PARTICIPANTS

Corporate Participants

Jay F. Grinney – President, Chief Executive Officer & Director, HealthSouth Corp.

Other Participants

Michael A. Newshel – Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Michael A. Newshel, Analyst, JPMorgan Securities LLC

Hey, good morning, everybody. My name is Michael Newshel. I'm on the team covering healthcare facilities and also managed care at JPMorgan. Next up, we have HealthSouth. Presenting from the company will be the President and CEO, Jay Grinney. Following the formal presentation, there will be a breakout session in the Olympic Room, down the hall into the left. And also a quick remainder, just make sure your cell phones are silenced.

With that, it's my pleasure to introduce Jay Grinney, the CEO of HealthSouth.

Jay F. Grinney, President, Chief Executive Officer & Director

Thank you, Mike, and good morning, everyone. With me today is Mark Tarr, our Chief Operating Officer; Doug Coltharp, our Chief financial Officer; and Mary Ann Arico, our Chief Investor Relations Officer, who will be handing out copies of this deck for anybody who would like to have a copy.

So, HealthSouth is one of the largest providers of post-acute services in the United States with the recent addition of Encompass Home Health and Hospice. We provide both facility-based, as well as home-based post-acute services for patients who have been discharged from an acute care hospital or need some post-acute services following a severe episode of illness.

We have 107 rehabilitation hospitals across the country in 29 states, 25 home health agencies that today are part of the HealthSouth platform; we'll be integrating that into our recently acquired Encompass platform over the next several months. As you see on the slide, we are the ninth largest provider of IRFs in the United States in terms of facilities. But, if you look at it in terms of patients served, we treat about 21% of all patients requiring inpatient rehabilitative care in the United States. So, one out of every five patients receiving inpatient rehabilitative services in the United States gets that care at a HealthSouth Hospital.

We're very excited about the recent addition to our company of Encompass Home Health and Hospice, the fifth largest Medicare-based home health provider in the United States with 107 home health locations, eight pediatric home health locations, 20 hospice locations in 12 states. So, we brought those two companies together, and I'll talk about this a little bit later in the presentation, but we really believe that the combination of our two companies positions us to be extremely competitive in the evolving healthcare delivery system, and specifically allows us to provide both facility-based, as well as home-based post-acute care services.

In 2008, we embarked on a strategy that had five core components. Cheif among them was to ensure that any excess cash flow that we had would be returned to shareholders. We were very focused on developing and then protecting a strong balance sheet, which would give us flexibility for a wide range of strategic options: Key in that strategy was the growth of our core business, that inpatient rehabilitation platform that I just mentioned to you, while being positioned for opportunistic growth when the opportunity presented itself. And then, there were several key operational initiatives that I'll talk about in just a minute that were part of that strategy.

We put that together in 2008. We told shareholders that we thought we would be able to dependably produce 4% to 8% EBITDA growth and strong free cash flow growth. As you can see from the slide, we have more than delivered on that promise to you. Just the EBITDA CAGR over those five years at 11%; 21% free cash flow growth. The reason we started in 2009, to go forward on the free cash flow was because free cash flow in 2008 was a mere $7 million. So, you can see, we've come a very, very long way in a relatively short period of time.

2014 is turning out to be another excellent year for the company. We increased our quarterly cash dividend back starting with the October 2014 dividend, increased it almost 17% to $0.21 per share. We repurchased $43 million worth of our common stock; that was on top of $240 million tender that we initiated and completed in the first quarter of 2013. So, we continue to be focused on returning excess cash to shareholders. As you'll see in the presentation, we generate an enormous amount of free cash flow, and we have a wide range of opportunities for investing that free cash flow, and chief among them is to look for ways to return some of that to our shareholders.

Protect the balance sheet has always been a key tenant for HealthSouth. When I first got there in 2004, for those of you who may remember, we were in pretty dire straits, and we had a leverage ratio at that time of almost 6.5 times. We put a huge focus on strengthening the balance sheet and creating a maturity profile that would not stack our debt in any given year and create a lot of flexibility. We've been able to execute on that extremely well. This past year, as you see here, we redeemed all of the 7.25% senior notes and about $25 million of the 7.75% notes due 2022. And then, as I'll mention in just a minute, we used that strong balance sheet opportunistically to expand into a complimentary post-acute service home health and hospice.

Our core business is inpatient rehabilitation. The industry is growing somewhere in the 2% range. We have been able to consistently take market share over the last five years by focusing on quality, by focusing on responsiveness to referring physicians, and by focusing on employee retention to ensure that we had a strong and stable work force to provide that care. We're very pleased that we've been able to consistently take market share. We did again in 2014 growing our total discharges by 3.5%.

Another component of that core growth was investing some of that free cash flow into new facilities, both de novos: new hospitals, new markets, as well as acquisitions. We opened three hospitals in 2014: a 50-bed hospital down in Altamonte Springs, Florida; Newnan Hospital, outside of Atlanta; and then, a new state for us slightly smaller hospital, but built with the ability to expand very easily up in Middletown, Delaware.

We also acquired through a joint venture, a freestanding rehabilitation hospital in Johnson City, Tennessee. We added 51 beds to our existing hospital, that's a tremendous opportunity for us to continue to invest in our core platform. And then, we acquired additional equity interest in a joint venture that had previously been a non-consolidating entity. With the acquisition, we are now able to consolidate the results of our Fairlawn Rehabilitation Hospital into our financial results.

I mentioned the acquisition of Encompass Home Health and Hospice. It is a terrific company; one that I've been following for about four years. The CEO of that company, April Anthony is widely considered to be the finest operator of home health services in the United States. And when we were told that they were looking to initiate a process, we very enthusiastically got involved and we felt very fortunate to be the winning bidder on that; $750 million purchase price.

The management team of Encompass has rolled a significant part of what they were going to get from the transaction into a new operating subsidiary of HealthSouth. So, the same management team that was in place prior to the acquisition is in place today. And they are highly motivated and have invested their own cash into this operating entity that will run all of our home health services.

We're going to keep the name; we're going to keep the Encompass name. We're going to brand all of our home health services under that name, because of the brand recognition that April and her team had built up over the years. And as I mentioned earlier, we're going to take our 25 existing home health agencies and incorporate them into that platform.

It's going to be a terrific acquisition for us. Not only is it immediately accretive, but as I'll touch on in just a moment, it provides a very exciting new growth avenue for HealthSouth. $75 million of incremental EBITDA projected for 2015. And then, the EPS accretion will be dependent on how we allocate the purchase price.

From an operational perspective, our focus is always on differentiating ourselves from a quality standpoint. We believe that quality differentiation is extremely important in healthcare services, and we believe it will become even more important in the years to come, as we see networks forming smaller, more defined networks that will differentiate themselves based on not only the cost effectiveness, but also more importantly the quality.

One of the metrics in inpatient rehabilitation is called a FIM score. It measures all patients, upon admission, on an 18-point scale that assesses their level of independence. And then, that same evaluation is conducted upon discharge. The difference between the two scores is the FIM gain. The bigger the gain, the more progress that patient made during their stay with us. And as you can see from the chart, compared to other inpatient rehabilitation facilities, our FIM gains are consistently higher than the national average.

Another key component of our operational strategy is to put all of our hospitals on an electronic medical record system. We use the Cerner System, which has been tailor-made for us, and the applications in an inpatient rehabilitation hospital setting. We currently have 58 hospitals. Actually, Mark told me yesterday, we now have 61 hospitals on the platform. All of them should be on by 2017.

So, as I mentioned at the outset, 2014 is going to be a very good year for us. We started out with original guidance of $555 million; EBITDA guidance between $555 million to $565 million. Looks like we're going to come in between $575 million and $580 million.

For those you, who have been following the company and you're looking specifically at Q4, just a couple of highlights that we have here on the slide that I want to point out to you. The first is that total discharge growth is 4.7%. We're very, very happy with that. Same-store discharge growth was 2.2%. So, that's the strongest quarter-over-quarter growth that we had in all of 2014. So, it's a very, very nice ending to the quarter, ending to the year. And I will tell you that we're very, very pleased with the volumes that we're seeing thus far in January, recognizing that we're still very early in the month, very early in the quarter, but we're very pleased with what we're seeing in our hospitals thus far in the month.

From a new-store standpoint, we had 2.5%. Frankly, that was a little bit less than we had hoped for, and there're really three hospitals of the four that came on, three hospitals with unique situations. The hospital in Delaware opened two weeks later than we had hoped. There were a lot of weather delays in the early part of the year, because of the winter storms. So then during the summer months it took us two weeks longer to get that online, but that is now fully ginning on all cylinders. We're very pleased with that. And then, the hospital in Florida and then our acquisition in Johnson City, both required Medicare certification visits before we could start billing Medicare for the services that we are providing to the patients. And in both instances, those certification visits were two weeks later than what we had originally envisioned. So, great same-store growth; very, very solid new-store growth. All of those issues in December are behind us, and we are, as I said, really firing on all cylinders going into 2015.

The other thing that I think is important to keep in mind is that there was a $13 million swing on one-time matters between Q4 2013 and Q4 of this year. Starting in Q4 of 2014, we had a $6 million headwind resulting from the delays that I just mentioned in those new-store startups. So, there was a $6 million headwind as a result of providing care for the patients, incurring those costs, and not being able to receive those revenues. Again, that's been taken care of. All of those hospitals now are Medicare-certified, and we're getting the revenues for the patients that we're treating. And then, as you look at 2013 Q4, there was a net $7 million tailwind benefit that we had last year. And take those into consideration, it's really a $13 million swing quarter-over-quarter. So, I think you want to keep that in mind as you look at and assess the fourth quarter.

EPS, we're projecting $220 to $223 a share. The big issue there are the expenses related to the Encompass acquisition, as well as a $0.08 per share loss on the early extinguishment of debt that occurred in the fourth quarter.

As we looked forward, and we do this every year at JPMorgan conference, we kind of lay out what our three year planning horizon looks like and what we think we can deliver. The strategy is not changing. It's being enhanced, but it's not changing; being enhanced with the acquisition of Encompass, and the ability to offer home health and hospice services. But, the focus is going to remain the same. We're going to look for opportunities to return excess cash to shareholders, and we're going to continue to focus on a very strong and flexible balance sheet. Even with the acquisition of Encompass, our leverage only went up to 3.3 times. Clearly we can get that down just with the EBITDA growth, below that 3 times target that we have in our minds that gives us that flexibility to take advantage of opportunities as they present themselves in the marketplace.

Our core growth now has two components. Focusing on continuing to grow the inpatient rehabilitation platform and now being able to supplement that with growth in the home health and hospice space. We're always going to be looking for opportunities beyond those two segments. 2015, frankly, is not going to be a year where we're going to be looking for those opportunities aggressively. Obviously, if something presents itself, and we think it's compelling, we'll take a look. But, we think, 2015, really ought to be a year where we're focused on the full integration of our home health platform. And then, maintaining our focus on the key operational initiatives, that we think will differentiate us from our competition in the years to come.

So, as you think about how much we're going to invest, you can model whatever you want to, in terms of 2015 EBITDA. We're going to be providing that guidance when we report Q4 and year-end numbers, when we close the books. So, we'll be able to give that to you in a couple of weeks when we report.

For whatever you want to use in terms of that 2015 EBITDA, here is some considerations for you to keep in mind as you think about getting to that free cash flow. Interest expense, somewhere in that $100 to $110 million range; cash taxes, somewhere in that $15 to $20 million, working capital, between $40 and $50 million; maintenance CapEx and virtually all of that is directed to our hospital platform. There is very, very, very little de minimis amount of CapEx required in the home health space; and then, of course, the dividends on the preferred stock.

So, as we think about investing in our core business, inpatient rehabilitation and home health, from a bed expansion standpoint, you can see we're going to be stepping that up. There is going to be more beds added in 2015. That's a good sign. That means that our same-stores are continuing to take market share, continuing to meet the needs of the communities that we serve. Somewhere in the $40 to $60 million range for new hospitals and new markets. There will be some acquisitions, I'm confident, in 2015. And we're not putting any number out there yet, but we are very confident of the pipeline that we have for new acquisitions in the IRF space. And then, somewhere in the $30 to $40 million to bring on new home health and hospice agencies.

Just to give you a quick review of some of the considerations, as we look at de novos, all of the projects have a minimum IRR target of 15% on a pre-tax basis. You can see that from a cash payback perspective, somewhere in the five to seven years is what we expect. It costs anywhere from $20 to $24 million to put a new 40 to 50 bed hospital on the ground and another $700,000 to $1.2 million of startup costs. To give you an idea: when you start a new hospital, there's going to be a bit of a drag early on. We moved through that. And within six months to nine months, all of our de novos are on a consistent positive EBITDA basis.

And you can see the number of new hospitals that we've added off to the right. We've also acquired, we continue to believe that that development opportunity is going to be very exciting for us. Cash payback four to six years; same IRR target. There are a lot of things that we think we can bring to the table to help new hospitals – excuse me, existing hospitals come on to our platform. And you can see the track record that we've been able to establish over the last several years of acquiring new IRFs and bringing those on to the HealthSouth platform.

As I mentioned before, starting in 2015, we have a very exciting, and we think, very compelling additional growth opportunity on top of what we're being able to achieve at the inpatient rehabilitation side. And that is, to take advantage of a very, very fragmented home health and hospice industry that is facing some challenges that we believe our platform, the Encompass platform is uniquely qualified to meet and to exceed. And as you can see, we're acquiring a company that has a consistent track record of growth through acquisitions over the last several years. And we believe that with our balance sheet and our capacity to fund additional growth, we'll be able to increase this trajectory going forward.

And then finally, we're all focused, obviously, on 2015. I am hoping that some of you have horizons beyond just 2015. Those of us in the management team certainly do. We are committed to making 2015 as successful as we can. But, what we really want to do is, make sure that we're positioning this company to be successful three years from now, five years from now, ten years from now.

And while nobody knows with precision, where the delivery system is evolving to, I do think, there is a consensus that it is moving away from episodic payments to coordinated payments, of some sort; be it bundling, be it Accountable Care Organizations. The idea that existing system is going to be in place, in perpetuity, is not one that we hope. So, what we want to do is, we want to position the company to be successful in that evolving delivery system. And one of the first things we want to do is to make sure that we have high-quality, cost-effective providers both in the core facility-based rehab business, as well as the home health and hospice segment.

We further believe that, in that new world order, many of the delineations that differentiate rehab from LTAC and SNF will be removed. There will no longer be a need for silos, and so we want to position our facilities to be able to provide care for a wide range of patients. We want to make sure that we're utilizing our technology, our electronic medical record system with a very sophisticated system that Encompass put into all of their facilities. We are currently participating in bundling projects and in ACOs. In fact, Encompass is the designated home health provider for the premier ACO. And we are going to be able to approach that new world order with a very strong balance sheet and with a lot of flexibility as we think about our portfolio.

Importantly, about a third of our hospitals are already lined up and in partnership with large acute care hospitals across the country. So we're joined at the hip with these major systems who will be driving that evolution. And we think that positions us extremely well for the future.

So, 2014 was an outstanding year for HealthSouth. We think that 2015 is going to be even better. And we believe that we are positioned to be extremely successful in the years to come as the delivery system continues to evolve. Thank you very much.

MANAGEMENT DISCUSSION SECTION

Jay F. Grinney, President, Chief Executive Officer & Director

So, good morning, everyone. I'm Jay Grinney, President and CEO of HealthSouth Corporation. With me on my right is Mark Tarr, Chief Operating Officer, and soon to join us, sitting here, will be Doug Coltharp, our Chief Financial Officer. So we just completed our presentation. This is the Q&A. I'm happy to begin with the first question.

<Q>: [inaudible] (00:33-00:43) There's the IMPACT Act then there's the yearly but they also give you guys the opportunity to go up to the hill and help shape the future to some degree, since there's – there's basically no consensus as to what it should look like. Can you talk a little bit about how you kind of maximize that reform [indiscernible] (00:55) strategy that you're currently pursuing?

<A – Jay Grinney – HealthSouth Corp.>: So the question was, how we participate in advocacy on the Hill with respect to payment reform in the post-acute space, is that...

<Q>: Or what style eventually, post-acute reform, would be best for you?

<A – Jay Grinney – HealthSouth Corp.>: Yeah. So the – and the last question is, what style would work best for us? Frankly, the IMPACT Act, we think outlines the process that ought to be followed to move the post-acute sector from this episodic regulation-based payment.

If you think about the difference between a patient that goes into a rehab facility or a nursing home, oftentimes is a function of the individual referring physician's preference. There are no hard and fast rules that dictate what kind of patients go in, and yet the payment differential sometimes is quite different, and I would argue, the quality and the outcomes are quite a bit different.

So we think that the IMPACT Act is a very well thought out process for evaluating post-acute payment reform along the lines of what's in the best interests of the patient. Is there a way to establish some methodology of looking at post-acute patients and their needs on a consistent basis?

And so, we think that that starts that process and we actively participate on the Hill, I'm up there probably at least once a month, sometimes more. And so, some kind of payment system that moves away from facility designations to patient needs is really the way I think we need to be going.

If you can then couple that with some true quality differentiation. I think that's probably the biggest challenge in the healthcare industry today, and that is to recognize that not all providers are created equally. And there's sort of a baseline assumption that we're all the same, and we're all above average. We all think that we're great, and that simply is not the case. And so, if you couple quality differentiation with the ability to offer a wide range of services to a broader group of patients, I think that's the starting point for some real reform.

<Q>: Can you talk about – you're being affected at all by the nursing shortage? And if you think that will change with Encompass going to more home health model versus a facility-based model?

<A – Jay Grinney – HealthSouth Corp.>: You know, we're certainly cognizant that there is a shortage of nurses. We've been very focused on employee retention over the last five years, and we've seen our RN turnover, when I first came here in 2004, it was 35%, 40%. Now, we're below the national average. We're in the 15% to 17%, which is still high, but a far cry from the national average, which is 20 plus percent. On the therapy side, our turnover is below 10%, where the national average is closer to 13% to 15%.

So is it an issue? Yes. Is it something that we focus on? Absolutely. Do we have programs in place that are designed specifically to enhance employee retention? Yes. I mean, that's our goal. It's kind of the old adage: You just stay ahead of the competition, and you'll do fine. And that's really what we're trying to do.

Other questions?

<Q>: Jay, on a more tactical note, what's your kind of sense of what legislative agenda we'll have for this year?

<A – Jay Grinney – HealthSouth Corp.>: So the question is, perspective on the legislative agenda in Washington for 2015. Well, it's going to be interesting to see now that the Republicans control both chambers of Congress. I think the biggest initial challenge is going to be, what are they going to do with the Doc Fix. I think there's a consensus that they would like to get it fixed, but there's no consensus on how to pay for it.

I think that the dilemma is going to be, will it have to be paid for exclusively from providers, or will there be other avenues for funding that? I do not know how that's going to shakeout. I know that, that is kind of a recurring theme as shareholders look at post-acute providers. My view of that is, no matter what comes out of Washington, the demand for healthcare services is not going away. Somebody is going to have to be there to satisfy that demand.

And so, let's just say that Washington decides that they're going to cut everybody 2%. Will that hurt certain providers? It will hurt everybody, but those who are at the bottom of the rung, those who have a bloated balance sheet, they've got horrible management systems, they're inefficient and ineffective, those are the providers who will be squeezed out. And those of us at the top of the heap, strong balance sheet, tremendous amount of scale, efficiency throughout our system, we are going to do fine. Because on the other side of that, is that inexorable, increasing demand for healthcare services that just not going to go away.

So, it's hard to know Sasha what exactly is going to happen. And frankly, the biggest question is, not so much what will Congress pass? The bigger question is; what will the President sign, and what will he veto? And is there 67 votes in the senate to override that veto? There doesn't seem to be any belief that there is a veto-proof bill that's out there that could get through, because getting 67 senators to agree on anything that the President has vetoed, I think, is impossible. It's impossible. Thank you.

<Q>: Again, how do you estimate the odds of something more structural in practice? Have you prepared for kind of a worst-case scenario?

<A – Jay Grinney – HealthSouth Corp.>: Well, first of all, to – just to characterize site neutral payments, we do not see that as a worst-case scenario under any circumstances. I mean, there's this misunderstanding out there that, if we went to site-neutral payment system that somehow rehabilitation providers would be hurt, and we do not subscribe to that at all, because if you hear the committees of jurisdiction on the Hill, if you hear what MedPAC is saying, and if you hear what

CMS is saying, every single one of those groups acknowledges that moving to site-neutral payment would also mean moving to site-neutral regulations.

And it's the regulations that cause us to have to have three hours of therapy per day, 24/7 nursing care and on and on. So we have a cost structure in our hospitals that in large part are dictated by the regulations that we have to abide by. So when you think about the pricing differential between a nursing home and an IRF, there's clearly on a per-day basis, some delta there. If you step back and you start looking at it from an episodic basis, patients are in our hospitals an average of two weeks. They're in nursing homes an average of four weeks. You take another step back, and you ask yourself, how many of those nursing home patients cycle back into an acute care hospital, increasing the overall cost to the system versus those coming out of a rehab hospital, going home and staying home?

So the notion that site-neutral is going to be bad for HealthSouth is absolutely not one that we subscribe to at all. We do think that the IMPACT Act lays the groundwork for the evolution to something that will look like site-neutral payments.

We don't think that there's going to be anything coming out of this Congress that's going to move site neutrality – site-neutral payments to the front of the line, and to jump over what's already in place in the IMPACT Act.

But if that happens, it happens. And if it comes along with the kind of regulatory relief that CMS, members of – the committees of jurisdiction and MedPAC all agree site-neutral would require that type of regulatory neutrality. I think we're positioned to be very competitive in that kind of environment.

Frankly, what they'll do, if you follow the MedPAC recommendations, they'd go – they'd start with some of the orthopedic cases that we used to treat, that we couldn't treat because of the 60% Rule, that we now would be able to go back and to treat under the site-neutral methodology. And we would be delighted to be able to do that again.

Other questions?

<Q>: [inaudible] (11:40-11:48).

<A – Jay Grinney – HealthSouth Corp.>: Yeah. The question is margins, how I look at that in the core business, which is our inpatient rehabilitation business. I mean there's – we've never said that this is a margin expansion story. Are there going to be opportunities to leverage our cost structure with incremental growth coming into our hospitals? Absolutely, and we're committed to that, as we always have been.

We will be from time-to-time making incremental investments in that core business. For example, in 2015, our Cerner costs are going to go up. We knew that, that was happening. It was put into the contract, so there's going to be a modest increase there.

We're going to make an investment in 2015 to enhance the quality reporting capabilities in our hospitals. Why? Because starting in 2015, if we don't report accurately and completely, the quality metrics, as required by CMS, there's a 2% payment threat or "hit".

So we're going to make absolutely certain that that doesn't happen. So there will always be those situations where we're making incremental investments. I think the margins can continue to expand. I wouldn't focus on that as being sort of the major driver, though, of the story.

<Q>: Now that you are potentially expanding into other service lines, not in 2015 because you're focusing on the Encompass acquisition and integration, but in what other service lines do you wish to do this? What are the timelines?

<A – Jay Grinney – HealthSouth Corp.>: The one service line that we have repeatedly talked about, in addition to home health, is long-term acute care. There are enough headwinds in that sector that we're going to be on the sidelines for a while. I know there's a wide difference of opinion as to whether or not these new patient criteria are going to be positive or negative for LTACs. There's some sell-side analysts out there that are saying, it's – it's going to be fabulous for certain companies.

We're not of that opinion. As we looked at it, and as you know, we used to have LTACs and we sold them in part because we were not confident that the patient criteria would be a long-term boost for the industry. So it makes sense for us to consider and to evaluate and to watch that, but frankly, it's going to take a couple of years for the full impact of the criteria to be seen.

<Q>: [inaudible] (14:42).

<A – Jay Grinney – HealthSouth Corp.>: Yeah. I mean, as you know, it starts in 2015. And depending on the cost report year, some are going to be seeing it, actually in fiscal year 2016. So they'll see some of it in the fourth quarter of 2015, but 2016 is going to be the real year of reckoning for whether or not the thesis that this is going to be fabulous for LTACs does indeed pan out.

We think it's going to be highly unlikely just the way it's structured. And so to jump in now makes no sense. But we go back to the starting point, which is, is there a demand? Yes, there's a demand. Is that demand going away? No, that demand is not going away particularly as you think about the aging of the population.

So the demand profile looks great. The regulatory headwinds present some near-term challenges. And so there's nothing that would compel us to jump into that any time soon. Very similar to what we did with home health. I mean we started thinking about and talking about with you expanding in home health four years ago.

But we didn't jump in right away. We wanted to see what the ACA cuts were going to look like, how providers were going to respond to that, if there was going to be additional legislation that might be coming out zeroing in on home health providers. We were looking at all the providers out there. We identified one that we said is the one that we want, and that was Encompass.

So we're in that process right now. We think LTACs make sense, but there's no reason for us to jump into that until the effect of the patient criteria is felt in that industry. And again, just if you think about the way the payment structure is set up, if your – if half your patients are going to be at the lesser cost or the inpatient rate, I don't know how you're going to make money out of that business. I mean, I just cannot- if it's the lesser of cost or the inpatient acute rate. I have no – we just can't see how money is going to be made.

So I think what will happen is, there's going to be a shakeout in the industry. And we think that the well-positioned company, three years from now, four years from now, would be uniquely positioned to come in and to take advantage of those – that turbulence.

In the back. Yes, sir?

<Q>: Can you talk about just the Encompass deal now that it's closed, your confidence and ability in terms of moving those volumes that are coming out of HealthSouth into the Encompass network?

<A – Jay Grinney – HealthSouth Corp.>: I think we have a high degree of confidence in our ability to shift the referral patterns, working with our discharging physicians, introducing them to the Encompass capabilities, which are significant. We are very pleased with the Encompass acquisition. We believe that they are indeed best-of-class in the home health space. We are going to be sponsoring an Investor Day later this year. Now, we're trying to figure out what the right timing is, but it's sometime in the May-June timeframe.

And we'll be introducing April Anthony and her incredibly capable, very talented team. And I think you will walk away from that session very, very impressed with what they have established and how they are differentiating themselves from a quality standpoint. And so I think that, that will be something that we can move those volumes over to the Encompass platform. It will take us several months.

<A – Doug Coltharp – HealthSouth Corp.>: I think to get a sense of the scope of that opportunities, well, there's a slide in the presentation we distributed today, slide 23, which shows the total number of our discharges out of our IRFs that are currently going to home health, then looks specifically at the subset of those that are occurring in the existing markets, where our facilities have an overlap with an Encompass agency. And you'll get a sense as to the magnitude of the opportunity there. And that's before we even start contemplating acquiring home health agencies that will operate under the Encompass banner, that overlap with additional HealthSouth IRF markets. So it's a very substantial opportunity.

<Q>: Just to be clear, for the $75 million assumed for 2015, how much of that is included (it was a lot of growth, it sounds like for 2014) is 2015? And is some of that still on account of that correctly, and then how much of the synergies are in there?

<A – Jay Grinney – HealthSouth Corp.>: So that's all based on the core business as of 12/31/14 with some modest acquisitions in 2015. It does not include yet any of these synergies with the integration of our 25 agencies. So basically, what we did is, it's predicated on what that Encompass platform looked like, had no acquisition occurred. Because we do think it's going to take some time, but we didn't want to bake that into the forecast.

<A – Doug Coltharp – HealthSouth Corp.>: The single biggest piece of the year-over-year growth for Encompass is that they made an acquisition in September of 2014; it's their largest acquisition to-date of a company in Florida, and it's really just the annualization of that. There's a small incremental amount that is based on the assumption of being able to close on a couple of the acquisitions which are already very far into the pipeline.

<Q>: [inaudible] (20:46-20:53).

<A – Doug Coltharp – HealthSouth Corp.>: The $75 million is assumed to be net of minority interest. That's the way that we account for or report our adjusted EBITDA. The rollover is a little bit complicated. The reason for the rollover in structure that was put in place – I should get Nicol who's sitting in front of you to stand up and talk about, because he helped us very substantially on this. But we were – Encompass came through a process, as Jay mentioned earlier. It was a very competitive process that included not only other strategics, but also private equity firms.

April and her team had very successfully stirred the enterprise through two previous transactions with private equity owners and had done quite well financially. They were very confident in their ability to continue to create value, and it was important to them that they have an opportunity to participate specifically in the upside that they would create out of the home health business.

So we attempted to mimic the structure that a PE sponsor would put on the table. And we did that by creating an opportunity for them to roll equity into the home health business, a subsidiary that's been formed for HealthSouth. And we also created the ability for them to get a leverage return by essentially putting in an intercompany note from HealthSouth to the subsidiary that mimics the type of leverage that a PE sponsor would put on that business.

The way that it'll work on a go-forward basis is the liquidity is provided for that specific security via a series of puts that the management team has and symmetrical calls that HealthSouth has. The value of that security at the time that they put or call this exercise is really just an EBITDA, (enterprise value to EBITDA). Calculations done will continue to account for and track the EBITDA specific to that subsidiary. The multiple is one that is going to be determined based on a basket of publically traded companies that have a substantial presence in home health as well as some precedent transactions, meeting certain criteria that occurred within the previous 12 months prior to that exercise.

Jay F. Grinney, President, Chief Executive Officer & Director

Other questions? Well, seeing none, I guess we're adjourned. Thank you very much.