The Ensign Group, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
Three and Year Ended December 31, 2021
(Financial Table Follows)

Non-GAAP Financial Measures

The following discussion includes references to EBITDA, Adjusted EBITDA, Adjusted EBITDAR and Funds from Operations (FFO) which are non-GAAP financial measures (collectively, the 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 (the Exchange Act), define and prescribe the conditions for use of certain non-GAAP financial information. 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 the presentation of certain Non-GAAP Financial Measures are useful to investors and other external users of our financial statements regarding our results of operations because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall 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 the Non-GAAP Financial Measures:

- 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 assess the value of a potential acquisition;
- to assess the value of a transformed operation's performance;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We use certain Non-GAAP Financial Measures to compare the operating performance of each operation. These measures are useful in this regard because they do not include such costs as net interest expense, income taxes, depreciation and amortization expense, which may vary from period-to-period depending upon various factors, including the method used to finance operations, the amount of debt that we have incurred, whether an operation 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.

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, the Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, certain of our Non-GAAP Financial 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 rent expenses, which are necessary to operate our leased operations, in the case of Adjusted EBITDAR;
- 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 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.

Management strongly encourages investors to review our condensed 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. These Non-GAAP Financial Measures should not be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. We strongly urge you to review the reconciliation of income from operations to the Non-GAAP Financial Measures in the table below, along with our condensed consolidated financial statements and related notes included elsewhere in this document.

We use the following Non-GAAP financial measures that we believe are useful to investors as key valuation and operating performance measures:

PERFORMANCE MEASURES:

EBITDA

We believe EBITDA is useful to investors in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base (depreciation and amortization expense) from our operating results.

We calculate EBITDA as net income, adjusted for net losses attributable to noncontrolling interest, before (a) interest expense, net, (b) provision for income taxes, and (c) depreciation and amortization.

Adjusted EBITDA

We adjust EBITDA when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance, in the case of Adjusted EBITDA. We believe that the presentation of Adjusted EBITDA, when combined with EBITDA and GAAP net income attributable to The Ensign Group, Inc., is beneficial to an investor's complete understanding of our operating performance.

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

- stock-based compensation expense;
- legal, transactional, and other costs;
- business interruptions gain and gain on sale of assets;
- results related to operations not at full capacity;
- acquisition related costs;
- costs incurred related to new systems implementation; and
- rent related to items above.

Funds from Operations (FFO)

We consider FFO to be a useful supplemental measure of the operating performance of our real estate segment. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many real estate investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts (NAREIT) created FFO as a supplemental measure of operating performance for REITs, which excludes historical cost depreciation from net income. We define (in accordance with the definition used by NAREIT) FFO to mean net income attributable to common stockholders (NICS), computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable real estate assets and including depreciation and amortization related to real estate to earnings.

VALUATION MEASURE:

Adjusted EBITDAR

We use Adjusted EBITDAR as one measure in determining the value of prospective acquisitions. It is also a commonly used measure by our management, research analysts and investors, to compare the enterprise value of different companies in the healthcare industry, without regard to differences in capital structures and leasing arrangements. Adjusted EBITDAR is a financial valuation measure that is not specified in GAAP. This measure is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring operating expense.

The adjustments made and previously described in the computation of Adjusted EBITDA are also made when computing Adjusted EBITDAR. We calculate Adjusted EBITDAR by excluding rent-cost of services from Adjusted EBITDA.

We believe the use of Adjusted EBITDAR allows the investor to compare operational results of companies who have operating and capital leases. A significant portion of capital lease expenditures are recorded in interest, whereas operating lease expenditures are recorded in rent expense.

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

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

	Three Months Ended December 31,		Year Ended December 31,	
	2021	2020	2021	2020
Consolidated Statements of Income Data:				
Net income	$ 48,961	$ 46,162	$ 197,725	$ 171,364
Less: net income attributable to noncontrolling interests	221	(159)	3,073	886
Add: Interest expense, net	(406)	481	2,461	5,549
Provision for income taxes	17,059	9,216	60,279	46,242
Depreciation and amortization	14,602	13,489	55,985	54,571
EBITDA	$ 79,995	$ 69,507	$ 313,377	$ 276,840
Adjustments to EBITDA:				
Stock-based compensation expense	4,909	3,588	18,678	14,524
Legal, transactional and other costs(a)	5,232	—	5,689	—
Business interruptions gain and gain on sale of assets	(1,825)	—	(2,365)	—
Results related to operations not at full capacity	—	563	585	1,183
Acquisition related costs(b)	50	—	384	104
Costs incurred related to new systems implementation	69	—	186	—
Rent related to items above	—	28	38	100
Adjusted EBITDA	$ 88,430	$ 73,686	$ 336,572	$ 292,751
Rent—cost of services	35,837	32,608	139,371	129,926
Less: rent related to items above	—	(28)	(38)	(100)
Adjusted rent	35,837	32,580	139,333	129,826
Adjusted EBITDAR	$ 124,267		$ 475,905	

(a) Legal, transactional and other costs incurred related to the formation of Standard Bearer and other real estate related activities.
(b) Costs incurred to acquire operations which are not capitalizable.

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

Skilled Services

The table below reconciles net income to EBITDA and Adjusted EBITDA for the skilled services reportable segment for the periods presented:

	Three Months Ended December 31,		Year Ended December 31,	
	2021	2020	2021	2020
Statements of Income Data:				
Segment income(a)	**$ 100,234**	$ 84,172	**$ 373,603**	$ 327,812
Depreciation and amortization	**7,788**	7,338	**30,681**	28,585
EBITDA	**$ 108,022**	$ 91,510	**$ 404,284**	$ 356,397
Adjustments to EBITDA:				
Business interruption gains	**(1,825)**	—	**(1,825)**	—
Stock-based compensation expense	**3,102**	2,195	**8,299**	9,239
Adjusted EBITDA	**$ 109,299**	**$ 93,705**	**$ 410,758**	**$ 365,636**

(a) Segment income reflects profits or loss from operations before provision for income taxes and impairment charges from operations. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

Real Estate

The following table sets forth details of operating results for our revenue and earnings, and their respective components, by our real estate segment for the periods indicated:

	Three Months Ended December 31,		Year Ended December 31,	
	2021	2020	2021	2020
Rental revenue generated from third-party tenants	**$ 4,148**	$ 3,961	**$ 15,985**	$ 15,157
Rental revenue generated from Ensign affiliated operations	**13,207**	11,825	**49,551**	46,118
Total rental revenue	**17,355**	15,786	**65,536**	61,275
Segment income(a)	**9,364**	8,730	**35,986**	31,323
Depreciation and amortization	**5,313**	4,594	**19,726**	18,218
FFO(b)	**$ 14,677**	$ 13,324	**$ 55,712**	$ 49,541

(a) Segment income reflects profits or loss from operations before provision for income taxes, excluding gain or loss from sale of real estate and insurance recoveries from real estate. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

(b) FFO, in accordance with the definition used by the National Association of Real Estate Investment Trusts, means net income attributable to common stockholders, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable real estate assets and including depreciation and amortization related to real estate to earnings.