The Ensign Group, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures
Three Months and Year Ended December 31, 2018
(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:

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 (loss) 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 at facilities currently being constructed and other start-up operations;
- return of unclaimed class action settlement funds, and charges related to the settlement of class action lawsuits;
- share-based compensation expense;
- results related to closed operations and operations not at full capacity, including continued obligations and closing expenses;
- bonus accrual as a result of the Tax Cut and Jobs Act (the Tax Act);
- business interruption recoveries and losses related to Hurricane Harvey and California fires on impacted operations;
- transaction-related costs;
- professional costs fees including costs incurred to recognize income tax credits, tax reform impacts and adoption of the new revenue recognition standard; and
- long-lived assets and goodwill impairment, excluding the impact of noncontrolling interest.

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)

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,	
	2018	**2017**	**2018**	**2017**
Consolidated Statements of Income Data:				
Net income	$ 26,559	$ 11,222	$ 92,528	$ 40,833
Less: net income attributable to noncontrolling interests	199	16	164	358
Interest expense, net	3,125	2,963	13,119	12,007
Provision for income taxes	4,763	11,958	22,841	28,445
Depreciation and amortization	12,199	11,760	47,344	44,472
EBITDA	$ 46,447	$ 37,887	$ 175,668	$ 125,399
Adjustments to EBITDA:				
Earnings related to operations in the start-up phase	(3,368)	(1,753)	(11,500)	(3,261)
Charges related to the settlement/(return of unclaimed class action settlement) of the class action lawsuit and insurance claims	-	14	(1,664)	11,177
Share-based compensation expense	2,697	2,941	10,337	9,695
Results related to closed operations and operations not at full capacity(a)	137	(88)	601	4,632
Bonus accrual as a result of the Tax Act	-	3,100	-	3,100
Losses/(business insurance recoveries) related to Hurricane Harvey and California fires	-	741	(675)	1,242
Transaction-related costs(b)	23	100	361	717
Professional service fee(c)	-	80	-	80
Impairment of long-lived assets and goodwill(d)	4,632	-	7,809	-
Rent related to items above	3,703	3,959	14,678	16,495
Adjusted EBITDA	$ 54,271	$ 46,981	$ 195,615	$ 169,276
Rent—cost of services	35,339	33,652	138,512	131,919
Less: rent related to items above	(3,703)	(3,959)	(14,678)	(16,495)
Adjusted EBITDAR	$ 85,907	$ 76,674	$ 319,449	$ 284,700

(a) Represents results at closed operations and operations not at full capacity during the years ended December 31, 2018 and 2017; including the fair value of continued obligation under the lease agreement and related closing expenses of $4.0 million for the year ended December 31, 2017. Included in the year ended December 31, 2017 results is the loss recovery of $1.3 million of certain losses related to a closed facility in 2016.

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

(c) Professional fees associated with income tax credits, tax reform impacts and adoption of the new revenue recognition standard.

(d) Impairment charges of long-lived assets and goodwill during year ended December 31, 2018, excluding the impact of non-controlling interest of $0.5 million. Including the impact of noncontrolling interest, the impairment charge is $8.3 million.

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

THE ENSIGN GROUP, INC.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(In thousands)

(Unaudited)

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

	Three Months Ended December 31,					
	Transitional and Skilled Services		Assisted and Independent		Home Health and Hospice	
	2018	2017	2018	2017	2018	2017
Statements of Income Data:						
Income from operations, excluding general and administrative expense(a)	$ 55,169	$ 39,910	$ 1,065	$ 4,298	$ 6,494	$ 5,805
Less: net income attributable to noncontrolling interests	-	-	-	-	183	27
Depreciation and amortization	8,360	7,890	1,920	1,647	256	245
EBITDA	$ 63,529	$ 47,800	$ 2,985	$ 5,945	$ 6,567	$ 6,023
Adjustments to EBITDA:						
Results related to operations in the start-up phase	(3,455)	(2,046)	52	117	35	175
Results related to closed operations and operations not at full capacity	137	(87)	-	(2)	-	-
Losses/(business interruption recoveries) related to Hurricane Harvey and California fires	-	741	-	-	-	-
Share-based compensation expense	1,256	948	74	159	132	87
Long-lived assets impairment(b)	-	-	4,632	-	-	-
Bonus related to the Tax Act	-	575	-	25	-	-
Rent related to item above	2,916	3,078	778	872	9	9
Adjusted EBITDA	64,383	51,009	8,521	7,116	6,743	6,294
Rent—cost of services	28,301	26,624	6,230	6,354	609	528
Less: rent related to items above	(2,916)	(3,078)	(778)	(872)	(9)	(9)
Adjusted EBITDAR	$ 89,768	$ 74,555	$ 13,973	$ 12,598	$ 7,343	$ 6,813

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

(b) Impairment charges to long-lived assets for two of our assisted living facilities.

THE ENSIGN GROUP, INC.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(In thousands)

(Unaudited)

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

	Year Ended December 31,					
	Transitional and Skilled Services		Assisted and Independent		Home Health and Hospice	
	2018	2017	2018	2017	2018	2017
Statements of Income Data:						
Income from operations, excluding general and administrative expense(a)	$190,924	$140,272	$ 15,426	$ 16,736	$ 26,117	$ 19,717
Less: net income attributable to noncontrolling interests	-	-	-	-	595	160
Depreciation and amortization	31,931	29,928	7,282	6,334	1,045	945
EBITDA	$222,855	$170,200	$ 22,708	$ 23,070	$ 26,567	$ 20,502
Adjustments to EBITDA:						
Results related to operations in the start-up phase	(11,924)	(4,431)	295	693	129	478
Results related to closed operations and operations not at full capacity	601	3,801	-	-	-	728
Losses/(business interruption recoveries) related to Hurricane Harvey and California fires	(675)	1,242	-	-	-	-
Share-based compensation expense	4,516	3,909	595	627	446	345
Long-lived assets impairment(b)	-	-	4,632	-	-	-
Bonus related to the Tax Act	-	575	-	25	-	-
Rent related to item above	11,220	12,765	3,428	3,540	30	190
Adjusted EBITDA	226,593	188,061	31,658	27,955	27,172	22,243
Rent—cost of services	110,999	105,520	24,553	23,950	2281	1977
Less: rent related to items above	(11,220)	(12,765)	(3,428)	(3,540)	(30)	(190)
Adjusted EBITDAR	$326,372	$280,816	$ 52,783	$ 48,365	$ 29,423	$ 24,030

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

(b) Impairment charges to long-lived assets for two of our assisted living facilities.