

**The Ensign Group, Inc.**  
**Reconciliation of GAAP to Non-GAAP Financial Measures**  
**Three Months and Year Ended December 31, 2020**  
**(Financial Table Follows)**

**Non-GAAP Financial Measures**

The following discussion includes references to EBITDA, Adjusted EBITDA, Adjusted EBITDAR and Funds from Operations (FFO) which are non-GAAP financial measures (collectively, the 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 certain 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 the 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 use certain 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, the Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, certain of 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:

### **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, 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:

- stock-based compensation expense;
- results related to operations not at full capacity;
- acquisition related costs;
- impairment of intangible assets and goodwill;
- expenses incurred in connection with the completed Spin-Off; and
- gain on sale and impairment charges on fixed assets.

### ***Funds from Operations***

We consider FFO to be a useful supplemental measure of our real estate segment operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many real estate investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts (NAREIT) created FFO as a supplemental measure of operating performance for REITs which excludes historical cost depreciation from net income. We define (in accordance with the definition used by NAREIT) FFO to mean net income attributable to common stockholders (NICS), computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable real estate assets and adding depreciation and amortization related to real estate to earnings.

### **VALUATION MEASURE:**

#### ***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.

## UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(In Thousands)

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,	
	2020	2019	2020	2019
<b>Consolidated Statements of Income Data:</b>				
Net income attributable to The Ensign Group, Inc.	\$ 46,162	\$ 27,326	\$ 171,364	\$ 111,686
Less: net income attributable to noncontrolling interests in continuing operations	(159)	(68)	886	523
Less: net income from discontinued operations	—	—	—	19,473
Add: Interest expense, net	481	3,357	5,549	13,013
Provision for income taxes	9,216	9,010	46,242	23,954
Depreciation and amortization	13,489	13,354	54,571	51,054
EBITDA from continuing operations	69,507	53,115	276,840	179,711
EBITDA from discontinued operations(e)	—	—	—	26,883
EBITDA	<u>\$ 69,507</u>	<u>\$ 53,115</u>	<u>\$ 276,840</u>	<u>\$ 206,594</u>
Adjustments to EBITDA:				
Stock-based compensation expense	3,588	3,107	14,524	11,322
Results related to operations not at full capacity(a)	563	496	1,183	1,680
Acquisition related costs(b)	—	132	104	277
Impairment of goodwill and intangible assets	—	941	—	941
Spin-Off transaction costs(c)	—	464	—	464
Impairment charges to fixed assets, net of gain on sale(d)	—	1,732	—	329
Rent related to items above	28	443	100	921
Adjusted EBITDA from continuing operations	73,686	60,430	292,751	195,645
Adjusted EBITDA from discontinued operations(e)	—	—	—	36,801
Adjusted EBITDA	<u>\$ 73,686</u>	<u>\$ 60,430</u>	<u>\$ 292,751</u>	<u>\$ 232,446</u>
Rent—cost of services	32,608	31,511	129,926	124,789
Less: rent related to items above	(28)	(443)	(100)	(921)
Adjusted rent from continuing operations	32,580	31,068	129,826	123,868
Adjusted rent included in discontinued operations	—	—	—	17,283
Adjusted EBITDAR from continuing operations	<u>\$ 106,266</u>		<u>\$ 422,577</u>	

(a) Represents results at closed operations and operations not at full capacity.

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

(c) Costs incurred in connection with the completed Spin-Off transaction of The Pennant Group, Inc. Transaction costs incurred prior to Spin-Off date are included in discontinued operations as an adjustment.

(d) Impairment charges to fixed assets includes impairment charges of \$1.7 million at one of our skilled nursing operations 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.

- (e) All adjustments included in the table below are presented within net income from discontinued operations, net of tax within the consolidated statements of income for the periods presented.

	<b>Year Ended</b>
	<b>December 31, 2019</b>
<b>Consolidated Statements of Income Data:</b>	
Net income from discontinued operations, net of tax	\$ 19,473
Less: net income attributable to noncontrolling interests in discontinued operations	629
Add: Interest and other income, net	(26)
Provision for income taxes	5,663
Depreciation and amortization	2,402
<b>EBITDA from discontinued operations</b>	<b>\$ 26,883</b>
Results related to closed operations	
Losses related to operations in the start-up phase	377
Stock-based compensation expense	1,018
Spin-Off transaction costs	7,909
Acquisition related costs	603
Rent related to items above	11
<b>Adjusted EBITDA from discontinued operations</b>	<b>\$ 36,801</b>

**UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION BY SEGMENT**  
(In Thousands)

***Transition and Skilled Services***

The tables below reconcile net income to EBITDA and Adjusted EBITDA for the transitional and skilled services reportable segment for the periods presented:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Statements of Income Data:</b>		
Segment income(a)	<b>\$ 327,812</b>	\$ 225,910
Depreciation and amortization	<b>28,585</b>	27,837
EBITDA	<b>356,397</b>	253,747
Adjustments to EBITDA:		
Stock-based compensation expense	<b>9,239</b>	6,419
Results related to operations not at full capacity(b)	—	109
Rent related to items above	—	809
Adjusted EBITDA	<b>\$ 365,636</b>	<b>\$ 261,084</b>

- (a) Segment income reflects profits or loss from operations before provision for income taxes, excluding gain or loss from sale of real estate and impairment charges from operations. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
- (b) Represents results at closed operations and operations not at full capacity.

	<b>Three Months Ended</b>			
	<b>3/31/2020</b>	<b>6/30/2020</b>	<b>9/30/2020</b>	<b>12/31/2020</b>
<b>Statements of Income Data:</b>				
Segment income(a)	\$ 80,591	\$ 78,302	\$ 84,747	\$ 84,172
Depreciation and amortization	7,148	7,005	7,094	7,338
EBITDA	<u>87,739</u>	<u>85,307</u>	<u>91,841</u>	<u>91,510</u>
Adjustments to EBITDA:				
Stock-based compensation expense	2,000	2,215	2,829	2,195
Adjusted EBITDA	<u>\$ 89,739</u>	<u>\$ 87,522</u>	<u>\$ 94,670</u>	<u>\$ 93,705</u>

- (a) Segment income reflects profits or loss from operations before provision for income taxes, excluding gain or loss from sale of real estate and impairment charges from operations. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
- (b) Represents results at closed operations and operations not at full capacity.

### **Real Estate**

The following tables set forth details of operating results for our revenue and earnings, and their respective components, by our real estate segment the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Rental revenue generated from third-party tenants	\$ 15,157	\$ 5,258
Rental revenue generated from Ensign affiliated operations	<u>46,118</u>	<u>44,610</u>
Total rental revenue	<u>61,275</u>	<u>49,868</u>
Segment income(a)	<u>31,323</u>	<u>17,479</u>
Depreciation and amortization	<u>18,218</u>	<u>15,196</u>
FFO(b)	<u>\$ 49,541</u>	<u>\$ 32,675</u>

- (a) Segment income reflects profits or loss from operations before provision for income taxes, excluding gain or loss from sale of real estate and impairment charges from operations. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
- (b) FFO, in accordance with the definition used by the National Association of Real Estate Investment Trusts, means net income attributable to common stockholders, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable real estate assets and adding depreciation and amortization related to real estate to earnings.

	<b>Three Months Ended</b>			
	<b>3/31/2020</b>	<b>6/30/2020</b>	<b>9/30/2020</b>	<b>12/31/2020</b>
Rental revenue generated from third-party tenants	\$ 3,662	\$ 3,620	\$ 3,914	\$ 3,961
Rental revenue generated from Ensign affiliated operations	<u>11,282</u>	<u>11,389</u>	<u>11,622</u>	<u>11,825</u>
Total rental revenue	<u>14,944</u>	<u>15,009</u>	<u>15,536</u>	<u>15,786</u>
Segment income(a)	<u>6,325</u>	<u>7,794</u>	<u>8,474</u>	<u>8,730</u>
Depreciation and amortization	<u>4,515</u>	<u>4,587</u>	<u>4,522</u>	<u>4,594</u>
FFO(b)	<u>\$ 10,840</u>	<u>\$ 12,381</u>	<u>\$ 12,996</u>	<u>\$ 13,324</u>

- (a) Segment income reflects profits or loss from operations before provision for income taxes, excluding gain or loss from sale of real estate and impairment charges from operations. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
- (b) FFO, in accordance with the definition used by the National Association of Real Estate Investment Trusts, means net income attributable to common stockholders, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable real estate assets and adding depreciation and amortization related to real estate to earnings.