

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

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME

The following table reconciles net income to Non-GAAP net income for the periods presented:

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Year Ended</u> <u>December 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income from continuing operations	\$ 46,321	\$ 27,394	\$ 170,478	\$ 91,690
Net income from discontinued operations, net of tax	—	—	—	18,844
Net income attributable to The Ensign Group, Inc.	<u>\$ 46,321</u>	<u>\$ 27,394</u>	<u>\$ 170,478</u>	<u>\$ 110,534</u>
Non-GAAP adjustments				
Stock-based compensation expense(a)	3,588	3,107	14,524	11,322
Results related to operations not at full capacity(b)	647	1,311	1,499	3,505
Acquisition related costs(c)	—	132	104	277
Depreciation and amortization - patient base(d)	19	260	259	521
General and administrative - Spin-Off transaction costs(e)	—	464	—	464
COS - gain on sale of fixed assets, net of impairment charges(f)	—	1,732	—	329
COS - impairment of goodwill and intangibles(g)	—	941	—	941
Interest expense - write off of deferred financing fees(h)	—	329	—	329
Provision for income taxes on Non-GAAP adjustments(i)	(5,693)	(2,141)	(12,256)	(9,509)
Non-GAAP income from continuing operations	\$ 44,882	\$ 33,529	\$ 174,608	\$ 99,869
Non-GAAP income from discontinued operations(j)	—	—	—	25,688
Non-GAAP net income	<u>\$ 44,882</u>	<u>\$ 33,529</u>	<u>\$ 174,608</u>	<u>\$ 125,557</u>
Average number of diluted shares outstanding	56,307	55,760	55,787	55,981
Diluted Earnings Per Share As Reported				
Continuing operations	\$ 0.82	\$ 0.49	\$ 3.06	\$ 1.64
Discontinued operations	—	—	—	0.33
Diluted income per share attributable to The Ensign Group, Inc.	<u>\$ 0.82</u>	<u>\$ 0.49</u>	<u>\$ 3.06</u>	<u>\$ 1.97</u>
Adjusted Diluted Earnings Per Share				
Continuing operations	\$ 0.80	\$ 0.60	\$ 3.13	\$ 1.78
Discontinued operations	—	—	—	0.46
Diluted income per share attributable to The Ensign Group, Inc.	<u>\$ 0.80</u>	<u>\$ 0.60</u>	<u>\$ 3.13</u>	<u>\$ 2.24</u>

Footnotes:

(a) Represents stock-based compensation expense incurred.

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Year Ended</u> <u>December 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of services	\$ 2,277	\$ 2,001	\$ 9,686	\$ 7,036
General and administrative	1,311	1,106	4,838	4,286
Total Non-GAAP adjustment	<u>\$ 3,588</u>	<u>\$ 3,107</u>	<u>\$ 14,524</u>	<u>\$ 11,322</u>

(b) Represents results to operations not at full capacity

	Three Months Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Revenue	\$ (1,020)	\$ (4,212)	\$ (3,161)	\$ (8,609)
Cost of services	1,583	4,708	4,344	10,289
Rent	28	443	100	921
Depreciation and amortization	56	372	216	904
Total Non-GAAP adjustment	\$ 647	\$ 1,311	\$ 1,499	\$ 3,505

(c) Represents costs incurred to acquire an operation which are not capitalizable.

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

(e) Included in general and administrative expense are costs incurred in connection with the Completed Spin-Off of our home health and hospice operations and substantially all of our senior living operations to a newly formed publicly traded company subsequent to the Spin-off date. Expenses incurred prior to Spin-Off date are included in discontinued operations as an adjustment.

(f) Impairment charges to fixed assets includes impairment charges of \$1.7 million at one of our skilled nursing operations during the three months ended December 31, 2019. Additionally, included in the year ended December 31, 2019, impairment charges of \$1.5 million at two of our senior living operations and at the skilled nursing operation mentioned, offset by the gain recognized for the sale of real estate of \$2.9 million.

(g) Impairment charges to goodwill and intangible assets at our other ancillary operations and a skilled nursing operation.

(h) Represents the write off of deferred financing fees associated with the amendment of the credit facility.

(i) Represents an adjustment to the provision for income tax to our historical year to date effective tax rate of 25.0% for the three months and years ended December 31, 2020 and 2019.

(j) Represents results of the home health, hospice and senior living operations we transferred to the Pennant Group, Inc. as a result of the Spin-Off.

	Year Ended December 31,
	2019
Revenue	\$ 248,713
Cost of services	(185,963)
General and administrative expenses	(8,037)
Rent	(17,283)
Depreciation and amortization	(2,367)
Interest income, net	26
Provision for income taxes	(8,772)
Non-controlling interest	(629)
Non-GAAP net income from discontinued operations	\$ 25,688