

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income from continuing operations	\$ 40,248	\$ 20,668	\$ 81,097	\$ 42,148
Net income from discontinued operations, net of tax	—	7,941	—	13,833
Net income attributable to The Ensign Group, Inc.	\$ 40,248	\$ 28,609	\$ 81,097	\$ 55,981
Non-GAAP adjustments				
Stock-based compensation expense(a)	3,528	2,930	6,763	5,385
Results related to operations not at full capacity(b)	277	626	693	975
Acquisition related costs(c)	34	49	83	76
Depreciation and amortization - patient base(d)	20	87	233	157
Provision for income taxes on Non-GAAP adjustments(e)	(986)	(2,687)	(2,795)	(4,848)
Non-GAAP income from continuing operations	\$ 43,121	\$ 21,673	\$ 86,074	\$ 43,893
Non-GAAP income from discontinued operations(f)	—	8,609	—	17,192
Non-GAAP net income	\$ 43,121	\$ 30,282	\$ 86,074	\$ 61,085
Average number of shares outstanding	55,181	56,078	55,489	55,896
Diluted Earnings Per Share As Reported				
Continuing operations	\$ 0.73	\$ 0.37	\$ 1.46	\$ 0.75
Discontinued operations	—	0.14	—	0.25
Diluted income per share attributable to The Ensign Group, Inc.	\$ 0.73	\$ 0.51	\$ 1.46	\$ 1.00
Adjusted Diluted Earnings Per Share				
Continuing operations	\$ 0.78	\$ 0.39	\$ 1.55	\$ 0.79
Discontinued operations	—	0.15	—	0.30
Diluted income per share attributable to The Ensign Group, Inc.	\$ 0.78	\$ 0.54	\$ 1.55	\$ 1.09

Footnotes:

(a) Represents stock-based compensation expense incurred.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of services	\$ 2,326	\$ 1,779	\$ 4,437	\$ 3,294
General and administrative	1,202	1,151	2,326	2,091
Total Non-GAAP adjustment	\$ 3,528	\$ 2,930	\$ 6,763	\$ 5,385

(b) Represents results to operations not at full capacity

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019		
Revenue	\$ (535)	\$ (1,830)	\$ (1,264)	\$ (1,830)
Cost of services	732	2,195	1,803	2,459
Rent	25	107	47	183
Depreciation and amortization	55	154	107	163
Total Non-GAAP adjustment	\$ 277	\$ 626	\$ 693	\$ 975

(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) 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 six months ended June 30, 2020 and 2019.

(f) 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	\$ —	\$ 82,658	\$ —	\$ 160,388
Cost of services	—	(61,534)	—	(118,982)
General and administrative expenses	—	(2,752)	—	(5,145)
Rent	—	(5,836)	—	(11,434)
Depreciation and amortization	—	(800)	—	(1,458)
Interest income, net	—	9	—	20
Provision for income taxes	—	(2,936)	—	(5,847)
Non-controlling interest	—	(200)	—	(350)
Non-GAAP net income from discontinued operations	\$ —	\$ 8,609	\$ —	\$ 17,192