

THE ENSIGN GROUP, INC. □
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION
(In thousands, except per share data)
(Unaudited)

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net income attributable to The Ensign Group, Inc.	\$ 26,360	\$ 11,206	\$ 92,364	\$ 40,475
Non-GAAP adjustments				
Results related to facilities currently being constructed and other start-up operations(a)	492	2,374	3,840	13,378
Charges related to the settlement/(return of unclaimed class action settlement) of the class action lawsuit	-	14	(1,664)	11,177
Share-based compensation expense(b)	2,697	2,941	10,337	9,695
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(c)	222	4	933	5,602
Bonus accrual as a result of the Tax Act(d)	-	3,100	-	3,100
Losses/(business interruption gains) related to Hurricane Harvey and California fires(e)	-	741	(675)	1,299
Depreciation and amortization - patient base(f)	91	180	242	733
General and administrative - transaction-related costs(g)	23	100	361	717
COS - Goodwill and long-lived assets impairment(h)	4,632	-	7,809	-
Professional service fees(i)	-	80	-	80
Provision for income taxes on non-GAAP adjustments(j)	(5,107)	344	(11,416)	(12,399)
Non-GAAP net income	<u>\$ 29,410</u>	<u>\$ 21,084</u>	<u>\$ 102,131</u>	<u>\$ 73,857</u>
Diluted Earnings Per Share As Reported				
Net income	<u>\$ 0.48</u>	<u>\$ 0.21</u>	<u>\$ 1.70</u>	<u>\$ 0.77</u>
Average number of shares outstanding	<u>54,967</u>	<u>53,176</u>	<u>54,397</u>	<u>52,829</u>
Adjusted Diluted Earnings Per Share				
Net income	<u>0.54</u>	<u>0.40</u>	<u>1.88</u>	<u>1.40</u>
Average number of shares outstanding	<u>54,967</u>	<u>53,176</u>	<u>54,397</u>	<u>52,829</u>

Footnotes:

(a) Represents operating results for facilities currently being constructed and other start-up operations.

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue	\$ (17,029)	\$ (17,480)	\$ (66,606)	\$ (62,686)
Cost of services	13,661	15,726	55,106	59,424
Rent	3,627	3,865	14,377	15,559
Depreciation and amortization	233	263	963	1,081
Total Non-GAAP adjustment	<u>\$ 492</u>	<u>\$ 2,374</u>	<u>\$ 3,840</u>	<u>\$ 13,378</u>

(b) Represents share-based compensation expense incurred.

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Cost of services	\$ 1,494	\$ 1,219	\$ 5,665	\$ 4,988
General and administrative	1,203	1,722	4,672	4,707
Total Non-GAAP adjustment	<u>\$ 2,697</u>	<u>\$ 2,941</u>	<u>\$ 10,337</u>	<u>\$ 9,695</u>

(c) Represents results at closed operations and operations not at full capacity, including the fair value of continued obligation under the lease agreement and related closing expenses of \$4.0 million for the year ended December 31, 2017. Included in the three months and year ended December 31, 2017 results is the loss recovery of \$1.3 million of certain losses related to a closed facility in the prior year.

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue	\$ -	\$ -	\$ -	\$ (2,805)
(Gains)/Losses related to operational closures	-	(410)	-	2,321
Cost of services	137	321	601	5,115
Rent	76	93	301	885

Depreciation and amortization	9	-	31	86
Total Non-GAAP adjustment	\$ 222	\$ 4	\$ 933	\$ 5,602

(d) Represent bonus accrual as a result of the Tax Act.

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Cost of services	-	600	-	600
General and administrative	-	2,500	-	2,500
Total Non-GAAP adjustment	\$ -	\$ 3,100	\$ -	\$ 3,100

(e) Losses and business interruption recoveries related to Hurricane Harvey and California fires.

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Revenue	\$ -	\$ 870	\$ -	\$ 638
Cost of services	-	(129)	(675)	604
Rent	-	-	-	50
Depreciation and amortization	-	-	-	7
Total Non-GAAP adjustment	\$ -	\$ 741	\$ (675)	\$ 1,299

(f) Included in depreciation and amortization are amortization expenses related to patient base intangible assets at newly acquired skilled nursing and assisted living facilities.

(g) Included in general and administrative expense are costs incurred to acquire an operation which are not capitalizable.

(h) Impairment charges to goodwill and long-lived assets at one of our other ancillary operations and two assisted living facilities.

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Cost of services	4,632	-	8,285	-
Non-controlling interest	-	-	(476)	-
Total Non-GAAP adjustment	\$ 4,632	\$ -	\$ 7,809	\$ -

(i) Included in general and administrative expense are professional fees associated with income tax rate credits, tax reform impacts and adoption of the new revenue recognition standard.

(j) Represents an adjustment to the provision for income tax to our historical year to date effective tax rate of 25.0%, resulting from the adoption of the Tax Cuts and Jobs Act, for the three months and year ended December 31, 2018 and 35.5% for the three months and year ended December 31, 2017.