributable to Encompass Health	$3.83 to $4.19	$3.76 to $4.05

*Consolidated guidance assumes the continuation of the current structure of the business for 2022 and excludes nonrecurring costs incurred in 2022 related to the spin off of Enhabit, including rebranding and professional fees.

2022 Separate company guidance

Encompass Health (Inpatient Rehabilitation)

	2022 Guidance
	(In Millions, Except Per Share Data)
Net operating revenues	$4,250 to $4,300
Adjusted EBITDA	$820 to $840
Adjusted earnings per share from continuing operations attributable to Encompass Health	$2.77 to $2.91

Guidance considerations for Encompass Health

Encompass Health will operate a single reportable segment: inpatient rehabilitation.

Guidance considerations include:

- An increase of 1.9% in Medicare pricing, prior to the resumption of sequestration
- Revenue reserves related to bad debt of approximately 2.0% of net operating revenues
- Salaries and benefits per FTE (inclusive of agency staffing costs, sign-on and shift bonuses) is expected to increase by approximately 5%. Staffing constraints and elevated costs are expected to continue in 2022 with improvement heavily skewed toward the second half of the year.
- Pre-opening and new-store ramp-up costs of $10 million to $13 million
- Reduction in general and administrative costs of $1 million to $3 million associated with the transition services agreement with Enhabit
- Interest expense of $150 million to $160 million, assuming the receipt of approximately $570 million from Enhabit with the proceeds used to pay down Encompass Health debt
- Tax rate of approximately 26%
- Diluted share count of approximately 100 million shares
- Guidance excludes nonrecurring costs related to the separation of Enhabit.
- Following the separation, the home health and hospice segment will be reflected as a discontinued operation and excluded from revenue, adjusted EBITDA and adjusted earnings per share on a retrospective basis for all periods presented.

Enhabit (Home Health and Hospice)

	2022 Guidance
	(In Millions, Except Per Share Data)
Net service revenue	$1,080 to $1,120
Adjusted EBITDA	$165 to $185
Adjusted earnings per share attributable to Enhabit	$1.64 to $2.01

Guidance considerations for Enhabit

Enhabit will operate two reportable segments: home health and hospice.

Guidance considerations include:

Home Health

- An increase of 3.4% in Medicare pricing prior to resumption of sequestration
- Cost per visit increase of 4% to 5%

Hospice

- Capacity constraints related to staffing early in 2022 led to a decline in hospice referrals; recovery of volumes has been slower than anticipated.
- An increase of 2.0% in Medicare pricing prior to resumption of sequestration
- Cost per patient day increase of 3% to 4%

Consolidated

- Incremental general and administrative costs of $22 million to $24 million (1)
- Incremental expense of $2 million to $3 million for de novo locations
- Initial funded debt of approximately $570 million, resulting in interest expense of $7 million to $12 million
- Tax rate of approximately 26%
- Diluted share count of approximately 50 million shares
- Guidance excludes nonrecurring costs related to the separation from Encompass Health.
- Guidance assumes substantial improvement in operating trends in the second half of the year.

(1) The incremental G&A costs for Enhabit on a full-year basis are expected to be $26 million to $28 million, with that run rate achieved by the end of FY 2023. Enhabit's FY 2022 incremental G&A is expected to be lower than this range due to the lower cost of overhead allocated from Encompass Health prior to the separation date.

Please refer to the Enhabit Form 10 filed May 25, 2022 for additional information.

2022-2026 Growth targets

Encompass Health 2022-2026 growth targets

- 6 to 10 de novos per year
- 100 to 150 bed additions per year
- 6% to 8% discharge CAGR

Enhabit 2022-2026 growth targets

- Approximately 10% home health admissions CAGR
- 10% to 15% hospice admissions CAGR
- $50 million to $100 million in acquisitions per year

Cash dividends on common stock

Encompass Health anticipates continuing to pay a cash dividend on its common stock following the spin off of Enhabit. The amount of such dividend s will be determined at the discretion of Encompass Health's board of directors and is expected to decrease from its current level to reflect the separation of Enhabit.

Enhabit does not anticipate paying a cash dividend on its common stock.

Other information

For additional considerations regarding Encompass Health's and Enhabit's 2022 guidance, see the supplemental information posted on Encompass Health's website at http://investor.encompasshealth.com.

Excluding net operating revenues, Encompass Health and Enhabit do 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 companies or otherwise not indicative of 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 companies believe to be not indicative of ongoing operations. These items cannot be reasonably predicted and will depend on several factors, including industry and market conditions, and could be material to results computed in accordance with GAAP.

However, the following reasonably estimable GAAP measures for 2022 would be included in a reconciliation for Adjusted EBITDA if the other reconciling GAAP measures could be reasonably predicted:

Consolidated

- Interest expense and amortization of debt discounts and fees - estimate of $157 million to $172 million
- Amortization of debt-related items - approximately $10.3 million

Encompass Health

- Interest expense and amortization of debt discounts and fees - estimate of $150 million to $160 million
- Amortization of debt-related items - approximately $10 million

Enhabit

- Interest expense and amortization of debt discounts and fees - estimate of $7 million to $12 million
- Amortization of debt-related items - approximately $0.3 million

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 149 hospitals and 252 home health locations and 99 hospice locations in 42 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.

Forward-Looking Statements

Statements contained in this press release and the supplemental information which are not historical facts, such as those relating to the timing and effects, such as the tax-free treatment, the incremental costs, transition service agreement revenue, and interest expense of the spin off and rebranding of the home health and hospice business and its impact on the business model, outlook and guidance, growth targets, the nature of the COVID-19 pandemic and its impact on Encompass Health's and Enhabit's business and financial assumptions, legislative and regulatory developments, 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 and Enhabit, through 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 and Enhabit undertake 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 and Enhabit's plans to repurchase debt or equity securities, dividend strategies, effective income tax rates, business strategy, financial plans, future financial performances, projected business results or models, ability to return value to shareholders, projected capital expenditures, leverage ratio, growth targets, 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 and Enhabit include, but are not limited to, the possibility that the sum of the values of Encompass Health and Enhabit after separation does not exceed that of the consolidated company due to, among other things, market, regulatory and other factors; the spin off does not occur as anticipated; the potential for disruption to either company's business resulting from the preparation for the spin off, 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 either company in response to the pandemic; the legal, regulatory and administrative developments that occur at the federal, state and local levels; either company's infectious disease prevention and control efforts; the demand for either 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 and Enhabit's common stock as it affects that 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 and Enhabit, including any matters related to yet undiscovered issues, if any, in acquired operations; Encompass Health's and Enhabit's ability to attract and retain key management personnel; any adverse effects on Encompass Health's and Enhabit'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 and Enhabit'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 and Enhabit'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 and Enhabit'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 and Enhabit's ability to adapt operations *to those changes; competitive pressures in the healthcare industry and Encompass Health's and Enhabit's response thereto; Encompass Health's and Enhabit's ability to obtain and retain favorable arrangements with third-party payors; Encompass Health's and Enhabit'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 and Enhabit's ability to recover improperly denied claims through the administrative appeals process on a timely basis; Encompass Health's and Enhabit'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 and Enhabit'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 and Enhabit'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 and Enhabit'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 and Enhabit's SEC filings and other public announcements, including Encompass Health's Form 10 -K for the year ended December 31, 2021 and Form 10-Q for the quarter ended March 31, 2022 and Enhabit's Form 10.*

Encompass Health - 2022 Guidance for Encompass Health and Enhabit

June 7, 2022

Encompass Health

Forward-looking statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect Encompass Health and Enhabit's current outlooks, views and plans with respect to future events, including the timing and effects, such as the tax-free treatments, the incremental costs, Transition Services Agreement revenue and interest expense of the spin off and rebranding of the home health and hospice business and its impact on the business models, outlooks and guidance, growth targets, the COVID-19 pandemic and its effects, legislative and regulatory developments, strategy, capital expenditures, acquisition and other development activities, Enhabit's share count, dividend strategies, repurchases of securities, effective tax rates, financial performance, financial assumptions, business model, balance sheet and cash flow plans, market share, and shareholder value-enhancing transactions. These estimates, projections and other forward-looking information are based on assumptions Encompass Health 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 and Enhabit undertake 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 attached Form 8-K dated June 7, 2022 to which this presentation is attached as Exhibit 99.2, the Form 10-K for the year ended December 31, 2021, the Form 10-Q for the quarter ended March 31, 2022, 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, adjusted earnings per share, and adjusted free cash flow. Schedules are attached that reconcile the historical 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.

Spin off of Enhabit

- **Spin off of Enhabit Home Health and Hospice ("Enhabit") expected on July 1, 2022**
  - The spin off is expected to be tax free to EHC shareholders. (A Private Letter Ruling request has been filed with the IRS.)
  - Form 10 filed May 25, 2022

- **Encompass Health Corporation ("Encompass Health" or the "Company") is providing separate full-year 2022 guidance for its inpatient rehabilitation business and Enhabit. The Company is also updating its 2022 consolidated guidance.**
  - This guidance reflects the challenging operating environment and the expectation of substantial improvement in the second half of the year.
    - ✓ Refer to slide 4 for updated Encompass Health consolidated guidance for 2022.
    - ✓ Refer to slides 5 to 8 for Encompass Health post spin-off guidance for 2022.
    - ✓ Refer to slides 10 to 13 for Enhabit guidance for 2022.

- **Cash dividends on common stock**
  - Encompass Health anticipates continuing to pay a cash dividend on its common stock following the spin off of Enhabit. The amount of such dividends will be determined at the discretion of Encompass Health's board of directors and is expected to decrease from its current level to reflect the separation of Enhabit.
  - Enhabit does not anticipate paying a cash dividend on its common stock.

2022 Encompass Health consolidated guidance*

($ in millions, except per share data)	2022 Prior Guidance	2022 Updated Guidance
Net Operating Revenue	$5,380 to $5,500	$5,330 to $5,420
Adjusted EBITDA[(1)]	$1,015 to $1,065	$1,005 to $1,045
Adjusted earnings per share from continuing operations attributable to Encompass Health[(2)]	$3.83 to $4.19	$3.76 to $4.05

* Consolidated guidance assumes the continuation of the current structure of the business for 2022 and excludes nonrecurring costs incurred in 2022 related to the spin off of Enhabit, including rebranding and professional fees.

Refer to slide 22 for end notes.

2022 Guidance for Encompass Health (Inpatient Rehabilitation)

($ in millions, except per share data)	2021 Adjusted*	2022 Guidance**
Net Operating Revenue	$4,015	$4,250 to $4,300
Adjusted EBITDA(1)	$817	$820 to $840
Adjusted earnings per share from continuing operations attributable to Encompass(2)	$2.93	$2.77 to $2.91

* Excludes Home Health and Hospice results

** Excludes nonrecurring costs related to the separation of Enhabit

2022 Guidance considerations for Encompass Health

Encompass Health will operate a single reportable segment: inpatient rehabilitation.

- An increase of 1.9% in Medicare pricing, prior to the resumption of sequestration
- Revenue reserves related to bad debt of approximately 2.0% of net operating revenues
- Salaries and benefits per FTE (inclusive of agency staffing costs, sign-on and shift bonuses) is expected to increase by approximately 5%. Staffing constraints and elevated costs are expected to continue in 2022 with improvement heavily skewed toward the second half of the year.
- Pre-opening and new-store ramp-up costs of $10 million to $13 million
- Reduction in general and administrative costs of $1 million to $3 million associated with the transition services agreement with Enhabit
- Interest expense of $150 million to $160 million, assuming the receipt of approximately $570 million from Enhabit with the proceeds used to pay down Encompass Health debt
- Tax rate of approximtely 26%
- Diluted share count of approximately 100 million shares
- Guidance excludes nonrecurring costs related to the separation of Enhabit.
- Following the separation, the home health and hospice segment will be reflected as a discontinued operation and excluded from revenue, adjusted EBITDA and adjusted earnings per share on a retrospective basis for all periods presented.

Adjusted free cash flow[3] assumptions for Encompass Health

Certain cash flow items ($ in millions)	2021 Adjusted*	2022 Assumptions
Cash interest payments (net of amortization of debt discounts and fees)	$156.6	$140 to $150
Cash payments for income taxes, net of refunds	$101.2	$70 to $80
Working capital and other	$71.1	$50 to $70
Maintenance CAPEX	$133.4	$200 to $240
Adjusted free cash flow	**$354.2**	**$280 to $380**

Cash interest payments expected to decrease due to debt repayment with distribution proceeds from Enhabit

Decrease due to overpayments from 2021 applied to 2022

Decrease in working capital expected due to timing of collections

Increased maintenance CAPEX related to carryover projects from 2021 (due to supply chain challenges), additional spending for equipment replacement, and renovations to existing hospitals

* Excludes Home Health and Hospice results

Refer to slide 22 for end notes.

Uses of free cash flow for Encompass Health

($ in millions)

		2021 Adjusted*	2022 Assumptions
Growth in core business	IRF bed expansions	$48.6	$40 to $50
	New IRFs		
	- De novos	314.9	320 to 340
	- Acquisitions	1.1	opportunistic
	- Replacement IRFs and other	48.9	10 to 20
		$413.5	$370 to $410
Debt reduction	Debt redemptions (borrowings), net	$1.0	TBD
Shareholder and other distributions	Cash dividends on common stock	112.4	TBD
	Common stock repurchases	—	opportunistic

- ~$198 million authorization remaining as of March 31, 2022(4)

* Excludes Home Health and Hospice results

Refer to slide 22 for end notes.

2022-2026 Growth targets for Encompass Health

6 to 10
De novos per year

100 to 150
bed additions per year

6% to 8%
Discharge CAGR

Strong and sustainable business fundamentals

- Strong demographic tailwinds
- Multi-faceted growth strategy
- Highly fragmented sector presents acquisition and joint venture opportunities
- Consistent delivery of high-quality, cost-effective care
- Economies related to scale and market density
- Substantial cash flow generation

2022 Guidance for Enhabit

($ in millions, except per share data)	2021 Adjusted*	2022 Guidance*
Net Service Revenue	$1,107	$1,080 to $1,120
Adjusted EBITDA[1]	$197	$165 to $185
Adjusted earnings per share attributable to Enhabit[2]	$2.35	$1.64 to $2.01

* Reflects Enhabit on a carve-out basis, net of overhead of $14 million and $22 million for FY 2021 and FY 2022, respectively, and excludes nonrecurring costs related to the separation from Encompass Health.

2022 Guidance considerations for Enhabit

Enhabit will operate two reportable segments: home health and hospice.

Home Health

- An increase of 3.4% in Medicare pricing prior to resumption of sequestration
- Cost per visit increase of 4% to 5%

Hospice

- Capacity constraints related to staffing early in 2022 led to a decline in hospice referrals; recovery of volumes has been slower than anticipated.
- An increase of 2.0% in Medicare pricing prior to resumption of sequestration
- Cost per patient day increase of 3% to 4%

Consolidated

- Incremental general and administrative costs of $22 million to $24 million*
- Incremental expense of $2 million to $3 million for de novo locations
- Initial funded debt of approximately $570 million, resulting in interest expense of $7 million to $12 million
- Tax rate of approximately 26%
- Diluted share count of approximately 50 million shares
- Guidance excludes nonrecurring costs related to the separation from Encompass Health.
- Guidance assumes substantial improvement in operating trends in the second half of the year.

* The incremental G&A costs for Enhabit on a full-year basis are expected to be $26 million to $28 million, with that run rate achieved by the end of FY 2023. Enhabit's FY 2022 incremental G&A is expected to be lower than this range due to the lower cost of overhead allocated from Encompass Health prior to the separation date.

Adjusted free cash flow[3] assumptions for Enhabit

Certain cash flow items ($ in millions)	2021 Adjusted*	2022 Assumptions
Cash interest payments (net of amortization of debt discounts and fees)**	$0.3	$7 to $12
Cash payments for income taxes, net of refunds	$28.4	$20 to $25
Working capital and other	$32.8	$25 to $35
Maintenance CAPEX	$5.4	$5 to $10
Adjusted free cash flow	**$130.3**	**$83 to $128**

Increase associated with borrowings under new revolver and term loan

* Reflects Enhabit on a carve-out basis.

** 2021 Adjusted primarily related to finance lease obligations on Enhabit vehicle fleet.

Refer to slide 22 for end notes.

Uses of free cash flow for Enhabit

($ in millions)		2021 Adjusted*	2022 Assumptions
Growth in core business	Home health and hospice acquisitions**	$117.5	$50 to $100
Debt reduction	Debt redemptions (borrowings), net***	$1.2	TBD

* Reflects Enhabit on a carve-out basis.

** Includes approximately $16 million related to an acquisition effective on January 1, 2022 that was paid in 2021.

*** 2021 Adjusted primarily related to finance lease obligations on Enhabit vehicle fleet. In 2022, Enhabit will be required to pay $10 million of scheduled debt amortization associated with its term loan.

2022-2026 Growth targets for Enhabit

~10%
Home Health admissions CAGR

10% to 15%
Hospice admissions CAGR

$50 million to $100 million
Acquisitions per year

Strong and sustainable business fundamentals

- Strong demographic tailwinds
- Multi-faceted growth strategies with clearly defined areas of opportunities
- Highly fragmented home health and hospice sectors present compelling consolidation opportunities
- Consistent delivery of high-quality, cost-effective care
- Economies related to scale, market density, and home health and hospice co-location strategy
- Substantial cash flow generation

Appendix

Encompass Health

Net cash provided by operating activities reconciled to Adjusted EBITDA[1]

For the Year Ended December 31, 2021

($ in millions)		
Net cash provided by operating activities	$	715.8
Interest expense and amortization of debt discounts and fees		164.6
Equity in net income of nonconsolidated affiliates		4.0
Net income attributable to noncontrolling interests in continuing operations		(105.0)
Amortization of debt-related items		(7.8)
Distributions from nonconsolidated affiliates		(2.9)
Current portion of income tax expense		111.8
Change in assets and liabilities		118.0
Cash used in operating activities of discontinued operations		0.5
Costs associated with the strategic alternatives review		22.9
Costs associated with the Frontier acquisition		1.3
Change in fair market value of equity securities		(0.6)
Other		5.4
Remove Home Health and Hospice segment Adjusted EBITDA		(211.5)
Adjusted EBITDA for Encompass Health	**$**	**816.5**

Refer to slide 22 for end notes.

Encompass Health

Reconciliation of net cash provided by operating activities to adjusted free cash flow(3)

For the Year Ended December 31, 2021

($ in millions)		
Net cash provided by operating activities	$	715.8
Impact of discontinued operations		0.5
Net cash provided by operating activities of continuing operations		716.3
Capital expenditures for maintenance		(138.8)
Distributions paid to noncontrolling interests of consolidated affiliates		(102.9)
Items not indicative of ongoing operating performance:		
Transaction costs and related assumed liabilities		24.2
Remove Home Health and Hospice segment results		(144.6)
Adjusted free cash flow for Encompass Health	**$**	**354.2**
Cash dividends on common stock	**$**	**112.4**

Refer to slide 22 for end notes.

Encompass Health

Adjusted EPS(2)

For the Year Ended December 31, 2021

	As Reported	Loss on Early Exting. of Debt	Income Tax Adjustments	Costs Associated with the Strategic Alternatives Review	Costs Associated with the Frontier Acquisition	Change in Fair Market Value of Equity Securities	Gain on Consolidation of Former Equity Method Location(6)	Remove Home Health and Hospice Segment Results	Encompass As Adjusted
		Adjustments ($ in millions, except per share amounts)							
Adjusted EBITDA	$ 1,028.0	$ —	$ —	$ —	$ —	$ —	$ —	$ (211.5)	$ 816.5
Depreciation and amortization	(256.6)	—	—	—	—	—	—	37.0	(219.6)
Loss on early extinguishment of debt(5)	(1.0)	1.0	—	—	—	—	—	—	—
Interest expense and amortization of debt discounts and fees	(164.6)	—	—	—	—	—	—	0.3	(164.3)
Stock-based compensation	(32.8)	—	—	—	—	—	—	3.7	(29.1)
Loss on disposal or impairment of assets	(0.4)	—	—	—	—	—	—	(0.8)	(1.2)
Costs associated with the strategic alternatives review	(22.9)	—	—	22.9	—	—	—	—	—
Costs associated with the Frontier acquisition	(1.3)	—	—	—	1.3	—	—	—	—
Change in fair market value of equity securities	0.6	—	—	—	—	(0.6)	—	—	—
Gain on consolidation of former equity method location(6)	3.2	—	—	—	—	—	(3.2)	—	—
Income from continuing operations before income tax expense	$ 552.2	1.0	—	22.9	1.3	(0.6)	(3.2)	(171.3)	402.3
Provision for income tax expense	(139.6)	(0.3)	(4.9)	(5.9)	(0.3)	0.2	0.8	41.7	(108.3)
Income from continuing operations attributable to Encompass Health	$ 412.6	$ 0.7	$ (4.9)	$ 17.0	$ 1.0	$ (0.4)	$ (2.4)	$ (129.6)	$ 294.0
Diluted earnings per share from continuing operations*	$ 4.11	$ 0.01	$ (0.05)	$ 0.17	$ 0.01	$ —	$ (0.02)	$ 1.29	$ 2.93
Diluted shares used in calculation	100.2								

* Adjusted EPS may not sum across due to rounding.
Refer to slide 22 for end notes.

Enhabit

Reconciliation of net income to Adjusted EBITDA[1]

For the Year Ended December 31, 2021

($ in millions)		
Net Income	$	112.9
Income tax expense		35.1
Interest expense		0.3
Depreciation and amortization		36.9
Loss on disposal or impairment of assets		(0.8)
Stock-based compensation		3.6
Stock-based compensation included in overhead allocation		2.3
Net income attributable to noncontrolling interest		(1.8)
Transaction costs		11.9
Gain on consolidation of joint venture formerly accounted for under the equity method of accounting[6]		(3.2)
Adjusted EBITDA for Enhabit	**$**	**197.2**

Refer to slide 22 for end notes.

Enhabit

Reconciliation of net cash provided by operating activities to adjusted free cash flow[3]

For the Year Ended December 31, 2021

($ in millions)		
Net cash provided by operating activities	$	123.3
Capital expenditures for maintenance		(5.4)
Distributions paid to noncontrolling interests of consolidated affiliates		(1.8)
Stock-based compensation included in overhead allocation		2.3
Items not indicative of ongoing operating performance:		
Transaction costs and related assumed liabilities		11.9
Adjusted Free Cash Flow for Enhabit	**$**	**130.3**

Refer to slide 22 for end notes.

Enhabit

Adjusted EPS(2)

For the Year Ended December 31, 2021

	As Reported	Income Tax Adjustments	Transaction Costs	Gain on Consolidation of Former Equity Method Joint Venture(6)	Additional Shares Outstanding	Enhabit As Adjusted
		Adjustments				
	($ in millions, except per share amounts)					
Adjusted EBITDA	$ 197.2	$ —	$ —	$ —	$ —	$ 197.2
Depreciation and amortization	(36.9)	—	—	—	—	(36.9)
Interest expense	(0.3)	—	—	—	—	(0.3)
Loss on disposal or impairment of assets	0.8	—	—	—	—	0.8
Stock-based compensation	(3.6)	—	—	—	—	(3.6)
Stock-based compensation included in overhead allocation	(2.3)	—	—	—	—	(2.3)
Transaction costs	(11.9)	—	11.9	—	—	—
Gain on consolidation of joint venture formerly accounted for under the equity method of accounting(6)	3.2	—	—	(3.2)	—	—
Income before income tax expense	$ 146.2	—	11.9	(3.2)	—	154.9
Provision for income tax expense	(35.1)	(0.3)	(2.9)	0.8	—	(37.5)
Net Income attributable to Enhabit	$ 111.1	$ (0.3)	$ 9.0	$ (2.4)	$ —	$ 117.4
Diluted earnings per share*	$ 28.49	$ (0.08)	$ 2.31	$ (0.62)	$ (27.75)	$ 2.35
Diluted shares used in calculation	3.9				46.1	50.0

* Adjusted EPS may not sum across due to rounding.
Refer to slide 22 for end notes.

End notes

(1) Adjusted EBITDA is a non-GAAP financial measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure. This measure is not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance. In evaluating Adjusted EBITDA, the reader should be aware that in the future Encompass Health and Enhabit may incur expenses similar to the adjustments set forth.

(2) The Company is providing adjusted earnings per share from continuing operations attributable to either Encompass Health and Enhabit, respectively ("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 ongoing operating performance. Accordingly, they can complicate comparisons of results of operations across periods and comparisons of 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.*

(3) 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.

(4) 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, 2022, the remaining repurchase authorization was approximately $198 million.

(5) In the second quarter of 2021, the Company redeemed a total of $200 million of 5.125% Senior Notes due 2023 ($100 million in April and $100 million in June). The redemptions were completed at 100% of par using cash on hand and drawings under the Company's revolving credit facility. As a result of the redemptions, the Company recorded a $1.0 million loss on early extinguishment of debt in the second quarter of 2021.

(6) As a result of an amendment to the joint venture agreement related to our home health location in Boynton Beach, Florida, the accounting for this agency changed from the equity method of accounting to a consolidated entity effective December 1, 2021. 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 $3.2 million gain as part of other income in the fourth quarter of 2021.

* Reconciliations to GAAP provided on slides 16-21.