The Ensign Group, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures
Three Months and Year Ended December 31, 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 a closed facility and a facility not in full operation, 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 December 31,		Year Ended December 31,	
	2016	2015	2016	2015
Consolidated Statements of Income Data:				
Net income	21,006	14,437	52,843	55,917
Less: net income (loss) attributable to noncontrolling interests	2,669	836	2,853	485
Interest expense, net	1,826	551	6,029	1,983
Provision for income taxes	12,851	9,349	32,975	35,182
Depreciation and amortization	9,701	7,926	38,682	28,111
EBITDA	42,715	31,427	127,676	120,708
Facility rent—cost of services	33,507	26,245	124,581	88,776
EBITDAR	76,222	57,672	252,257	209,484
EBITDA	$ 42,715	$ 31,427	$ 127,676	$ 120,708
Adjustments to EBITDA:				
Gain on sale of urgent care centers(a)	(16,655)	-	(19,160)	-
Results related to a closed facility and a facility not at full operation, including continued obligations and closing expenses(b)	244	-	8,705	-
Share-based compensation expense(c)	2,194	1,729	9,101	6,677
Costs incurred for facilities currently being constructed and other start-up operations(d)	699	1,528	3,850	3,054
Insurance reserve in connection with the settlement of claims(e)	223	-	4,924	-
Urgent care center loss (earnings)(f)	2,768	850	267	(1,132)
Acquisition related costs(g)	164	604	1,102	1,397
Costs incurred related to new systems implementation and professional service fee(h)	76	698	1,148	2,817
Breakup fee, net of costs, received in connection with a public auction(i)	-	-	-	(1,019)
Rent related to items(a),(b) and (d) above	4,135	1,190	12,485	2,746
Adjusted EBITDA	$ 36,563	$ 38,026	$ 150,098	$ 135,248
Rent—cost of services	33,507	26,245	124,581	88,776
Less: rent related to items(a), (b) and (d) above	(4,135)	(1,190)	(12,485)	(2,746)
Adjusted EBITDAR	$ 65,935	$ 63,081	$ 262,194	$ 221,278

(a) Gain recognized related to the sale of urgent care centers during the year ended December 31, 2016.

(b) Results related to a closed facility and a facility not at full operation during year ended December 31, 2016, including the fair value of a continued obligation liability under the lease agreement and related closing expenses of $7.9 million for the year ended December 31, 2016.

(c) Share-based compensation expense incurred during the years ended December 31, 2016 and 2015.

(d) Costs incurred for facilities currently being constructed and other start-up operations. This amount excludes rent, depreciation and interest expense.

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

(f) Operating results at urgent care centers. This amount excludes rent, depreciation, interest expense and the net loss attributable to the variable interest entity

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

(h) Costs incurred related to new systems implementation; income tax credits which contributed to a decrease in effective tax rate; and expenses incurred in connection with the stock-split effected in December 2015.

(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:

	Year Ended December 31,					
	2016	2015	2016	2015	2016	2015
	Transitional and Skilled Services		Assisted and Independent Living Services		Home Health and Hospice Services	
Statements of Income Data:						
Income from operations, excluding general and administrative expense(a)	$ 118,118	$ 136,744	$ 11,701	$ 11,463	$ 16,571	$ 13,584
Depreciation and amortization	26,298	18,008	4,157	3,338	924	980
EBITDA	$ 144,416	$ 154,752	$ 15,858	$ 14,801	$ 17,495	$ 14,564
Rent—cost of services	91,761	69,285	28,906	15,931	1,151	1,235
EBITDAR	$ 236,177	$ 224,037	$ 44,764	$ 30,732	$ 18,646	$ 15,799
EBITDA	$ 144,416	$ 154,752	$ 15,858	$ 14,801	$ 17,495	$ 14,564
Adjustments to EBITDA:						
Costs at facilities currently being constructed and other start-up operations(b)	2,968	3,043	727	-	155	11
Results related to a closed facility and a facility not at full operation, including continued obligations and closing expenses(c)	8,705	-	-	-	-	-
Share-based compensation expense(d)	4,192	3,662	365	271	287	241
Insurance reserve in connection with the settlement of claims(e)	4,924	-	-	-	-	-
Rent related to item(b) and (c)above	7,032	644	3,396	-	36	5
Adjusted EBITDA	172,237	162,101	20,346	15,072	17,973	14,821
Rent—cost of services	91,761	69,285	28,906	15,931	1,151	1,235
Less: rent related to items(b) and (c)above	(7,032)	(644)	(3,396)	-	(36)	(5)
Adjusted EBITDAR	$ 256,966	$ 230,742	$ 45,856	$ 31,003	$ 19,088	$ 16,051

(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.
(c) Results related to a closed facility and a facility not at full operation, including the fair value of continued obligation under lease agreement and related closing expenses of $7.9 million for the year ended December 31, 2016.
(d) Share-based compensation expense incurred during the three months and years ended December 31, 2016 and 2015.
(e) Insurance reserves in connection with the settlement of claims.

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 December 31,					
	2016	2015	2016	2015	2016	2015
	Transitional and Skilled Services		Assisted and Independent Living Services		Home Health and Hospice Services	
Statements of Income Data:						
Income from operations, excluding general and administrative expense(a)	$ 28,473	$ 36,259	$ 2,585	$ 3,356	$ 16,571	$ 3,846
Depreciation and amortization	6,661	4,923	1,036	1,055	215	277
EBITDA	$ 35,134	$ 41,182	$ 3,621	$ 4,411	$ 16,786	$ 4,123
Rent—cost of services	25,314	18,468	7,283	6,797	404	369
EBITDAR	$ 60,448	$ 59,650	$ 10,904	$ 11,208	$ 17,190	$ 4,492
EBITDA	$ 35,134	$ 41,182	$ 3,621	$ 4,411	$ 16,786	$ 4,123
Adjustments to EBITDA:						
Costs at facilities currently being constructed and other start-up operations(b)	688	1,060	(66)	-	77	11
Results related to a closed facility and a facility not at full operation, including continued obligations and closing expenses(c)	244	-	-	-	-	-
Share-based compensation expense(d)	1,009	954	88	89	83	60
Insurance reserve in connection with the settlement of claims(e)	223	-		-	—	—
Rent related to item(b) and (c)above	2,437	644	1,283	-	9	5
Adjusted EBITDA	39,735	43,840	4,926	4,500	16,955	4,199
Rent—cost of services	25,314	18,468	7,283	6,797	404	369
Less: rent related to items(b) and (c)above	(2,437)	(644)	(1,283)	-	(9)	(5)
Adjusted EBITDAR	$ 62,612	$ 61,664	$ 10,926	$ 11,297	$ 17,350	$ 4,563

(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.
(c) Results related to a closed facility and a facility not at full operation, including the fair value of continued obligation under lease agreement and related closing expenses of $7.9 million for the year ended December 31, 2016.
(d) Share-based compensation expense incurred during the three months and years ended December 31, 2016 and 2015.
(e) Insurance reserves in connection with the settlement of claims.