REFINITIV

DELTA REPORT

10-Q

EHAB - ENHABIT, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	955
CHANGES	113
DELETIONS	526
ADDITIONS	316

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023 March 31, 2024

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-41406

Enhabit, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**47-2409192**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6688 N. Central Expressway, Suite 1300, Dallas, Texas	**75206**
(Address of Principal Executive Offices)	(Zip Code)

(214) 239-6500

(Registrant's telephone number, including area code code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**EHAB**	**New York Stock Exchange**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐☒
Non-accelerated filer	☒☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

The registrant had outstanding 50,129,596 50,155,417 shares of common stock as of November 8, 2023 May 6, 2024.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains historical information, as well as forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that involve known and unknown risks and relate to, among other things, future events, projections, financial guidance, legislative or regulatory developments, strategy or growth opportunities, our future financial performance, our projected business results, or our projected capital expenditures. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, the reader can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "targets," "potential," or "continue" or the negative of these terms or other comparable terminology. Any forward-looking statement speaks only as of the date of this report, and the Company undertakes no duty to publicly update or revise such forward-looking information, whether as a result of new information, future events, or otherwise. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors which could cause actual events or results to differ materially from those estimated by the Company include, but are not limited to, our ability to execute on our strategic plans, plans; regulatory and other developments impacting the markets for our services, services; changes in reimbursement rates, rates; general economic conditions, conditions; changes in the episodic versus non-episodic mix of our payors, the case mix of our patients, and payment methodologies; our ability to attract and retain key management personnel and healthcare professionals, professionals; potential disruptions or breaches of our or our vendors', payors', and other contract counterparties' information systems, systems; the outcome of litigation, litigation; our ability to successfully complete and integrate de novo developments, locations, acquisitions, investments, and joint ventures, ventures; our ability to control costs, particularly labor and employee benefit costs, costs; and that our impacts resulting from the announcement of the conclusion of the strategic review of strategic alternatives will result in our pursuing any strategic transaction, or that we will successfully consummate any particular strategic transaction on attractive terms or at all. process. Our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 dated April 14, 2023 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 dated May 11, 2023 March 15, 2024, which can be found on the Company's website at http://investors.ehab.com, discuss discusses these and other risks and factors that could cause actual results to differ materially from those expressed or implied by any forward-looking statement in this report.

Part I - Financial Information

Item 1. Financial Statements (Unaudited)

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
	(In Millions, Except Per Share Data)			
Net service revenue	**$ 258.3**	$ 265.7	**$ 785.7**	$ 808.0
Cost of service, excluding depreciation and amortization	**134.0**	132.3	**402.1**	392.3
General and administrative expenses	**108.8**	107.5	**327.1**	310.4
Depreciation and amortization	**7.7**	8.0	**23.2**	24.7
Impairment of goodwill	**—**	—	**85.8**	—
Operating income (loss)	**7.8**	17.9	**(52.5)**	80.6
Interest expense and amortization of debt discounts and fees	**10.9**	6.2	**30.7**	6.3
Other income	**(0.1)**	—	**(0.2)**	—
(Loss) income before income taxes and noncontrolling interests	**(3.0)**	11.7	**(83.0)**	74.3
Income tax (benefit) expense	**(0.8)**	2.8	**(9.9)**	17.9
Net (loss) income	**(2.2)**	8.9	**(73.1)**	56.4
Less: Net income attributable to noncontrolling interests	**0.2**	0.3	**1.0**	1.6
Net (loss) income attributable to Enhabit, Inc.	**$ (2.4)**	$ 8.6	**$ (74.1)**	$ 54.8
Weighted average common shares outstanding:				
Basic	**49.9**	49.6	**49.8**	49.6
Diluted	**49.9**	49.7	**49.8**	49.7
(Loss) earnings per common share:				
Basic (loss) earnings per share attributable to Enhabit, Inc. common stockholders	**$ (0.05)**	$ 0.17	**$ (1.48)**	$ 1.10
Diluted (loss) earnings per share attributable to Enhabit, Inc. common stockholders	**$ (0.05)**	$ 0.17	**$ (1.48)**	$ 1.10

	Three Months Ended March 31,

	2024	2023
	(In Millions, Except Per Share Data)	
Net service revenue	**$ 262.4**	$ 265.1
Cost of service, excluding depreciation and amortization	**134.2**	132.6
General and administrative expenses	**107.5**	110.5
Depreciation and amortization	**7.8**	7.8
Operating income	**12.9**	14.2
Interest expense and amortization of debt discounts and fees	**11.1**	9.5
Income before income taxes and noncontrolling interests	**1.8**	4.7
Income tax expense	**0.9**	1.5
Net income	**0.9**	3.2
Less: Net income attributable to noncontrolling interests	**0.7**	0.5
Net income attributable to Enhabit, Inc.	**$ 0.2**	$ 2.7
Weighted average common shares outstanding:		
Basic	**50.1**	49.8
Diluted	**50.4**	50.1
Earnings per common share:		
Basic earnings per share attributable to Enhabit, Inc. common stockholders	**$ 0.01**	$ 0.05
Diluted earnings per share attributable to Enhabit, Inc. common stockholders	**$ 0.01**	$ 0.05

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022

	(In Millions)			
Net (loss) income including noncontrolling interest	**$ (2.2)**	$ 8.9	**$ (73.1)**	$ 56.4
Other comprehensive income:				
Unrealized gain on cash flow hedges, net of tax of $0.2, $—, $0.8, and $—, respectively	**0.7**	—	**2.3**	—
Total other comprehensive income	**0.7**	—	**2.3**	—
Comprehensive (loss) income including noncontrolling interest	**(1.5)**	8.9	**(70.8)**	56.4
Less: Comprehensive income attributable to noncontrolling interest	**0.2**	0.3	**1.0**	1.6
Comprehensive (loss) income attributable to Enhabit, Inc.	**$ (1.7)**	$ 8.6	**$ (71.8)**	$ 54.8

	Three Months Ended March 31,	
	2024	**2023**
	(In Millions)	
Net income including noncontrolling interests	**$ 0.9**	$ 3.2
Other comprehensive income:		
Unrealized gain (loss) on cash flow hedge, net of tax expense (benefit) of $0.4 and $(0.3), respectively	**1.3**	(1.1)
Total other comprehensive income (loss)	**1.3**	(1.1)
Comprehensive income including noncontrolling interests	**2.2**	2.1
Less: Comprehensive income attributable to noncontrolling interests	**0.7**	0.5
Comprehensive income attributable to Enhabit, Inc.	**$ 1.5**	$ 1.6

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2023	December 31, 2022
	(In Millions, Except Share Data)	
Assets		

Current assets:		
Cash and cash equivalents	**$ 31.6**	$ 22.9
Restricted cash	**3.6**	4.3
Accounts receivable	**167.8**	149.6
Income tax receivable	**2.7**	11.4
Prepaid expenses and other current assets	**12.1**	23.6
Total current assets	**217.8**	211.8
Property and equipment, net	**20.1**	20.4
Operating lease right-of-use assets	**60.0**	42.0
Goodwill	**1,061.7**	1,144.8
Intangible assets, net	**85.9**	102.6
Other long-term assets	**5.4**	5.2
Total assets(1)	**$ 1,450.9**	$ 1,526.8

Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 22.6**	$ 23.1
Current operating lease liabilities	**12.7**	14.0
Accounts payable	**6.0**	3.8
Accrued payroll	**48.6**	35.5
Refunds due patients and other third-party payors	**7.8**	8.3
Accrued medical insurance	**8.4**	7.5
Other current liabilities	**36.9**	40.7
Total current liabilities	**143.0**	132.9
Long-term debt, net of current portion	**535.8**	560.0
Long-term operating lease liabilities	**47.0**	28.1
Deferred income tax liabilities	**16.3**	28.6
Other long-term liabilities	**—**	1.9
	742.1	751.5
Commitments and contingencies		
Redeemable noncontrolling interests	**5.0**	5.2
Stockholders' equity:		
Enhabit, Inc. stockholders' equity:		
Common stock, $.01 par value; 200,000,000 shares authorized; issued: 50,174,888 as of September 30, 2023 and 50,099,716 as of December 31, 2022	**0.5**	0.5

Capital in excess of par value	**414.1**	406.9
Accumulated other comprehensive income	**1.6**	(0.7)
Retained earnings	**260.9**	335.0
Treasury stock at cost, 74,947 and — shares, respectively	**(0.5)**	—
Total Enhabit, Inc. stockholders' equity	**676.6**	741.7
Noncontrolling interests	**27.2**	28.4
Total stockholders' equity	**703.8**	770.1
Total liabilities(1) and stockholders' equity	**$ 1,450.9**	$ 1,526.8

	March 31, 2024	December 31, 2023
	(In Millions, Except Share Data)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 36.5**	$ 27.4
Restricted cash	**2.9**	2.4
Accounts receivable, net of allowances	**174.3**	164.7
Prepaid expenses and other current assets	**12.4**	15.6
Total current assets	**226.1**	210.1
Property and equipment, net	**20.6**	19.0
Operating lease right-of-use assets	**57.0**	57.5
Goodwill	**1,061.7**	1,061.7
Intangible assets, net	**74.6**	80.0
Other long-term assets	**5.2**	5.3
Total assets(1)	**$ 1,445.2**	$ 1,433.6
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	**$ 22.8**	$ 22.5
Current operating lease liabilities	**11.2**	11.8
Accounts payable	**9.0**	7.6
Accrued payroll	**49.1**	38.5
Refunds due patients and other third-party payors	**10.5**	8.2
Accrued medical insurance	**7.4**	8.4
Other current liabilities	**40.5**	40.7

Total current liabilities		**150.5**		137.7
Long-term debt, net of current portion		**526.7**		530.1
Long-term operating lease liabilities, net of current portion		**45.8**		45.7
Deferred income tax liabilities		**17.0**		17.1
Other long-term liabilities		**0.2**		1.3
Total liabilities		**740.2**		731.9
Commitments and contingencies (See Note 6)				
Redeemable noncontrolling interests		**5.0**		5.0
Stockholders' equity:				
Total Enhabit, Inc. stockholders' equity		**672.3**		669.7
Noncontrolling interests		**27.7**		27.0
Total stockholders' equity		**700.0**		696.7
Total liabilities(1) and stockholders' equity	**$**	**1,445.2**	$	1,433.6

(1) Our consolidated assets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 include total assets of variable interest entities of $18.7 million $17.9 million and $20.6 $18.0 million, respectively, that cannot be used by us to settle the obligations of other entities. Our consolidated liabilities as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 include total liabilities of the variable interest entities of $1.3 million $1.2 million and $0.5 million $0.6 million, respectively. See Note 2, *Variable Interest Entities*.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)

	Three Months Ended September 30, 2023												
	Number of Common Shares Outstanding		Common Stock	Capital in Excess of Par Value		Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding		Treasury Stock		Noncontrolling Interests	Total
	(In Millions)												
Balance at June 30, 2023	50.1	$	0.5	$ 411.0	$	0.9	$ 263.3	0.1	$	(0.5)	$	26.9	$ 702.1

	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total
Net loss	**—**	**—**	**—**	**—**	**(2.4)**	**—**	**—**	**0.3**	**(2.1)**
Other comprehensive income, net of tax	**—**	**—**	**—**	**0.7**	**—**	**—**	**—**	**—**	**0.7**
Stock-based compensation expense	**—**	**—**	**3.1**	**—**	**—**	**—**	**—**	**—**	**3.1**
Balance at September 30, 2023	**50.1**	**$ 0.5**	**$ 414.1**	**$ 1.6**	**$260.9**	**0.1**	**$ (0.5)**	**$ 27.2**	**$703.8**

	Three Months Ended September 30, 2022								
	Number of Common Shares Outstanding	**Common Stock**	**Capital in Excess of Par Value**	**Other Comprehensive Income**	**Retained Earnings**	**Number of Treasury Shares Outstanding**	**Treasury Stock**	**Noncontrolling Interests**	**Total**
	(In Millions)								
Balance at June 30, 2022	49.6	$ 0.5	$ 400.2	$ —	$421.6	—	$ —	$ 28.4	$850.7
Net income	—	—	—	—	8.6	—	—	0.3	8.9
Distributions declared	—	—	—	—	—	—	—	(0.3)	(0.3)
Stock-based compensation	—	—	4.5	—	—	—	—	—	4.5
Balance at September 30, 2022	49.6	$ 0.5	$ 404.7	$ —	$430.2	—	$ —	$ 28.4	$863.8

	Three Months Ended March 31, 2024								
	Enhabit, Inc. Common Stockholders								
	Number of Common Shares Outstanding	**Common Stock**	**Capital in Excess of Par Value**	**Other Comprehensive Income**	**Retained Earnings**	**Number of Treasury Shares Outstanding**	**Treasury Stock**	**Noncontrolling Interests**	**Total**
	(In Millions)								
Balance at December 31, 2023	50.1	$ 0.5	$ 415.8	$ (0.5)	$254.5	0.1	$ (0.6)	$ 27.0	$696.7

Net income	**—**	**—**	**—**	**—**	**0.2**	**—**	**—**	**0.7**	**0.9**
Other comprehensive income, net of tax	**—**	**—**	**—**	**1.3**	**—**	**—**	**—**	**—**	**1.3**
Stock-based compensation expense	**—**	**—**	**1.8**	**—**	**—**	**—**	**—**	**—**	**1.8**
Restricted stock forfeited, including forfeitures due to net share settlement of income taxes	**0.1**	**—**	**—**	**—**	**—**	**0.1**	**(0.7)**	**—**	**(0.7)**
Balance at March 31, 2024	**50.2**	**$ 0.5**	**$ 417.6**	**$ 0.8**	**$254.7**	**0.2**	**$ (1.3)**	**$ 27.7**	**$700.0**

	Three Months Ended March 31, 2023								
	Enhabit, Inc. Common Stockholders								
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total
	(In Millions)								
Balance at December 31, 2022	50.1	$ 0.5	$ 406.9	$ (0.7)	$335.0	—	$ —	$ 28.4	$770.1
Net income	—	—	—	—	2.7	—	—	0.4	3.1
Other comprehensive loss, net of tax	—	—	—	(1.1)	—	—	—	—	(1.1)
Distributions declared	—	—	—	—	—	—	—	(2.2)	(2.2)
Stock-based compensation expense	—	—	1.5	—	—	—	—	—	1.5

Restricted stock forfeited, including forfeitures due to net share settlement of income taxes	—	—	—	—	—	0.1	(0.5)	—	(0.5)
Balance at March 31, 2023	50.1	$ 0.5	$ 408.4	$ (1.8)	$ 337.7	0.1	$ (0.5)	$ 26.6	$ 770.9

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

	Nine Months Ended September 30, 2023								
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total
	(In Millions)								
Balance at December 31, 2022	50.1	$ 0.5	$ 406.9	$ (0.7)	$ 335.0	—	$ —	$ 28.4	$ 770.1
Net loss	—	—	—	—	**(74.1)**	—	—	**1.0**	**(73.1)**
Other comprehensive income, net of tax	—	—	—	**2.3**	—	—	—	—	**2.3**
Distributions declared	—	—	—	—	—	—	—	**(2.2)**	**(2.2)**
Stock-based compensation expense	—	—	**7.2**	—	—	—	—	—	**7.2**

Restricted stock forfeited, including forfeitures due to net share settlement of income taxes	**—**	**—**	**—**	**—**	**—**	**0.1**	**(0.5)**	**—**	**(0.5)**
Balance at September 30, 2023	**50.1**	**$ 0.5**	**$ 414.1**	**$ 1.6**	**$260.9**	**0.1**	**$ (0.5)**	**$ 27.2**	**$ 703.8**

	Nine Months Ended September 30, 2022								
	Number of Common Shares Outstanding	**Common Stock**	**Capital in Excess of Par Value**	**Other Comprehensive Income**	**Retained Earnings**	**Number of Treasury Shares Outstanding**	**Treasury Stock**	**Noncontrolling Interests**	**Total**
	(In Millions)								
Balance at December 31, 2021	49.6	$ 0.5	$1,094.1	$ —	$375.4	—	$ —	$ 8.3	$1,478.3
Net income	—	—	—	—	54.8	—	—	1.6	56.4
Capital contributions	—	—	62.3	—	—	—	—	—	62.3
Capital distributions	—	—	(759.1)	—	—	—	—	—	(759.1)
Distributions declared	—	—	—	—	—	—	—	(0.9)	(0.9)
Saint Alphonsus acquisition	—	—	—	—	—	—	—	15.9	15.9
Contributions from noncontrolling interests of consolidated affiliates	—	—	2.9	—	—	—	—	3.5	6.4
Stock-based compensation	—	—	4.5	—	—	—	—	—	4.5

Balance at September 30, 2022	49.6	$	0.5	$	404.7	$	—	$	430.2	—	$	—	$	28.4	$	863.8

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,		Three Months Ended March 31,
	2024	2024	2023
	(In Millions)		(In Millions)
Cash flows from operating activities:			
Net income			
Net income			
Net income			
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization			
Depreciation and amortization			
Depreciation and amortization			
Amortization of debt related costs			

	Nine Months Ended September 30,	
	2023	2022

	(In Millions)	
Cash flows from operating activities:		
Net (loss) income	**$(73.1)**	$ 56.4
Adjustments to reconcile net (loss) income to net cash provided by operating activities—		
Depreciation and amortization	**23.2**	24.7
Amortization of debt related costs	**1.0**	0.3
Impairment of goodwill	**85.8**	—
Stock-based compensation		
Stock-based compensation	Stock-based compensation **7.2**	7.1
Deferred tax benefit	**(13.1)**	(2.5)
Other, net	**0.7**	—
Stock-based compensation		
Deferred tax (benefit) expense		
Other		
Changes in assets and liabilities, net of acquisitions—	Changes in assets and liabilities, net of acquisitions—	
Accounts receivable	**(17.8)**	16.4
Accounts receivable, net of allowances		
Accounts receivable, net of allowances		
Accounts receivable, net of allowances		
Prepaid expenses and other assets	Prepaid expenses and other assets **19.9**	(22.5)
Accounts payable	Accounts payable **2.2**	(0.2)

Accrued payroll	Accrued payroll	**13.1**	(3.3)
Other liabilities	Other liabilities	**(3.6)**	(0.4)
Net cash provided by operating activities	**Net cash provided by operating activities**	**45.5**	76.0
Cash flows from investing activities:	**Cash flows from investing activities:**		
Acquisition of businesses, net of cash acquired	Acquisition of businesses, net of cash acquired	**(2.8)**	—
Purchases of property and equipment		**(3.1)**	(5.3)
Additions to capitalized software costs		**(0.5)**	—
Other, net		**0.6**	1.2
Acquisition of businesses, net of cash acquired			
Acquisition of businesses, net of cash acquired			
Purchases of property and equipment, including capitalized software costs			
Other			
Other			
Other			
Net cash used in investing activities	**Net cash used in investing activities**	**(5.8)**	(4.1)

Cash flows from financing activities:	Cash flows from financing activities:		
Principal borrowings on term loan		**—**	400.0
Principal payments on term loan		**(15.0)**	(5.0)
Principal payments on debt	Principal payments on debt	**—**	(0.4)
Borrowings on revolving credit facility		**—**	170.0
Principal payments on debt			
Principal payments on debt			
Payments on revolving credit facility			
Payments on revolving credit facility			
Payments on revolving credit facility	Payments on revolving credit facility	**(10.0)**	—
Principal payments under finance lease obligations	Principal payments under finance lease obligations	**(2.6)**	(3.6)
Debt issuance costs		**(1.1)**	—
Principal payments under finance lease obligations			
Principal payments under finance lease obligations			
Distributions paid to noncontrolling interests of consolidated affiliates	Distributions paid to noncontrolling interests of consolidated affiliates	**(2.5)**	—
Contributions from Encompass		**—**	59.8
Distributions to Encompass		**—**	(654.9)

Contributions from noncontrolling interests of consolidated affiliates		—	7.4
Distributions paid to noncontrolling interests of consolidated affiliates			
Distributions paid to noncontrolling interests of consolidated affiliates			
Other			
Other			
Other	Other	**(0.5)**	(5.3)
Net cash used in financing activities	**Net cash used in financing activities**	**(31.7)**	(32.0)
Increase in cash, cash equivalents, and restricted cash	**Increase in cash, cash equivalents, and restricted cash**	**8.0**	39.9
Cash, cash equivalents, and restricted cash at beginning of year	**Cash, cash equivalents, and restricted cash at beginning of year**	**27.2**	8.0
Cash, cash equivalents, and restricted cash at end of period	**Cash, cash equivalents, and restricted cash at end of period**	**$ 35.2**	$ 47.9
Supplemental cash flow information:	**Supplemental cash flow information:**		
Cash (received) paid for income taxes, net		**(5.4)**	11.8

Cash received for income taxes, net			
Cash received for income taxes, net			
Cash received for income taxes, net			
Cash paid for interest	Cash paid for interest	**27.9**	6.0
Supplemental schedule of noncash activities:	**Supplemental schedule of noncash activities:**		
Property and equipment additions through finance leases	Property and equipment additions through finance leases	**2.7**	2.9
Property and equipment additions through finance leases			
Property and equipment additions through finance leases			
Operating lease additions	Operating lease additions	**29.3**	5.9
Trade name transfer to Encompass (including deferred tax liability)		—	(104.2)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Enhabit, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
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1. Summary of Significant Accounting Policies:

Organization and Description of Business—

Enhabit, Inc. (“Enhabit,” “we,” “us,” “our,” and the “Company”), incorporated in Delaware in 2014, provides a comprehensive range of Medicare-certified skilled home health and hospice services in 34 states, with a concentration in the southern half of the United States. We manage our operations and disclose financial information using two reportable segments: (1) home health and (2) hospice. See Note 9, 7, *Segment Reporting*. Prior to July 1, 2022, the Company operated as a reporting segment of Encompass Health Corporation (“Encompass”).

Separation from Encompass—

On December 9, 2020, Encompass announced a formal process to explore strategic alternatives for its home health and hospice business. On January 19, 2022, Encompass announced its home health and hospice business would be rebranded and operate under the name Enhabit Home Health & Hospice. In March 2022, we changed our name from Encompass Health Home Health Holdings, Inc. to Enhabit, Inc.

On July 1, 2022, Encompass completed the separation of the Company through the distribution of all of the outstanding shares of common stock, par value $0.01 per share, of Enhabit to the stockholders of record of Encompass (the “Distribution”) as of the close of business on June 24, 2022 (the “Record Date”). The Distribution was effective at 12:01 a.m., Eastern Time, on July 1, 2022. The Distribution was structured as a pro rata distribution of one share of Enhabit common stock for every two shares of Encompass common stock held of record as of the Record Date. No fractional shares were distributed. A cash payment was made in lieu of any fractional shares. As a result of the Distribution, Enhabit is now an independent public company, and its common stock is listed under the symbol “EHAB” on the New York Stock Exchange (the “Separation”).

The Separation was completed pursuant to a separation and distribution agreement (the “Separation and Distribution Agreement”) and other agreements with Encompass related to the Separation, including, but not limited to, a tax matters agreement (the “Tax Matters Agreement”), an employee matters agreement (the “Employee Matters Agreement”), and a transition services agreement (the “Transition Services Agreement” or “TSA”). Following the Separation, certain functions continue to be provided by Encompass under the TSA or are being performed using the Company’s own resources or third-party providers. The Company incurred certain costs in its establishment as an independent, publicly traded company and expects to incur ongoing additional costs associated with operating as an independent, publicly traded company.

In early 2022, in anticipation of the Distribution, we transferred the “Encompass” trade name with a book value of $135.2 million and the related deferred tax liabilities with a book value of $31.0 million to Encompass, as they will continue to operate under the Encompass brand.

See also Note 4, 3, *Long-term Debt.*

Strategic Alternatives Process Long-term Debt— .

On August 23, 2023, we announced a formal process to explore strategic alternatives for our business. Our Board is considering a range of options, including, among other things, a potential sale, merger or other strategic transaction. Certain transactions involving the Company remain subject to additional conditions in the Tax Matters Agreement, including securing a tax opinion that such proposed transaction would not jeopardize the tax-free treatment of the Separation, satisfactory to Encompass in its sole and absolute discretion. No timetable has been established for the completion of the strategic review.

Basis of Presentation and Consolidation—

The accompanying unaudited condensed consolidated financial statements of the Company and its subsidiaries should be read in conjunction with the audited consolidated financial statements and accompanying notes contained in the Company's Annual Report for the year ended December 31, 2022 December 31, 2023 on Form 10-K (the "Form 10-K") filed with the United States Securities and Exchange Commission (the "SEC") on April 14, 2023 March 15, 2024. The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the SEC applicable to interim financial information. Certain information and note disclosures included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been omitted in these

interim statements, as allowed by such SEC rules and regulations. The condensed consolidated balance sheet Condensed Consolidated Balance Sheet as of December 31, 2022 December 31, 2023 has been derived from audited financial statements, but it does not include all disclosures required by GAAP. However, we believe the disclosures are adequate to make the information presented not misleading.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying unaudited condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary to fairly state for a fair statement of the financial position, results of operations, and cash flows for each interim period presented.

Prior to July 1, 2022, we existed and functioned as part of the consolidated business of Encompass. The results related to the periods prior to July 1, 2022 included within the accompanying unaudited condensed consolidated financial statements have been derived from the unaudited condensed consolidated financial statements and accounting records of Encompass as if the Company had operated on a stand-alone basis during the periods presented and were prepared utilizing the legal entity approach, in accordance with GAAP, and pursuant to the rules and regulations of the SEC. Prior to July 1, 2022, the Company was reported as a single reportable segment within Encompass's reportable segments and did not operate as a stand-alone company. Accordingly, Encompass historically reported the financial position and the related results of operations, cash flows, and changes in equity of the Company as a component of Encompass's unaudited condensed consolidated financial statements.

The unaudited condensed consolidated financial statements include an allocation of expenses related to certain Encompass corporate functions as discussed in Note 10, Related Party Transactions, for periods prior to July 1, 2022. The unaudited condensed consolidated financial statements also include revenues and expenses directly attributable to the Company and assets and liabilities specifically attributable to the Company. Encompass's third-party debt and related interest expense have not been attributed to the Company because the Company was not the primary legal obligor of the debt and the borrowings were not specifically identifiable to the Company. However, subsequent to April 23, 2020, the Company was a guarantor for Encompass's credit agreement and senior debt. In connection with the Distribution, the Company was released from its guarantee of Encompass's indebtedness. The Company maintains its own cash management system and did not participate in a centralized cash management arrangement with Encompass.

The income tax amounts in these unaudited condensed consolidated financial statements for the periods prior to July 1, 2022 have been calculated based on a separate return methodology and are presented as if our income gave rise to separate federal and state consolidated income tax return filing obligations in the respective jurisdictions in which we operate. In addition to various separate state and local income tax filings, we joined with Encompass in various U.S. federal, state and local consolidated income tax filings prior to the Separation. See Note 6, *Income Taxes*, for information related to our Tax Sharing Agreement with Encompass.

The unaudited condensed consolidated financial statements include the assets, liabilities, revenues, and expenses of all wholly owned subsidiaries, majority-owned subsidiaries over which we exercise control, and, when applicable, entities in which we have a controlling financial interest.

We use the equity method to account for our investments in entities we do not control, but for which we have the ability to exercise significant influence over operating and financial policies. Consolidated *Net (loss) income attributable to Enhabit, Inc.* includes our share of the net earnings of these entities.

We eliminate all intercompany accounts and transactions within the Company from our financial results. Transactions between the Company and Encompass have been included in these unaudited condensed consolidated financial statements. The transfers with Encompass that were not settled in cash are reflected in stockholders' equity on the condensed consolidated balance sheets and within *Capital in Excess of Par Value* on the condensed consolidated statements of stockholders' equity. Within the condensed consolidated statements of cash flows, these transfers were treated as an operating, financing or noncash activity determined by the nature of the transaction. For the periods prior to July 1, 2022, transactions between the Company and Encompass were considered related party transactions. Refer to Note 10, *Related Party Transactions*, for more information.

Enhabit, Inc. and Subsidiaries
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Net Service Revenue—

Our *Net service revenue* disaggregated by payor source and segment are as follows (in millions):

	Home Health		**Hospice**		**Consolidated**	
	Three Months Ended September 30,		**Three Months Ended September 30,**		**Three Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**

	Home Health	**Home Health**	**Hospice**	**Consolidated**

	Three Months Ended March 31, 2024							2024	2023	Three Months Ended March 31, 2024	2023	2024	2023
Medicare	Medicare	$141.0	$159.1	$46.7	$47.3	$187.7	$206.4						
Medicare Advantage	Medicare Advantage	45.7	38.5	—	—	45.7	38.5						
Managed care	Managed care	21.2	15.2	—	1.7	21.2	16.9						
Medicaid	Medicaid	2.9	3.3	0.7	0.4	3.6	3.7						
Other	Other	0.1	0.2	—	—	0.1	0.2						
Total	Total	$210.9	$216.3	$47.4	$49.4	$258.3	$265.7						

	Home Health		Hospice		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022
Medicare	$ 426.5	$ 492.5	$ 140.5	$ 141.4	$ 567.0	$ 633.9
Medicare Advantage	148.3	110.3	—	—	148.3	110.3
Managed care	56.5	49.2	4.3	4.3	60.8	53.5
Medicaid	8.7	8.9	0.4	0.9	9.1	9.8
Other	0.5	0.5	—	—	0.5	0.5
Total	$ 640.5	$ 661.4	$ 145.2	$ 146.6	$ 785.7	$ 808.0

For a discussion of our significant accounting policies, including our policy related to *Net service revenue*, see Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Form 10-K.

Redeemable Noncontrolling Interests in Consolidated Affiliates—

Certain of our joint venture agreements contain provisions that allow our partners to require us to purchase their interests in the joint venture at fair value at certain points in the future. These put rights include termination provisions, change in control provisions, and breaches of the terms of the underlying operating agreements. Because these noncontrolling interests provide for redemption features that are not solely within our control, we classify them as Redeemable noncontrolling interests outside of permanent equity in our consolidated balance sheets.

The following tables reconcile the net income attributable to nonredeemable *Noncontrolling interests*, as recorded in the shareholders' equity section of the consolidated balance sheets, and the net income attributable to *Redeemable noncontrolling interests*, as recorded in the mezzanine section of the consolidated balance sheets, to the *Net income attributable to noncontrolling interests* presented in the consolidated statements of income (in millions):

	Nine Months Ended September 30,	
	2023	2022
Balance at beginning of period	$ 5.2	$ 5.0
Purchases of redeemable noncontrolling interests	—	0.2
Distributions to redeemable noncontrolling interests	(0.2)	—
Balance at end of period	$ 5.0	$ 5.2

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income attributable to nonredeemable noncontrolling interests	$ 0.3	$ 0.3	$ 1.0	$ 1.6
Net income attributable to redeemable noncontrolling interests	(0.1)	—	—	—
Net income attributable to noncontrolling interests	$ 0.2	$ 0.3	$ 1.0	$ 1.6

(Loss) Earnings Per Common Share—

The following table sets forth the computation of diluted weighted average common shares outstanding for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	2024			
	2024			
	2024			

Weighted average common shares outstanding:					
Weighted average common shares outstanding:					
Weighted average common shares outstanding:	Weighted average common shares outstanding:				
Basic	Basic	49.9	49.6	49.8	49.6
Basic					
Basic					
Dilutive effect of restricted stock, restricted stock units and performance units					
Dilutive effect of restricted stock, restricted stock units and performance units					
Dilutive effect of restricted stock, restricted stock units and performance units	Dilutive effect of restricted stock, restricted stock units and performance units	—	0.1	—	0.1
Diluted	Diluted	49.9	49.7	49.8	49.7
Diluted					
Diluted					

A total of 0.3 million and 0.3 million options to purchase Enhabit's shares and 1.5 2.0 million and 0.5 million shares of restricted stock awards, performance units, and restricted stock units were excluded from the diluted weighted average common shares outstanding for the three and nine months ended September 30, 2023 because their effects were antidilutive. A total of 0.2 million options to purchase Enhabit's shares March 31, 2024 and 0.7 million shares of restricted stock awards, performance units, and restricted stock units were excluded from the diluted weighted average common shares outstanding for the three and nine months ended September 30, 2022 2023, respectively, because their effects were anti-dilutive. See Note 10, 9, *Stock-Based Payments*, to the consolidated financial statements included in the Form 10-K for additional information.

Recent Accounting Pronouncements—

We do not believe any recently In November 2023, the Financial Accounting Standards Board ("FASB") issued but not yet Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (*Topic 280*): Improvements to Reportable Segments Disclosures." This standard provides guidance to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. The standard is effective accounting standards for fiscal years beginning after December 15, 2023 and interim periods in fiscal years beginning after December 15, 2024. Early adoption is permitted, and the disclosures in this standard are required to be applied on a retrospective basis. The Company is currently evaluating the potential impact this standard will have a material effect on our condensed its consolidated financial position, results of operations, or cash flows. statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (*Topic 740*): Improvements to Income Tax Disclosures.” This standard requires disaggregated income tax disclosures on the effective tax rate reconciliation and income taxes paid. This standard is effective for annual periods beginning after December 31, 2024. Early adoption is permitted, and the disclosures in this standard are required to be applied on a prospective basis with the option to apply the standard retrospectively. The Company is currently evaluating the potential impact this standard will have on its consolidated financial statements and related disclosures.

Enhabit, Inc. and Subsidiaries
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2. Variable Interest Entities (“VIEs”):

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we consolidated two limited partnership-like joint venture entities that are VIEs and of which we are the primary beneficiary. Our ownership percentages in these entities are 60% and 90% as of September 30, 2023 March 31, 2024. Through partnership and management agreements with or governing these entities, we manage these entities and handle all day-to-day operating decisions. Accordingly, we have the decision-making power over the activities

Enhabit, Inc. and Subsidiaries
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that most significantly impact the economic performance of the VIEs and an obligation to absorb losses or receive benefits from the VIEs that could potentially be significant to the VIEs. These decisions and significant activities include, but are not limited to, marketing efforts, oversight of patient admissions, medical training, nurse and therapist scheduling, provision of healthcare services, billing, collections, and creation and maintenance of medical records. The terms of the agreements governing the VIEs prohibit us from using the assets of the VIEs to satisfy the obligations of other entities.

The carrying amounts and classifications of the consolidated VIEs’ assets and liabilities, which are included in our condensed consolidated balance sheets, Unaudited Condensed Consolidated Balance Sheets, are as follows (in millions):

	September 30, 2023	December 31, 2022

March 31, 2024	March 31, 2024	December 31, 2023

Assets	**Assets**		
Current assets:	Current assets:		
Current assets:			
Current assets:			
Restricted cash	Restricted cash	$ 3.0	$ 4.0
Accounts receivable		2.3	2.9
Restricted cash			
Restricted cash			
Accounts receivable, net of allowances			
Other current assets			
Total current assets	Total current assets	5.3	6.9
Operating lease right-of-use assets			
Operating lease right-of-use assets			
Operating lease right-of-use assets	Operating lease right-of-use assets	0.1	0.2
Goodwill	Goodwill	12.4	12.4
Intangible assets, net	Intangible assets, net	0.9	1.1
Total assets	Total assets	$ 18.7	$ 20.6
Liabilities	**Liabilities**		
Current liabilities:	Current liabilities:		

Current liabilities:					
Current liabilities:					
Current operating lease liabilities					
Current operating lease liabilities					
Current operating lease liabilities	Current operating lease liabilities	$	0.1	$	0.1
Accrued payroll	Accrued payroll		0.3		0.2
Other current liabilities	Other current liabilities		0.8		0.1
Total current liabilities	Total current liabilities		1.2		0.4
Long-term operating lease liabilities			0.1		—
Other long-term liabilities					
Other long-term liabilities					
Other long-term liabilities	Other long-term liabilities		—		0.1
Total liabilities	Total liabilities	$	1.3	$	0.5

3. **Goodwill and Other Intangible Assets:**

We are required to test our goodwill for impairment at least annually, as of October 1, or more frequently if events or changes in circumstances indicate that it is more likely than not goodwill is impaired.

During the preparation of our consolidated financial statements for the year ended December 31, 2022, we identified potential impairment triggering events in the fourth quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included lower than expected fourth quarter operating results, a change in our acquisition strategy, and declining collections, which we believe is in part a result of the growing shift in our third-party payor mix, and specifically, an increase in Medicare Advantage payors.

During the three months ended June 30, 2023, we identified potential impairment triggering events in the quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included our performance against the 2023 forecast, a decrease in our share price and market capitalization, and the release of the 2024 proposed rule for home health on June 30, 2023, which included a net negative home health payment update.

During the three months ended September 30, 2023, we identified potential impairment triggering events in the quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included our performance against the 2023 forecast and a decrease in our share price and market capitalization.

We estimated the fair value of our reporting units using both the income approach and market approach. The assumptions used in the income approach incorporate a number of significant estimates and judgments, including revenue growth rates, timing of acquisitions and de novo openings, forecasted operating margins, and the weighted-average cost of

capital. The market approach utilizes the guideline public company methodology, which uses valuation indicators, including market multiples of earnings before interest, taxes, depreciation, and amortization, from other businesses that are similar to each reporting unit and implied control premiums.

While management believes the assumptions used are reasonable and commensurate with the views of a market participant, there is also uncertainty in current general economic and market conditions. The result of the analysis is sensitive to changes in key assumptions, such as assumed future reimbursement rates, rising interest rates and labor costs, and delays in our ability to complete acquisitions and de novo openings, which could negatively impact our forecasted cash flows and result in an impairment charge in future periods.

Based on the quantitative analysis in the fourth quarter of 2022, we recorded an impairment charge of $109.0 million in the three months ended December 31, 2022 to reflect a decrease in the carrying value of our home health reporting unit. As of December 31, 2022, the fair value of our hospice reporting unit exceeded its carrying value by less than 15%. As of December 31, 2022, the hospice reporting unit had an allocated goodwill balance of $303.6 million.

Based on the quantitative analysis in the second quarter of 2023, we recorded an impairment charge of $85.8 million for the three months ended June 30, 2023 to reflect a decrease in the carrying value of our hospice reporting unit. As of June 30, 2023, the hospice reporting unit had an allocated goodwill balance of $217.8 million. As of June 30, 2023, the home health reporting unit had an allocated goodwill balance of $843.9 million.

No impairment was identified as a result of the quantitative analysis in the third quarter of 2023.

The cumulative impairments to our goodwill totaled $109.0 million as of December 31, 2022 and $194.8 million as of September 30, 2023. Based on the quantitative analysis, the fair value of our home health reporting unit as of September 30, 2023 exceeded its carrying value by less than 7%. As of September 30, 2023, the home health reporting unit had an allocated goodwill balance of $843.9 million. The fair value of the hospice reporting unit as of September 30, 2023 exceeded its carrying value by less than 5%. As of September 30, 2023, the hospice reporting unit had an allocated goodwill balance of $217.8 million.

4. Long-term Long-term Debt:

Our long-term debt outstanding consists of the following (in millions):

		September 30, 2023	December 31, 2022		
	March 31, 2024			March 31, 2024	December 31, 2023
Credit Agreement —	Credit Agreement —				
Advances under revolving credit facility					
Advances under revolving credit facility					
Advances under revolving credit facility	Advances under revolving credit facility	$ 180.0	$ 190.0		
Term loan A facility	Term loan A facility	373.1	387.9		
Finance lease obligations	Finance lease obligations	5.3	5.2		
		558.4	583.1		
Less current portion		(22.6)	(23.1)		
Finance lease obligations					
Finance lease obligations					
	549.5				
Less: Current portion					
Long-term debt, net of current portion	Long-term debt, net of current portion	$ 535.8	$ 560.0		

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The following table shows scheduled principal payments due on long-term debt for the next five years (in millions):

		Amount
October 1 through December 31, 2023		$ 5.8
2024		22.3
Amount		Amount
April 1 through December 31, 2024		
2025	2025	21.2
2026	2026	20.7
2027	2027	490.4
Gross maturities	Gross maturities	560.4
Less unamortized debt issuance costs		(2.0)
Gross maturities		
Gross maturities		
Less: Unamortized debt issuance costs		
Total	Total	$ 558.4

In June 2022, the Company entered into a credit agreement (the “Credit Agreement”) that consists of a $400.0 million term loan A facility (the “Term Loan A Facility”) and a $350.0 million revolving credit facility (the “Revolving Credit Facility” and together with the Term Loan A Facility, the “Credit Facilities”). The Credit Facilities mature in June 2027. Interest on the loans under the Credit Facilities is calculated by reference to the Secured Overnight Financing Rate (“SOFR”) or an alternative base rate, plus an applicable interest rate margin. Enhabit may voluntarily prepay outstanding loans under the Credit Facilities at any time without premium or penalty, other than customary breakage costs with respect to SOFR loans. The Term Loan A Facility contains customary mandatory prepayments, including with respect to proceeds from asset sales and from certain incurrences of indebtedness.

On June 30, 2022, we drew the full $400.0 million of the Term Loan A Facility and $170.0 million on the Revolving Credit Facility. The net proceeds of $566.6 million were distributed to Encompass prior to the completion of the Distribution.

As of September 30, 2023, amounts drawn under the Term Loan A Facility and the Revolving Credit Facility had an interest rate of 7.7%. For additional information on the Separation, see Note 1, *Summary of Significant Accounting Policies*, to the accompanying unaudited condensed consolidated financial statements.

The Term Loan A Facility amortizes by an amount per annum equal to 5.0% of the outstanding principal amount thereon as of the closing date, payable in equal quarterly installments, with the balance being payable in June 2027. The Revolving Credit Facility provides the ability to borrow and obtain letters of credit, which is subject to a $75.0 million sublimit. Obligations under the Credit Facilities are guaranteed by our existing and future wholly owned domestic material subsidiaries (the “Guarantors”), subject to certain exceptions. Borrowings under the Credit Facilities are secured by first priority liens on substantially all the assets of Enhabit and the Guarantors, subject to certain exceptions. The Credit Facilities contain representations and warranties, affirmative and negative covenants, and events of default customary for secured financings of this type, including limitations with respect to liens, fundamental changes, indebtedness, restricted payments, investments, and affiliate transactions, in each case, subject to a number of important exceptions and qualifications.

On June 27, 2023, we amended the Credit Facilities (the “First Amendment”) to provide for, among other things, things: (i) a new tier to the pricing grid for interest rate margins when the total net leverage ratio exceeds 4.50 to 1.00; (ii) changes to the conditions concerning the Company’s total net leverage ratio that must be met for the Company to borrow incremental ratio-based amounts; (iii) an increase in the maximum permitted total net leverage ratio to 5.25 to 1.00 for the quarters ending June 30, 2023, September 30, 2023, and December 31, 2023, stepping down to 5.00 to 1.00 for the quarter ending March 31, 2024, 4.75 to 1.00 for the quarter ending June 30, 2024, and 4.50 to 1.00 for the quarter ending September 30, 2024 and thereafter; and (iv) modifications to the Company’s ability to declare and make certain restricted payments.

On September 29, 2023, we entered into a Limited Waiver (the “Waiver”) with Wells Fargo Bank, National Association, as administrative agent to the other lenders (the “Administrative Agent”) under the Credit Agreement and the First Amendment to the Credit Agreement dated as of June 27, 2023. Amendment. The Waiver released the Company from the requirement to comply with the total net leverage ratio and the interest coverage ratio covenants for the three months ended September 30, 2023. The Waiver also required that, until such time as the Company certifies certified compliance with the waived financial covenants, the aggregate principal amount of the Company’s revolving loans allowed under the Credit Agreement shall be were decreased from $350.0 million to $230.0 million. All other covenants and terms of the Credit Agreement remain

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remained unchanged and in effect. Although we are were not required to be in compliance with the financial covenants as of September 30, 2023, we were in compliance with the financial covenants under the Credit Facilities.

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As of September 30, 2023, our forecasted results suggested there was uncertainty of meeting our covenants through a period of one year from the issuance date of the September 30, 2023 financial statements. As a result, on November 3, 2023, we amended the Credit Facilities (the “Second Amendment”) to provide for, among other things, (i) an increase in the maximum permitted Total Net Leverage Ratio (as defined in the Credit Agreement) to 6.75 to 1.00 for the quarters ending December 31, 2023 and March 31, 2024, stepping down to 6.50 to 1.00 for the quarters ending June 30, September 30 and December 31, 2024, 5.75 to 1.00 for the quarter ending March 31, 2025, and 4.50 to 1.00 for the quarter ending June 30, 2025 and thereafter; (ii) the addition of a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) covenant of 1.15 to 1.00 until the end of the Covenant Adjustment Period (as defined below); (iii) no Interest Coverage Ratio (as defined in the Credit Agreement) covenant until the end of the Covenant Adjustment Period; (iv) a permanent reduction in the revolving credit facility Revolving Credit Facility commitment from $350.0 million to $220.0 million; (v) an increase in the Applicable Commitment Fee (as defined in the Credit Agreement) during the Covenant Adjustment Period; (vi) suspension of the ability of the Company to request incremental commitments under the Credit Agreement during the Covenant Adjustment Period; (vii) an increase of 0.25% in the applicable interest rate margins on amounts outstanding under the Credit Agreement during the Covenant Adjustment Period; (viii) limits on the amount of cash the Company can keep on hand and outside the lender group during the Covenant Adjustment Period; and (ix) additional limits on permitted indebtedness and acquisitions, permitted indebtedness, permitted liens, restricted payments and permitted investments during the Covenant Adjustment Period. The “Covenant Adjustment Period” begins on the date of the Second Amendment and ends on the earlier of (a) the date that the Company provides evidence of compliance with the financial covenants in the Credit Agreement, as amended, for the fiscal quarter ended June 30, 2025 and (b) the date that the Company provides evidence of compliance with the financial covenants in the Credit Agreement as in effect immediately prior to the First Amendment for the applicable quarter.

Under specified circumstances, including non-compliance with any of the covenants described above and the unavailability of any waiver, amendment or other modification thereto, we may not be able to borrow under the Revolving Credit Facility. Additionally, violation of the covenants would result in an event of default under the Credit Facilities. A default that occurs, and is not cured within any applicable cure period or is not waived, would permit lenders to accelerate the maturity of the debt under the Credit Facilities and to foreclose upon any collateral securing the debt.

As a result of the amendment above, our forecasted results indicate we will continue to be in compliance with those financial covenants through a period of one year from the issuance date of the September 30, 2023 March 31, 2024 financial statements. We cannot guarantee we will be in compliance with our financial covenants for each reporting period through a period of one year from the issuance date of the September 30, 2023 March 31, 2024 financial statements. As of March 31, 2024, we were in compliance with our financial covenants under the Credit Facilities. We continually evaluate our expected compliance with the covenants described above and take all appropriate steps to proactively renegotiate such covenants when appropriate.

As of March 31, 2024, amounts drawn under the Term Loan A Facility and the Revolving Credit Facility had an interest rate of 7.9%. On October 20, 2022, we entered into an interest rate swap to manage our exposure to interest rate movements for a portion of our Term Loan A Facility. The interest rate swap has a $200.0 million notional value and a maturity date of October 20, 2025. Beginning in October 2022, we receive the one-month SOFR and pay a fixed rate of interest of 4.3%. See also Note 7, 5, *Derivative Instruments Instrument*.

The carrying amounts and estimated fair values of our long-term debt are presented in the following table (in millions):

		As of September 30, 2023		As of December 31, 2022	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:	Long-term debt:				
Advances under revolving credit facility	Advances under revolving credit facility	$ 180.0	$ 180.0	$ 190.0	$ 190.0
Term loan A facility	Term loan A facility	$ 373.1	$ 355.6	$ 387.9	$ 356.6
Finance lease obligations	Finance lease obligations	$ 5.3	$ 5.3	$ 5.2	$ 5.2

	As of March 31, 2024	As of March 31, 2024		As of December 31, 2023	
	Carrying Amount	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Advances under revolving credit facility					
Advances under revolving credit facility					
Finance lease obligations					
Finance lease obligations					

Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or Level 2 inputs within the fair value hierarchy. See

Note 1, *Summary of Significant Accounting Policies—Fair Value Measurements*, to the consolidated financial statements included in the Form 10-K.

5. Leases:

We lease office space, vehicles, and equipment under operating and finance leases with non-cancelable terms generally expiring at various dates through 2035. Our operating and finance leases generally have one- to eight-year terms. Certain leases also include options to purchase the leased property.

In March 2023, we renewed the lease on our corporate headquarters office space for a term of 11 years. The lease commences on June 1, 2024 and expires in May 2035. In July 2023, we amended the lease on our corporate headquarters office space to consolidate our office space within the building. The minimum lease payment obligations due under the amended lease are $23.8 million.

The components of lease costs are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Operating lease cost:				
General and administrative expenses	$ 5.0	$ 5.0	$ 15.0	$ 15.0
Finance lease cost:				
Amortization of right-of-use assets	0.8	0.9	2.3	2.9
Interest on lease liabilities	0.1	0.1	0.1	0.1
Total finance lease cost	0.9	1.0	2.4	3.0
Total lease cost	$ 5.9	$ 6.0	$ 17.4	$ 18.0

Supplemental consolidated balance sheet information related to leases is as follows (in millions):

	Classification	**As of September 30, 2023**	**As of December 31, 2022**
Assets			
Operating lease	Operating lease right-of-use assets	$ 60.0	$ 42.0
Finance lease(1)	Property and equipment, net	9.8	10.1
Total lease assets		$ 69.8	$ 52.1
Liabilities			
Current Liabilities:			
Operating lease	Current portion of operating lease liabilities	$ 12.7	$ 14.0
Finance lease	Current portion of long-term debt	2.6	3.1
Noncurrent liabilities			

Operating lease	Long-term operating lease liabilities, net of current portion	47.0	28.1
Finance lease	Long-term debt, net of current portion	2.7	2.1
Total lease liabilities		$ 65.0	$ 47.3

(1)Finance lease assets are recorded net of accumulated amortization of $20.3 million and $21.3 million as of September 30, 2023 and December 31, 2022, respectively.

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	As of September 30,	
	2023	**2022**
Weighted Average Remaining Lease Term		
Operating lease	5.9 years	3.5 years
Finance lease	2.5 years	1.8 years
Weighted Average Discount Rate		
Operating lease	6.6 %	4.2 %
Finance lease	4.4 %	2.6 %

Maturities of lease liabilities as of September 30, 2023 are as follows (in millions):

	Operating Leases	**Finance Leases**
October 1 through December 31, 2023	$ 3.2	$ 0.8
2024	16.3	2.4
2025	13.4	1.3
2026	10.6	0.7
2027	7.8	0.4
2028	5.0	—
2029 and thereafter	17.5	—
Total lease payments	73.8	5.6
Less: Interest portion	(14.1)	(0.3)
Total lease liabilities	$ 59.7	$ 5.3

Supplemental cash flow information related to our leases is as follows (in millions):

	Nine Months Ended September 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 12.0	$ 13.0
Financing cash flows from finance leases	$ 2.6	$ 3.6
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 29.3	$ 5.9
Finance leases	$ 2.7	$ 2.9

6. 4. Income Taxes:

Our effective income tax benefit rate rates were 50.0% and 31.9% for the three months ended September 30, 2023 was 26.7% compared to an effective income tax rate of 23.9% for the three months ended September 30, 2022. The higher benefit rate is primarily the result of comparatively favorable state income taxes during the third quarter of 2023. March 31, 2024 and 2023, respectively. Our effective income tax benefit rates differed from the federal statutory rate for primarily due to the nine months ended September 30, 2023 was 11.9% compared to an effective income tax rate impact of 24.1% for the nine months ended September 30, 2022. The reduction of the tax rate was primarily the result of a goodwill impairment charge in the second quarter of 2023, a significant portion of which was a permanent book-tax difference.

Prior to July 1, 2022, the Company joined Encompass in the filing of various consolidated federal, state, and local income tax returns and was a party to an income tax allocation agreement (the “Tax Sharing Agreement”). Under the Tax Sharing Agreement, the Company paid to or received from Encompass the amount, if any, by which Encompass’s income tax liability was affected by virtue of inclusion of the Company in the consolidated income tax returns of Encompass.

Effectively, that arrangement resulted in the Company’s annual income tax provision being computed, with adjustments, as if the Company filed separate consolidated income tax returns. stock-based compensation.

At the Distribution, the Company entered into the Tax Matters Agreement with Encompass, which terminated the existing Tax Sharing Agreement. Encompass. The Tax Matters Agreement governs the Company’s respective rights, responsibilities and obligations with respect to taxes (including responsibility for taxes arising in the ordinary course of business and taxes, if any, incurred as a result of any failure of the Distribution to qualify as tax-free for U.S. federal income tax purposes), entitlement to refunds, allocation of tax attributes, preparation of tax returns, control of tax contests and other matters.

In addition, the Tax Matters Agreement imposes certain restrictions on the Company and its subsidiaries until the second anniversary of the Distribution (including restrictions on share issuances, business combinations, sales of assets and similar transactions) that are designed to preserve the tax-free status of the Distribution and certain related transactions. The Tax Matters Agreement provides special rules that allocate tax liabilities in the event the Distribution or certain related transactions are not tax-free. In general, under the Tax Matters Agreement, each party is responsible for any taxes imposed on Encompass or the Company that arise from the failure of the Distribution or certain related transactions to qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code, to the extent that the failure to so qualify is attributable to actions, events or transactions relating to such party's respective stock, assets or business, or a breach of the relevant covenants made by that party in the Tax Matters Agreement.

7.5. Derivative Instruments:Instrument:

In October 2022, we entered into an interest rate swap agreement with a notional value of $200.0 million with a maturity of October 20, 2025. See Note 4,3, *Long-Term Long-term Debt*.

The activities of the cash flow hedge included in accumulated*Accumulated other comprehensive income* for the three and nine months ended September 30, 2023March 31, 2024 are presented in the following table (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	$ 0.9	$ —	$ (0.7)	$ —
Unrealized gain recognized in other comprehensive income, net of tax	1.1	—	3.0	—
Reclassified to interest expense, net of tax	(0.4)	—	(0.7)	—
Balance at end of period	$ 1.6	$ —	$ 1.6	$ —

	Cash Flow Hedge
Balance as of December 31, 2023	$ (0.5)
Unrealized gain recognized in other comprehensive income, net of tax	1.6
Reclassified to interest expense, net of tax	(0.3)
Balance as of March 31, 2024	$ 0.8

The fair value of derivative assets and liabilities within the consolidated balance sheets Unaudited Condensed Consolidated Balance Sheets are presented in the following table (in millions):

	September 30, 2023	December 31, 2022

March 31, 2024	March 31, 2024	December 31, 2023

Prepaid and other current assets	Prepaid and other current assets	$ 1.9	$ 1.0
Other long-term assets (liabilities)		0.2	(2.0)
Other long-term liabilities			
Total	Total	$ 2.1	$ (1.0)

Fair values value for our interest rate swap agreement are derivative instrument is determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or Level 2 inputs within the fair value hierarchy. See Note 1, *Summary of Significant Accounting Policies—Fair Value Measurements*, to the consolidated financial statements included in the Form 10-K.

8. 6. Contingencies and Other Commitments:

We operate in a highly regulated industry in which healthcare providers are routinely subject to litigation. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect our financial position, results of operations, and cash flows in a given period.

The condensed consolidated balance sheets Unaudited Condensed Consolidated Balance Sheets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 both include $1.2 $0.2 million, and $8.8 million, respectively, in *Other current liabilities* and *Other current assets* for claims made against the Company that are probable of loss and reasonably estimable and recoverable based on the Company's insurance policies. *Other current liabilities* in the Unaudited Condensed Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023 includes $9.5 million and $9.9 million, respectively, of accrued legal fees.

Other Commitments—

We are a party to service and other contracts in connection with conducting our business. Minimum amounts due under these agreements are $7.1 million in 2024, $2.0 million in 2025, and $0.6 million in 2026. These contracts primarily relate to software licensing and support.

9. 7. Segment Reporting:

Our internal financial reporting and management structure is focused on the major types of services provided by the Company. We manage our operations using two operating segments that are also our reportable segments: (1) home health and (2) hospice. These reportable operating segments are consistent with information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance and allocate resources. The following is a brief description of our reportable segments:

- *Home Health* - Our home health operations represent the nation's fourth largest fourth-largest provider of Medicare-certified skilled home health services, measured by 2020 2022 Medicare revenues. As of September 30, 2023 March 31, 2024, we operated 255 home health locations in 34 states, with a concentration in the southern half of the United States. We are the sole owner of 244 of these locations. We retain 50.0% to 81.0% ownership in the remaining 11 jointly owned locations. Our home health services include a comprehensive range of Medicare-certified home health nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services. See Note 1, *Summary of Significant Accounting Policies*,to the consolidated financial statements included in the Form 10-K for a definition of episodic and non-episodic revenue.

- *Hospice* - Our hospice business is operations represent one of the nation's largest providers of Medicare-certified hospice services, in terms of 2020 measured by 2022 Medicare revenues. As of September 30, 2023 March 31, 2024, we operated 109 112 hospice locations in 23 24 states, with a concentration in the southern half of the United States. We are the sole owner of 105 108 of these locations. We retain 50.0% to 90.0% ownership in the remaining four jointly owned locations. Our hospice services include in-home services to terminally ill Hospice care focuses on the quality of life for patients who are experiencing an advanced, life limiting illness while treating the person and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual support. symptoms of the disease, rather than the disease itself.

The accounting policies of our reportable segments are the same as those described in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Form 10-K. All revenues for our services are generated through external customers. See Note 1, *Summary of Significant Accounting Policies— Policies—Net Service Revenue*, for the disaggregation of our revenues. No corporate overhead is allocated to either of our reportable segments. Our Chief Executive Officer evaluates the performance of our segments and allocates resources to them based on adjusted earnings before interest, taxes, depreciation, and amortization ("Segment Adjusted EBITDA"). Segment assets are not reviewed by our Chief Executive Officer and therefore are not disclosed below.

Selected financial information for our reportable segments is as follows (in millions):

	Home Health		**Hospice**	
	Three Months Ended September 30,		**Three Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**

		Home Health		Hospice	
		Three Months Ended March 31,		Three Months Ended March 31,	
		2024	2023	2024	2023
Net service revenue	**Net service revenue**	$210.9	$216.3	$47.4	$49.4
Cost of service, excluding depreciation and amortization	Cost of service, excluding depreciation and amortization	110.0	109.6	24.0	22.7
General and administrative expenses	General and administrative expenses	59.0	61.9	15.7	17.3
Other income		(0.1)	—	—	—
General and administrative expenses					
General and administrative expenses					
Noncontrolling interests		0.2	0.2	—	0.1
Net income attributable to noncontrolling interests					
Net income attributable to noncontrolling interests					
Net income attributable to noncontrolling interests					
Segment Adjusted EBITDA	**Segment Adjusted EBITDA**	$ 41.8	$ 44.6	$ 7.7	$ 9.3

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	Home Health	Hospice

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net service revenue	$ 640.5	$ 661.4	$ 145.2	$ 146.6
Cost of service, excluding depreciation and amortization	329.5	326.4	72.6	65.8
General and administrative expenses	181.3	178.4	48.0	47.7
Other income	(0.2)	—	—	—
Noncontrolling interests	1.0	1.3	—	0.3
Segment Adjusted EBITDA	$ 128.9	$ 155.3	$ 24.6	$ 32.8

Segment reconciliations (in millions):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		2024			
		2024			
		2024			
Total Segment Adjusted EBITDA					
Total Segment Adjusted EBITDA					
Total Segment Adjusted EBITDA	**Total Segment Adjusted EBITDA**	$ 49.5	$ 53.9	$ 153.5	$ 188.1
Non-segment general and administrative expenses	Non-segment general and administrative expenses	(31.0)	(23.8)	(90.6)	(77.2)
Non-segment general and administrative expenses					
Non-segment general and administrative expenses					
Interest expense and amortization of debt discounts and fees					

Interest expense and amortization of debt discounts and fees					
Interest expense and amortization of debt discounts and fees					
Depreciation and amortization	Depreciation and amortization	(7.7)	(8.0)	(23.2)	(24.7)
Impairment of goodwill		—	—	(85.8)	—
Interest expense and amortization of debt discounts and fees		(10.9)	(6.2)	(30.7)	(6.3)
Depreciation and amortization					
Depreciation and amortization					
Stock-based compensation expense					
Stock-based compensation expense					
Stock-based compensation expense					
Net income attributable to noncontrolling interests	Net income attributable to noncontrolling interests	0.2	0.3	1.0	1.6
Stock-based compensation expense		(3.1)	(4.5)	(7.2)	(7.1)
Other		—	—	—	(0.1)
(Loss) income before income taxes and noncontrolling interests		$ (3.0)	$ 11.7	$ (83.0)	$ 74.3
Net income attributable to noncontrolling interests					
Net income attributable to noncontrolling interests					
Income before income taxes and noncontrolling interests					
Income before income taxes and noncontrolling interests					
Income before income taxes and noncontrolling interests					

Additional detail regarding the revenues of our operating segments by service line follows (in millions):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,			
		2024 2024 2024			
Home Health:	Home Health:				
Episodic		$ 167.3	$ 181.8	$ 503.0	$ 559.8
Non-episodic		41.1	31.5	129.7	93.1
Other		2.5	3.0	7.8	8.5
Home Health:					
Home Health:					
Medicare					
Medicare					
Medicare					
Non-Medicare					
Non-Medicare					
Non-Medicare					
Private duty(1)					
Private duty(1)					
Private duty(1)					
Total home health					
Total home health					
Total home health	Total home health	210.9	216.3	640.5	661.4
Hospice	Hospice	47.4	49.4	145.2	146.6
Hospice					
Hospice					
Total net service revenue	**Total net service revenue**	$ 258.3	$ 265.7	$ 785.7	$ 808.0
Total net service revenue					
Total net service revenue					

(1) Private duty represents long-term comprehensive hourly nursing medical care.

10. 8. Related Party Transactions:

In connection with the Separation, as discussed above, we entered into several agreements with Encompass that govern the relationship of the parties following the Distribution, including a Separation and Distribution Agreement, a Transition Services Agreement, a Tax Matters Agreement, and an Employee Matters Agreement. The Separation and Distribution Agreement contains provisions that, among other things, relate to (i) assets, liabilities, and contracts to be transferred, assumed, and assigned to each of Enhabit and Encompass as part of the Separation, (ii) cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of the Enhabit business with Enhabit and financial responsibility for the obligations and liabilities of Encompass's remaining business with Encompass, (iii) procedures with respect to claims subject to indemnification and related matters, (iv) the allocation between Enhabit and Encompass of rights and obligations under existing insurance policies with respect to occurrences prior to completion of the Distribution, as well as

the right to proceeds and the obligation to incur certain deductibles under certain insurance policies, and (v) procedures governing Enhabit's and Encompass's obligations and allocations of liabilities with respect to ongoing litigation matters that may implicate each of Enhabit's business and Encompass's business.

Allocation of Corporate Expenses Transition Services Agreement—

Before the Separation, Historically, Encompass provided the Company with certain services, including, but not limited to, executive oversight, treasury, legal, accounting, human resources, tax, internal audit, financial reporting, information technology and investor relations. Certain information technology After the Separation, some of these services continue continued to be provided by Encompass to the Company on a temporary basis under the Transition Services Agreement. Our unaudited condensed consolidated financial statements through September 30, 2022 include an allocation Agreement ("TSA"). As of these costs for March 31, 2024, the periods prior TSA expired under its terms.

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Notes to July 1, 2022. When specific identification is not practicable, a proportional cost method is used, primarily based on revenue and headcount. These cost allocations reasonably reflect these services and the benefits derived for the periods presented. These allocations may not be indicative of the actual expenses that would have been incurred as an independent, publicly traded company. In addition, the Company's employees historically participated in Encompass's various stock-based compensation plans. Condensed Consolidated Financial Statements

The allocations of services from Encompass to the Company of $7.7 million, including $2.5 million of stock-based compensation expense paid to employees of Encompass, were recorded in *General and administrative expenses* in the condensed consolidated statements of operations for the nine months ended September 30, 2022.**(Unaudited)**

For information related to our Tax Sharing Agreement with Encompass, see Note 6, *Income Taxes*.

Data Analytics Investment Investment—

During 2019, we made a $2.0 million investment in Medalogix, LLC, a healthcare predictive data and analytics company (“Medalogix”); this investment is accounted for under the measurement alternative for investments. In April 2021, Medalogix entered in an agreement whereby TVG Logic Holdings, LLC (“TVG”) acquired a majority of the issued and outstanding membership interests of Medalogix for cash. The transaction closed in May 2021. As a result of the transaction, the Company received $2.0 million of cash and a minority equity investment in TVG and recorded a $1.6 million gain as part of *Other income* during 2021. During the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, we incurred costs of approximately $0.8 million $1.2 million and $1.1 million, and $3.2 million and $3.4 million, respectively, in connection with the usage of Medalogix’s analytics platforms. These costs are included in *Cost of service*, *excluding depreciation and amortization* and *General and administrative expenses* in the condensed consolidated statements Unaudited Condensed Consolidated Statements of income. Income.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and related notes included under Part I, Item 1, “Financial Statements (Unaudited),” of this report. Among other things, those historical financial statements include more detailed information regarding the basis of presentation for the financial data included in the following discussion. This discussion contains forward-looking statements about our business, operations and industry that involve risks and uncertainties, as described under the section titled “Cautionary Note Regarding Forward-Looking Statements.”

Overview

We are a leading provider of home health and hospice services in the United States. We strive to provide superior, cost-effective care where patients prefer it: in their homes. For over twenty years, we have provided care in the low-cost home setting while achieving high-quality clinical outcomes. Over that time, we have grown to become the fourth largest fourth-largest provider of home health services and a leading provider of hospice services nationally, measured by 2020 2022 Medicare revenues. As of September 30, 2023 March 31, 2024, our footprint comprised 255 home health locations and 109 112 hospice locations across 34 states.

Our operations are principally managed on a services basis and include two operating segments for financial reporting purposes: (1) home health and (2) hospice. For additional information about our business and reportable segments, see Item 1, “*Business*,” and Item 1A, “*Risk Factors*,” in the Company’s Annual Report for the year ended December 31, 2023 on Form 10-K (the “Form 10-K”) filed with the United States Securities and Exchange Commission on March 15, 2024 and Note 9, 7, *Segment Reporting*, to the accompanying unaudited condensed consolidated financial statements, and “—*Segment Results of Operations*” section of this item.

Recent Developments

Strategic Alternatives Process

On May 8, 2024, the Company announced the conclusion of its review of strategic alternatives, which was first announced in August 2023. The strategic review was overseen by the Board with assistance from its financial and legal advisors. The Board determined that continuing to execute on the Company’s strategic plan as an independent public company is in the best interests of the Company and its stockholders at this time. The Board remains committed to enhancing value for all shareholders and will continue to be open to and evaluate all opportunities to do so.

Factors Affecting Our Performance

There are a number of factors that have impacted, and we believe will continue to impact, our results of operations and growth. These factors include:

Pricing

Generally, the pricing we receive for our services is based on reimbursement rates from payors. Because we derive a substantial portion of our *Net service revenue* from the Medicare program, generally from episodic admissions, our results of operations are heavily impacted by changes in Medicare reimbursement rates.

Medicare reimbursement rates are subject to change annually, with the potential for more sweeping changes from time to time as a result of Congressional or state legislation. See Item 1, "*Business*" and Item 1A, "*Risk Factors,*"and "—*Segment Results of Operations*" in the Form 10-K, as well as Note 9, *Segment Reporting*, to the accompanying unaudited condensed consolidated financial statements.

We are also impacted by the reimbursement rates of non-Medicare payors, and in particular, Medicare Advantage plans, which are generally non-episodic admissions. Medicare Advantage and managed care payors generally pay less than Medicare fee-for-service, and bad debt associated with these payors tends to be higher, as patients typically retain more payment responsibility under those arrangements. Our payor innovation initiatives focus on improving rates with our current regional and national third-party payors (which are primarily Medicare Advantage networks) and growing our Medicare Advantage network at more favorable payment rates than we have currently. See "—*Segment Results of Operations*" for tables identifying the sources and relative payor mix of our revenues for our home health and hospice segments.

Sequestration resumed as of April 1, 2022 and resulted in a 1% payment reduction through June 30, 2022. Thereafter, the full 2% Medicare payment reduction resumed. Additional Medicare payment reductions are also possible under the statutory pay as you go ("Statutory PAYGO"). The Statutory PAYGO requires, among other things, that mandatory spending and revenue legislation not increase the federal budget deficit over a five-or ten-year period. If the Office of Management and Budget ("OMB") finds there is a deficit, the Statutory PAYGO requires the OMB to order sequestration of Medicare. During the second session of the 117th Congress, the Statutory PAYGO cuts required in 2023 and 2024 were delayed until 2025.

On July 28, 2023 March 28, 2024, the Centers for Medicare and Medicaid Services ("CMS") issued its final proposed rule for hospice payments for fiscal year 2024 2025 (the "2024 "2025 Hospice Final Rule"). Effective October 1, 2023, CMS will implement proposed a 3.1% 2.6% estimated net increase to reimbursement rates payments as compared to 2023 reimbursement rates. 2024 payments. This update represents a 3.3% 3.0% update to the market basket, reduced by a 0.2% 0.4% productivity adjustment.

Based on our analysis, which utilizes, among other things, our patient mix annualized over the twelve-month period ended September 30, 2023, our specific geographic coverage area, and other factors, we estimate the 2024 Hospice Final Rule will result in a net increase to our Medicare payment rates of approximately 2.9% effective for services provided beginning October 1, 2023.

On November 1, 2023, CMS issued the 2024 Home Health Prospective Payment System Rate Update final rule (the "2024 Home Health Final Rule"). The rule reflects an estimated overall increase in Medicare home health reimbursement rates of 0.8% relative to 2023 levels. This payment update is the collective impact of a 3.3% market basket adjustment and a 0.4% fixed-dollar loss ratio adjustment, offset by a 0.3% productivity adjustment and a 2.6% permanent behavioral adjustment. CMS implemented one half of the permanent behavioral adjustment it estimated was called for and did not implement any of the temporary adjustments now estimated to be approximately $3.5 billion as of the end of calendar year 2022.

Based on our preliminary analysis, which utilizes, among other things, our patient mix annualized over the a six month period from January 1, 2023 through November 6, 2023 ended March 31, 2024, our specific geographic coverage area, and other factors, we estimate believe the 2024 Home Health Final proposed 2025 Hospice Rule will would result in a net increase to our Medicare payment rates of approximately 1.2% 3.2% effective for services provided beginning January 1, 2024. October 1, 2024, if enacted as proposed.

For further discussion of other pricing factors that impact our results of operations and growth see Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," in the Form 10-K.

Volume and Mix

The volume of services we provide has a significant impact on our *Net service revenue*. Various For a discussion of factors including competition and increasing regulatory and administrative burdens, that impact our ability to maintain and grow our home health and hospice volumes. In any particular market, we may encounter competition from local or national entities with longer operating histories or other competitive advantages. Aggressive payment review practices by Medicare contractors, aggressive enforcement volumes see Item 7, "*Management's Discussion and Analysis of regulatory policies by government agencies, Financial Condition and restrictive or burdensome rules, regulations, or statutes governing admissions practices may lead us to not accept patients who would be appropriate for, and would benefit from, the services we provide.*

We expect the United States' aging population will continue to increase long-term demand for the services we provide, which we believe will help us grow our home health and hospice volumes. While we treat patients Results of all ages, we believe the growing percentage of seniors experiencing chronic conditions will result in higher utilization of home health services Operations," in the future as patients require more care to support these conditions.

The home health market is rapidly shifting from Medicare fee-for-service to Medicare Advantage plans. For example, for the three and nine months ended September 30, 2023, Medicare Advantage patients accounted for 21.7% and 23.2% of our revenue as compared to 17.8% and 16.7% for the three and nine months ended September 30, 2022, respectively. This shift is happening faster than we or the market anticipated, which has impacted our Form 10-K.*Net service revenue* and forecasts due to the difference in fees received from Medicare Advantage payors. We expect this payor mix shift to continue. While we are making progress with our payor innovation initiative, it has not been enough in the near-term to overcome the impact of the Medicare fee-for-service volume erosion.

Our current priority is to organically grow our existing locations and open additional de novo locations.

Efficiency

Cost and operating efficiencies impact the profitability of the patient care services we provide. We use a number of strategies to drive cost and operating efficiencies within our business. We target markets for expansion and growth that allow us to leverage our existing operations to create operating efficiencies through scale and density. We also leverage technology to create operating and supply chain efficiencies throughout our organization. See Item 1, "*Business—Our Competitive Strengths*," in the Form 10-K for further discussion of the ways we seek to reduce costs while improving patient outcomes.

Recruiting and Retaining High-Quality Personnel

Recruiting and retaining qualified personnel, including management, for our home health and hospice agencies remains a high priority for us. We attempt to maintain a comprehensive compensation and benefits package to compete in the current challenging staffing environment.

Our Separation from Encompass

As a result of our separation from Encompass, certain items may impact the comparability of our historical results and future performance. Specifically, we have incurred additional expenses as a result of being a separate public company and continue to develop, manage, and train management level and other employees to comply with ongoing public company requirements. For more information on the Separation, see Item 1, "*Business—Our History*" in the Form 10-K.

COVID-19 Pandemic Impact on Our Results of Operations

In response to the COVID-19 outbreak and ensuing pandemic (the "pandemic"), Congress and CMS adopted several statutory and regulatory measures intended to provide relief to healthcare providers in order to ensure patients would continue to have adequate access to care. One of these measures was the suspension of sequestration under the CARES Act and the 2021 Budget Act. Sequestration resumed in full on July 1, 2022. The resumption of sequestration negatively impacted our home health and hospice revenues by $4.8 million and $7.7 million, respectively, for the three and nine months ended September 30, 2022 and zero and $7.5 million, respectively, for the three and nine months ended September 30, 2023.

For discussion of the financial and operational impacts we have experienced as a result of the pandemic, see the sections titled Item 1, "*Business*," and Item 1A, "*Risk Factors*," in the Form 10-K.

Results of Operations

Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Form 10-K.

Our consolidated results of operations were as follows:

	Three Months Ended March 31,
	Three Months Ended March 31,
	Three Months Ended March 31,

	2024
	2024
	2024
	(In Millions, Except Percentage Change)
	(In Millions, Except Percentage Change)
	(In Millions, Except Percentage Change)
Net service revenue	
Cost of service, excluding depreciation and amortization	
Cost of service, excluding depreciation and amortization	
Cost of service, excluding depreciation and amortization	
Gross margin, excluding depreciation and amortization	
Gross margin, excluding depreciation and amortization	
Gross margin, excluding depreciation and amortization	
General and administrative expenses	
General and administrative expenses	
General and administrative expenses	
Depreciation and amortization	
Depreciation and amortization	
Depreciation and amortization	
Operating income	
Operating income	
Operating income	
Interest expense and amortization of debt discounts and fees	
Interest expense and amortization of debt discounts and fees	

Interest expense and amortization of debt discounts and fees						
	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
Income before income taxes and noncontrolling interests						
	2023	**2022**	**2023 vs. 2022**	**2023**	**2022**	**2023 vs. 2022**
	(In Millions, Except Percentage Change)					
Net service revenue	$ 258.3	$ 265.7	(2.8) %	$ 785.7	$ 808.0	(2.8) %
Cost of service, excluding depreciation and amortization	134.0	132.3	1.3 %	402.1	392.3	2.5 %
Gross margin, excluding depreciation and amortization	124.3	133.4	(6.8) %	383.6	415.7	(7.7) %
General and administrative expenses	108.8	107.5	1.2 %	327.1	310.4	5.4 %
Depreciation and amortization	7.7	8.0	(3.8) %	23.2	24.7	(6.1) %
Impairment of goodwill	—	—	N/A	85.8	—	N/A
Operating income (loss)	7.8	17.9	(56.4) %	(52.5)	80.6	(165.1) %
Interest expense and amortization of debt discounts and fees	10.9	6.2	75.8 %	30.7	6.3	387.3 %
Income before income taxes and noncontrolling interests						
Other income	(0.1)	—	N/A	(0.2)	—	N/A
(Loss) income before income taxes and noncontrolling interests	(3.0)	11.7	(125.6) %	(83.0)	74.3	(211.7) %
Income tax (benefit) expense	(0.8)	2.8	(128.6) %	(9.9)	17.9	(155.3) %
Net (loss) income	(2.2)	8.9	(124.7) %	(73.1)	56.4	(229.6) %
Income before income taxes and noncontrolling interests						
Income tax expense						
Income tax expense						
Income tax expense						
Net income						
Net income						
Net income						

Less: Net income attributable to noncontrolling interests	Less: Net income attributable to noncontrolling interests	0.2	0.3	(33.3) %	1.0	1.6	(37.5) %
Net (loss) income attributable to Enhabit, Inc.		$ (2.4)	$ 8.6	(127.9) %	$ (74.1)	$ 54.8	(235.2) %
Less: Net income attributable to noncontrolling interests							
Less: Net income attributable to noncontrolling interests							
Net income attributable to Enhabit, Inc.							
Net income attributable to Enhabit, Inc.							
Net income attributable to Enhabit, Inc.							

The following table sets forth our consolidated results as a percentage of *Net service revenue*, except *Income tax (benefit) expense*, which is presented as a percentage of *(Loss)income before income taxes and noncontrolling interests*:

		Three Months Ended September 30,		**Nine Months Ended September 30,**	
		2023	**2022**	**2023**	**2022**
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		2024			
		2024			
		2024			
Cost of service, excluding depreciation and amortization					
Cost of service, excluding depreciation and amortization					
Cost of service, excluding depreciation and amortization	Cost of service, excluding depreciation and amortization	51.9 %	49.8 %	51.2 %	48.6 %

General and administrative expenses	General and administrative expenses	42.1	%	40.5	%	41.6	%	38.4	%
General and administrative expenses									
General and administrative expenses									
Depreciation and amortization	Depreciation and amortization	3.0	%	3.0	%	3.0	%	3.1	%
Income tax (benefit) expense		(26.7)	%	23.9	%	(11.9)	%	24.1	%
Depreciation and amortization									
Depreciation and amortization									

Net Service Revenue

Our *Net service revenue* decreased during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period of 2022 2023 due to the continued shift to more non-episodic non-Medicare admissions in home health. See additional discussion health partially offset by improved pricing of Payor Innovation contracts. For a definition of Payor Innovation, see Item 1, "*Business*," in "*—Segment Results of Operations.*"

The Company enhanced its reserve model during the three months ended September 30, 2023. While this enhancement did not have a material impact to consolidated *Net service revenue* and *Accounts receivable* during the period, it had a positive $5.3 million impact to episodic revenue, a negative $3.2 million impact to non-episodic revenue, and a negative $0.6 million impact to hospice revenue resulting in an overall favorable $1.5 million impact to consolidated *Net service revenue* and *Accounts receivable* during the period. Form 10-K.

Cost of Service, Excluding Depreciation and Amortization

Cost of service, *excluding depreciation and amortization* increased in terms of dollars and as a percentage of *Net service revenue* during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period of 2022 2023 primarily due to higher costs related to labor. See additional discussion in "*—Segment Results of Operations. Operations*."

General and Administrative Expenses

General and administrative expenses increased decreased in terms of dollars and as a percentage of *Net service revenue*during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period of 2022 2023 primarily due to annual merit increases and additional investment in talent acquisition and employee development. As a percentage of revenue, our *General and administrative expenses* increased primarily due to the items noted above as well as a lower revenue base. Our *General and administrative expenses* are expected to increase new organizational structure implemented in the future as an independent, publicly traded company.

Depreciation and Amortization

Depreciation and amortization decreased during the three and nine months ended September 30, 2023 as compared March 31, 2023 to the same periods of 2022 due to a number of intangible assets, vehicles align our home health sales and internal-use software reaching the end of their useful lives in 2022.

Impairment of Goodwill

Impairment of goodwill during the nine months ended September 30, 2023 resulted from a goodwill charge of $85.8 million to reduce the carrying value of our hospice reporting unit to its fair value. See Note 3, *Goodwill and Other Intangible Assets*, to the accompanying unaudited condensed consolidated financial statements for additional information. operations teams.

Interest Expense and Amortization of Debt Discount and Fees

Interest expense and amortization of debt discount and fees increased for the three months ended September 30, 2023 March 31, 2024 compared to the same period of 2022 2023 due to increased interest rates and a larger SOFR spread due to increased leverage. *Interest expense and amortization of debt discount and fees* increased for the nine months ended September 30, 2023compared to the same period of 2022 primarily due to nine months of interest expense in 2023 versus three months in 2022, as well as increased interest rates and a larger SOFR spread due to increased leverage. See additional discussion on Note 4, 3, *Long-Term Long-term Debt,* to the accompanying unaudited condensed consolidated financial statements and "*—Liquidity and Capital Resources*" within this item.

Income Tax (Benefit) Expense

Our effective income tax benefit rate rates were 50.0% and 31.9% for the three months ended September 30, 2023 was 26.7% compared to an effective income tax rate of 23.9% for the three months ended September 30, 2022. The higher benefit rate is primarily the result of comparatively favorable state income taxes during the third quarter of 2023. March 31, 2024 and 2023, respectively. Our effective income tax benefit rates differed from the federal statutory rate for primarily due to the nine months ended September 30, 2023 was 11.9% compared to an effective income tax rate impact of 24.1% for the nine months ended September 30, 2022. The reduction of the tax rate was primarily the result of a goodwill impairment charge in the second quarter of 2023, a significant portion of which was a permanent book-tax difference. stock-based compensation. See additional discussion in Note 6, 4, *Income Taxes,* to the accompanying unaudited condensed consolidated financial statements.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure of our financial performance. Management believes Adjusted EBITDA assists investors in comparing our operating performance across operating periods on a consistent basis by excluding items we do not believe are indicative of our operating performance. The

We calculate Adjusted EBITDA as *Net income* adjusted to exclude (1) income tax expense, (2) interest expense and amortization of debt discounts and fees, (3) depreciation and amortization, (4) gains or losses on disposal or impairment of assets or goodwill, (5) stock-based compensation, (6) net income attributable to noncontrolling interest and (7) unusual or nonrecurring items not typical of ongoing operations.

Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles in the United States of America ("GAAP"), and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for *Net (loss) income*. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

We calculate Adjusted EBITDA as Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, *Net (loss) income* *Summary of Significant Accounting Policies* adjusted, to exclude: (1) interest expense and amortization of debt discounts and fees, (2) depreciation and amortization, (3) unusual or nonrecurring items that are not typical of ongoing operations, (4) stock-based compensation, (5) income tax (benefit) expense, (6) net income attributable to noncontrolling interest, (7) (gains) or losses on disposal or impairment of assets, and (8) impairment of goodwill. the accompanying unaudited condensed consolidated financial statements.

The following table reconciles *Net (loss) income* to Adjusted EBITDA (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net (loss) income	$ (2.2)	$ 8.9	$ (73.1)	$ 56.4
Interest expense and amortization of debt discounts and fees	10.9	6.2	30.7	6.3
Depreciation and amortization	7.7	8.0	23.2	24.7
Unusual or nonrecurring items that are not typical of ongoing operations(1)	4.9	0.9	9.8	7.0
Stock-based compensation	3.1	4.5	7.2	7.1
Income tax (benefit) expense	(0.8)	2.8	(9.9)	17.9
Net income attributable to noncontrolling interest	(0.2)	(0.3)	(1.0)	(1.6)
(Gains) or losses on disposal or impairment of assets	(0.2)	0.7	(0.2)	0.1
Impairment of goodwill	—	—	85.8	—
Stock-based compensation included in overhead allocation	—	—	—	1.1
Adjusted EBITDA	$ 23.2	$ 31.7	$ 72.5	$ 119.0

	Three Months Ended March 31,	
	2024	2023
Net income	$ 0.9	$ 3.2
Income tax expense	0.9	1.5
Interest expense and amortization of debt discounts and fees	11.1	9.5
Depreciation and amortization	7.8	7.8
Gain on disposal or impairment of assets	(0.2)	—
Stock-based compensation	1.8	1.5
Net income attributable to noncontrolling interests	(0.7)	(0.5)
Unusual or nonrecurring items that are not typical of ongoing operations	3.7	2.3
Adjusted EBITDA	$ 25.3	$ 25.3

The following table reconciles *Net cash provided by operating activities* to Adjusted EBITDA (in millions):

	Three Months Ended March 31,	
	Three Months Ended March 31,	
	Three Months Ended March 31,	
	2024	
	2024	
	2024	
Net cash provided by operating activities		
Net cash provided by operating activities		
Net cash provided by operating activities		
Current portion of income tax expense		
Current portion of income tax expense		
Current portion of income tax expense		
Interest expense, excluding amortization of debt discounts and fees		
Interest expense, excluding amortization of debt discounts and fees		
Interest expense, excluding amortization of debt discounts and fees		

	Three Months Ended September 30,		Nine Months Ended September 30,	
Change in assets and liabilities, excluding derivative instrument				
	2023	2022	2023	2022

Net cash provided by operating activities	$ 6.3	$ 1.0	$ 45.5	$ 76.0
Interest expense, excluding amortization of debt discounts and fees	10.7	6.2	30.3	6.3
Unusual or nonrecurring items that are not typical of ongoing operations(1)	4.9	0.9	9.8	7.0
Change in assets and liabilities, excluding derivative instrument				
Current portion of income tax expense	1.3	3.9	3.2	20.4
Net income attributable to noncontrolling interests in continuing operations	(0.2)	(0.3)	(1.0)	(1.6)
Change in assets and liabilities, excluding derivative instrument				
Net income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests				
Net income attributable to noncontrolling interests				
Unusual or nonrecurring items that are not typical of ongoing operations				
Unusual or nonrecurring items that are not typical of ongoing operations				
Unusual or nonrecurring items that are not typical of ongoing operations				
Other				
Other				
Other Other	0.2	(0.3)	(0.3)	(0.2)
Change in assets and liabilities, excluding derivative instruments	—	20.3	(15.0)	10.0
Stock-based compensation included in overhead allocation	—	—	—	1.1

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Adjusted EBITDA	**Adjusted EBITDA**	$	23.2	$	31.7	$	72.5	$	119.0

Adjusted EBITDA

Adjusted EBITDA

(1) Unusual or nonrecurring items in 2023 include the three months ended March 31, 2024 include: (i) third-party legal and advisory fees related to the strategic review process; (ii) certain third-party, nonrecurring litigation fees related to a lawsuit in which the Company is a plaintiff, styled *Enhabit, Inc. et al. v. Nautic Partners IX, L.P., et al*. and pending in the Chancery Court of Delaware, and in which the Company has asserted claims for breach of fiduciary duty, aiding and abetting, and usurpation of corporate opportunity arising from actions involving its former officers; (iii) third-party legal and advisory fees related to shareholder activism; and (iv) transition costs related to the Separation. In the three months ended March 31, 2023, they include: (i) third-party legal fees associated with nonroutine litigation, restructuring activities, the suit *Enhabit, Inc. et al. v. Nautic Partners IX, L.P., et al*.; (ii) third-party legal and advisory fees related to shareholder activism; in the third quarter of 2022, they include one-time standalone transition costs; in the nine months ended September 30, 2022, they include one-time standalone and (iii) transition costs and costs due related to Encompass strategic review. the Separation.

For additional information, see “*—Segment Results of Operations*.”

Segment Results of Operations

Our segment and consolidated *Net service revenue* is provided in the following table:

	Three Months Ended September 30,					
	2023		% of Consolidated Revenue	2022		% of Consolidated Revenue
	(in millions)					
Home health segment net service revenue	$	210.9	81.6 %	$	216.3	81.4 %
Hospice segment net service revenue		47.4	18.4 %		49.4	18.6 %
Consolidated net service revenue	$	258.3	100.0 %	$	265.7	100.0 %

Three Months Ended March 31,

Three Months Ended March 31,

Three Months Ended March 31,

2024

2024

2024

(in millions)

(in millions)

	(in millions)
Home health segment net service revenue	
Home health segment net service revenue	
Home health segment net service revenue	
Hospice segment net service revenue	
Hospice segment net service revenue	
Hospice segment net service revenue	
Consolidated net service revenue	
Consolidated net service revenue	
Consolidated net service revenue	

	Nine Months Ended September 30,			
	2023	% of Consolidated Revenue	2022	% of Consolidated Revenue
	(in millions)			

Home health segment net service revenue	$640.5	81.5 %	$661.4	81.9 %
Hospice segment net service revenue	145.2	18.5 %	146.6	18.1 %
Consolidated net service revenue	$785.7	100.0 %	$808.0	100.0 %

For the three months ended March 31, 2024 our *Net service revenue* decreased from 2023 due to the shift to more non-Medicare patients in home health partially offset by improved pricing of Payor Innovation contracts.

For additional information regarding our business segments, including a detailed description of the services we provide, financial data for each segment, and a reconciliation of total adjusted earnings before interest, taxes, depreciation, and amortization ("Segment Adjusted EBITDA") to *Income before income taxes and noncontrolling interests*, see Note 7, *Segment Reporting*, to the accompanying unaudited condensed consolidated financial statements.

Home Health

Our home health segment derived its *Net service revenue* from the following payor sources:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**
Medicare(1)	66.9 %	73.6 %	66.6 %	74.5 %
Medicare Advantage(2)	21.7 %	17.8 %	23.2 %	16.7 %
Managed care	10.0 %	7.0 %	8.8 %	7.4 %
Medicaid	1.4 %	1.5 %	1.4 %	1.4 %
Other	— %	0.1 %	— %	— %
Total	100.0 %	100.0 %	100.0 %	100.0 %

(1) Medicare as a percentage of home health *Net service revenue* was 65.0% and 66.0%, excluding the impact of changes in our estimated recoverability of *Net service revenue* for the three and nine months ended September 30, 2023, respectively.

(2) Medicare Advantage as a percentage of home health *Net service revenue* was 23.4% and 23.7%, excluding the impact of changes in our estimated recoverability of *Net service revenue* for the three and nine months ended September 30, 2023, respectively.

	Three Months Ended March 31,

	2024	2023
Medicare	60.2 %	67.7 %
Medicare Advantage	27.8 %	22.8 %
Managed care	10.5 %	8.0 %
Medicaid	1.2 %	1.3 %
Other	0.3 %	0.2 %
Total	100.0 %	100.0 %

The decline in Medicare reimbursement revenue as a percentage of our home health *Net service revenue* and corresponding increase in Medicare Advantage reimbursement revenue is primarily the result of continued national enrollment increases in Medicare Advantage plans by Medicare eligibles. beneficiaries.

Additional information regarding our home health segment's operating results is as follows:

	Three Months Ended March 31,
	Three Months Ended March 31,
	Three Months Ended March 31,
	2024
	2024
	2024
	(In Millions, Except Percentage Change)
	(In Millions, Except Percentage Change)
	(In Millions, Except Percentage Change)
Net service revenue:	
Medicare	
Medicare	
Medicare	
Non-Medicare	
Non-Medicare	
Non-Medicare	

Private duty(1)
Private duty(1)
Private duty(1)
Home health net service revenue
Home health net service revenue
Home health net service revenue
Cost of service, excluding depreciation and amortization
Cost of service, excluding depreciation and amortization
Cost of service, excluding depreciation and amortization
Gross margin, excluding depreciation and amortization
Gross margin, excluding depreciation and amortization
Gross margin, excluding depreciation and amortization
General and administrative expenses
General and administrative expenses
General and administrative expenses
Net income attributable to noncontrolling interests
Net income attributable to noncontrolling interests
Net income attributable to noncontrolling interests
Home health segment adjusted EBITDA(2)
Home health segment adjusted EBITDA(2)

Home health segment adjusted EBITDA(2)	
	(Actual Amounts)
	(Actual Amounts)
	(Actual Amounts)
Medicare:	
Admissions	
Admissions	
Admissions	
Recertifications	
Recertifications	
Recertifications	
Completed episodes	
Completed episodes	
Completed episodes	
Visits	
Visits	
Visits	
Visits per episode	
Visits per episode	
Visits per episode	
Revenue per episode	
Revenue per episode	
Revenue per episode	
Non-Medicare:	
Non-Medicare:	
Non-Medicare:	
Admissions	
Admissions	
Admissions	
Recertifications	
Recertifications	
Recertifications	
Visits	
Visits	

Visits

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
Total:						
	2023	**2022**	**2023 vs. 2022**	**2023**	**2022**	**2023 vs. 2022**
	(In Millions, Except Percentage Change)					
Net service revenue:						
Episodic	$ 167.3	$ 181.8	(8.0) %	$ 503.0	$ 559.8	(10.1) %
Non-episodic	41.1	31.5	30.5 %	129.7	93.1	39.3 %
Other	2.5	3.0	(16.7) %	7.8	8.5	(8.2) %
Home health segment revenue	210.9	216.3	(2.5) %	640.5	661.4	(3.2) %
Cost of service, excluding depreciation and amortization	110.0	109.6	0.4 %	329.5	326.4	0.9 %
Gross margin, excluding depreciation and amortization	100.9	106.7	(5.4) %	311.0	335.0	(7.2) %
General and administrative expenses	59.0	61.9	(4.7) %	181.3	178.4	1.6 %
Other income	(0.1)	—	N/A	(0.2)	—	N/A
Noncontrolling interests	0.2	0.2	— %	1.0	1.3	(23.1) %
Home Health Segment Adjusted EBITDA	$ 41.8	$ 44.6	(6.3) %	$ 128.9	$ 155.3	(17.0) %
Total:						
	(Actual Amounts)					
Episodic:						
Admissions	31,490	35,487	(11.3) %	99,150	110,564	(10.3) %
Recertifications	23,290	25,821	(9.8) %	70,752	77,622	(8.9) %
Completed episodes	53,484	60,396	(11.4) %	168,119	186,198	(9.7) %
Visits	797,073	902,720	(11.7) %	2,480,141	2,802,319	(11.5) %
Revenue per episode(1)	$ 3,128	$ 3,009	4.0 %	$ 2,992	$ 3,006	(0.5) %
Non-episodic:						
Admissions	19,033	14,252	33.5 %	56,291	41,883	34.4 %
Recertifications	9,442	6,541	44.4 %	27,100	18,967	42.9 %
Visits	365,071	272,282	34.1 %	1,093,568	818,214	33.7 %
Revenue per visit(2)	$ 113	$ 116	(2.6) %	$ 119	$ 114	4.4 %
Total:	**Total:**					

Admissions	Admissions	50,523	49,739	1.6	%	155,441	152,447	2.0	%
Admissions									
Admissions									
Same-store total admissions growth									
Same-store total admissions growth									
Same-store total admissions growth									
Recertifications	Recertifications	32,732	32,362	1.1	%	97,852	96,589	1.3	%
Starts of care (total admissions and recertifications)		83,255	82,101	1.4	%	253,293	249,036	1.7	%
Recertifications									
Recertifications									
Same-store total recertifications growth									
Same-store total recertifications growth									
Same-store total recertifications growth									
Visits									
Visits									
Visits	Visits	1,162,144	1,175,002	(1.1)	%	3,573,709	3,620,533	(1.3)	%
Cost per visit	Cost per visit	$ 93	$ 92	1.1	%	$ 91	$ 89	2.2	%
Cost per visit									
Cost per visit									

(1) Revenue per episode during the three and nine months ended September 30, 2023 includes the positive $5.3 million impact associated with changes in our estimated recoverability of *Net service revenue*.Private duty represents long-term comprehensive hourly nursing medical care.

(2) Revenue per visit during Segment Adjusted EBITDA is presented in conformity with ASC 280, *Segment Reporting*, as a measure reported to management for purposes of making decisions on allocating resources and addressing the three performance of our segments. Segment Adjusted EBITDA is calculated similarly to consolidated Adjusted EBITDA but excludes corporate overhead costs that are not allocated to reportable segments because they are not considered when management evaluates segment performance. For more information, see Note 7, *Segment Reporting*, to the unaudited condensed consolidated financial statements.

With an advanced episodic model added to our Payor Innovation contracts effective January 1, 2024, we have updated how we report volume and nine months ended September 30, 2023 includes pricing metrics for our home health segment, separating traditional Medicare from all other payor contracts. The prior periods were changed to conform to the negative $3.2 million current period presentation, which had no impact associated with changes in our estimated recoverability of *Net service revenue*.on the consolidated financial statements.

Expenses as a % of Net Service Revenue

		Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022	
		Three Months Ended March 31,							
		Three Months Ended March 31,							
		Three Months Ended March 31,							
		2024							
		2024							
		2024							
Cost of service, excluding depreciation and amortization									
Cost of service, excluding depreciation and amortization									
Cost of service, excluding depreciation and amortization	Cost of service, excluding depreciation and amortization	52.2	%	50.7	%	51.4	%	49.3	%
General and administrative expenses	General and administrative expenses	28.0	%	28.6	%	28.3	%	27.0	%
General and administrative expenses									
General and administrative expenses									

Net Service Revenue

The decrease in home health *Net service revenue* during the three months ended September 30, 2023 March 31, 2024 compared to the same period of 2022 2023 was primarily due to the continued payor mix shift to more non-episodic admissions. Revenue per episode increased during the three months ended September 30, 2023 compared to the same period of 2022 primarily due to changes in our estimated recoverability of *Net service revenue*. The decrease in home health *Net service revenue* during the nine months ended September 30, 2023 compared to the same period of 2022 was primarily due to the continued payor mix shift to more non-episodic non-Medicare admissions and the resumption of sequestration. Revenue per episode decreased during the nine months ended September 30, 2023 compared to the same period of 2022 primarily due to the decrease in completed episodes and the resumption of sequestration. partially offset by improved pricing resulting from Payor Innovation contracts.

Segment Adjusted EBITDA

The decrease in *Home Health Segment Adjusted* *home health segment adjusted* *EBITDA* during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period of 2022 2023 primarily resulted from lower *Net service revenue*, as discussed above. above, and increased cost of service. This decrease was partially offset by a reduction in *General and administrative expenses* that resulted from a new organizational structure implemented in the first quarter of 2023 to align our sales and operations teams.

Hospice

Our hospice segment derived its *Net service revenue* from the following payor sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Medicare(1)	98.5 %	95.7 %	96.8 %	96.5 %
Managed care(2)	— %	3.5 %	2.9 %	2.9 %
Medicaid	1.5 %	0.8 %	0.3 %	0.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

	Three Months Ended March 31,	
	2024	**2023**
Medicare	98.6 %	96.5 %
Managed care	1.4 %	3.5 %
Total	100.0 %	100.0 %

(1) Medicare as a percentage of hospice *Net service revenue* was 98.4% and 96.8%, excluding the impact of changes in our estimated recoverability of *Net service revenue* for the three and nine months ended September 30, 2023, respectively.

(2) Managed Care as a percentage of hospice *Net service revenue* was 0.2% and 3.0%, excluding the impact of changes in our estimated recoverability of *Net service revenue* for the three and nine months ended September 30, 2023, respectively.

Additional information regarding our hospice segment's operating results is as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2023	**2022**	**2023 vs. 2022**	**2023**	**2022**	**2023 vs. 2022**

		(In Millions, Except Percentage Change)					
Hospice segment revenue		$ 47.4	$ 49.4	(4.0) %	$ 145.2	$ 146.6	(1.0) %
		Three Months Ended March 31,					
		Three Months Ended March 31,					
		Three Months Ended March 31,					
		2024					
		2024					
		2024					
		(In Millions, Except Percentage Change)					
		(In Millions, Except Percentage Change)					
		(In Millions, Except Percentage Change)					
Hospice net service revenue							
Cost of service, excluding depreciation and amortization							
Cost of service, excluding depreciation and amortization							
Cost of service, excluding depreciation and amortization	Cost of service, excluding depreciation and amortization	24.0	22.7	5.7 %	72.6	65.8	10.3 %
Gross margin, excluding depreciation and amortization	**Gross margin, excluding depreciation and amortization**	23.4	26.7	(12.4) %	72.6	80.8	(10.1) %
Gross margin, excluding depreciation and amortization							
Gross margin, excluding depreciation and amortization							
General and administrative expenses							

General and administrative expenses							
General and administrative expenses	General and administrative expenses	15.7	17.3	(9.2) %	48.0	47.7	0.6 %
Noncontrolling interests		—	0.1	(100.0) %	—	0.3	(100.0) %
Hospice Segment Adjusted EBITDA		$ 7.7	$ 9.3	(17.2) %	$ 24.6	$ 32.8	(25.0) %
Net income attributable to noncontrolling interests							
Net income attributable to noncontrolling interests							
Net income attributable to noncontrolling interests							
Hospice segment adjusted EBITDA(1)							
Hospice segment adjusted EBITDA(1)							
Hospice segment adjusted EBITDA(1)							
			(Actual Amounts)				
				(Actual Amounts)			
			(Actual Amounts)				
			(Actual Amounts)				
Total:	**Total:**						
Admissions	Admissions	2,882	2,982	(3.4) %	8,841	9,063	(2.4) %
Admissions							
Admissions							
Same-store total admissions growth							
Same-store total admissions growth							
Same-store total admissions growth							
Patient days	Patient days	311,719	320,732	(2.8) %	940,211	954,284	(1.5) %
Patient days							
Patient days							

Discharged average length of stay														
Discharged average length of stay														
Discharged average length of stay														
Average daily census	Average daily census		3,388		3,486	(2.8)	%		3,444		3,496	(1.5)	%
Revenue per patient day(1)		$	152	$	154	(1.3)	%	$	154	$	154	—	%
Average daily census													
Average daily census													
Revenue per patient day													
Revenue per patient day													
Revenue per patient day													
Cost per patient day	Cost per patient day	$	77	$	71	8.5	%	$	77	$	69	11.6	%
Cost per patient day													
Cost per patient day													

(1) Revenue per day during Segment Adjusted EBITDA is presented in conformity with ASC 280, *Segment Reporting*, as a measure reported to management for purposes of making decisions on allocating resources and addressing the three and nine months ended September 30, 2023 includes performance of our segments. Segment Adjusted EBITDA is calculated similarly to consolidated Adjusted EBITDA but excludes corporate overhead costs that are not allocated to reportable segments because they are not considered when management evaluates segment performance. For more information, see Note 7, *Segment Reporting*, to the negative $0.6 million impact associated with changes in our estimated recoverability of *Net service revenue.* unaudited condensed consolidated financial statements.

Expenses as a % of Net Service Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	2024			
	2024			

		2024							
Cost of service, excluding depreciation and amortization									
Cost of service, excluding depreciation and amortization									
Cost of service, excluding depreciation and amortization	Cost of service, excluding depreciation and amortization	50.6	%	46.0	%	50.0	%	44.9	%
General and administrative expenses	General and administrative expenses	33.1	%	35.0	%	33.1	%	32.5	%
General and administrative expenses									
General and administrative expenses									

Net Service Revenue

Hospice *Net service revenue* decreased for the three months ended September 30, 2023 March 31, 2024 compared to the same period of 2022 primarily due to 2023 as increased Medicare reimbursement rates were offset by a decrease in patient days. Revenue per day decreased for

Segment Adjusted EBITDA

The increase in hospice segment adjusted EBITDA during the three months ended September 30, 2023 March 31, 2024 compared to the same period of 2022 2023 was due primarily due to an increase in revenue reserves partially offset by increased Medicare reimbursement rates. The decrease in hospice *Net service revenue* during the nine months ended September 30, 2023 compared to the same period of 2022 was primarily due to a decrease in patient days*General and the resumption of sequestration. Revenue per day decreased for the nine months ended September 30, 2023 compared to the same period in 2022 primarily due to an increase in revenue reserves and the resumption of sequestration partially offset by increased Medicare reimbursement rates.*

Segment Adjusted EBITDA

The decrease in administrative expenses Hospice Segment Adjusted EBITDA during the three and nine months ended September 30, 2023 compared to the same periods of 2022 was primarily due to higher *Cost of service, excluding depreciation and amortization* resulting from increased labor costs. Increased labor costs primarily that resulted from the implementation restructuring of hospice back office staffing in the new case management model, including costs associated with dedicated on-call and triage nurses. third quarter of 2023.

Liquidity and Capital Resources

Our principal sources of short-term liquidity are our cash on hand and our revolving credit facility. We use these sources to fund working capital requirements, capital expenditures, acquisitions, and servicing our debt. See "—*Contractual*

Obligations" for more information about our material cash requirements from our contractual obligations at September 30, 2023 March 31, 2024.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had $31.6 million $36.5 million and $22.9 million $27.4 million, respectively, in *Cash and cash equivalents*. These amounts exclude $3.6 million $2.9 million and $4.3 million $2.4 million, respectively, in *Restricted cash*. Our *Restricted cash* pertains primarily to a joint venture in which we participate where our external joint venture partner requested, and we agreed, that the joint venture's cash not be commingled with other corporate cash accounts. See Note 1, *Summary of Significant Accounting Policies—Cash and Cash Equivalents* and —*Restricted Cash*, to the consolidated financial statements included in the Form 10-K. Our available liquidity as As of September 30, 2023 was $81.6 million. This amount included $31.6 million of cash plus $50.0 million of availability under our Revolving Credit Facility.

In June 2022, the Company entered into a credit agreement (the "Credit Agreement") that consists of a $400.0 million term loan A facility (the "Term Loan A Facility") and a $350.0 million revolving credit facility (the "Revolving Credit Facility" and together with the Term Loan A Facility, the "Credit Facilities"). The Credit Facilities mature in June 2027. Interest on the loans under the Credit Facilities is calculated by reference to the Secured Overnight Financing Rate ("SOFR") or an alternative base rate, plus an applicable interest rate margin. Enhabit may voluntarily prepay outstanding loans under the Credit Facilities at any time without premium or penalty, other than customary breakage costs with respect to SOFR loans. The Term Loan A Facility contains customary mandatory prepayments, including with respect to proceeds from asset sales and from certain incurrences of indebtedness.

On June 30, 2022 March 31, 2024, we drew the full $400.0 also had $33.4 million of the Term Loan A Facility and $170.0 million on the Revolving Credit Facility. The net proceeds of $566.6 million were distributed available to Encompass prior to the completion of the Distribution. As of September 30, 2023, amounts drawn under the Term Loan A Facility and the Revolving Credit Facility had an interest rate of 7.7%. For additional information on the Separation, see Note 1, *Summary of Significant Accounting Policies,* to the accompanying unaudited condensed consolidated financial statements.

The Term Loan A Facility amortizes by an amount per annum equal to 5.0% of the outstanding principal amount thereon as of the closing date, payable in equal quarterly installments, with the balance being payable in June 2027. The Revolving Credit Facility provides the ability to borrow and obtain letters of credit, which is subject to a $75.0 million sublimit. Obligations under the Credit Facilities are guaranteed by our existing and future wholly owned domestic material subsidiaries (the "Guarantors"), subject to certain exceptions. Borrowings under the Credit Facilities are secured by first priority liens on substantially all the assets of Enhabit and the Guarantors, subject to certain exceptions. The Credit Facilities contain representations and warranties, affirmative and negative covenants, and events of default customary for secured financings of this type, including limitations with respect to liens, fundamental changes, indebtedness, restricted payments, investments, and affiliate transactions, in each case, subject to a number of important exceptions and qualifications.

On June 27, 2023, we amended the Credit Facilities to provide for, among other things, (i) a new tier to the pricing grid for interest rate margins when the total net leverage ratio exceeds 4.50 to 1.00; (ii) changes to the conditions concerning the Company's total net leverage ratio that must be met for the Company to borrow incremental ratio-based amounts; (iii) an increase in the maximum permitted total net leverage ratio to 5.25 to 1.00 for the quarters ending June 30, 2023, September 30, 2023, and December 31, 2023, stepping down to 5.00 to 1.00 for the quarter ending March 31, 2024, 4.75 to 1.00 for the quarter ending June 30, 2024, and 4.50 to 1.00 for the quarter ending September 30, 2024 and thereafter; and (iv) modifications to the Company's ability to declare and make certain restricted payments.

On September 29, 2023, we entered into a Limited Waiver (the “Waiver”) with Wells Fargo Bank, National Association, as administrative agent to the other lenders (the “Administrative Agent”) under the Credit Agreement and the First Amendment to the Credit Agreement dated as of June 27, 2023. The Waiver released the Company from the requirement to comply with the total net leverage ratio and the interest coverage ratio covenants for the three months ended September 30, 2023. The Waiver also required that, until such time as the Company certifies compliance with the waived financial covenants, the aggregate principal amount of the Company’s revolving loans allowed under the Credit Agreement shall be decreased from $350.0 million to $230.0 million. All other covenants and terms of the Credit Agreement remain unchanged and in effect. Although we are not required to be in compliance with the financial covenants, as of September 30, 2023, we were in compliance with the financial covenants under the Credit Facilities.

As of September 30, 2023, our forecasted results suggested there was uncertainty of meeting our covenants through a period of one year from the issuance date of the September 30, 2023 financial statements. As a result, on November 3, 2023, we amended the Credit Facilities to provide for, among other things, (i) an increase in the maximum permitted Total Net Leverage Ratio (as defined in the Credit Agreement) to 6.75 to 1.00 for the quarters ending December 31, 2023 and March 31, 2024, stepping down to 6.50 to 1.00 for the quarters ending June 30, September 30 and December 31, 2024, 5.75 to 1.00 for the quarter ending March 31, 2025, and 4.50 to 1.00 for the quarter ending June 30, 2025 and thereafter; (ii) the addition of a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) covenant of 1.15 to 1.00 until the end of the Covenant Adjustment Period (as defined below); (iii) no Interest Coverage Ratio (as defined in the Credit Agreement) covenant until the end of the Covenant Adjustment Period; (iv) a permanent reduction in the revolving credit facility commitment from $350.0 million to $220.0 million; (v) an increase in the Applicable Commitment Fee (as defined in the Credit Agreement) during the Covenant Adjustment Period; (vi) suspension of the ability of the Company to request incremental commitments under the Credit Agreement during the Covenant Adjustment Period; (vii) an increase of 0.25% in the applicable interest rate margins on amounts outstanding under the Credit Agreement during the Covenant Adjustment Period; (viii) limits on the amount of cash the Company can keep on hand and outside the lender group during the Covenant Adjustment Period; and (ix) additional limits on permitted acquisitions, permitted indebtedness, permitted liens, restricted payments and permitted investments during the Covenant Adjustment Period. The “Covenant Adjustment Period” begins on the date of the Second Amendment and ends on the earlier of (a) the date that the Company provides evidence of compliance with the financial covenants in the Credit Agreement, as amended, for the fiscal quarter ended June 30, 2025 and (b) the date that the Company provides evidence of compliance with the financial covenants in the Credit Agreement as in effect immediately prior to the First Amendment for the applicable quarter.

Under specified circumstances, including non-compliance with any of the covenants described above and the unavailability of any waiver, amendment or other modification thereto, we may not be able to borrow us under the Revolving Credit Facility. Additionally, violations of the covenants would result in an event of default under the Credit Facilities. A default that occurs, and is not cured within any applicable cure period or is not waived, would permit lenders to accelerate the maturity of the debt under the Credit Facilities and to foreclose upon any collateral securing the debt.

As a result of the amendment above, our forecasted results indicate we will continue to be in compliance with those financial covenants through a period of one year from the issuance date of the September 30, 2023 financial statements. We cannot guarantee we will be in compliance with our financial covenants for each reporting period through a period of one year from the issuance date of the September 30, 2023 financial statements. We continually evaluate our expected compliance with the covenants described above and take all appropriate steps to proactively renegotiate such covenants when appropriate.

On October 20, 2022, we entered into an interest rate swap to manage our exposure to interest rate movements for a portion of our Term Loan A Facility. The interest rate swap has a $200.0 million notional value and a maturity date of

October 20, 2025. Beginning in October 2022, we receive the one-month SOFR and pay a fixed rate of interest of 4.3%.

For additional information regarding our debt, and interest rate swap, see Note 4, 3, *Long-term* *Long-term Debt* and Note 7, *Derivative Instruments*, to the accompanying unaudited condensed consolidated financial statements and Item 3, "*Quantitative and Qualitative Disclosures about Market Risk*."

The following table shows the cash flows provided by or used in operating, investing, and financing activities (in millions):

		Nine Months Ended September 30,			
		2023	2022		
	Three Months Ended March 31,			Three Months Ended March 31,	
	2024			2024	2023
Net cash provided by operating activities	Net cash provided by operating activities	$45.5	$76.0		
Net cash used in investing activities	Net cash used in investing activities	(5.8)	(4.1)		
Net cash used in financing activities	Net cash used in financing activities	(31.7)	(32.0)		
Increase in cash, cash equivalents, and restricted cash	Increase in cash, cash equivalents, and restricted cash	$ 8.0	$39.9		

Operating activities. The decrease in *Net cash provided by operating activities* during the nine three months ended September 30, 2023 March 31, 2024 as compared to 2022 2023 primarily resulted from a the decrease in *Net income Income* partially offset by and changes in working capital.

Investing activities. During the nine three months ended September 30, 2023 March 31, 2024, *Net cash used in investing activities* primarily resulted from the Specialty Home Health Care, Inc. acquisition in February 2023 and purchases of property and equipment. During the nine three months ended September 30, 2022 March 31, 2023, *Net cash used in investing activities* primarily resulted from the purchases of property and equipment. Specialty Home Health Care, Inc. acquisition in February 2023.

Financing activities. During the nine three months ended September 30, 2023, March 31, 2024 and 2023, *Net cash used in financing activities* primarily resulted from repayments of borrowings under the Credit Facilities. During the nine months ended September 30, 2022, *Net cash used in financing activities* primarily resulted from net contributions and distributions associated with the Separation from Encompass. For additional information on the Separation, see Note 1, *Summary of Significant Accounting Policies*,to the accompanying unaudited condensed consolidated financial statements.

Our consolidated contractual obligations as of September 30, 2023 March 31, 2024 are as follows (in millions):

	Total	Current	Long-term
Long-term debt obligations:			
Long-term debt, excluding revolving credit facility, finance lease obligations and unamortized debt issuance costs	$ 375.1	$ 20.0	$ 355.1
Revolving credit facility	180.0	—	180.0
Interest on long-term debt (a)	191.4	42.5	148.9
Finance lease obligations(b)	5.6	2.8	2.8
Operating lease obligations(c)	73.8	11.5	62.3
Purchase obligations(d)	6.8	4.5	2.3
Total	$ 832.7	$ 81.3	$ 751.4

	Total	Current	Long-term
Long-term debt obligations:			
Long-term debt, excluding revolving credit facility, finance lease obligations and unamortized debt issuance costs(1)	$ 365.0	$ 20.0	$ 345.0
Revolving credit facility	180.0	—	180.0
Interest on long-term debt (2)	139.7	43.0	96.7
Finance lease obligations(1)	7.9	2.4	5.5
Operating lease obligations(3)	70.4	10.8	59.6
Purchase obligations(4)	9.7	8.2	1.5
Total	$ 772.7	$ 84.4	$ 688.3

(a) Interest expense on our variable rate debt is estimated using the rate in effect as of September 30, 2023.

(b) (1) We lease automobiles for our clinicians under finance leases. Amounts include interest portion of future minimum finance lease payments. For more information, see Note 6, *Leases*, to the consolidated financial statements included in the Form 10-K.

(c) (2) Our Interest on long-term debt was calculated using the rate for the Term Loan A Facility as of March 31, 2024.

(3) In addition to our corporate headquarters office space, our home health and hospice segments lease: (1) relatively small office spaces in the localities they serve, serve; and (2) space for their corporate office, and (3) equipment in the normal course of business. Amounts include interest portion of future minimum operating lease payments. For more information, see Note 6, *Leases*, to the consolidated financial statements included in the Form 10-K.

(d) (4) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Our purchase obligations primarily relate to software licensing and support. Purchase obligations are not recognized in our Unaudited Condensed Consolidated Balance Sheet. For more information, see Note 6, *Contingencies and Other Commitments*, to the accompanying unaudited condensed consolidated balance sheet. financial statements.

Our capital expenditures include costs associated with computer hardware and licensing software we utilize to run our business, as well as leasehold improvements. During 2024, we expect to spend approximately $5 million to $10 million for capital projects, technology initiatives, and equipment upgrades and purchases. expenditures. During the nine three months ended September 30, 2023, March 31, 2024 and 2023, we made capital expenditures of $3.6 million $1.8 million and $0.6 million, respectively, for property and equipment and capitalized software. During 2023, we expect to spend approximately $5 million to $7 million for capital expenditures. Actual amounts spent will be dependent upon the timing of projects and acquisition opportunities.

Recent Developments

On August 23, 2023, we announced a formal process to explore strategic alternatives for our business. Our Board is considering a range of options, including, among other things, a potential sale, merger or other strategic transaction. Certain transactions involving the Company remain subject to additional conditions in the Tax Matters Agreement, including securing a tax opinion that such proposed transaction would not jeopardize the tax-free treatment of the Separation, satisfactory to Encompass in its sole and absolute discretion. No timetable has been established for the completion of the strategic review.

Critical Accounting Estimates

Except for the updates set forth below, there There have been no material changes to our critical accounting estimates from those disclosed in Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates*," in the Form 10-K.

We are required to test our goodwill for impairment at least annually, as of October 1, or more frequently if events or changes in circumstances indicate that it is more likely than not goodwill is impaired.

During the preparation of our consolidated financial statements for the year ended December 31, 2022, we identified potential impairment triggering events in the fourth quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included lower than expected fourth quarter operating results, a change in our acquisition strategy, and declining collections, which we believe is in part a result of the growing shift in our third-party payor mix, and specifically, an increase in Medicare Advantage payors.

During the three months ended June 30, 2023, we identified potential impairment triggering events in the quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included our performance against the 2023 forecast, a decrease in our share price and market capitalization, and the release of the 2024 proposed rule for home health on June 30, 2023, which included a net negative home health payment update.

During the three months ended September 30, 2023, we identified potential impairment triggering events in the quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included our performance against the 2023 forecast and a decrease in our share price and market capitalization.

We estimated the fair value of our reporting units using both the income approach and market approach. The assumptions used in the income approach incorporate a number of significant estimates and judgments, including revenue growth rates, timing of acquisitions and de novo openings, forecasted operating margins, and the weighted-average cost of capital. The market approach utilizes the guideline public company methodology, which uses valuation indicators, including market multiples of earnings before interest, taxes, depreciation, and amortization, from other businesses that are similar to each reporting unit and implied control premiums.

While management believes the assumptions used are reasonable and commensurate with the views of a market participant, there is also uncertainty in current general economic and market conditions. The result of the analysis is sensitive to changes in key assumptions, such as assumed future reimbursement rates, rising interest rates and labor costs, and delays in our ability to complete acquisitions and de novo openings, which could negatively impact our forecasted cash flows and result in an impairment charge in future periods.

Based on the quantitative analysis in the fourth quarter of 2022, we recorded an impairment charge of $109.0 million in the three months ended December 31, 2022 to reflect a decrease in the carrying value of our home health reporting unit. As of December 31, 2022, the fair value of our hospice reporting unit exceeded its carrying value by less than 15%. As of December 31, 2022, the hospice reporting unit had an allocated goodwill balance of $303.6 million.

Based on the quantitative analysis in the second quarter of 2023, we recorded an impairment charge of $85.8 million for the three months ended June 30, 2023 to reflect a decrease in the carrying value of our hospice reporting unit. As of June 30, 2023, the hospice reporting unit had an allocated goodwill balance of $217.8 million. As of June 30, 2023, the home health reporting unit had an allocated goodwill balance of $843.9 million.

No impairment was identified as a result of the quantitative analysis in the third quarter of 2023.

We performed a sensitivity analysis by reporting unit and determined that, assuming all other assumptions and inputs used in the discounted cash flow analysis are held constant, a 50 basis point increase in the discount rate assumption would result in a decrease in the fair value of the home health reporting unit of approximately $35 million. A 100 basis point increase in the discount rate assumption would result in a decrease in the fair value of the hospice reporting unit of $10 million. We base our fair value estimates on assumptions management believes to be reasonable but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Recent Accounting Pronouncements

For information about recent accounting pronouncements, see Note 1, *Summary of Significant Accounting Policies*, to the accompanying unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary exposure to market risk is to changes in interest rates on our variable rate long-term debt. We use sensitivity analysis models to evaluate the impact of interest rate changes on our variable rate debt. As of September 30, 2023 March 31, 2024, our primary variable rate debt outstanding related to $180.0 million in advances under our Revolving Credit Facility and $375.0 million $365.0 million under our Term Loan A Facility. Assuming outstanding balances were to remain the same, a 1% increase in interest rates would result in an incremental negative cash flow of $3.6 million over the next 12 months, while a 1% decrease in interest rates would result in an incremental positive cash flow of $3.6 million over the next 12 months.

On October 20, 2022, we entered into an interest rate swap. The interest rate swap has a $200.0 million notional value and a maturity date of October 20, 2025. Beginning in October 2022, we receive the one-month SOFR and pay a fixed rate of interest of 4.3%. The impact of increases and decreases in interest rates on our cash flow discussed above includes the impact of the interest rate swap.

Assuming outstanding balances were to remain the same and including the impact of our interest rate swap agreement, a 1% increase in interest rates would result in an incremental negative cash flow of $3.5 million over the next 12 months, while a 1% decrease in interest rates would result in an incremental positive cash flow of $3.5 million over the next 12 months.

See Note 4, 3, *Long-term Long-term Debt*, to the accompanying unaudited condensed consolidated financial statements for additional information regarding our long-term debt.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, of 1934, as amended (the “Exchange Act”), are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023 March 31, 2024. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective due to at the material weaknesses in our internal control over financial reporting as described below under “Material Weaknesses in Internal Control over Financial Reporting.”

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. assurance level.

As previously described in our Form 10-K for the year ended December 31, 2022, management identified material weaknesses in our internal control over financial reporting that continue to exist as of September 30, 2023. We did not design and maintain effective controls to (i) monitor and review the estimated recoverability of accounts receivable, including the impact of changes to our third-party payor mix and (ii) identify potential goodwill impairment triggering events, including the impact of changes to our third-party payor mix. These material weaknesses resulted in adjustments to our consolidated financial statements as of and for the year ended December 31, 2022 to net service revenue, accounts receivable, goodwill, and net income.

During the quarter ended June 30, 2023, we identified an additional goodwill related material weakness. Specifically, we did not design and maintain effective controls over our determination of the carrying amount allocated to each reporting unit and the measurement of potential goodwill impairment. This material weakness resulted in an adjustment to our unaudited interim financial statements for the three and six months ended June 30, 2023 to goodwill and net income.

Additionally, these material weaknesses could result in misstatements of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plan and Status

We have enhanced the design of our controls and have completed the following remediation efforts as of September 30, 2023:

- Enhanced controls around monitoring and reviewing the estimated recoverability of accounts receivable, including the impact of changes to our third-party payor mix,
- Enhanced controls related to the identification of potential goodwill impairment triggering events, including the impact of changes to our third-party payor mix, and
- Enhanced controls related to the preparation and review of our goodwill impairment analysis, including the allocation of carrying amounts to each reporting unit.

While we believe our new and revised controls address the material weaknesses, management cannot deem them remediated until these controls have operated for a period of time sufficient for management to conclude, through testing, that these controls are operating effectively. Accordingly, the material weaknesses are not remediated as of September 30, 2023.

Changes in Internal Control Over Financial Reporting

As described in the “Remediation Plan and Status” section, there There were no changes during the quarter ended September 30, 2023 March 31, 2024 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

We provide services in the highly regulated healthcare industry. In the ordinary course of our business, we are a party to various legal actions, proceedings, and claims as well as regulatory and other governmental audits and investigations. These matters could potentially subject us to sanctions, damages, recoupments, fines, and other penalties. Some of these matters have been material to us in the past, and others in the future may, either individually or in the aggregate, be material and adverse to our business, financial position, results of operations, and liquidity. We do not believe any of our pending legal proceedings are material to us, but there can be no assurance our assessment will not change based on future developments.

Additionally, the False Claims Act (the "FCA") allows private citizens, called "relators," to institute civil proceedings on behalf of the United States alleging violations of the FCA. These lawsuits, also known as "qui tam" actions, are common in the healthcare industry and can involve significant monetary damages, fines, attorneys' fees and the award of bounties to the relators who successfully prosecute or bring these suits to the government. It is possible that qui tam lawsuits have been filed against us, which suits remain under seal, or that we are unaware of such filings or precluded by existing law or court order from discussing or disclosing the filing of such suits. Therefore, from time to time, we may be party to one or more undisclosed qui tam cases brought pursuant to the FCA.

Item 1A. Risk Factors

Except for the updates set forth below, there There have been no material changes from to the risk factors disclosed in Item 1A, "*Risk Factors*," in the Form 10-K as updated by the risk factors disclosed in Item 1A, "*Risk Factors*" in the Form 10-Q for the period ended March 31, 2023 December 31, 2023.

There can be no assurance that our review of strategic alternatives will result in our pursuing any strategic transaction or that we will successfully consummate any particular strategic transaction on attractive terms or at all, and there may be negative impacts on our business and stock price as a result of the process of exploring strategic alternatives.

On August 23, 2023, we announced a formal process to explore strategic alternatives for our business. Our board of directors is considering a range of options, including, among other things, a potential sale, merger or other strategic transaction. We have not set a timetable for completion of this strategic review process, and our board of directors has not approved a definitive course of action. We do not intend to disclose developments or provide updates on the progress or status of the strategic alternatives review process until our board of directors deems further disclosure is appropriate or necessary. Accordingly, speculation regarding any developments related to the review of strategic alternatives and perceived uncertainties related to the future of the Company could cause our stock price to fluctuate significantly.

The process of continuing to evaluate our strategic alternatives may be costly, time-consuming and complex, and we may incur significant legal, accounting and advisory fees and other expenses, some of which may be incurred regardless of whether we identify or consummate a strategic transaction, and the attention of management and our board of directors could be diverted from our core business operations. Whether the process will result in any transaction, our ability to complete any transaction, and if our board of directors decides to pursue one or more transactions, will depend on numerous factors, some of which are beyond our control, including the interest of potential acquirers or strategic partners in a potential transaction, the value potential acquirers or strategic partners attribute to our business and its prospects, market conditions, interest rates and industry trends. Our stock price may be adversely affected if the evaluation does not result in a transaction or if one or more transactions are consummated on terms that stockholders view as unfavorable to us.

Our ability to consummate a strategic transaction also depends upon our ability to retain our employees. A material departure of employees, or the departure of certain key employees, may adversely impact our ability to attract strategic partners or the value we could command in a potential strategic transaction with such partners. Any strategic transaction may also increase our risk of litigation, require government approval, or result in a government investigation, even if no wrongdoing has occurred. The costs of defending litigation or responding to a government investigation could be significant and could adversely affect our ability to consummate a potential strategic transaction. Furthermore, our Tax Matters

Agreement with Encompass Health Corporation (EHC) requires that certain potential strategic transactions be approved in advance by EHC, in its sole and absolute discretion. There can be no assurance that EHC will give its approval in a timely manner or at all.

Even if we successfully consummate a strategic transaction, we may fail to realize all or any of the anticipated benefits of any such transaction, such benefits may take longer to realize than expected, we may encounter integration difficulties or we may be exposed to other operational and financial risks. Any of these failures may negatively impact the ultimate value realized in any potential strategic transaction.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Purchases of Equity Securities

During the three months ended September 30, 2023 March 31, 2024, we purchased shares of our common stock as follows:

	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be Purchased under our Share Repurchase Plans
July 1 through July 31	2,779	$	11.89	—	—
August 1 through August 31	—		—	—	—
September 1 through September 30	—		—	—	—
Total	2,779	$	11.89	—	—

	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be Purchased under our Share Repurchase Plans
January 1 through January 31	26,660	$	10.81	—	—
February 1 through February 29	15,824		9.49	—	—
March 1 through March 31	22,438		8.81	—	—
Total	64,922	$	9.80	—	—

(1) Represents shares of common stock we repurchased in July to satisfy employee tax-withholding obligations in connections connection with the vesting of stock-based compensation awards.

Item 5. Other Information

None of the Company’s directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company’s fiscal quarter ended September 30, 2023 March 31, 2024.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Separation and Distribution Agreement, dated as of June 30, 2022, by and between Encompass Health Corporation and Enhabit, Inc. (incorporated by reference to Exhibit 2.1 to Enhabit, Inc.'s Current Report on Form 8-K filed on July 5, 2022).
3.1	Amended and Restated Certificate of Incorporation of Enhabit, Inc. (incorporated by reference to Exhibit 3.1.2 to Enhabit, Inc.'s Current Report on Form 8-K filed on July 5, 2022).
3.2	Amended and Restated Bylaws of Enhabit, Inc. (incorporated by reference to Exhibit 3.2 to Enhabit, Inc.'s Quarterly Report on Form 10-Q for the three months ended September 30, 2022).
31.1†	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
101.INS†	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH†	Inline XBRL Taxonomy Extension Schema Document.
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104†	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

The exhibits marked with the cross symbol (†) are submitted electronically, herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENHABIT, INC.

By: /s/ Crissy B. Carlisle

Crissy B. Carlisle

Chief Financial Officer

Date: November 13, 2023 May 9, 2024

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Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO

SECTION 302 TO OF THE SARBANES-OXLEY ACT OF 2002

I, Barbara A. Jacobsmeyer, certify that:

1. I have reviewed this Form 10-Q of Enhabit, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange ActRules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 13, 2023 May 9, 2024

By: /s/ BARBARA A. JACOBSMEYER

Barbara A. Jacobsmeyer
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO

SECTION 302 TO OF THE SARBANES-OXLEY ACT OF 2002

I, Crissy B. Carlisle, certify that:

1. I have reviewed this Form 10-Q of Enhabit, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange ActRules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant’s registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 13, 2023 May 9, 2024

By: /s/ CRISSY B. CARLISLE

Crissy B. Carlisle

Chief Financial Officer

Exhibit 32.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Enhabit, Inc. on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Barbara A. Jacobsmeyer, President and Chief Executive Officer of Enhabit, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Enhabit, Inc.

Date: November 13, 2023 May 9, 2024

By: /s/ BARBARA A. JACOBSMEYER

Barbara A. Jacobsmeyer

President and Chief Executive Officer

A signed original of this written statement has been provided to Enhabit, Inc. and will be retained by Enhabit, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This written statement shall not, except to the extent required by the 2002 Act, be deemed filed by Enhabit, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Enhabit, Inc. specifically incorporates it by reference.

Exhibit 32.2

**CERTIFICATE OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Enhabit, Inc. on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Crissy B. Carlisle, Chief Financial Officer of Enhabit, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Enhabit, Inc.

Date: November 13, 2023 May 9, 2024

By: /s/ CRISSY B. CARLISLE

Crissy B. Carlisle
Chief Financial Officer

A signed original of this written statement has been provided to Enhabit, Inc. and will be retained by Enhabit, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This written statement shall not, except to the extent required by the 2002 Act, be deemed filed by Enhabit, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Enhabit, Inc. specifically incorporates it by reference.

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