The Ensign Group, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures
Three and Nine Months Ended September 30, 2016
(Financial Table Follows)

Non-GAAP Financial Measures

EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR are supplemental non-GAAP financial measures. Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other provisions of the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for use of certain non-GAAP financial information. We calculate EBITDA as net income, adjusted for net losses attributable to non-controlling interest, before (a) interest expense, net, (b) provision for income taxes, and (c) depreciation and amortization. We calculate EBITDAR by adjusting EBITDA to exclude rent—cost of services. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures should not be relied upon to the exclusion of GAAP financial measures. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business.

We believe EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR are useful to investors and other external users of our financial statements in evaluating our operating performance because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall operating performance of companies in our industry without regard to items such as interest expense, net and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets, capital structure and the method by which assets were acquired; and

- they help investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating results.

We use EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis;

- to allocate resources to enhance the financial performance of our business;

- to evaluate the effectiveness of our operational strategies; and

- to compare our operating performance to that of our competitors.

We typically use EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR to compare the operating performance of each operation. EBITDA and EBITDAR are useful in this regard because they do not include such costs as net interest expense, income taxes, depreciation and amortization expense, and, with respect to EBITDAR, rent — cost of services, which may vary from period-to-period depending upon various factors, including the method used to finance facilities, the amount of debt that we have incurred, whether a facility is owned or leased, the date of acquisition of a facility or business, and the tax law of the state in which a business unit operates. As a result, we believe that the use of EBITDA and EBITDAR provide a meaningful and consistent comparison of our business between periods by eliminating certain items required by GAAP.

We also establish compensation programs and bonuses for our leaders that are partially based upon the achievement of Adjusted EBITDAR targets.

Despite the importance of these measures in analyzing our underlying business, designing incentive compensation and for our goal setting, EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR are non-GAAP financial measures that have no standardized meaning defined by GAAP. Therefore, our EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR measures have limitations as analytical tools, and they should not be considered in isolation, or as a substitute for analysis of our results as reported in accordance with GAAP. Some of these limitations are:

- they do not reflect our current or future cash requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the net interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- they do not reflect any income tax payments we may be required to make;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and EBITDAR do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, which may limit their usefulness as comparative measures.

We compensate for these limitations by using them only to supplement net income on a basis prepared in accordance with GAAP in order to provide a more complete understanding of the factors and trends affecting our business.

(2) Adjusted EBITDA is EBITDA adjusted for non-core business items, which for the reported periods includes, to the extent applicable:

- results at our urgent care centers (including the portion related to non-controlling interest);
- costs incurred for facilities currently being constructed and other start-up operations;
- results at one closed facility, including continued obligation under the lease and related closing expenses;
- share-based compensation expense;
- gain on sale of urgent care centers;
- insurance reserves in connection with the settlement of claims;
- acquisition-related costs;
- costs incurred related to new systems implementation and professional service fees including costs incurred to recognize income tax credits; and
- breakup fee, net of costs, received in connection with a public auction in which we were the priority bidder.

Adjusted EBITDAR is EBITDAR adjusted for the above noted non-core business items.

Management strongly encourages investors to review our consolidated financial statements in their entirety and to not rely on any single financial measure. Because these non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. For information about our financial results as reported in accordance with GAAP, see our consolidated financial statements and related notes included in our Quarterly Report on Form 10-Q.

The table below reconciles net income to EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR for the periods presented:

THE ENSIGN GROUP, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION
(In thousands)
(Unaudited)

The table below reconciles net income to EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Consolidated Statements of Income Data:				
Net income	11,184	13,159	31,837	41,480
Less: net income (loss) attributable to noncontrolling interests	29	(313)	184	(351)
Interest expense, net	1,899	560	4,202	1,432
Provision for income taxes	6,957	7,869	20,124	25,833
Depreciation and amortization	10,911	7,288	28,981	20,185
EBITDA	30,922	29,189	84,960	89,281
Facility rent—cost of services	33,342	24,500	91,074	62,531
EBITDAR	64,264	53,689	176,034	151,812
EBITDA	$ 30,922	$ 29,189	$ 84,960	$ 89,281
Adjustments to EBITDA:				
Urgent care center earnings(a)	(634)	(418)	(2,501)	(1,982)
Costs incurred for facilities currently being constructed and other start-up operations(b)	1,338	918	3,150	1,526
Results at closed facility, including continued obligations and closing expenses (c)	131	-	8,462	-
Share-based compensation expense(d)	2,242	1,722	6,907	4,948
Gain on sale of urgent care centers(e)	(2,505)	-	(2,505)	-
Insurance reserve in connection with the settlement of claims(f)	3,115	-	4,701	-
Acquisition related costs(g)	45	203	938	793
Costs incurred related to new systems implementation and professional service fees(h)	126	920	1,073	2,119
Breakup fee, net of costs, received in connection with a public auction(i)	-	-	-	(1,019)
Rent related to items(a), (b), and (c) above	3,689	540	8,350	1,556
Adjusted EBITDA	$ 38,469	$ 33,074	$ 113,535	$ 97,222
Rent—cost of services	33,342	24,500	91,074	62,531
Less: rent related to items(a), (b) and (c) above	(3,689)	(540)	(8,350)	(1,556)
Adjusted EBITDAR	$ 68,122	$ 57,034	$ 196,259	$ 158,197

(a) Operating results at urgent care centers. This amount excludes rent, depreciation and interest of $0.8 million and $2.5 million for the three and nine months ended September 30, 2016 and 2015, respectively. The results also exclude the net loss attributable to the variable interest entity associated with our urgent care business.

(b) Costs incurred for facilities currently being constructed and other start-up operations. This amount excludes rent, depreciation and interest of $3.4 million and $7.2 million for the three and nine months ended September 30, 2016, respectively. Rent, depreciation and interest expenses were not material for the three and nine months ended September 30, 2015.

(c) Results at closed facility during three and nine months ended September 30, 2016, including the fair value of continued obligation under lease agreement and related closing expenses of $7.9 million and operating losses of $0.2 million for the nine months ended September 30, 2016.

(d) Share-based compensation expense incurred during the three and nine months ended September

(e) Gain on the sale of urgent care centers.

(f) Insurance reserves in connection with the settlement of claims.

(g) Costs incurred to acquire an operation which are not capitalizable.

(h) Costs incurred related to new systems implementation and income tax credits which contributed to a decrease in effective tax rate.

(i) Breakup fee, net of costs, received in connection with a public auction in which we were the priority bidder.

The table below reconciles net income to EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR for each reportable segment for the periods presented:

THE ENSIGN GROUP, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION
(In thousands)
(Unaudited)

The table below reconciles net income to EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR for each reportable segment for the periods presented:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	2016	2015	2016	2015	2016	2015
	TSA Services		Home Health and Hospice		TSA Services		Home Health and Hospice	
Statements of Income Data:								
Income from operations, excluding general and administrative expense(a)	$ 31,807	$ 36,226	$ 4,499	$ 4,067	$ 98,761	$ 108,592	$ 12,024	$ 9,738
Depreciation and amortization	8,680	5,542	215	258	22,757	15,368	711	703
EBITDA	$ 40,487	$ 41,768	$ 4,714	$ 4,325	$ 121,518	$ 123,960	$ 12,735	$ 10,441
Rent—cost of services	32,338	23,574	404	332	88,071	59,950	1,151	866
EBITDAR	$ 72,825	$ 65,342	$ 5,118	$ 4,657	$ 209,589	$ 183,910	$ 13,886	$ 11,307
EBITDA	$ 40,487	$ 41,768	$ 4,714	$ 4,325	$ 121,518	$ 123,960	$ 12,735	$ 10,441
Adjustments to EBITDA:								
Costs at facilities currently being constructed and other start-up operations(b)	1,299	836	39	59	3,072	1,983	78	—
Results at closed facility, including continued obligations and closing expenses (c)	131	—	—	—	8,462	—	—	—
Share-based compensation expense(d)	1,123	997	66	—	3,460	2,890	204	181
Insurance reserve in connection with the settlement of claims(e)	3,115	—	—	—	4,701	—	—	—
Rent related to item(b) and (c)above	3,175	—	9	—	6,645	—	27	—
Adjusted EBITDA	$ 49,330	$ 43,601	$ 4,828	$ 4,384	$ 147,858	$ 128,833	$ 13,044	$ 10,622
Rent—cost of services	32,338	23,574	404	332	88,071	59,950	1,151	866
Less: rent related to items(b) and (c)above	(3,175)	—	(9)	—	(6,645)	—	(27)	—
Adjusted EBITDAR	$ 78,493	$ 67,175	$ 5,223	$ 4,716	$ 229,284	$ 188,783	$ 14,168	$ 11,488

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

(b) Costs incurred for facilities currently being constructed and other start-up operations. This amount excludes rent, depreciation and interest of $3.4 million and $7.2 million for the three and nine months ended September 30, 2016, respectively. Rent, depreciation and interest expenses were not material for the three and nine months ended September 30, 2015.

(c) Results at closed facility during three and nine months ended September 30, 2016, including the fair value of continued obligation under lease agreement and related closing expenses of $7.9 million and operating losses of $0.2 million for the nine months ended September 30, 2016.

(d) Share-based compensation expense incurred during the three and nine months ended September 30, 2016 and 2015.