

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

| | Three Months Ended December 31, | | Year Ended December 31, | |
|-----------------------------------------------------------------------------|---------------------------------|------------------|-------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income from continuing operations | \$ 27,394 | \$ 18,087 | \$ 91,690 | \$ 59,493 |
| Net income from discontinued operations, net of tax | - | 8,273 | 18,844 | 32,871 |
| Net income attributable to The Ensign Group, Inc. | 27,394 | 26,360 | 110,534 | 92,364 |
| Non-GAAP adjustments for continuing operations: | | | | |
| Results related to operations in the start-up phase(a) | - | 449 | - | 3,682 |
| Return of unclaimed class action settlement | - | - | - | (1,664) |
| Share-based compensation expense(b) | 3,107 | 2,211 | 11,322 | 8,367 |
| Results related to closed operations and operations not at full capacity(c) | 1,311 | 222 | 3,505 | 933 |
| Acquisition related costs(d) | 132 | 10 | 277 | 322 |
| Depreciation and amortization - patient base(e) | 260 | 79 | 521 | 154 |
| General and administrative - Spin-Off transaction costs(f) | 464 | - | 464 | - |
| COS - impairment charges to fixed assets(g) | 1,732 | 4,632 | 329 | 4,632 |
| COS - business interruption gains(h) | - | - | - | (675) |
| COS - impairment of goodwill and intangibles(i) | 941 | - | 941 | 3,177 |
| Interest expense - write off of deferred financing fee(j) | 329 | - | 329 | - |
| Provision for income taxes on Non-GAAP adjustments(k) | (2,141) | (4,436) | (9,509) | (10,102) |
| Non-GAAP income from continuing operations | 33,529 | 21,254 | 99,869 | 68,319 |
| Non-GAAP income from discontinued operations(l) | - | 8,156 | 25,688 | 33,812 |
| Non-GAAP Net Income | <u>\$ 33,529</u> | <u>\$ 29,410</u> | <u>\$ 125,557</u> | <u>\$ 102,131</u> |
| Average number of shares outstanding | 55,760 | 54,967 | 55,981 | 54,397 |
| Diluted Earnings Per Share As Reported | | | | |
| Continuing operations | \$ 0.49 | \$ 0.33 | \$ 1.64 | \$ 1.09 |
| Discontinued operations | \$ - | \$ 0.15 | \$ 0.33 | \$ 0.61 |
| Diluted income per share attributable to The Ensign Group, Inc. | <u>\$ 0.49</u> | <u>\$ 0.48</u> | <u>\$ 1.97</u> | <u>\$ 1.70</u> |
| Adjusted Diluted Earnings Per Share | | | | |
| Continuing operations | \$ 0.60 | \$ 0.39 | \$ 1.78 | \$ 1.26 |
| Discontinued operations | \$ - | \$ 0.15 | \$ 0.46 | \$ 0.62 |
| Net Income | <u>\$ 0.60</u> | <u>\$ 0.54</u> | <u>\$ 2.24</u> | <u>\$ 1.88</u> |

Footnotes:

(a) Represents operating results for start-up operations.

| | Three Months Ended December 31, | | Year Ended December 31, | |
|-------------------------------|---------------------------------|---------------|-------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ - | \$ (16,984) | \$ - | \$ (66,386) |
| Cost of services | - | 13,581 | - | 54,758 |
| Rent | - | 3,619 | - | 14,347 |
| Depreciation and amortization | - | 233 | - | 963 |
| Total Non-GAAP adjustment | <u>\$ -</u> | <u>\$ 449</u> | <u>\$ -</u> | <u>\$ 3,682</u> |

(b) Represents share-based compensation expense incurred.

| | Three Months Ended December 31, | | Year Ended December 31, | |
|----------------------------|---------------------------------|-----------------|-------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cost of services | \$ 2,001 | \$ 1,379 | \$ 7,036 | \$ 5,183 |
| General and administrative | 1,106 | 832 | 4,286 | 3,184 |
| Total Non-GAAP adjustment | <u>\$ 3,107</u> | <u>\$ 2,211</u> | <u>\$ 11,322</u> | <u>\$ 8,367</u> |

(c) Represents results at closed operations and operations not at full capacity

| | Three Months Ended December 31, | | Year Ended December 31, | |
|-------------------------------|---------------------------------|---------------|-------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ (4,212) | \$ - | \$ (8,609) | \$ - |
| Cost of services | 4,708 | 137 | 10,289 | 601 |
| Rent | 443 | 76 | 921 | 301 |
| Depreciation and amortization | 372 | 9 | 904 | 31 |
| Total Non-GAAP adjustment | <u>\$ 1,311</u> | <u>\$ 222</u> | <u>\$ 3,505</u> | <u>\$ 933</u> |

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

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

(f) 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.

(g) Impairment charges to fixed assets includes impairment charges of \$1.7 million at a leased skilled nursing operation 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.

(h) Business interruption recoveries related to insurance claims of the California fires that occurred in the fourth quarter of 2017.

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

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

(k) 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, 2019 and 2018.

(l) 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 December 31, | | Year Ended December 31, | |
|--------------------------------------------------|---------------------------------|-----------|-------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ - | \$ 75,291 | \$ 248,713 | \$ 285,838 |
| Cost of services | - | (55,314) | (185,963) | (208,585) |
| General and administrative expenses | - | (2,819) | (8,037) | (8,225) |
| Rent | - | (5,432) | (17,283) | (20,805) |
| Depreciation and amortization | - | (643) | (2,367) | (2,392) |
| Interest income, net | - | 36 | 26 | 47 |
| Provision for income taxes | - | (2,780) | (8,772) | (11,471) |
| Non-controlling interest | - | (183) | (629) | (595) |
| Non-GAAP net income from discontinued operations | \$ - | \$ 8,156 | \$ 25,688 | \$ 33,812 |

THE ENSIGN GROUP, INC.
SUPPLEMENTAL RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION BY QUARTER

(In thousands, except per share data)

(Unaudited)

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME

| | Three Months Ended | | | |
|-----------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
| | 3/31/2019 | 6/30/2019 | 9/30/2019 | 12/31/2019 |
| Net income from continuing operations | \$ 21,480 | \$ 20,668 | \$ 22,148 | \$ 27,394 |
| Net income from discontinued operations, net of tax | 5,892 | 7,941 | 5,011 | - |
| Net income attributable to The Ensign Group, Inc. | 27,372 | 28,609 | 27,159 | 27,394 |
| Non-GAAP adjustments for continuing operations: | | | | |
| Share-based compensation expense(a) | 2,456 | 2,930 | 2,829 | 3,107 |
| Results related to closed operations and operations not at full capacity(b) | 349 | 626 | 1,219 | 1,311 |
| Acquisition related costs(c) | 26 | 49 | 69 | 132 |
| Depreciation and amortization - patient base(d) | 70 | 87 | 104 | 260 |
| General and administrative - Spin-Off transaction costs(e) | - | - | - | 464 |
| COS - (gain on sale)/impairment charges to fixed assets(f) | - | - | (1,402) | 1,732 |
| COS - impairment of goodwill and intangibles(g) | - | - | - | 941 |
| Interest expense - write off of deferred financing fee(h) | - | - | - | 329 |
| Provision for income taxes on Non-GAAP adjustments(i) | (2,161) | (2,687) | (2,520) | (2,141) |
| Non-GAAP income from continuing operations | 22,220 | 21,673 | 22,447 | 33,529 |
| Non-GAAP income from discontinued operations(j) | 8,583 | 8,609 | 8,496 | - |
| Non-GAAP Net Income | <u>\$ 30,803</u> | <u>\$ 30,282</u> | <u>\$ 30,943</u> | <u>\$ 33,529</u> |
| Average number of shares outstanding | 55,698 | 56,078 | 56,364 | 55,760 |
| Diluted Earnings Per Share As Reported | | | | |
| Continuing operations | \$ 0.39 | \$ 0.37 | \$ 0.39 | \$ 0.49 |
| Discontinued operations | \$ 0.10 | \$ 0.14 | \$ 0.09 | \$ - |
| Diluted income per share attributable to The Ensign Group, Inc. | <u>\$ 0.49</u> | <u>\$ 0.51</u> | <u>\$ 0.48</u> | <u>\$ 0.49</u> |
| Adjusted Diluted Earnings Per Share | | | | |
| Continuing operations | \$ 0.40 | \$ 0.39 | \$ 0.40 | \$ 0.60 |
| Discontinued operations | \$ 0.15 | \$ 0.15 | \$ 0.15 | \$ - |
| Net Income | <u>\$ 0.55</u> | <u>\$ 0.54</u> | <u>\$ 0.55</u> | <u>\$ 0.60</u> |

Footnotes:

(a) Represents share-based compensation expense incurred.

| | Three Months Ended | | | |
|----------------------------|--------------------|-----------------|-----------------|-----------------|
| | 3/31/2019 | 6/30/2019 | 9/30/2019 | 12/31/2019 |
| Cost of services | \$ 1,516 | \$ 1,779 | \$ 1,740 | \$ 2,001 |
| General and administrative | 940 | 1,151 | 1,089 | 1,106 |
| Total Non-GAAP adjustment | <u>\$ 2,456</u> | <u>\$ 2,930</u> | <u>\$ 2,829</u> | <u>\$ 3,107</u> |

(b) Represents results at closed operations and operations not at full capacity

| | Three Months Ended | | | |
|-------------------------------|--------------------|---------------|-----------------|-----------------|
| | 3/31/2019 | 6/30/2019 | 9/30/2019 | 12/31/2019 |
| Revenue | \$ - | \$ (1,830) | \$ (2,567) | \$ (4,212) |
| Cost of services | 264 | 2,195 | 3,122 | 4,708 |
| Rent | 76 | 107 | 295 | 443 |
| Depreciation and amortization | 9 | 154 | 369 | 372 |
| Total Non-GAAP adjustment | <u>\$ 349</u> | <u>\$ 626</u> | <u>\$ 1,219</u> | <u>\$ 1,311</u> |

(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.

(f) Impairment charges to fixed assets includes impairment charges of \$1.7 million at a leased skilled nursing operations during the three months ended December 31, 2019. Included in the three months ended September 30, 2019, 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.

(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 periods presented.

(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.

| | Three Months Ended | | | |
|--------------------------------------------------|--------------------|-----------------|-----------------|-------------|
| | 3/31/2019 | 6/30/2019 | 9/30/2019 | 12/31/2019 |
| Revenue | \$ 77,730 | \$ 82,658 | \$ 88,325 | \$ - |
| Cost of services | (57,448) | (61,534) | (66,981) | - |
| General and administrative expenses | (2,393) | (2,752) | (2,892) | - |
| Rent | (5,598) | (5,836) | (5,849) | - |
| Depreciation and amortization | (658) | (800) | (909) | - |
| Interest income, net | 11 | 9 | 6 | - |
| Provision for income taxes | (2,911) | (2,936) | (2,925) | - |
| Non-controlling interest | (150) | (200) | (279) | - |
| Non-GAAP net income from discontinued operations | <u>\$ 8,583</u> | <u>\$ 8,609</u> | <u>\$ 8,496</u> | <u>\$ -</u> |