



Investor Presentation

March 2020



Disclaimers and Other Important Information



Statements in this presentation concerning the future prospects of The Pennant Group, Inc. ("Pennant" or the "Company") are forward-looking statements based on management's current expectations, assumptions and beliefs about our business, financial performance, operating results, the industry in which we operate and possible future events. These statements include, but are not limited to, statements regarding our growth prospects and future operating and financial performance. They are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause our actual results to materially and adversely differ from those expressed in any forward-looking statement.

Readers should not place undue reliance on any forward-looking statements and are encouraged to review our periodic filings with the Securities and Exchange Commission, including our recently filed Form 10-K, for a more complete discussion of the risks and other factors that could affect Pennant's business, prospects and any forward-looking statements. These documents are available on our website at www.pennantgroup.com. This information is provided as of today's date only, and except as required by federal securities law, Pennant does not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changing circumstances or for any other reason after the date of this presentation.

We supplement our GAAP reporting with supplemental non-GAAP financial measures. These include performance measures (EBITDA, Adjusted EBITDA, and Segment Adjusted EBITDA), non-GAAP net income and a valuation measure (Adjusted EBITDAR). We believe these non-GAAP financial measures reflect an additional way of looking at aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. They should not be relied upon to the exclusion of GAAP financial measures. A more ample discussion of these non-GAAP financial measures is available in our Form 10-K, which was filed with the SEC, and a reconciliation to GAAP is included as an appendix to this presentation.

During this presentation we may reference operations in any or all of our home health, hospice or senior living independent operating subsidiaries. Each such business is operated as a separate, wholly-owned independent operating subsidiary that has its own management, employees and assets. References in the presentation to the consolidated "Company" and "its" assets and activities, as well as the use of the terms "we," "us," "our," and similar verbiage are not meant to imply that The Pennant Group, Inc. has direct operating assets, employees or revenue, or that any of the operations or the Service Center or the captive insurance subsidiary are operated by the same entity.

Star Ratings refer to the star rating criteria established by the Centers for Medicare and Medicaid Services ("CMS").

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The Pennant Group Overview

Pennant Group at a Glance



Highly Diversified by Payor, Service and Geography

Presence across **14⁽¹⁾** States with **65⁽¹⁾** Home Health and Hospice Agencies and **53⁽¹⁾** Senior Living Operations;
Revenue Generated from Multiple Sources



Clinical Excellence Driven by Quality Care and Outcomes

Average Star Rating Across All Pennant Agencies of **4.0 vs. Industry Average of 3.5⁽²⁾**



Strong Track Record of Growth

2011 - 2019 Revenue CAGR of **~35%** Driven by Solid Organic Growth and Disciplined
Acquisition Strategy



Growing End Markets with Significant White Space

Approximately **20%** of Home Health, Hospice and Senior Living Operations
Owned by Large Operators – Significant Consolidation Opportunity



Proven Leadership Team

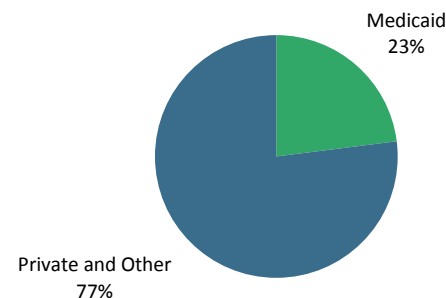
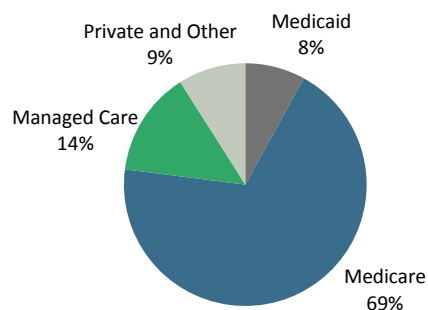
Management Team Comprised of Ensign Leaders with **~60** Years of Cumulative Experience at Ensign and the
Industry that Drove Home Health, Hospice and Senior Living Expansion

Diversified Business and Payor Mix with Robust Operating Track Record

Home Health and Hospice (61% of 2019 Revenue)

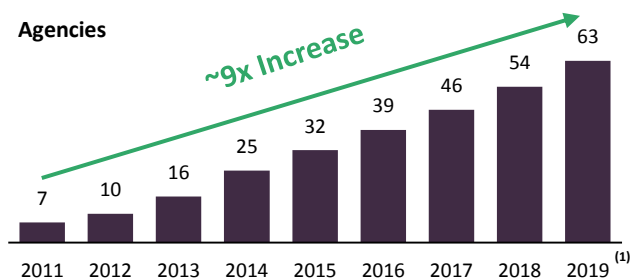
Senior Living (39% of 2019 Revenue)

Payor Mix ⁽¹⁾

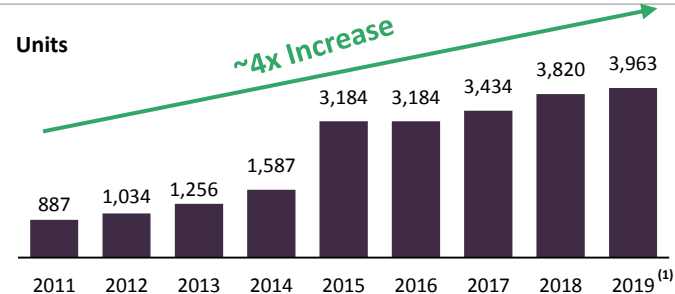


Units / Agencies

Agencies



Units



Operating Metrics ⁽²⁾

- Total home health admissions: 22,637
- Home Health average Medicare revenue per completed 60-day episode : \$3,018
- Total hospice admissions: 6,196
- Hospice average daily census: 1,680
- Hospice Medicare revenue per day: \$164

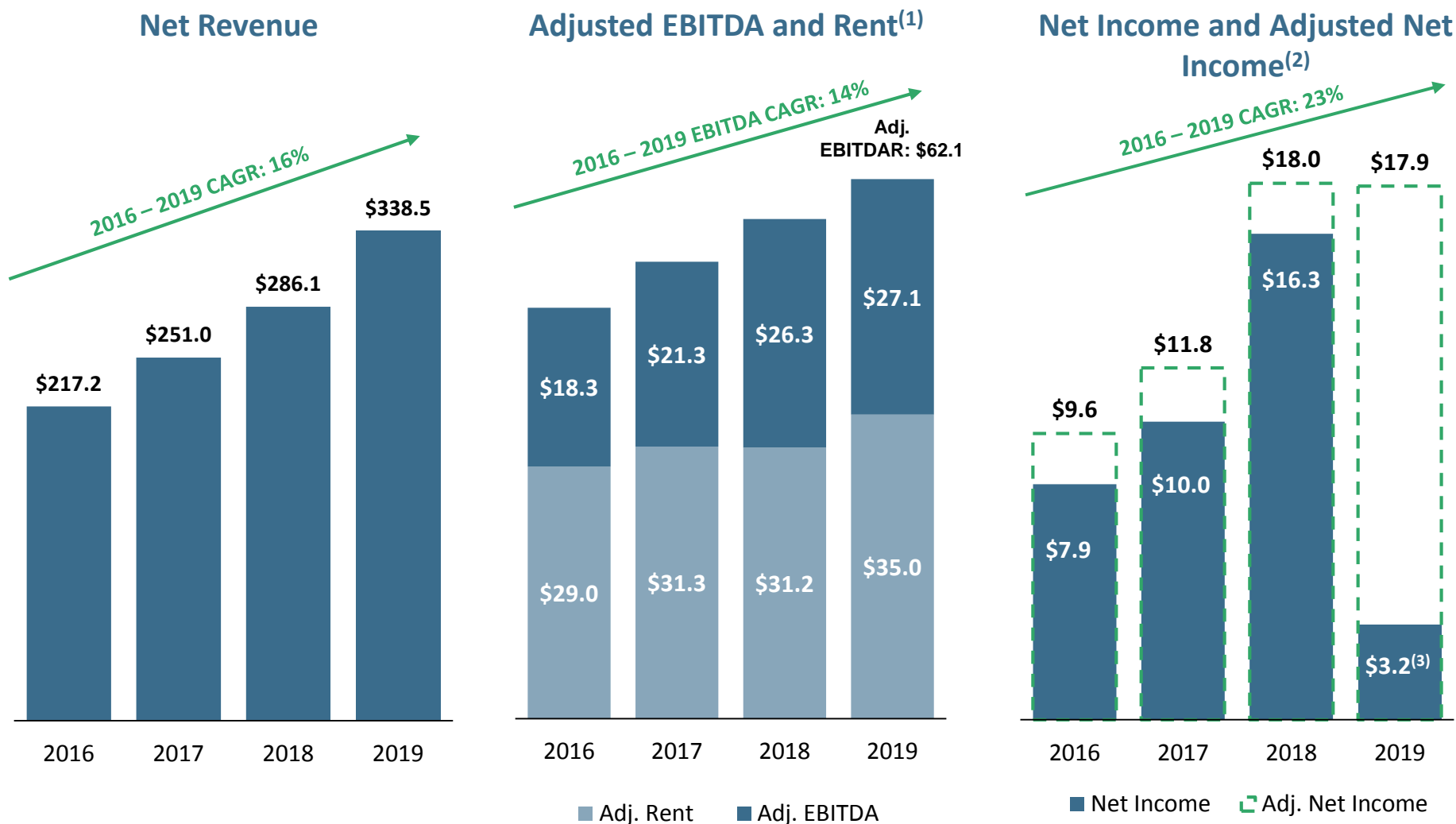
- Unit Occupancy: 80.2%
- Average monthly revenue per occupied unit: \$3,120

53 Senior Living Communities

65 Home Health, Hospice and Home Care Agencies

Track Record of Strong Financial Growth

History of Strong Financial Performance and Growth



Note: Dollars in millions.

(1) Rent is adjusted for the rent related to rent at start-up and closed operations added back to Adj. EBITDA

(2) See Appendix for a reconciliation of GAAP to non-GAAP financial measures.

(3) Net income for 2019 includes Spin-off related transaction costs of \$13.2 million. See Appendix for additional non-GAAP adjustments.



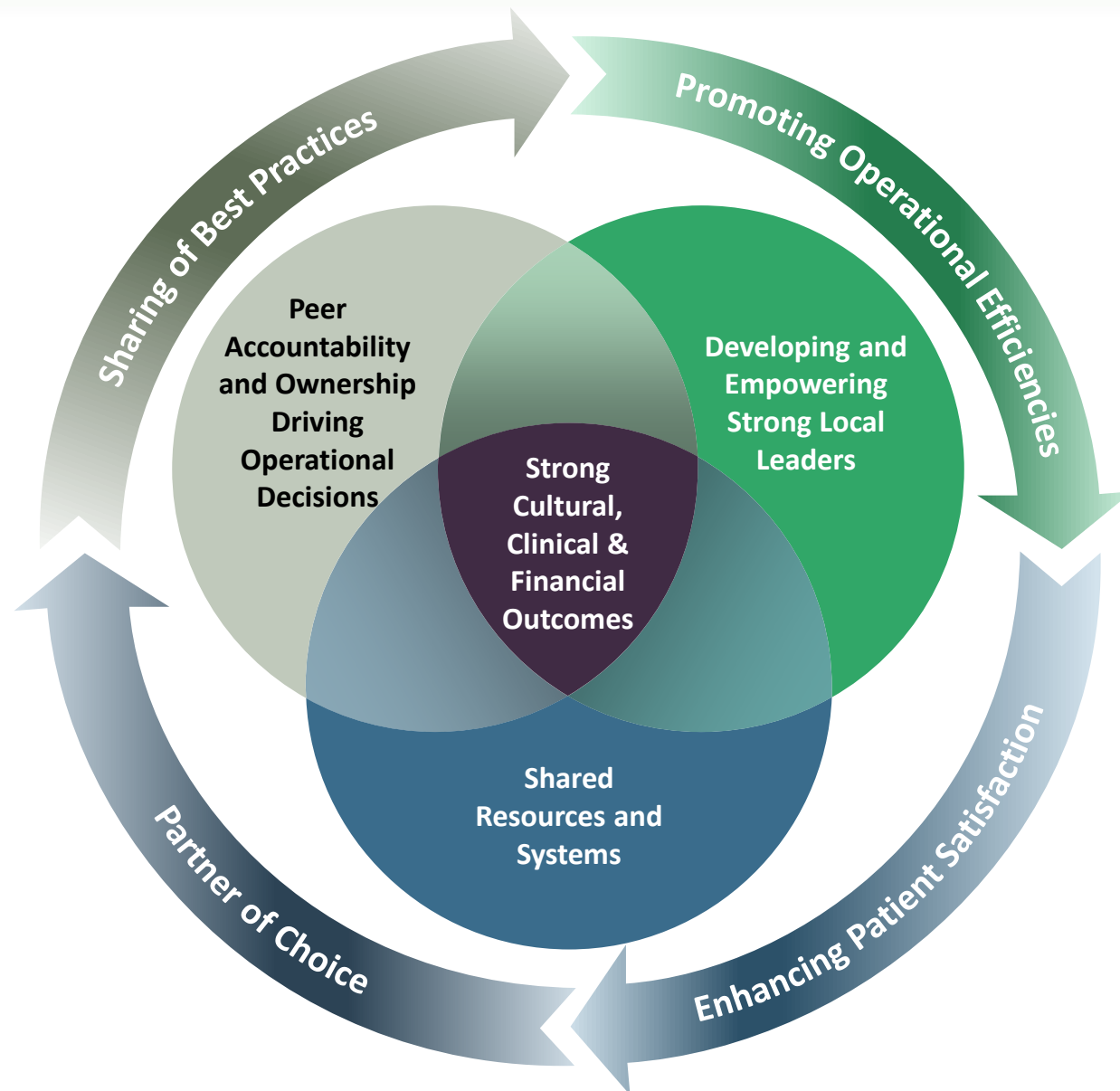
Investment Highlights

Investment Highlights





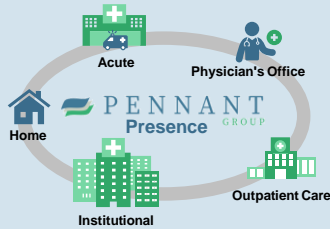


- 1 Superior Performance Delivered Through Our Innovative Operating Model**
- 2 Partner of Choice Driven By Empowered Local Leaders and Strong Clinical Outcomes**
- 3 Poised to Successfully Navigate Industry and Regulatory Dynamics**
- 4 Well Positioned to Grow Through Our Disciplined Acquisition Strategy**
- 5 Proven Financial Performance with a Focus on Maintaining a Strong Balance Sheet**
- 6 Experienced Management Team Comprised of Healthcare Industry Experts**

1 Our Innovative Operating Model...



1 ...Helps Us Achieve Superior Care Delivery...

Local	 <ul style="list-style-type: none"> • Healthcare happens locally • Optimal clinical outcomes driven by strong community relationships
Innovative Operating Model	 <ul style="list-style-type: none"> • Innovative operating model places clinical decision making and program development in the hands of our local clinical leaders • Clinical and operational leaders empowered to create and enhance clinical care to produce high quality outcomes
Tailored Services	 <ul style="list-style-type: none"> • Right care, right place, right time • Ability to adapt to changing needs of patients, partners and community
Strong Community Relationships	 <ul style="list-style-type: none"> • Community relationships based on communication, transparency and trust • Strong referral network • EPCC and other local relationships drive care collaboration and effective transitions between care settings
Driving Superior Care Delivery	 <ul style="list-style-type: none"> • Driving optimal outcomes by helping patients navigate through the care continuum based on their needs • Care continuum strengthened by additional ventures and partnerships such as palliative care, personal care services and mobile physician services

1 ...While Driving Shared Responsibility for Financial Outcomes

Pennant's Cost Management Philosophy



Patient-Centered Approach to Care

- Clinical decisions based on individual patient needs
- Thoughtful cost containment at population level



Accountability Through Shared P&L Responsibility

- Robust data tools to allow local leaders to pinpoint areas for financial improvement
- Transparency combined with shared responsibility and incentives creates alignment of interests

Operating Efficiencies

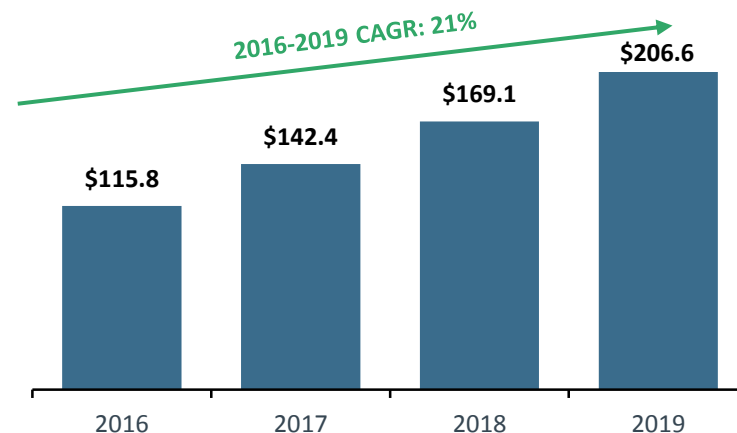
- Strong technology infrastructure across home health, hospice and senior living
- Early adopter of Homecare Homebase EMR
- Staffing efficiencies through sharing of resources across functional areas
- Transformational integration of new acquisitions to shared systems and platforms



Focus on Non-Clinical Operating Costs

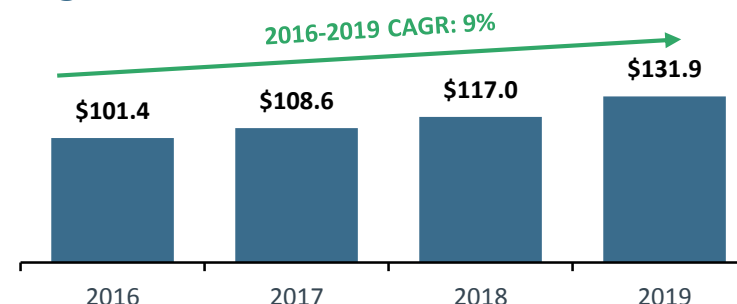
- Benchmarking of labor, DME, food supply and pharmacy costs on a per patient per day level

Home Health & Hospice Revenue



Adj. EBITDAR ⁽¹⁾	\$16.5	\$21.0	\$26.4	\$33.4
Rent ⁽³⁾	1.5	1.8	2.2	3.0
Adj. EBITDA ⁽²⁾	15.0	19.2	24.2	30.4

Senior Living Revenue



Adj. EBITDAR ⁽¹⁾	\$41.3	\$44.2	\$47.2	\$47.3
Rent ⁽³⁾	27.4	29.3	28.9	32.0
Adj. EBITDA ⁽²⁾	13.9	14.9	18.3	15.3

Note: Dollars in millions.

(1) Segment Adjusted EBITDAR from Operations is the GAAP segment measure of profit and loss.

(2) See Appendix for a reconciliation of GAAP to non-GAAP financial measures.

(3) Rent is adjusted for the rent related to rent at start-up and closed operations added back to Adj. EBITDA.

2 We Become the Partner of Choice in Our Communities

Strong Clinical Outcomes, Driven by Our Local Leaders, Uniquely Position Us to Be the Partner of Choice in Our Communities

Local Leadership



Leaders empowered to make key operational decisions at the local level on a real-time basis



Leaders supported by cutting-edge systems and innovative Service Center

Superior Clinical Outcomes



Focus on achieving high quality outcomes in lower cost settings



Tangible and measurable clinical results supported by local leadership and data-driven analytical approach



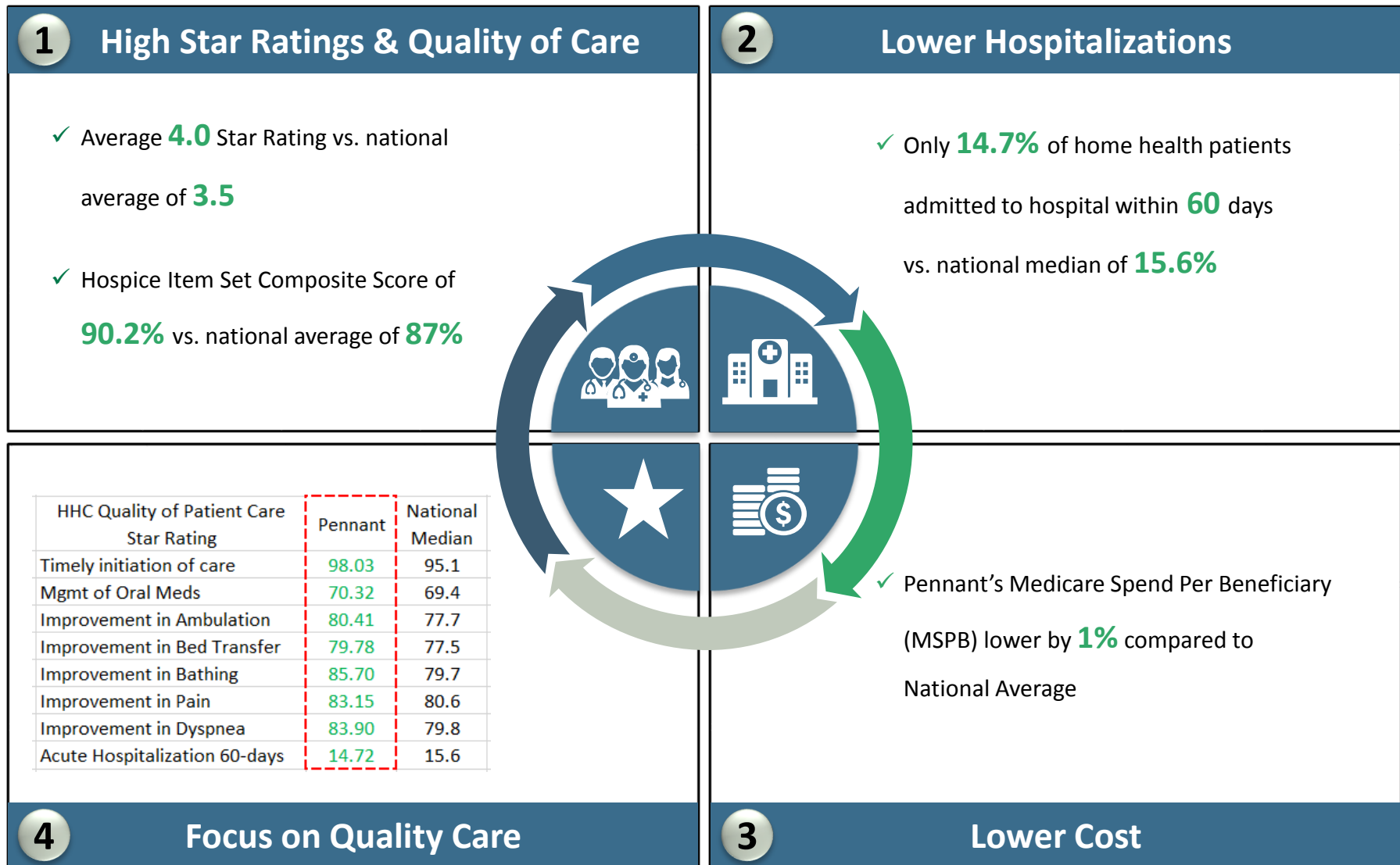
Local leadership incentives aligned with clinical and financial performance

Partner of Choice



Local market operation of choice with strong payor, provider and employee relationships in the communities we serve

2 Demonstrated Clinical Outperformance



2 Local Market Operator of Choice

Pennant Has Strong Local Presence

- Relationship with local providers matters to patients
- Access to full continuum of care close to home helps patients migrate through care settings as their needs change

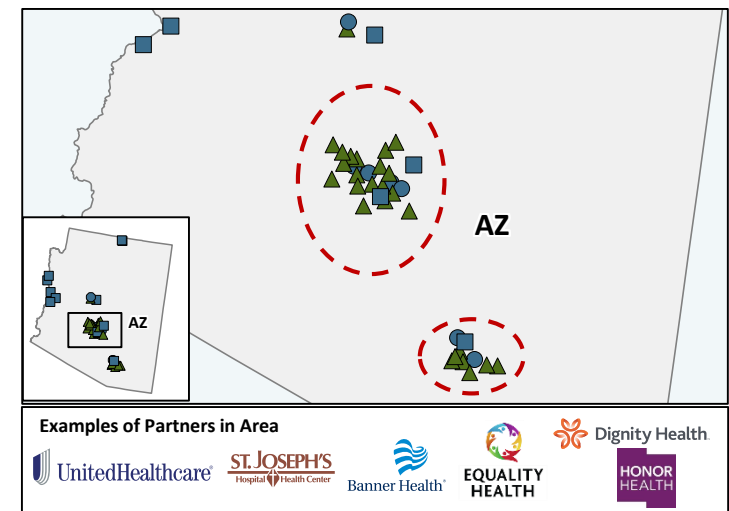
Pennant Has A Unique Care Delivery Approach

- Strong relationship in local markets with payors, hospitals and physician groups
- Communication, transparent data-sharing and responsiveness create breadth and depth of clinical collaboration across the care continuum

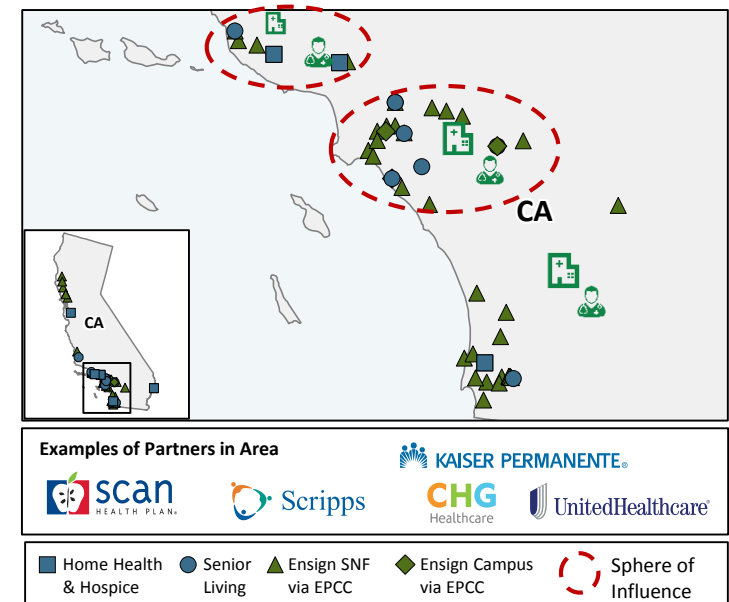
Making Pennant A Provider of Choice

- Providing superior care with improved quality and better outcomes while driving down costs
- Driving dialogue around embracing value-based care by leading by example
- Continued growth potential in local markets through partnerships expansion
- Sustained volume growth and financial outcomes

Phoenix Area

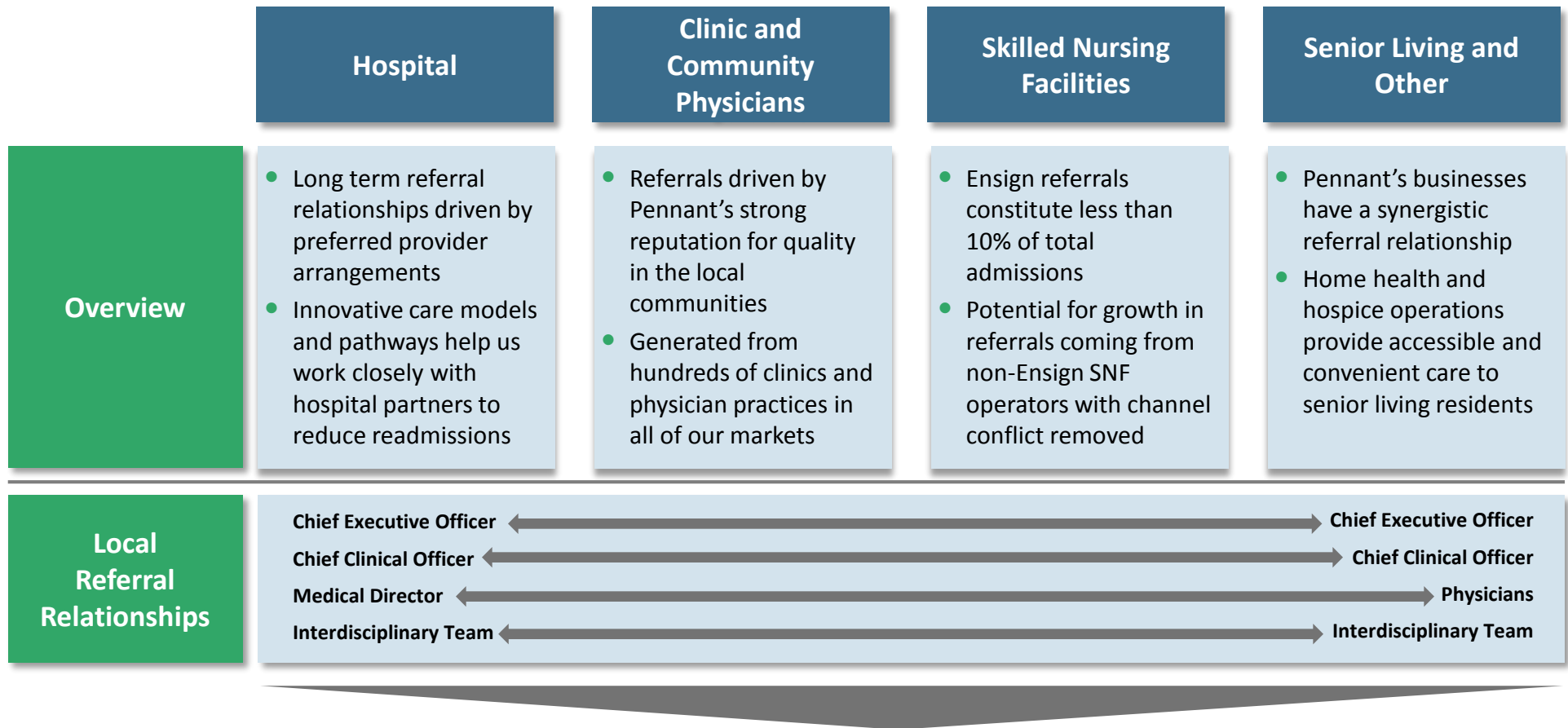


Southern California Area



2 Broad and Diversified Referral Sources

Overall, referrals generated from hundreds of sources across various local markets; no source accounts for over 10%

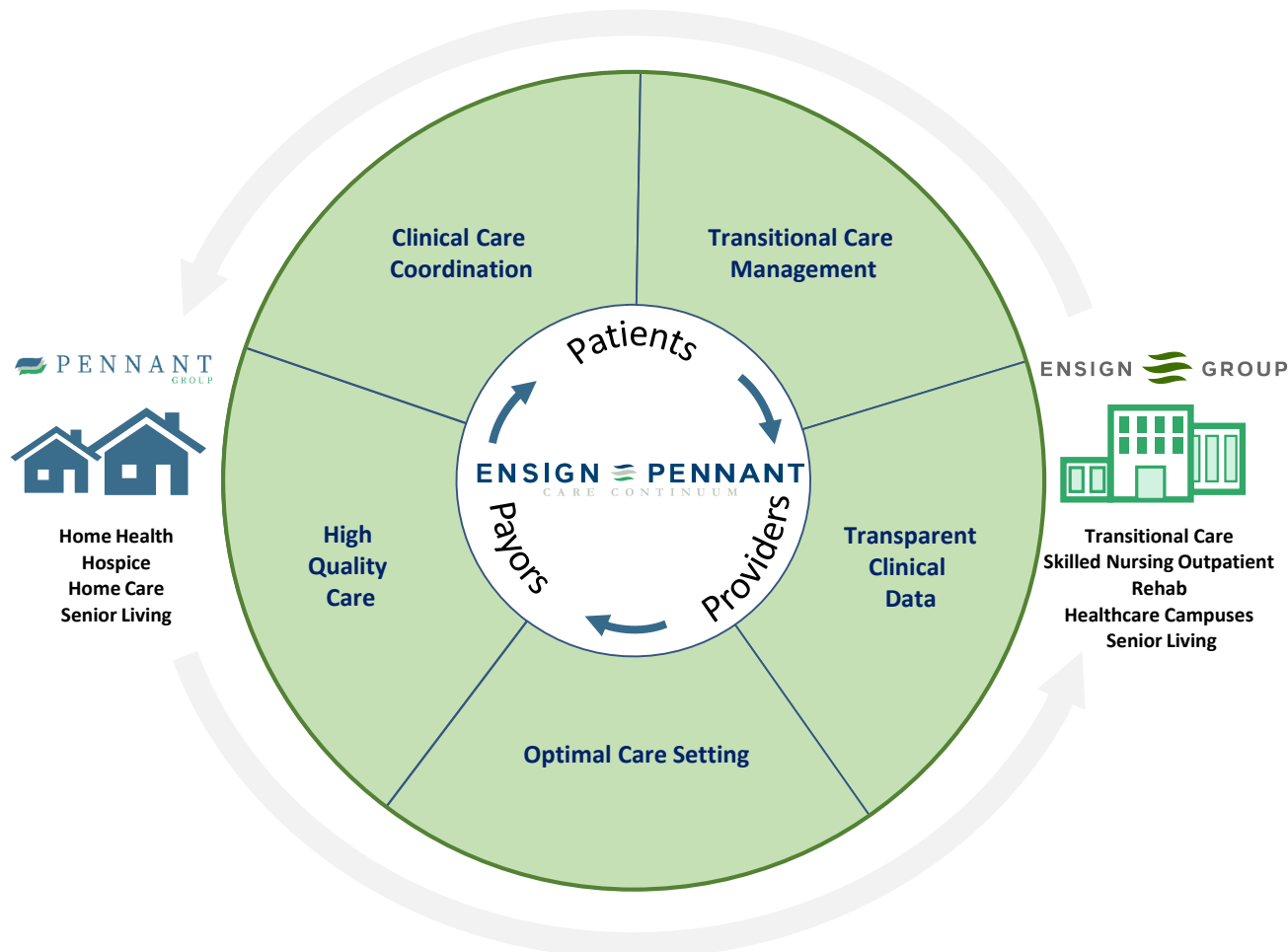


2 EPCC Will Continue to Drive Additional Value-Proposition with Our Partners

ENSIGN CARE CONTINUUM PENNANT

What is it?

- ✓ Preferred provider network between Ensign and Pennant
- ✓ Empowers local clinical leaders to opt-in resulting in smart and effective solutions for patients



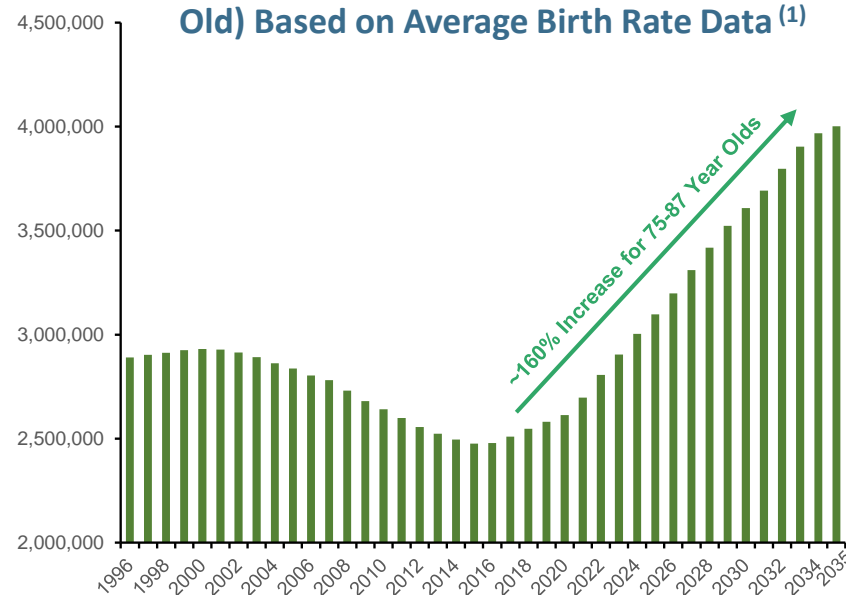
By promoting clinical collaboration, driving best quality care and outcomes, EPCC well positions us to benefit from the shift toward value-based reimbursement

3 Favorable Market Drivers Fuel Long-term Sustainable Growth Potential

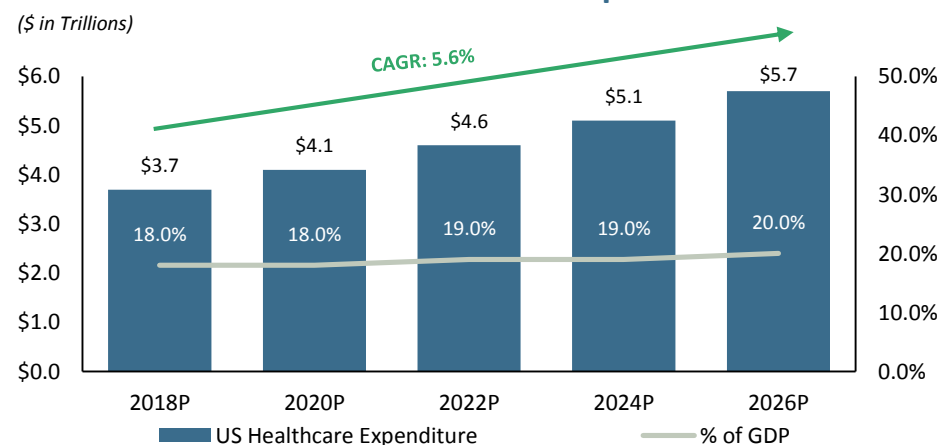
U.S. Healthcare Spending is Growing with a Key Driver Being the Aging Population

- Population above 65 projected to nearly double by 2050
- ~70% of Americans who reach age 65 require some form of long-term care for an average of 3 years
 - >70% of home health patients are seniors
 - >83% of hospice patients are over 65 years old
 - Anticipated need for 2 million additional senior housing units by 2040
- Healthcare spending currently represents 18% of U.S. GDP
- Increased CMS focus on reducing costs

Estimated Annual Increase in Population (75-87 Years Old) Based on Average Birth Rate Data ⁽¹⁾



US National Healthcare Expenditure



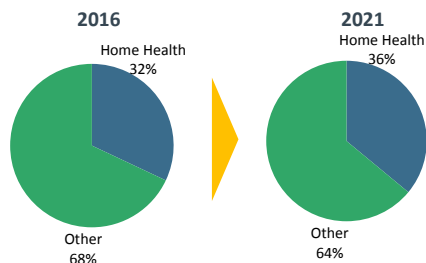
3 Operating in Growing Industries With Attractive Fundamentals



Home Health

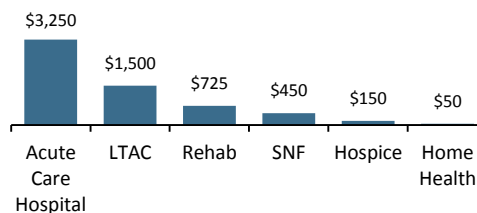
Home Health Services % Share of Post-Acute Spending Expected to Increase

% Share of Post-Acute Care Spending



Home Health saves 65x compared to Acute Care Hospitals

Average Medicare Cost / Day



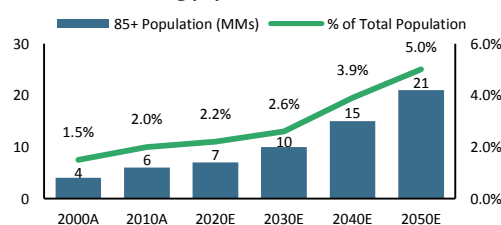
- With its focus on clinical outcomes, Pennant is well-positioned to benefit from value-based reimbursement trends in the home health sector such as PDGM



Hospice

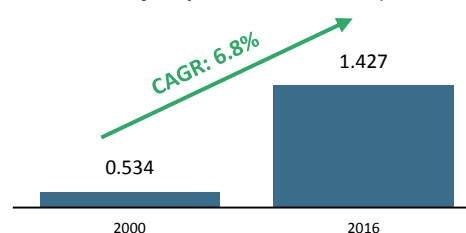
>40% of Hospice Care is Used by Population >85 Years of Age Which is Expected to Triple by 2050

Growing population 85 and Over



Use of Hospice by Medicare Patients Continues to Increase

Number of Hospice Users in Millions (Medicare)



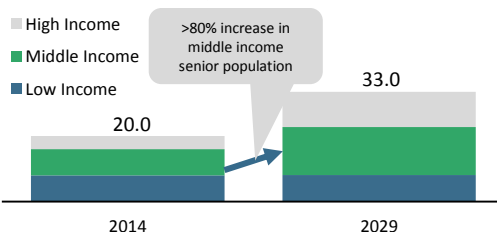
- Pennant's high touch and community-oriented approach to hospice care positions it to be the provider of choice in a fast-growing hospice market



Senior Living

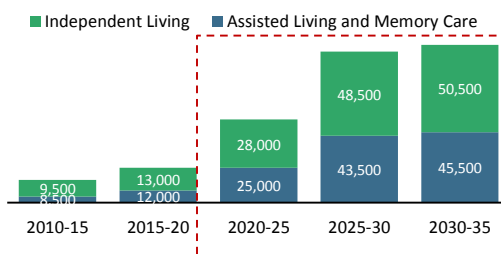
Growing Demand for Senior Living

Millions of Seniors (Age 75+)



Strong Demand Estimated in the Next Decade

Annual Estimated Demand for New Units



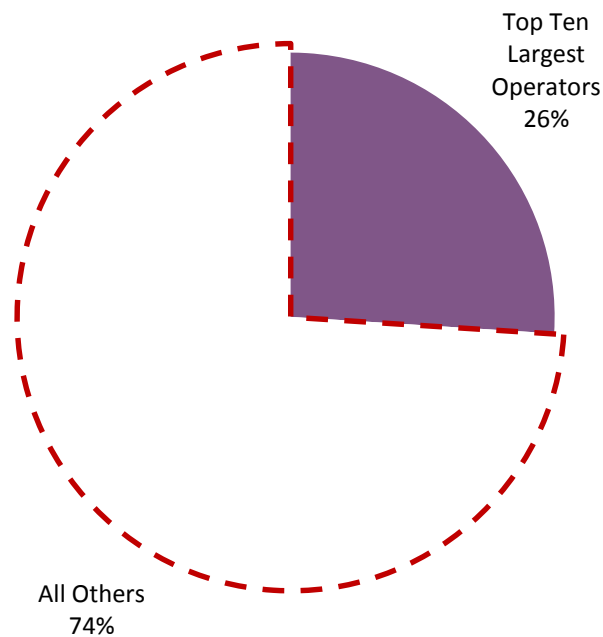
- Pennant's opportunistic acquisition approach and disciplined operating strategy position us well to take advantage of the evolving demand and supply imbalance in the senior living markets we operate in

4 Highly Fragmented Market with Significant Consolidation Opportunity

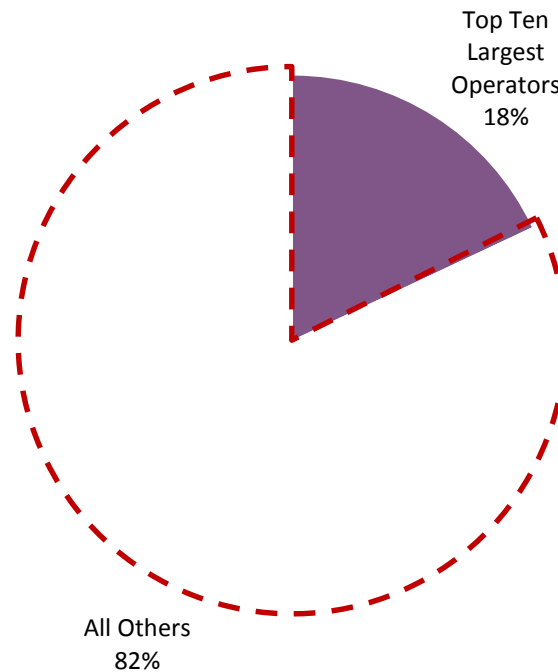
Significant Consolidation Opportunity Remains in Each of Our Target Markets

Market Share

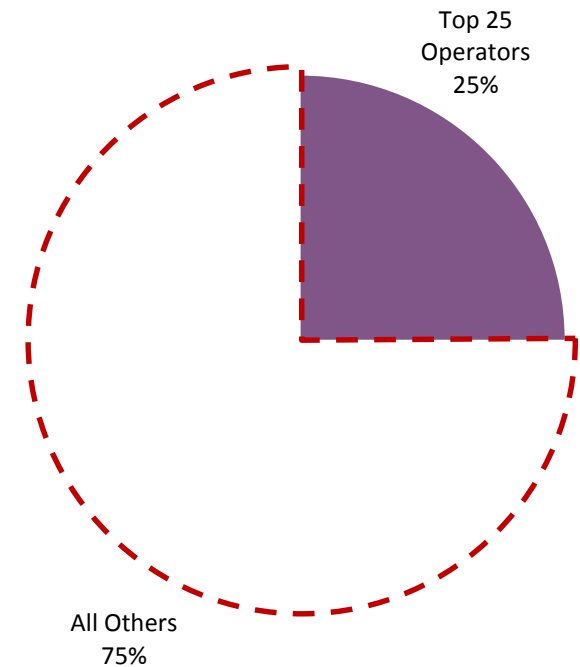
Home Health



Hospice



Senior Living

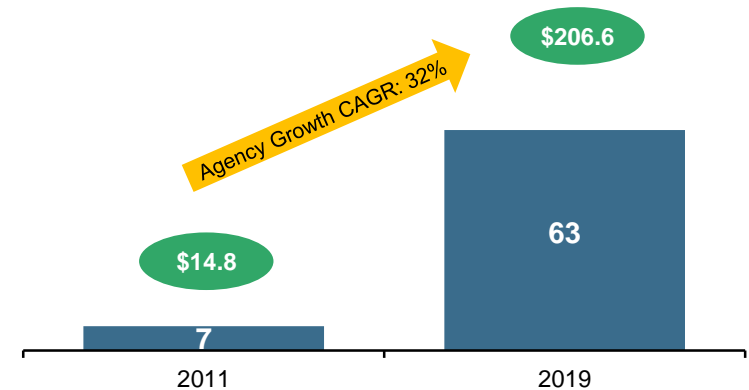


4 Disciplined Acquisition and Organic Growth Strategy

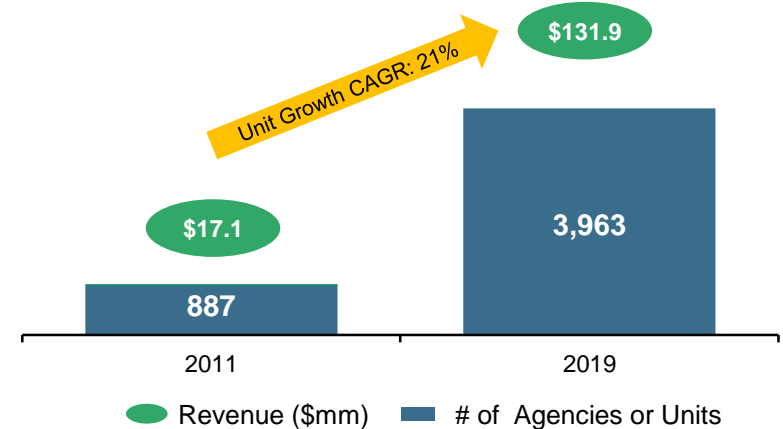
Proven Ability to Execute Acquisitions in Key Markets, Integrate into our Existing Markets and Improve Operations

- ✓ Focused on selectively acquiring strategic and underperforming operations within our target markets
- ✓ Local leaders empowered to identify and pursue acquisition opportunities
- ✓ Expertise in transitioning newly-acquired operations to our innovative operating model and culture
- ✓ From 2011 to 2018, we increased our number of home health / hospice and senior living operations by >300%
- ✓ Transformational integration of new acquisitions to shared systems and platforms

Growth in Revenue and # of Home Health & Hospice Agencies



Growth in Revenue and # of Senior Living Units



4 Proven Acquisition Playbook

Factors Considered When Evaluating Acquisition Targets

Small Yet Well Established Businesses in Local Markets

- “Mom & Pop” business profile – typically low-single to mid-teens revenue (\$mm)
- Strong reputation in local markets (no change in name post-acquisition)
- Business getting hard to manage for owners due to changing regulatory requirements

Constrained by Balance Sheet

- Limited financial resources to grow business despite aspirations of growth

Clinical Product With Potential to Improve

- Culture of “patient-first”
- Reputation of delivering patient-centered care
- Well-regarded within referral sources – physicians, hospitals, health institutions, community

Strategic Fit

- Assets offer unique access to Pennant from a geography or market standpoint
- Asset fits Pennant’s offerings in its markets or fills a gap

Selected Examples

RESOLUTIONS HOSPICE

- **Location:** Austin, TX and Houston, TX areas
- Strategic location to serve EPCC affiliates
- Legacy of providing excellent hospice care
- Strong interdisciplinary team



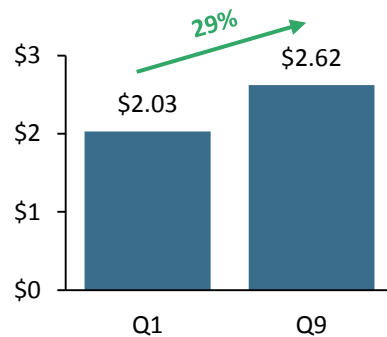
- **Location:** Milwaukee, Wisconsin area
- Expands WI continuum of care
- Strong home health, hospice and therapy services provider
- Robust clinical team

Transformational Integration of New Operations to Shared Systems and Platforms

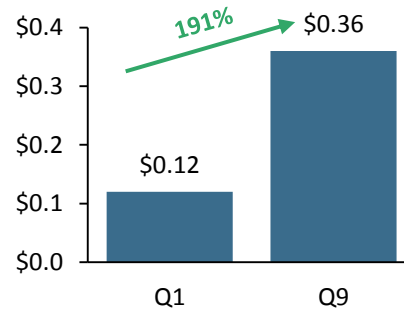
Examples of Improvements in Acquired Home Health and Hospice Agencies Performance



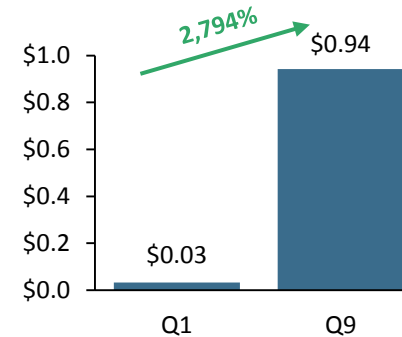
Revenue Growth



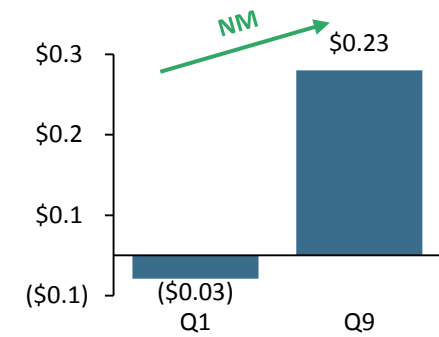
EBITDA Growth



Revenue Growth



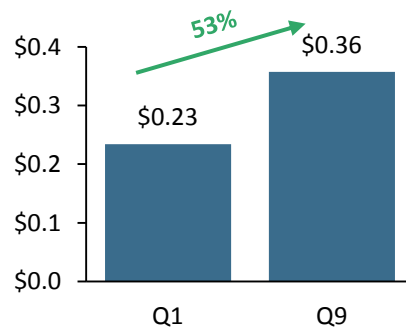
EBITDA Growth



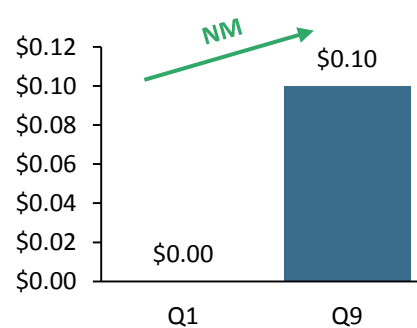
Examples of Improvement in Acquired Senior Living Operations Performance



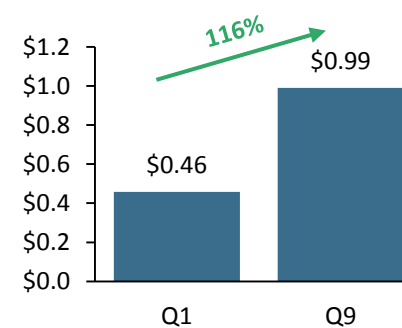
Revenue Growth



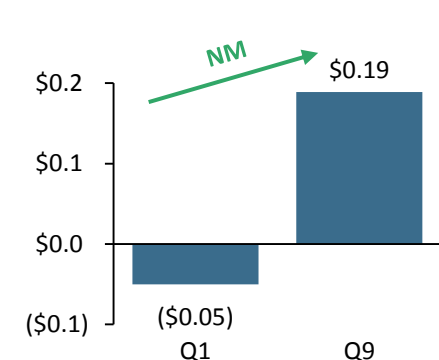
EBITDA Growth



Revenue Growth



EBITDA Growth



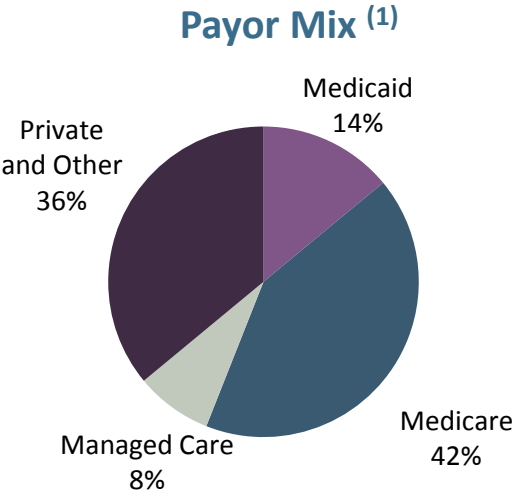
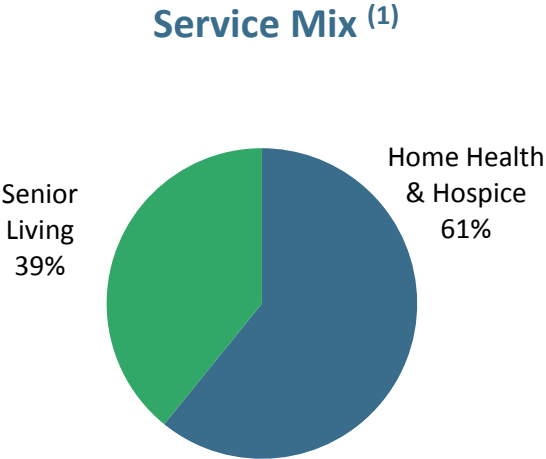
Note: Dollars in millions.

Note: Q1 refers to first completed quarter after acquisition.

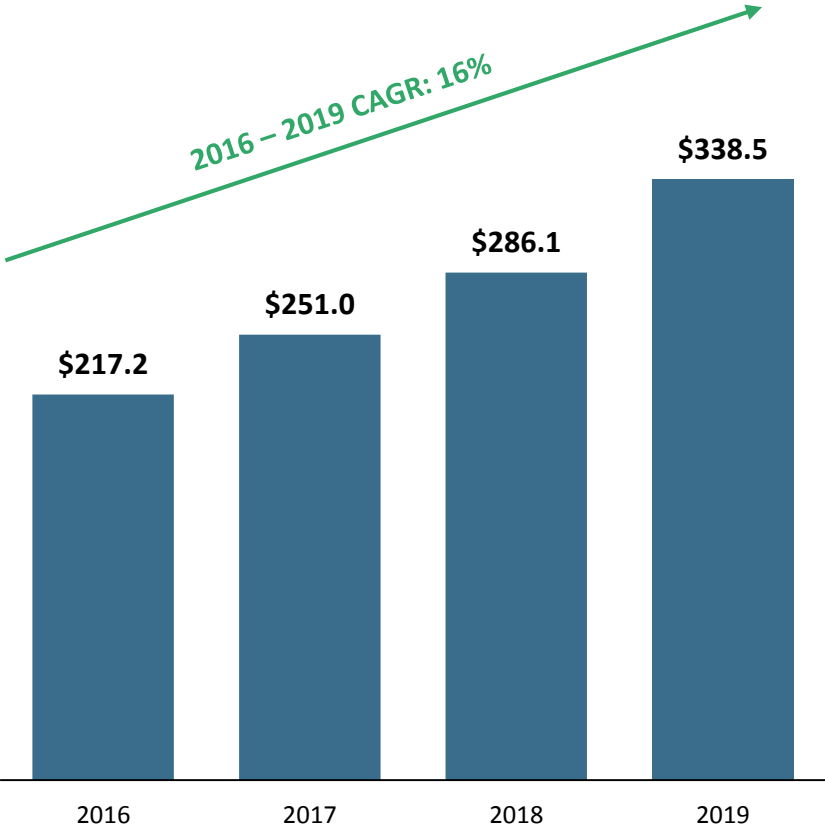
Note: Growth %'s are calculated in whole dollars and may not recalculate using the rounded values shown.

Strong Financial Results Underlined by Diversified Service and Payor Mix

Diversified Portfolio Provides Greater Stability and Insulation from Industry or Macro Economic Cycles



Net Revenue (\$ in millions)

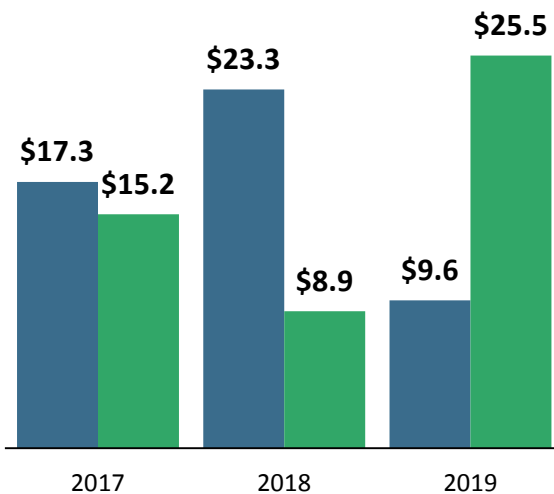


(1) Based on revenue of \$338.5mm for the year ended December 31, 2019.

5 Focus on Maintaining a Strong Balance Sheet

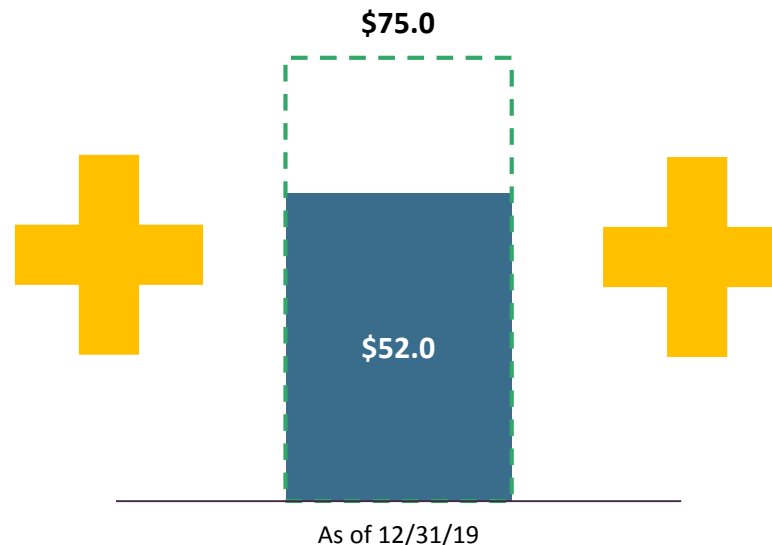
History of Internally-Financed Transactions

- Operating Cash Flow
- Capex + Acquisitions



Acquisition Firepower

- Available Borrowing Capacity
- Drawn Revolver



Strong Real Estate Partners

Strong, long-standing real estate partnerships allow Pennant to opportunistically pursue larger, asset-heavy senior housing portfolios

Continued Execution in 2019 – Completed Acquisitions in 2019



6 Experienced Management Team Comprised of Healthcare Industry Veterans

Best-in-Class Management Team with ~60 Years of Combined Experience at Ensign and the Industry



Daniel Walker
*Chief
Executive Officer*

- Years at Ensign / Pennant: 12
- Served as CEO & President of Cornerstone Healthcare, Ensign's home health subsidiary since 2010
- Played key leadership roles at Ensign, including as the leader of its new business ventures group since 2013
- At Ensign, closed more than 100 healthcare transactions including dozens in home health and hospice space



Jennifer Freeman
*Chief
Financial Officer*

- New addition to Pennant with over 15 years of healthcare experience
- Served as CFO of Northpoint Recovery Holdings since 2017
- Prior to joining Northpoint, served as VP of Finance for MCG Health, LLC, leading their finance and contract teams
- Also served as VP of Finance for Coordinated Care Corporation, and CFO for Qualis Health and Molina Healthcare of Washington, Inc.



John Gochnour
*Chief
Operating Officer*

- Years at Ensign / Pennant: 6
- Served as Executive Vice President and General Counsel at Cornerstone since 2013
- Also led the sourcing, negotiation, and other aspects of the acquisition process of Cornerstone and Ensign's other new business ventures
- Prior to joining Cornerstone, served as an attorney at the law firm Paul Hastings LLP



Derek Bunker
*Chief
Investment Officer*

- Years at Ensign / Pennant: 4
- Currently responsible for overseeing strategic growth, investments, real estate matters, investor relations and various public company matters
- Also responsible for assisting the board in corporate governance matters in his role as corporate secretary
- Prior to joining Pennant, served as VP, Acquisitions and Business Legal Affairs of Ensign Services since 2015



Brent Guerisoli
*President, Home
Health and Hospice*

- Years at Ensign / Pennant: 7
- Served as President of 1177 Healthcare (affiliate of Cornerstone) since March 2015
- Previously CEO and executive Director of Zion's Way Home Health and Hospice (affiliate of Cornerstone) since Feb 2012
- Prior to joining Ensign, served as Chief of Staff/ business Manager IT at AT&T

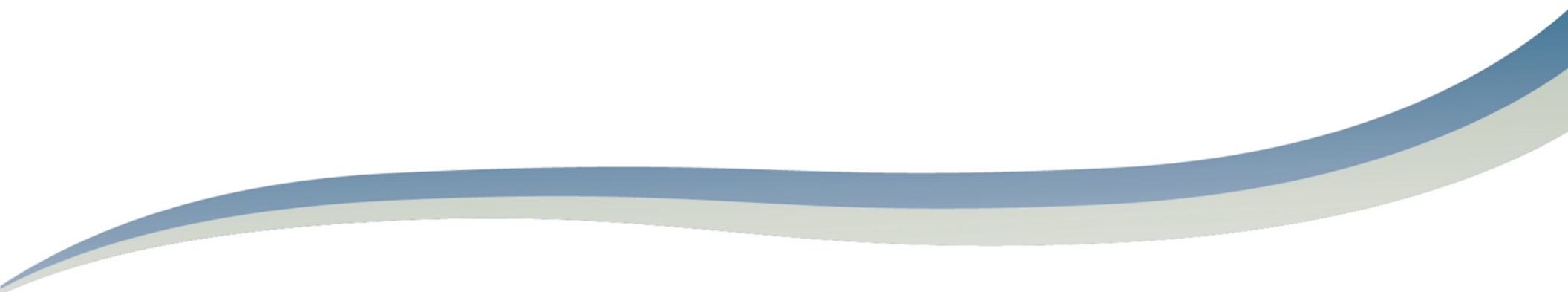


Brian Hulse
*President,
Senior Living*

- Years at Ensign / Pennant: 16
- Served as market leader of Keystone Healthcare (Ensign affiliate) since 2016
- Previously served as Chief Human Capital Office of Ensign from 2012-2016
- President of Touchstone Care (Affiliate of Ensign) from 2009-2012
- Also Executive Director and CEO of Village Care Center as well as Arroyo Nursing Center (Ensign affiliates)



Growth Strategy & Financial Overview



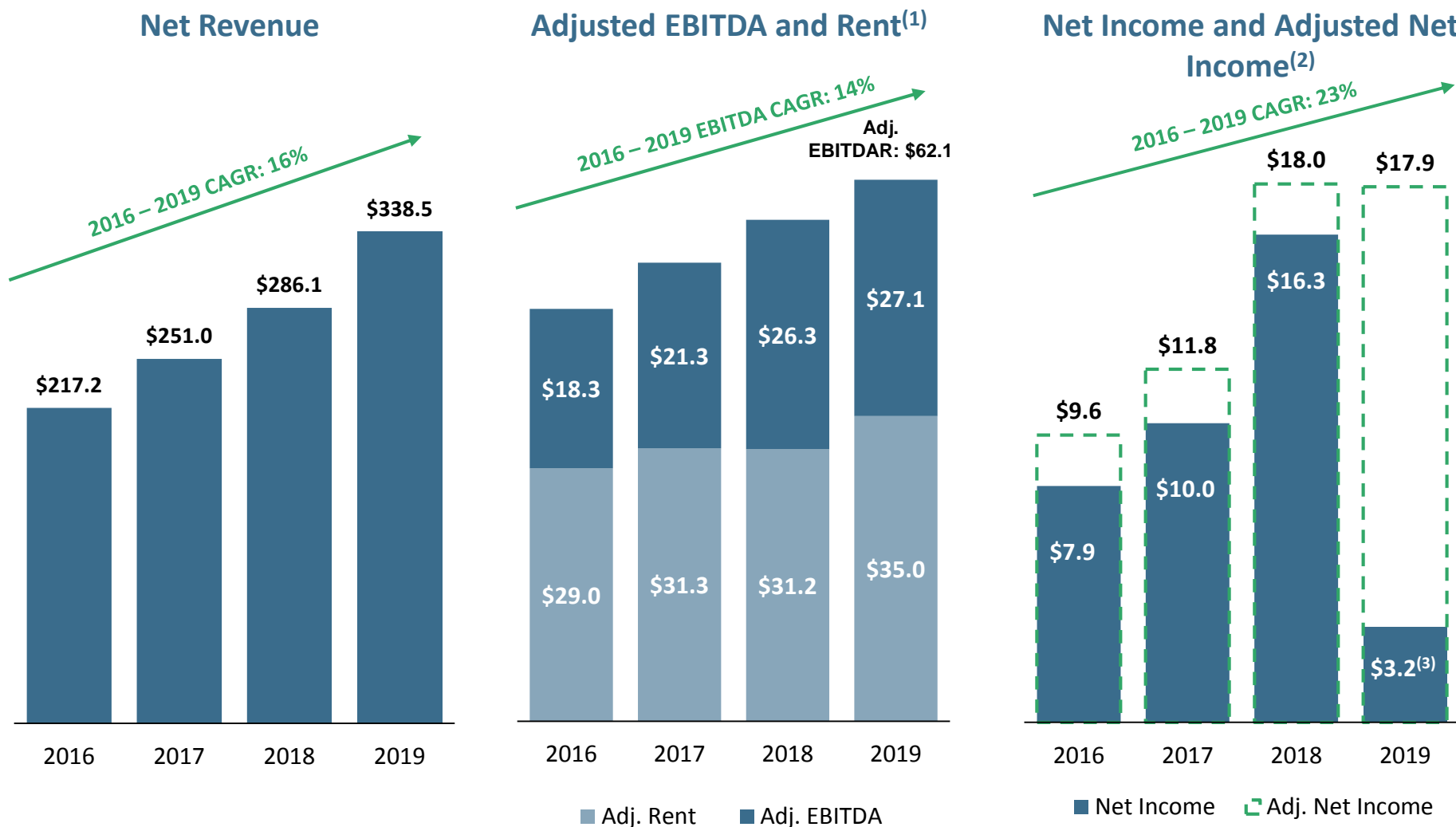
Growth Strategy



Pennant is well-positioned to perform and grow in large, fragmented markets

Track Record of Strong Financial Growth

History of Strong Financial Performance and Growth



Note: Dollars in millions.

(1) Rent is adjusted for the rent related to rent at start-up and closed operations added back to Adj. EBITDA

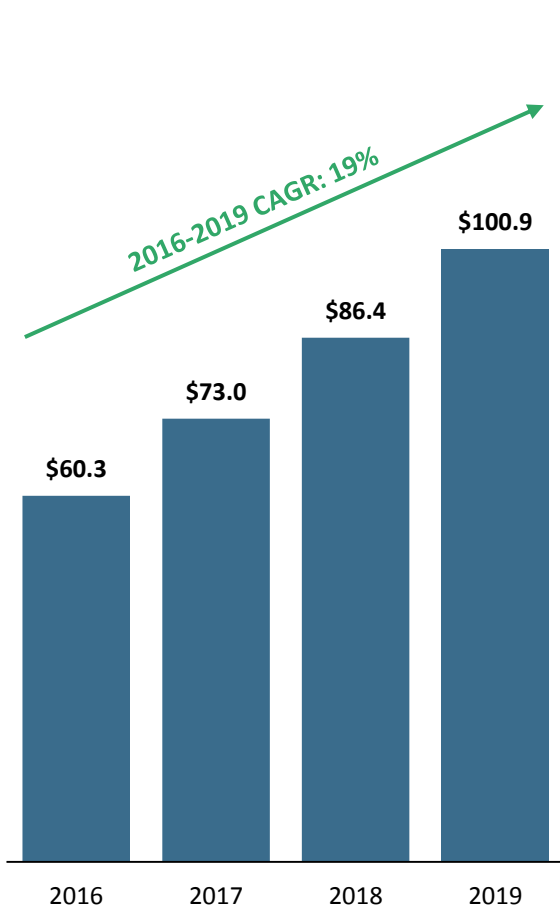
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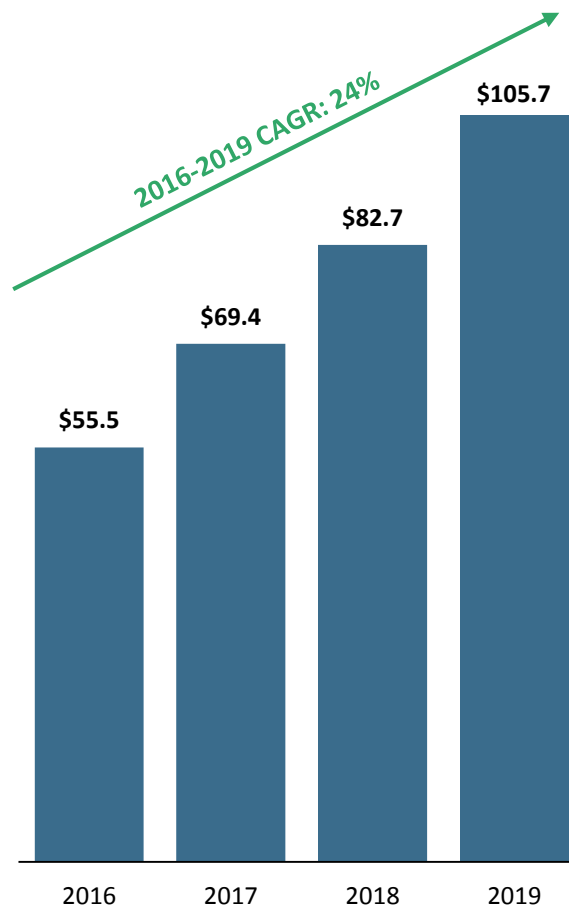
Financial Overview – Segment Growth

Segment Revenue

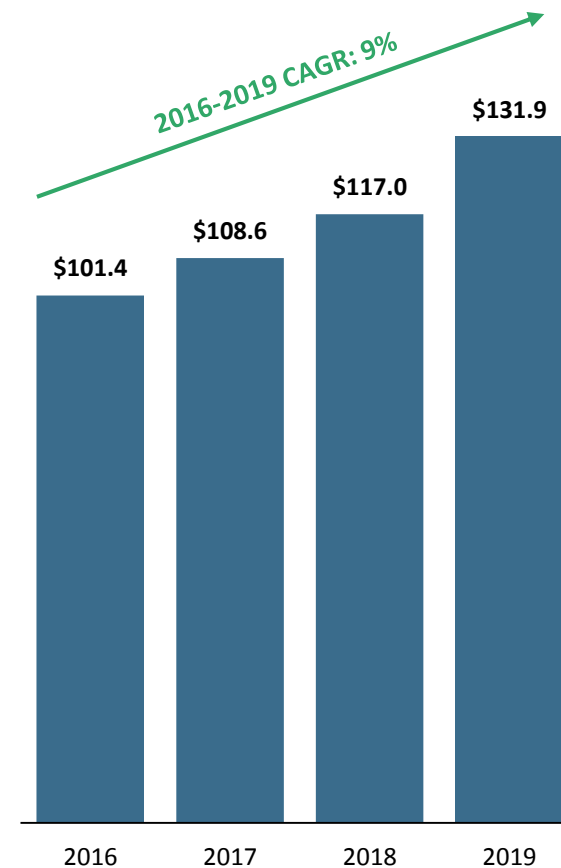
Home Health



Hospice



Senior Living

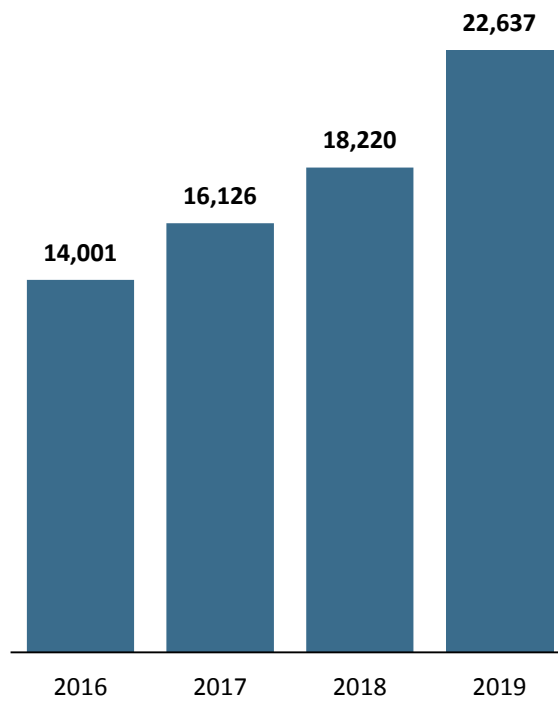


Note: Dollars in millions.

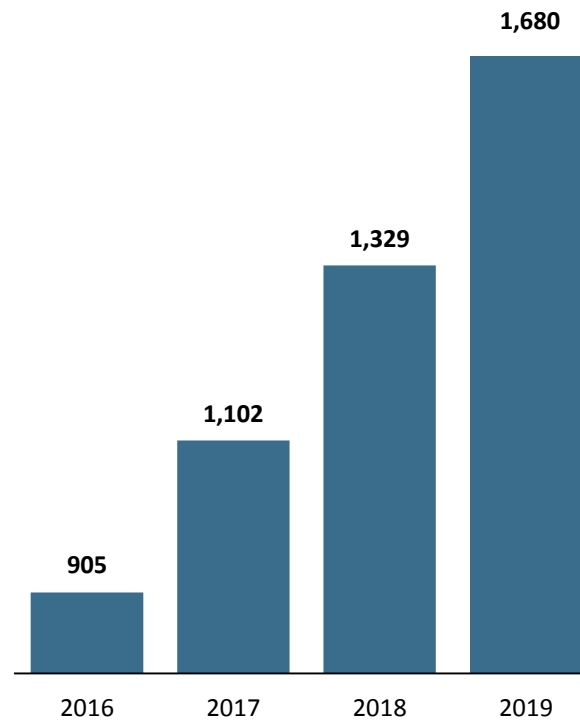
Financial Overview – Segments Metrics

Selected Operating Metrics

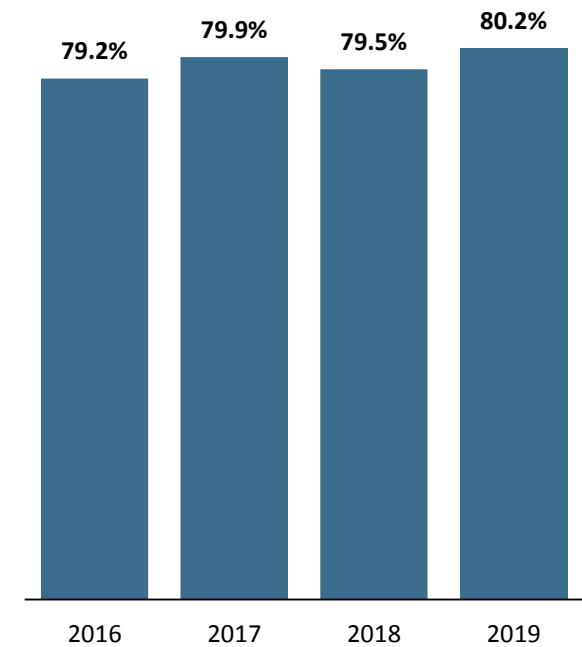
Total Home Health Admissions



Avg. Hospice Daily Census



Senior Living Occupancy



Financial Overview – Segment Profitability

Track Record of Strong Historical Performance at Both Key Business Segments

Segment	Key Financial Metrics					
Home Health & Hospice		2016	2017	2018	2019	'16-'19 CAGR
	Segment adjusted EBITDAR from Operations	\$16.5	\$21.0	\$26.4	\$33.4	26.5%
	% Margin	14.3%	14.8%	15.6%	16.2%	--
	Adjusted EBITDA	\$15.0	\$19.2	\$24.2	\$30.4	26.5%
	% Margin	13.0%	13.5%	14.3%	14.7%	--
Senior Living		2016	2017	2018	2019	'16-'19 CAGR
	Segment adjusted EBITDAR from Operations	\$41.3	\$44.2	\$47.2	\$47.3	4.6%
	% Margin	40.7%	40.7%	40.4%	35.9%	--
	Adjusted EBITDA	\$13.9	\$14.9	\$18.3	\$15.3	3.3%
	% Margin	13.7%	13.7%	15.6%	11.6%	--

Financial Overview – Expenses

Expenses as a % of Revenue

<i>(Dollars in millions)</i>	2016	2017	2018	2019	2019 Without Spin-off Transaction Costs
Revenue	\$217.2	\$251.0	\$286.1	\$338.5	\$338.5
<i>% Growth</i>	--	15.5%	14.0%	18.3%	18.3%
% Revenue					
Cost of Services	73.7%	74.6%	74.3%	76.5%	76.5%
Rent	13.3%	12.5%	10.9%	10.3%	10.3%
G&A	5.7%	5.8%	6.6%	10.4%	6.5%
D&A	1.3%	1.0%	1.0%	1.1%	1.1%
Total Expenses	94.0%	93.9%	92.8%	98.3%	94.4%

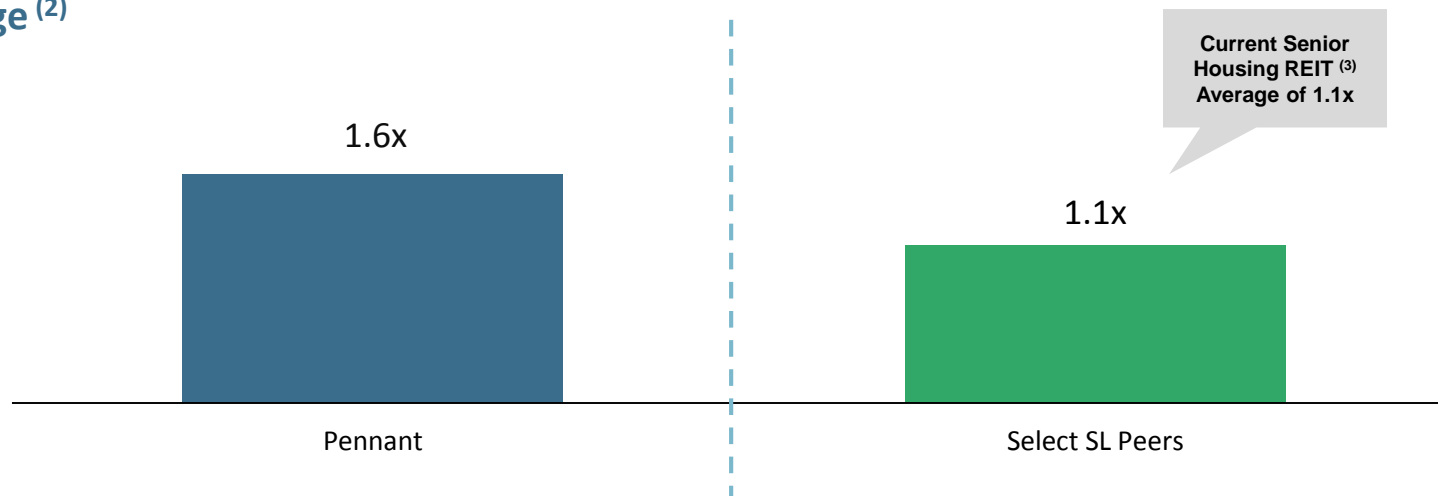
Selected Observations

- Growth reflects expanded operations of nine home health and hospice agencies and two senior living communities in 2019
- Cost of services as a percentage of revenue increased due to newly acquired senior living operations and additional field-based resources to support growth
- G&A expense rate increased in 2019 primarily due to one-time transaction related costs of 3.9% of revenue

Senior Living Lease Terms

- Currently leases 53 senior living communities from long-standing partners
 - Pennant will lease 30 of these from Ensign
- Key terms are as below:
 - Triple-net, non-cancelable operating leases
 - Lease terms generally 10-21 years ⁽¹⁾
 - CPI-based annual escalation with caps
 - Starting coverages are above market

Rent Coverage ⁽²⁾



(1) Represents lease terms for senior living facilities only.

(2) Rent Coverage calculated as Adjusted EBITDAR / Rent. Pennant rent coverage is as of 12/31/2019, using YE 2019 Adjusted EBITDAR and annualized Q4 rent expense.

(3) Senior housing REITs included in average: CareTrust REIT, HCP, LTC REIT, National Health Investors, Sabra Health, Ventas, and Welltower. Triple net senior housing EBITDAR coverage as of 06/30/19 except CareTrust REIT and LTC REIT, which are as of 03/31/19. National Health Investors represents EBITDARM coverage.

Financial Overview – Capex / Cash Flow Metrics

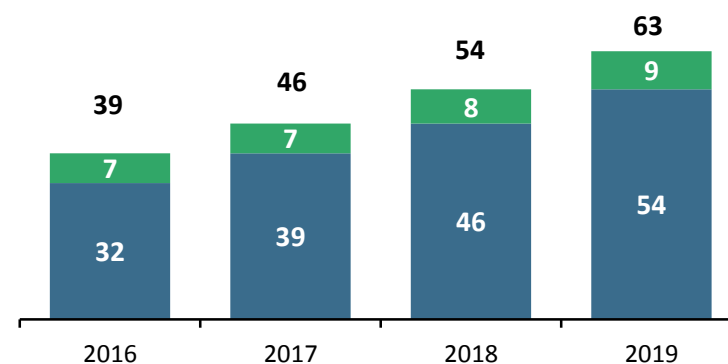


Capex and Key Cash Flow Metrics

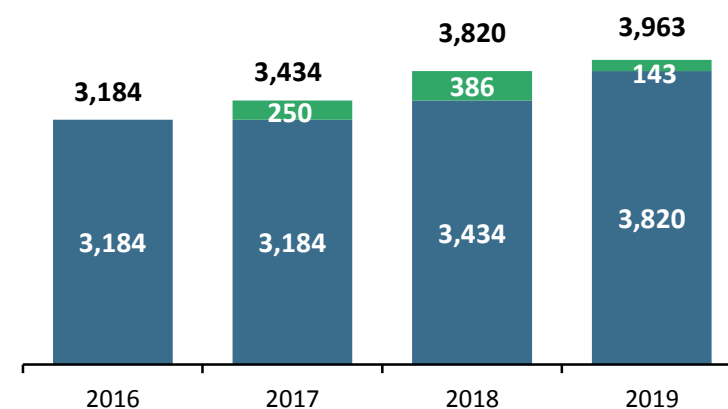
<i>(Dollars in millions)</i>	2016	2017	2018	2019
Changes in Working Capital	\$0.9	(\$1.0)	(\$0.9)	(\$12.1)
PP&E (Capex)	(3.5)	(3.1)	(3.6)	(6.7)
Asset and business acquisitions	(3.3)	(12.1)	(5.3)	(18.8)
Capex + Acquisitions	(6.8)	(15.2)	(8.9)	(25.5)
Cash Flow From Operations⁽¹⁾	\$16.4	\$17.3	\$23.3	\$9.6

- (1) Cash flow from operations is net income adjusted to reconcile net cash provided by operating activities.
 (2) Changes in Working Capital for 2019 includes the current portion of lease payments as a result of the implementation of ASC842.

Growth in # of Home Health & Hospice Agencies



Growth in # of Senior Living Units



■ New operations
 ■ Existing operations

Financial Overview – Balance Sheet

Strong Balance Sheet Positions Pennant Well to Continue Acquisition Strategy

Selected Balance Sheet Data:

	Year Ended December 31,	
	2019	2018
Cash & Cash Equivalents	\$402	\$41
Current Assets	38,683	29,123
Total Assets	\$447,750	\$98,151
Current Liabilities	\$51,192	\$29,547
Long-term Debt	18,526	--
Total Liabilities	\$376,639	\$32,863
Total Equity	\$71,111	\$65,288

Debt Terms – Revolving Credit Facility ⁽¹⁾:

Availability	▪ \$75 million
Amount Drawn ⁽²⁾	▪ \$23 million
Weighted Average Borrowing Rate	▪ 4.7%
Maturity Date	▪ 2024
Leverage	▪ ~0.72x net debt / 2019 adjusted EBITDA
Lease-Adjusted Leverage	▪ ~4.82x lease-adjusted net debt / 2019 adjusted EBITDAR

Note: Dollars in thousands.

(1) As of 12/31/19

(2) Amount drawn includes \$3 million of issued letters of credit

2019 Results and 2020 Annual Guidance ⁽¹⁾



Full Year 2019 Results

	Full Year 2019 ⁽²⁾	Full Year 2019 Spin-off Adjusted ⁽³⁾
Adj. Revenue	\$ 337.7 million	\$337.7 million
Adj. EPS	\$ 0.61	\$ 0.45

Full Year 2020 Guidance

Annual Revenue	\$ 376 million	to	\$ 386 million	Midpoint represents a 12.5% increase over the midpoint of the Full Year 2019 Spin-off Adjusted Guidance
Adj. EPS	\$0.53	to	\$0.58	Midpoint represents a 15.6% increase over the midpoint of the Full Year 2019 Spin-off Adjusted Guidance

(1) Please refer to the detailed statement on guidance in our Q4 2019 earnings press release.

(2) Does not annualize estimated Q4 interest and rent expense

(3) Annualizes Q4 interest, rent expense, and fully-loaded general and administrative expenses



Appendix

Non-GAAP Metrics

We supplement our GAAP reporting with supplemental non-GAAP financial measures. These include performance measures (EBITDA, Adjusted EBITDA, and Segment Adjusted EBITDA), non-GAAP net income and a valuation measure (Adjusted EBITDAR). We believe these non-GAAP financial measures reflect an additional way of looking at aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. They should not be relied upon to the exclusion of GAAP financial measures. A more ample discussion of these non-GAAP financial measures is available in our Form 10-K, which was filed with the SEC, and a reconciliation to GAAP is included as an appendix to this presentation.

Reconciliation of GAAP to Non-GAAP Net Income

\$ in thousands	Year Ended December 31,			
	2019	2018	2017	2016
Net Income attributable to the Pennant Group, Inc.	\$ 2,546	\$ 15,684	\$ 9,867	\$ 7,891
Add: Net income attributable to noncontrolling interest	629	595	160	26
Net Income	\$ 3,175	\$ 16,279	\$ 10,027	\$ 7,917
Non-GAAP adjustments				
Add: Costs at start-up operations ^(a)	508	159	540	210
Share-based compensation expense ^(b)	3,382	2,382	2,298	2,341
Amortization of patient base ^(c)	39	87	86	150
Acquisition related costs ^(d)	665	--	--	--
Results related to closed operations ^(e)	--	--	728	--
Spin-off related transaction costs ^(f)	13,219	756	--	--
Transition services cost ^(g)	965	--	--	--
Provision for income taxes on non-GAAP adjustments ^(h)	(4,023)	(1,653)	(2,040)	(1,035)
Non-GAAP Net Income	\$ 17,930	\$ 18,010	\$ 11,796	\$ 9,583

(a) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.

(b) Share-based compensation expense incurred.

(c) Included in depreciation and amortization are amortization expenses related to patient base intangible assets at newly acquired senior living facilities.

(d) Acquisition related costs that are not capitalizable.

(e) Represents results at closed operations. This amount excludes rent, depreciation and amortization expense.

(f) Costs incurred related to the Spin-Off that are included in general and administrative expense.

(g) The portion of the costs incurred under the Transition Services Agreement identified as redundant or nonrecurring that are included in general and administrative expense and depreciation and amortization.

(h) Represents an adjustment to the provision for income tax to our historical year to date effective tax rates of 25.4% 25.0%, 38.6%, and 38.9% for prior years ended December 31, 2019, 2018, 2017, and 2016, respectively. This rate excludes the tax benefit of shared-based payment awards.

Reconciliation of Net Income to Non-GAAP EBITDA, Adjusted EBITDA and Adjusted EBITDAR

\$ in thousands	Year Ended December 31,			
	2019	2018	2017	2016
Net Income	\$ 3,175	\$ 16,279	\$ 10,027	\$ 7,917
Less: Net income attributable to noncontrolling interest	629	595	160	26
Add: Provision for income taxes	2,085	4,352	5,375	5,065
Depreciation and amortization	3,810	2,964	2,544	2,855
Interest Expense	410	--	--	--
EBITDA	\$ 8,851	\$ 23,000	\$ 17,786	\$ 15,811
Adjustments to EBITDA:				
Add: Costs at start-up operations ^(a)	483	129	478	157
Results related to closed operations ^(b)	--	--	728	--
Share-based compensation expense ^(c)	3,382	2,382	2,298	2,341
Spin-off related transaction costs ^(d)	13,219	756	--	--
Transition services costs ^(e)	532	--	--	--
Acquisition related costs ^(f)	665	--	--	--
Rent related to items ^(a) and ^(b) above	25	30	190	36
Adjusted EBITDA	\$ 27,157	\$ 26,297	\$ 21,480	\$ 18,345
Add: Rent—cost of services	34,975	31,199	31,304	28,953
Less: Rent related to items ^(a) and ^(b) above	(25)	(30)	(190)	(36)
Adjusted Rent—cost of services	34,950	31,169	31,114	28,917
Adjusted EBITDAR from Operations	\$ 62,107			

(a) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.

(b) Represents results at closed operations. This amount excludes rent, depreciation and amortization expense.

(c) Share-based compensation expense incurred.

(d) Costs incurred related to the Spin-Off that are included in general and administrative expense.

(e) The portion of the costs incurred under the Transition Services Agreement identified as redundant or nonrecurring that are included in general and administrative expense.

(f) Acquisition related costs that are not capitalizable.

GAAP Segment Adjusted EBITDAR from Operations and Reconciliation by Segment of GAAP to Non-GAAP Adjusted EBITDA



<i>\$ in thousands</i>	Home Health and Hospice Services	Senior Living Services	All Other	Total				
Year Ended December 31, 2019								
Revenue	\$ 206,624	\$ 131,907	--	\$ 338,531				
Segment Adjusted EBITDAR from Operations	\$ 33,354	\$ 47,344	\$ (18,591)	\$ 62,107				
Year Ended December 31, 2018								
Revenue	\$ 169,037	\$ 117,021	--	\$ 286,058				
Segment Adjusted EBITDAR from Operations	\$ 26,427	\$ 47,230	\$ (16,191)	\$ 57,466				
Year Ended December 31, 2017								
Revenue	\$ 142,403	\$ 108,588	--	\$ 250,991				
Segment Adjusted EBITDAR from Operations	\$ 21,007	\$ 44,230	\$ (12,643)	\$ 52,594				
Year Ended December 31, 2016								
Revenue	\$ 115,813	\$ 101,412	--	\$ 217,225				
Segment Adjusted EBITDAR from Operations	\$ 16,548	\$ 41,278	\$ (10,564)	\$ 47,262				
<i>\$ in thousands</i>	Year Ended December 31,							
	Home Health and Hospice				Senior Living Services			
	2019	2018	2017	2016	2019	2018	2017	2016
Segment Adjusted EBITDAR from Operations	\$ 33,354	\$ 26,427	\$ 21,007	\$ 16,548	\$ 47,344	\$ 47,230	\$ 44,230	\$ 41,278
Less: Rent – cost of services	2,964	2,281	1,977	1,564	32,011	28,918	29,327	27,389
Rent related to start-up and closed operations	(25)	(30)	(190)	(36)	--	--	--	--
Segment Adjusted EBITDA	\$ 30,415	\$ 24,176	\$ 19,220	\$ 15,020	\$ 15,333	\$ 18,312	\$ 14,903	\$ 13,889

Reconciliation of Segment Adjusted EBITDAR from Operations to Income from Operations



\$ in thousands	Year Ended December 31,			
	2019	2018	2017	2016
Segment Adjusted EBITDAR from Operations	\$62,107	\$ 57,466	\$ 52,594	\$ 47,262
Less: Depreciation and amortization	3,810	2,964	2,544	2,855
Rent – cost of services	34,975	31,199	31,304	28,953
Adjustments to Segment EBITDAR from Operations:				
Less: Costs at start-up operations ^(a)	483	129	478	157
Share-based compensation expense ^(b)	3,382	2,382	2,298	2,341
Acquisition related costs ^(c)	665	--	--	--
Spin-off related transaction costs ^(d)	13,219	756	--	--
Transition services costs ^(e)	532	--	--	--
Results related to closed operations ^(f)	--	--	728	--
Add: Net income attributable to non-controlling interest	629	595	160	26
Income from Operations	\$ 5,670	\$ 20,631	\$ 15,402	\$ 12,982

(a) Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.

(b) Share-based compensation expense incurred which is included in cost of services and general and administrative expense.

(c) Acquisition related costs that are not capitalizable.

(d) Costs incurred related to the Spin-Off are included in general and administrative expense.

(e) A portion of the costs incurred under the Transition Services Agreement identified as redundant or nonrecurring that are included in general and administrative expense.

(f) Operating losses related to the closure of certain, home health, and hospice agencies that were closed in 2017.

Trended Selected Metrics

Metrics	Q419	Q418	Q319	Q318	Q219	Q218	Q119	Q118
Home Health								
Total Medicare admissions	2,777	2,230	2,601	2,225	2,675	2,110	2,603	2,146
Total admissions	5,914	4,724	5,556	4,523	5,727	4,424	5,440	4,549
Medicare revenue per episode	\$ 2,912	\$ 3,027	\$ 3,173	\$ 3,001	\$ 3,077	\$ 3,064	\$ 2,966	\$ 2,848
Hospice								
Hospice ADC	1,845	1,386	1,788	1,379	1,673	1,290	1,415	1,260
Hospice total admissions	1,542	1,139	1,701	1,179	1,619	1,174	1,334	1,272
Average length of stay	99	107	88	92	97	97	98	85
Medicare Hospice revenue per patient day	\$ 163	\$ 158	\$ 163	\$ 159	\$ 166	\$ 161	\$ 163	\$ 161
Senior Living								
Communities	52	50	52	45	51	45	50	45
Units	3,963	3,820	3,963	3,508	3,872	3,508	3,820	3,508
Occupancy ^(a)	81.1%	80.4%	79.6%	80.0%	80.3%	78.6%	79.8%	78.8%
Average revenue per unit ^(a)	\$ 3,149	\$ 3,038	\$ 3,111	\$ 3,032	\$ 3,098	\$ 3,050	\$ 3,121	\$ 3,057
Segment Adjusted EBITDAR	Q419	Q418	Q319	Q318	Q219	Q218	Q119	Q118
Home Health and Hospice	\$ 9,481	\$ 6,541	\$ 8,499	\$ 7,423	\$ 8,103	\$ 6,301	\$ 7,271	\$ 6,162
Senior Living	\$ 11,641	\$ 12,456	\$ 11,574	\$ 11,499	\$ 12,012	\$ 11,502	\$ 12,117	\$ 11,773

(a) Averages are based upon the average for the quarter, year-to-date figures will differ based on the period presented.

(b) The metric for Hospice Average length of stay has changed to the Average length of stay for patients who discharged during the month rather than the average length of stay for all patients on service during the quarter, shown previously.