The Ensign Group, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures
Three and Nine Months Ended September 30, 2019
(Financial Table Follows)

Non-GAAP Financial Measures

The following discussion includes references to EBITDA, Adjusted EBITDA and Adjusted EBITDAR which are non-GAAP financial measures (collectively, Non-GAAP Financial Measures). Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other provisions of 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 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 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 typically use 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, Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, 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 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 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:

<u>PERFORMANCE MEASURES:</u>

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 from continuing operations, 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:

- results related to closed operations and operations not at full capacity;
- results related to start-up operations;
- return of unclaimed class action settlement funds;
- share-based compensation expense;
- expenses incurred in connection with the completed spin-off transaction;
- gain on sale and impairment charges on fixed assets;
- impairment of intangible assets and goodwill;
- acquisition related costs; and
- business interruption recoveries.

<u>VALUATION MEASURE:</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Consolidated Statements of Income Data:				
Net income	$ 27,828	$ 20,350	$ 84,360	$ 65,969
Less: net income/(loss) attributable to noncontrolling interests	669	(511)	1,220	(35)
Add: Interest expense, net	3,164	3,522	9,630	9,994
Provision for income taxes	7,953	5,415	20,605	18,078
Depreciation and amortization	14,319	11,902	40,101	35,145
EBITDA	$ 52,595	$ 41,700	$ 153,476	$ 129,221
Adjustments to EBITDA:				
Results related to closed operations and operations not at full capacity(a)	555	139	1,182	464
Losses/(earnings) related to operations in the start-up phase (b)	59	(3,339)	377	(8,133)
Return of unclaimed class action settlement	-	-	-	(1,664)
Share-based compensation expense	2,978	2,811	9,233	7,639
Spin-off transaction costs(c)	3,261	-	7,908	-
Acquisition related costs(d)	139	228	748	338
Gain on sale of/impairment charges to fixed assets(e)	(1,402)	-	(1,402)	-
Impairment of goodwill and intangible assets(f)	-	3,177	-	3,177
Business interruption recoveries(g)	-	-	-	(675)
Rent related to items above	299	3,672	491	10,975
Adjusted EBITDA	$ 58,484	$ 48,388	$ 172,013	$ 141,342
Rent—cost of services	37,728	34,851	110,574	103,173
Less: rent related to items above	(299)	(3,672)	(491)	(10,975)
Adjusted rent—cost of services	37,429	31,179	110,083	92,198
Adjusted EBITDAR	$ 95,913		$ 282,096	

(a) Results at closed operations and operations not at full capacity during the three and nine months ended September 30, 2019 and 2018.
(b) Represents results related to facilities currently in the start-up phase after construction was completed. This amount excludes rent, depreciation and interest expense.
(c) Costs incurred in connection with the completed spin-off transaction of our home health and hospice operations and substantially all of our senior living operations to a newly formed publicly traded company.
(d) Costs incurred to acquire operations which are not capitalizable.
(e) Gain on sale of/impairment charges to fixed assets includes a gain recognized for the sale of land of $2.9 million, offset by impairment charges to fixed assets at two of our senior living operations of $1.5 million during the three and nine months ended September 30, 2019.
(f) Impairment charges to goodwill and intangible assets for our other ancillary operations during the three and nine months ended September 30, 2018, excluding the impact of non-controlling interest of $0.5 million. Including the impact of noncontrolling interest, goodwill and intangible assets impairment is $3.7 million.
(g) Business interruption recoveries related to insurance claims with respect to the California fires that occurred in the fourth quarter of 2017.

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

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

	Three Months Ended September 30,					
	Transitional and Skilled Services		Senior Living Services		Home Health and Hospice	
	2019	2018	2019	2018	2019	2018
Statements of Income Data:						
Income from operations, excluding general and administrative expense(a)	$ 56,838	$ 46,350	$ 2,815	$ 4,733	$ 8,424	$ 7,297
Less: net income attributable to noncontrolling interests	-	-	-	-	279	42
Depreciation and amortization	9,331	8,061	2,127	1,902	317	263
EBITDA	$ 66,169	$ 54,411	$ 4,942	$ 6,635	$ 8,462	$ 7,518
Adjustments to EBITDA:						
Results related to operations in the start-up phase(b)	-	(3,461)	-	64	59	58
Results related to closed operations and operations not at full capacity(c)	190	139	-	-	-	-
Share-based compensation expense	1,566	1,197	56	182	181	124
Gain on sale of/impairment charges to fixed assets(d)	(2,873)	-	1,471	-	-	-
Transaction-related costs(e)	-	-	-	-	67	-
Business interruption recoveries(f)	-	-	-	-	-	-
Rent related to items above	245	2,777	-	886	4	9
Adjusted EBITDA	$ 65,297	$ 55,063	$ 6,469	$ 7,767	$ 8,773	$ 7,709
Rent—cost of services	30,285	28,088	6,471	6,015	725	583
Less: rent related to items above	(245)	(2,777)	-	(886)	(4)	(9)
Adjusted rent—cost of services	$ 30,040	$ 25,311	$ 6,471	$ 5,129	$ 721	$ 574

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
(b) Represents results related to facilities currently in the start-up phase after construction was completed. This amount excludes rent, depreciation and interest expense.
(c) Results at closed operations and operations not at full capacity during the three months ended September 30, 2019 and 2018.
(d) Gain on sale of/impairment charges to fixed assets includes a gain recognized for the sale of land of $2.9 million, offset by impairment charges to fixed assets at two of our senior living operations of $1.5 million during the three months ended September 30, 2019.
(e) Costs incurred to acquire operations which are not capitalizable.
(f) Business interruption recoveries related to insurance claims with respect to the California fires that occurred in the fourth quarter of 2017.

THE ENSIGN GROUP, INC.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(In thousands)

(Unaudited)

	Nine Months Ended September 30,					
	Transitional and Skilled Services		Senior Living Services		Home Health and Hospice	
	2019	2018	2019	2018	2019	2018
Statements of Income Data:						
Income from operations, excluding general and administrative expense(a)	$ 172,254	$ 135,755	$ 12,674	$ 14,361	$ 22,598	$ 19,623
Less: net income attributable to noncontrolling interests	-	-	-	-	629	413
Depreciation and amortization	26,883	23,571	6,046	5,362	897	789
EBITDA	$ 199,137	$ 159,326	$ 18,720	$ 19,723	$ 22,866	$ 19,999
Adjustments to EBITDA:						
Results related to operations in the start-up phase(b)	-	(8,469)	-	243	377	93
Results related to closed operations and operations not at full capacity(c)	480	464	-	-	-	-
Share-based compensation expense	4,524	3,259	231	521	479	314
Gain on sale of/impairment charges to fixed assets(d)	(2,873)	-	1,471	-	-	-
Transaction-related costs(e)	-	-	-	-	505	-
Business interruption recoveries(f)	-	(675)	-	-	-	-
Rent related to items above	398	8,303	-	2,649	13	23
Adjusted EBITDA	$ 201,666	$ 162,208	$ 20,422	$ 23,136	$ 24,240	$ 20,429
Rent—cost of services	88,504	82,698	19,280	18,324	2,137	1,671
Less: rent related to items above	(398)	(8,303)	-	(2,649)	(13)	(23)
Adjusted rent—cost of services	$ 88,106	$ 74,395	$ 19,280	$ 15,675	$ 2,124	$ 1,648

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

(b) Represents results related to facilities currently in the start-up phase after construction was completed. This amount excludes rent, depreciation and interest expense.

(c) Results at closed operations and operations not at full capacity during the nine months ended September 30, 2019 and 2018.

(d) Gain on sale of/impairment charges to fixed assets includes a gain recognized for the sale of land of $2.9 million, offset by impairment charges to fixed assets at two of our senior living operations of $1.5 million during the nine months ended September 30, 2019.

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

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