

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income from continuing operations	\$ 43,060	\$ 22,148	\$ 124,157	\$ 64,296
Net income from discontinued operations, net of tax	—	5,011	—	18,844
Net income attributable to The Ensign Group, Inc.	\$ 43,060	\$ 27,159	\$ 124,157	\$ 83,140
Non-GAAP adjustments				
Stock-based compensation expense(a)	4,173	2,829	10,936	8,215
Results related to operations not at full capacity(b)	159	1,219	852	2,194
Acquisition related costs(c)	20	69	104	144
Depreciation and amortization - patient base(d)	7	104	240	261
COS - gain on sale of fixed assets, net of impairment charges(e)	—	(1,402)	—	(1,402)
Provision for income taxes on Non-GAAP adjustments(f)	(3,769)	(2,520)	(6,564)	(7,368)
Non-GAAP income from continuing operations	\$ 43,650	\$ 22,447	\$ 129,725	\$ 66,340
Non-GAAP income from discontinued operations(g)	—	8,496	—	25,688
Non-GAAP net income	\$ 43,650	\$ 30,943	\$ 129,725	\$ 92,028
Average number of diluted shares outstanding	55,713	56,364	55,585	56,054
Diluted Earnings Per Share As Reported				
Continuing operations	\$ 0.77	\$ 0.39	\$ 2.23	\$ 1.15
Discontinued operations	—	0.09	—	0.33
Diluted income per share attributable to The Ensign Group, Inc.	\$ 0.77	\$ 0.48	\$ 2.23	\$ 1.48
Adjusted Diluted Earnings Per Share				
Continuing operations	\$ 0.78	\$ 0.40	\$ 2.33	\$ 1.18
Discontinued operations	—	0.15	—	0.46
Diluted income per share attributable to The Ensign Group, Inc.	\$ 0.78	\$ 0.55	\$ 2.33	\$ 1.64

Footnotes:

(a) Represents stock-based compensation expense incurred.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of services	\$ 2,972	\$ 1,740	\$ 7,409	\$ 5,035
General and administrative	1,201	1,089	3,527	3,180
Total Non-GAAP adjustment	\$ 4,173	\$ 2,829	\$ 10,936	\$ 8,215

(b) Represents results to operations not at full capacity

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	\$ (877)	\$ (2,567)	\$ (2,141)	\$ (4,397)
Cost of services	958	3,122	2,761	5,581
Rent	25	295	72	478
Depreciation and amortization	53	369	160	532
Total Non-GAAP adjustment	\$ 159	\$ 1,219	\$ 852	\$ 2,194

(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) Gain on sale of fixed assets includes impairment charges of \$1.5 million at two of our senior living operations, offset by the gain recognized for the sale of real estate of \$2.9 million in the three and nine months ended September 30, 2019.

(f) Represents an adjustment to the provision for income tax to our historical year to date effective tax rate of 25.0% for the three and nine months ended September 30, 2020 and 2019.

(g) 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	\$ —	\$ 88,327	\$ —	\$ 248,713
Cost of services	—	(66,981)	—	(185,963)
General and administrative expenses	—	(2,892)	—	(8,037)
Rent	—	(5,849)	—	(17,283)
Depreciation and amortization	—	(909)	—	(2,367)
Interest income, net	—	4	—	26
Provision for income taxes	—	(2,925)	—	(8,772)
Non-controlling interest	—	(279)	—	(629)
Non-GAAP net income from discontinued operations	\$ —	\$ 8,496	\$ —	\$ 25,688