The Ensign Group, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures
Three and Six Months Ended June 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:

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 related to closed operations and operations not at full capacity;
- results at facilities currently being constructed and other start-up operations;
- return of unclaimed class action settlement funds;
- share-based compensation expense;
- expenses incurred in connection with the proposed spin-off;
- acquisition related costs; and
- business interruption recoveries.

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 June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Consolidated Statements of Income Data:				
Net income	$ 28,925	$ 22,326	$ 56,532	$ 45,619
Less: net income attributable to noncontrolling interests	316	315	551	476
Add: Interest expense, net	3,369	3,307	6,466	6,472
Provision for income taxes	5,552	6,142	12,652	12,663
Depreciation and amortization	13,184	11,621	25,782	23,243
EBITDA	$ 50,714	$ 43,081	$ 100,881	$ 87,521
Adjustments to EBITDA:				
Results related to closed operations and operations not at full capacity(a)	365	209	629	325
Losses/(earnings) related to operations in the start-up phase(b)	82	(2,543)	317	(4,794)
Return of unclaimed class action settlement	-	-	-	(1,664)
Share-based compensation expense	3,302	2,520	6,255	4,829
Proposed spin-off transaction costs(c)	1,658	-	4,648	-
Acquisition related costs(d)	546	83	608	111
Business interruption recoveries(e)	-	(675)	-	(675)
Rent related to items above	109	3,646	192	7,303
Adjusted EBITDA	$ 56,776	$ 46,321	$ 113,530	$ 92,956
Rent—cost of services	37,060	34,472	72,846	68,322
Less: rent related to items above	(109)	(3,646)	(192)	(7,303)
Adjusted EBITDAR	$ 93,727	$ 77,147	$ 186,184	$ 153,975

(a) Results at closed operations and operations not at full capacity during the three and six months ended June 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 our proposed spin-off 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) Business interruption recoveries related to insurance claims of the California fires that occurred in the fourth quarter of 2017.

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 June 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)	$ 56,652	$ 43,210	$ 4,821	$ 4,966	$ 7,306	$ 6,268
Less: net income attributable to noncontrolling interests	-	-	-	-	200	281
Depreciation and amortization	8,938	7,708	2,019	1,863	320	281
EBITDA	$ 65,590	$ 50,918	$ 6,840	$ 6,829	$ 7,426	$ 6,268
Adjustments to EBITDA:						
Results related to operations in the start-up phase(b)	-	(2,626)	-	56	82	27
Results related to closed operations and operations not at full capacity(c)	25	209	-	-	-	-
Share-based compensation expense	1,573	1,076	96	180	162	99
Transaction-related costs(d)	-	-	-	-	438	-
Business interruption recoveries(e)	-	(675)	-	-	-	-
Rent related to items above	77	2,759	-	880	2	7
Adjusted EBITDA	67,265	51,661	6,936	7,945	8,110	6,401
Rent—cost of services	29,656	27,832	6,422	5,928	776	552
Less: rent related to items above	(77)	(2,759)	-	(880)	(2)	(7)
Adjusted EBITDAR	$ 96,844	$ 76,734	$ 13,358	$ 12,993	$ 8,884	$ 6,946

(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 June 30, 2019 and 2018.
(d) Costs incurred to acquire operations which are not capitalizable.
(e) Business interruption recoveries related to insurance claims of the California fires that occurred in the fourth quarter of 2017.

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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:

	Six Months Ended June 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)	$ 115,416	$ 89,405	$ 9,859	$ 9,629	$ 14,174	$ 12,326
Less: net income attributable to noncontrolling interests	-	-	-	-	350	370
Depreciation and amortization	17,552	15,510	3,919	3,460	580	526
EBITDA	$ 132,968	$ 104,915	$ 13,778	$ 13,089	$ 14,404	$ 12,482
Adjustments to EBITDA:						
Results related to operations in the start-up phase(b)	-	(5,008)	-	178	317	36
Results related to closed operations and operations not at full capacity(c)	289	325	-	-	-	-
Share-based compensation expense	2,958	2,063	175	338	299	190
Transaction-related costs(d)	-	-	-	-	438	-
Business interruption recoveries(e)	-	(675)	-	-	-	-
Rent related to items above	153	5,526	-	1,764	9	13
Adjusted EBITDA	136,368	107,146	13,953	15,369	15,467	12,721
Rent—cost of services	58,219	54,609	12,808	12,309	1,412	1,089
Less: rent related to items above	(153)	(5,526)	-	(1,764)	(9)	(13)
Adjusted EBITDAR	$ 194,434	$ 156,229	$ 26,761	$ 25,914	$ 16,870	$ 13,797

(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 six months ended June 30, 2019 and 2018.

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

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

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