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 March 31, 2024.

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

For the transition period from __________ to __________.

Commission file number: 001-38900

THE PENNANT GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**83-3349931**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1675 East Riverside Drive, Suite 150, Eagle, ID 83616
(Address of Principal Executive Offices and Zip Code)
(208) 506-6100
(Registrant's Telephone Number, Including Area Code)
None
(Former name, former address and former fiscal year, if changed since last report)

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 $0.001 per share	PNTG	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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. ☐

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

As of May 3, 2024, 30,045,760 shares of the registrant's common stock were outstanding.

THE PENNANT GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2024
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PART I. FINANCIAL INFORMATION

Item I. ***Financial Statements***

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash	$ 2,722	$ 6,059
Accounts receivable—less allowance for doubtful accounts of $197 and $259, respectively	71,354	61,116
Prepaid expenses and other current assets	12,987	12,902
Total current assets	87,063	80,077
Property and equipment, net	40,592	28,598
Right-of-use assets	258,775	262,923
Restricted and other assets	9,651	9,337
Goodwill	107,220	91,014
Other indefinite-lived intangibles	74,942	67,742
Total assets	$ 578,243	$ 539,691
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 13,060	$ 10,841
Accrued wages and related liabilities	25,254	28,256
Operating lease liabilities—current	17,378	17,122
Other accrued liabilities	19,543	15,330
Total current liabilities	75,235	71,549
Long-term operating lease liabilities—less current portion	244,180	248,596
Deferred tax liabilities. net	2,140	1,855
Other long-term liabilities	9,162	8,262
Long-term debt, net	83,294	63,914
Total liabilities	414,011	394,176
Commitments and contingencies		
Equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 30,371 and 30,036 shares issued and outstanding, respectively, at March 31, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023	30	29
Additional paid-in capital	107,644	105,712
Retained earnings	39,569	34,663
Treasury stock, at cost, 3 shares at March 31, 2024 and December 31, 2023	(65)	(65)
Total The Pennant Group, Inc. stockholders' equity	147,178	140,339
Noncontrolling interest	17,054	5,176
Total equity	164,232	145,515
Total liabilities and equity	$ 578,243	$ 539,691

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except for per-share amounts)

	Three Months Ended March 31,	
	2024	**2023**
Revenue	$ 156,915	$ 126,464
Expense		
Cost of services	125,995	102,602
Rent—cost of services	10,384	9,597
General and administrative expense	11,436	8,705
Depreciation and amortization	1,331	1,280
Gain on disposition of property and equipment, net	(755)	—
Total expenses	148,391	122,184
Income from operations	8,524	4,280
Other income (expense), net:		
Other income	85	30
Interest expense, net	(1,792)	(1,406)
Other expense, net	(1,707)	(1,376)
Income before provision for income taxes	6,817	2,904
Provision for income taxes	1,759	907
Net income	5,058	1,997
Less: Net income attributable to noncontrolling interest	152	147
Net income attributable to The Pennant Group, Inc.	$ 4,906	$ 1,850
Earnings per share:		
Basic	$ 0.16	$ 0.06
Diluted	$ 0.16	$ 0.06
Weighted average common shares outstanding:		
Basic	30,046	29,751
Diluted	30,403	30,147

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Non-controlling Interest	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2023	30,297	$ 29	$ 105,712	$ 34,663	3	$ (65)	$ 5,176	$ 145,515
Net income attributable to The Pennant Group, Inc.	—	—	—	4,906	—	—	—	4,906
Noncontrolling interests assumed related to acquisitions	—	—	—	—	—	—	11,726	11,726
Net income attributable to noncontrolling interests	—	—	—	—	—	—	152	152
Share-based compensation	—	—	1,440	—	—	—	—	1,440
Issuance of common stock from the exercise of stock options	72	1	492	—	—	—	—	493
Net issuance of restricted stock	2	—	—	—	—	—	—	—
Balance at March 31, 2024	30,371	$ 30	$ 107,644	$ 39,569	3	$ (65)	$ 17,054	$ 164,232

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Non-controlling Interest	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2022	30,149	$ 29	$ 99,764	$ 21,284	3	$ (65)	$ 4,645	$ 125,657
Net income attributable to The Pennant Group, Inc.	—	—	—	1,850	—	—	—	1,850
Net income attributable to noncontrolling interests	—	—	—	—	—	—	147	147
Share-based compensation	—	—	1,367	—	—	—	—	1,367
Issuance of common stock from the exercise of stock options	26	—	203	—	—	—	—	203
Net issuance of restricted stock	28	—	—	—	—	—	—	—
Balance at March 31, 2023	30,203	$ 29	$ 101,334	$ 23,134	3	$ (65)	$ 4,792	$ 129,224

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities:		
Net income	$ 5,058	$ 1,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,331	1,280
Amortization of deferred financing fees	130	130
Gain on disposition of property and equipment, net	(755)	—
Provision for doubtful accounts	244	151
Share-based compensation	1,440	1,367
Deferred income taxes	285	776
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(10,483)	3,166
Prepaid expenses and other assets	(1,298)	4,317
Operating lease obligations	(13)	(18)
Accounts payable	2,414	(772)
Accrued wages and related liabilities	(3,001)	(2,788)
Other accrued liabilities	2,922	(1,077)
Income taxes payable	536	—
Other long-term liabilities	1,735	467
Net cash provided by operating activities	545	8,996
Cash flows from investing activities:		
Purchase of property and equipment	(3,144)	(2,314)
Cash payments for business acquisitions	(11,680)	—
Cash payments for asset acquisitions	(10,380)	(210)
Escrow deposits	248	—
Other	1,320	198
Net cash used in investing activities	(23,636)	(2,326)
Cash flows from financing activities:		
Proceeds from Revolving Credit Facility	69,000	40,500
Payments on Revolving Credit Facility	(49,750)	(46,500)
Finance lease obligations	11	—
Issuance of common stock upon the exercise of options	493	203
Net cash provided by (used in) financing activities	19,754	(5,797)
Net (decrease) increase in cash	(3,337)	873
Cash beginning of period	6,059	2,079
Cash end of period	$ 2,722	$ 2,952

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(unaudited, in thousands)

	Three Months Ended March 31,	
	2024	**2023**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,711	$ 1,536
Income taxes	$ 41	$ 30
Lease liabilities	$ 9,471	$ 8,927
Right-of-use assets obtained in exchange for new operating lease obligations	$ 755	$ 7,489
Non-cash investing activity:		
Capital expenditures in accounts payable	$ 125	$ 566

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data and operational senior living units)

1. DESCRIPTION OF BUSINESS

The Pennant Group, Inc. (herein referred to as "Pennant," the "Company," "it," or "its"), is a holding company with no direct operating assets, employees or revenue. The Company, through its independent operating subsidiaries, provides healthcare services across the post-acute care continuum. As of March 31, 2024, the Company's subsidiaries operated 112 home health, hospice and home care agencies and 53 senior living communities located in Arizona, California, Colorado, Idaho, Montana, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

Certain of the Company's subsidiaries, collectively referred to as the Service Center, provide accounting, payroll, human resources, information technology, legal, risk management, and other services to the operations through contractual relationships.

Each of the Company's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees and assets. References herein to the consolidated "Company" and "its" assets and activities are not meant to imply, nor should they be construed as meaning, that Pennant has direct operating assets, employees or revenue, or that any of the subsidiaries are operated by Pennant.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements of the Company (the "Interim Financial Statements") reflect the Company's financial position, results of operations, and cash flows of the business. The Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the regulations of the Securities and Exchange Commission ("SEC"). Management believes that the Interim Financial Statements reflect, in all material respects, all adjustments which are of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations, and cash flows for the periods presented in conformity with GAAP. The results reported in these Interim Financial Statements are not necessarily indicative of results that may be expected for the entire year.

The Condensed Consolidated Balance Sheet as of December 31, 2023 is derived from the Company's annual audited Consolidated Financial Statements for the fiscal year ended December 31, 2023, which should be read in conjunction with these Interim Financial Statements. Certain information in the accompanying footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with GAAP.

All significant intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in consolidation. The Company presents noncontrolling interests within the equity section of its Condensed Consolidated Balance Sheets and the amount of consolidated net income that is attributable to the Company and the noncontrolling interest in its Condensed Consolidated Statements of Income.

The Company consists of various limited liability companies and corporations established to operate home health, hospice, home care, and senior living operations. The Interim Financial Statements include the accounts of all entities controlled by the Company through its ownership of a majority voting interest.

Estimates and Assumptions - The preparation of the Financial Statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates in the Financial Statements relate to self-insurance reserves, revenue recognition, and intangible assets and goodwill. Actual results could differ from those estimates.

State relief funding. The Company receives state relief funding through programs from various states, including healthcare relief funding under the American Rescue Plan Act (ARPA), and other state specific relief programs. The funding generally incorporates specific use requirements primarily for direct patient care including labor related expenses that are attributable to the COVID-19 pandemic or are associated with providing patient care.

These funds are recognized as a reduction of cost of services expenses when related expenses are incurred. As of March 31, 2024 and December 31, 2023, the Company had $383 and $780 in unapplied state relief funds, respectively. The unapplied state relief funds received are recorded in other accrued liabilities. The Company recognized state relief funding totaling $453 for the three months ended March 31, 2024, and $685 for the three months ended March 31, 2023, which the Company recognized as a reduction of cost of services expense.

Recent Accounting Pronouncements

Except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws and a limited number of grandfathered standards, the FASB ASC is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. For any new pronouncements announced, the Company considers whether the new pronouncements could alter previous generally accepted accounting principles and determines whether any new or modified principles will have a material impact on the Company's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company's financial management and certain standards are under consideration.

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures"*, which requires the Company to expand the breadth and frequency of segment disclosures to include additional information about significant segment expenses, the chief operating decision maker and other items, and also require the annual disclosures on an interim basis. This guidance is effective for annual periods beginning after December 15, 2023, which will be the Company's fiscal year 2024, with early adoption permitted. The Company is currently evaluating the impact of the ASU on its Quarterly and Annual Reports.

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures"*, which requires the Company to disclose disaggregated jurisdictional and categorical information for the tax rate reconciliation, income taxes paid and other income tax related amounts. This guidance is effective for annual periods beginning after December 15, 2024, which will be the Company's fiscal year 2025, with early adoption permitted. The Company doesn't expect it to have any material impacts.

3. TRANSACTIONS WITH ENSIGN

On October 1, 2019, The Ensign Group, Inc. ("Ensign") completed the separation of Pennant (the "Spin-Off"). Pennant and Ensign continue to partner in the provision of services along the healthcare continuum.

The Company incurred costs of $280 for the three months ended March 31, 2024, and $273 for the three months ended March 31, 2023, that related primarily to shared services at proximate operations.

Expenses related to room and board charges at Ensign skilled nursing facilities for hospice patients were $1,500 for the three months ended March 31, 2024, and $940 for the three months ended March 31, 2023, and are included in cost of services.

The Company's independent operating subsidiaries leased 29 communities from subsidiaries of Ensign under a master lease arrangement as of both March 31, 2024 and March 31, 2023. See further discussion below at Note 13, Leases.

4. NET INCOME PER COMMON SHARE

Basic net income per share is computed by dividing net income attributable to stockholders of the Company by the weighted average number of outstanding common shares for the period. The computation of diluted net income per share is similar to the computation of basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

The following table sets forth the computation of basic and diluted net income per share for the periods presented:

	Three Months Ended March 31,	
	2024	2023
Numerator:		
Net income attributable to The Pennant Group, Inc.	$ 4,906	$ 1,850
Denominator:		
Weighted average shares outstanding for basic net income per share	30,046	29,751
Plus: assumed incremental shares from exercise of options and assumed conversion or vesting of restricted stock[a]	357	396
Adjusted weighted average common shares outstanding for diluted income per share	30,403	30,147
Earnings Per Share:		
Basic net income per common share	$ 0.16	$ 0.06
Diluted net income per common share	$ 0.16	$ 0.06

(a) The diluted per share amounts do not reflect common share equivalents outstanding of 2,043 for the three months ended March 31, 2024, and 2,002 for the three months ended March 31, 2023, respectively, because of their anti-dilutive effect.

5. REVENUE AND ACCOUNTS RECEIVABLE

Revenue is recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled from patients and third-party payors, including Medicare, Medicaid, and managed care programs (Commercial, Medicare Advantage and Managed Medicaid plans). The healthcare services in home health and hospice patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Routine services are treated as a single performance obligation satisfied over time as services are rendered. As such, patient care services represent a bundle of services that are not capable of being distinct within the context of the contract. Additionally, there may be ancillary services which are not included in the rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

Revenue recognized from healthcare services is adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration. The Company uses the expected value method in determining the variable component that should be used to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net revenue only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net service revenue in the period such variances become known.

The Company records revenue from these governmental and managed care programs as services are performed at their expected net realizable amounts under these programs. The Company's revenue from governmental and managed care programs is subject to audit and retroactive adjustment by governmental and third-party agencies. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with its patients by reportable operating segments and payors. The Company has determined that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company's service specific revenue recognition policies are as follows:

Home Health Revenue

Medicare Revenue

Net service revenue is recognized in accordance with the Patient Driven Groupings Model ("PDGM"). Under PDGM, Medicare provides agencies with payments for each 30-day payment period provided to beneficiaries. If a beneficiary is still eligible for care after the end of the first 30-day payment period, a second 30-day payment period can begin. There are no limits to the number of periods of care a beneficiary who remains eligible for the home health benefit can receive. While payment for each 30-day payment period is adjusted to reflect the beneficiary's health condition and needs, a special outlier provision exists to ensure appropriate payment for those beneficiaries that have the most expensive care needs. The payment under the Medicare program is also adjusted for certain variables including, but not limited to: (a) a low utilization payment adjustment if the number of visits is below an established threshold that varies based on the diagnosis of a beneficiary; (b) a partial payment if the patient transferred to another provider or the Company received a patient from another provider before completing the period of care; (c) adjustment to the admission source of claim if it is determined that the patient had a qualifying stay in a post-acute care setting within 14 days prior to the start of a 30-day payment period; (d) the timing of the 30-day payment period provided to a patient in relation to the admission date, regardless of whether the same home health provider provided care for the entire series of episodes; (e) changes to the acuity of the patient during the previous 30-day payment period; (f) changes in the base payments established by the Medicare program; (g) adjustments to the base payments for case mix and geographic wages; and (h) recoveries of overpayments.

The Company adjusts Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation and other reasons unrelated to credit risk. Therefore, the Company believes that its reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes and periods, the Company also recognizes a portion of revenue associated with episodes and periods in progress. Episodes in progress are 30-day payment periods that begin during the reporting period but were not completed as of the end of the period. As such, the Company estimates revenue and recognizes it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per period of care or episode of care and the Company's estimate of the average percentage complete based on the scheduled end of period and end of episode dates.

Non-Medicare Revenue

Episodic Based Revenue - The Company recognizes revenue in a similar manner as it recognizes Medicare revenue for episodic-based rates that are paid by other insurance carriers, including carriers administrating Medicare Advantage programs. These rates can vary based upon the negotiated terms.

Non-episodic Based Revenue - Revenue is recognized on an accrual basis based upon the date of service at amounts equal to its established or estimated per visit rates, as applicable.

Hospice Revenue

Revenue is recognized on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are calculated as daily rates for each of the levels of care the Company delivers. Revenue is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap and an overall payment cap, the Company monitors its provider numbers and estimates amounts due back to Medicare if a cap has been exceeded. The Company regularly evaluates and records these adjustments as a reduction to revenue and an increase to other accrued liabilities.

Senior Living Revenue

The Company has elected the lessor practical expedient within ASC Topic 842, *Leases* and therefore recognizes, measures, presents, and discloses the revenue for services rendered under the Company's senior living residency agreements based upon the predominant component, either the lease or non-lease component, of the contracts. The Company has determined that the services included under the Company's senior living residency agreements each have the same timing and pattern of transfer. The Company recognizes revenue under ASC Topic 606, *Revenue from Contracts with Customers* for its senior residency agreements, for which it has determined that the non-lease components of such residency agreements are the predominant component of each such contract.

The Company's senior living revenue consists of fees for basic housing and assisted living care. Accordingly, the Company records revenue when services are rendered on the date services are provided at amounts billable to individual residents. Residency agreements are generally for a term of 30 days, with resident fees billed monthly in advance. For residents under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rates on a per resident, daily basis or as services are rendered.

Revenue By Payor

Revenue by payor for the three months ended March 31, 2024 and 2023, is summarized in the following tables:

	Three Months Ended March 31, 2024				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 29,842	$ 47,139	$ —	$ 76,981	49.1 %
Medicaid	6,545	6,159	12,362	25,066	16.0
Subtotal	36,387	53,298	12,362	102,047	65.1
Managed care	19,086	1,036	—	20,122	12.8
Private and other[(a)]	6,410	273	28,063	34,746	22.1
Total revenue	$ 61,883	$ 54,607	$ 40,425	$ 156,915	100.0 %

(a) Private and other payors in the Company's home health and hospice services segment includes revenue from all payors generated in the Company's home care operations.

	Three Months Ended March 31, 2023				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 23,376	$ 37,380	$ —	$ 60,756	48.0 %
Medicaid	2,191	4,598	10,842	17,631	14.0
Subtotal	25,567	41,978	10,842	78,387	62.0
Managed care	15,932	1,194	—	17,126	13.5
Private and other[(a)]	6,291	117	24,543	30,951	24.5
Total revenue	$ 47,790	$ 43,289	$ 35,385	$ 126,464	100.0 %

(a) Private and other payors in the Company's home health and hospice services segment includes revenue from all payors generated in the Company's home care operations.

Balance Sheet Impact

Included in the Company's Condensed Consolidated Balance Sheets are contract assets, comprised of billed accounts receivable and unbilled receivables, which are the result of the timing of revenue recognition, billings and cash collections, as well as, contract liabilities, which primarily represent payments the Company receives in advance of services provided.

Accounts receivable, net as of March 31, 2024 and December 31, 2023 is summarized in the following table:

	March 31, 2024	December 31, 2023
Medicare	$ 38,107	$ 35,665
Medicaid	15,359	11,578
Managed care	15,890	11,752
Private and other	2,195	2,380
Accounts receivable, gross	71,551	61,375
Less: allowance for doubtful accounts	(197)	(259)
Accounts receivable, net	$ 71,354	$ 61,116

Concentrations - Credit Risk

The Company has significant accounts receivable balances, the collectability of which is dependent on the availability of funds from certain governmental programs, primarily Medicare and Medicaid. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks associated with these governmental programs. The Company believes that an appropriate allowance has been recorded for the possibility of these receivables proving uncollectible, and continually monitors and adjusts these allowances as necessary. The Company's gross receivables from the Medicare and Medicaid programs accounted for approximately 74.7% and 77.0% of its total gross accounts receivable as of March 31, 2024 and December 31, 2023, respectively. Combined revenue from reimbursement under the Medicare and Medicaid programs accounted for 65.1% for the three months ended March 31, 2024, and 62.0% of the Company's revenue for the three months ended March 31, 2023.

Practical Expedients and Exemptions

As the Company's contracts have an original duration of one year or less, the Company uses the practical expedient applicable to its contracts and does not consider the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue. In addition, the Company has applied the practical expedient provided by ASC 340, *Other Assets and Deferred Costs*, and all incremental customer contract acquisition costs are expensed as they are incurred because the amortization period would have been one year or less.

6. BUSINESS SEGMENTS

The Company classifies its operations into the following reportable operating segments: (1) home health and hospice services, which includes the Company's home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations. The Company's Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"), reviews financial information at the operating segment level. The Company also reports an "all other" category that includes general and administrative expense from the Company's Service Center.

As of March 31, 2024, the Company provided services through 112 affiliated home health, hospice and home care agencies, and 53 affiliated senior living operations. The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. The Company's Service Center provides various services to all lines of business. The Company does not review assets by segment and therefore assets by segment are not disclosed below.

The CODM uses Segment Adjusted EBITDAR from Operations as the primary measure of profit and loss for the Company's reportable segments and to compare the performance of its operations with those of its competitors. Segment Adjusted EBITDAR from Operations is net income (loss) attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, and, in order to view the operations performance on a comparable basis from period to period, certain adjustments including: (1) costs at start-up operations, (2) share-based compensation, (3) acquisition related costs and credit allowances, (4) the costs associated with transitioning operations, (5) unusual, non-recurring or redundant charges, and (6) net income attributable to noncontrolling interest. General and administrative expenses are not allocated to the reportable segments, and are included as “All Other”, accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

The following tables present certain financial information regarding the Company’s reportable segments, general and administrative expenses are not allocated to the reportable segments and are included in “All Other” for the three months ended March 31, 2024 and 2023:

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Three Months Ended March 31, 2024				
Revenue	$ 116,490	$ 40,425	$ —	$ 156,915
Segment Adjusted EBITDAR from Operations	$ 19,550	$ 12,011	$ (10,161)	$ 21,400
Three Months Ended March 31, 2023				
Revenue	$ 91,079	$ 35,385	$ —	$ 126,464
Segment Adjusted EBITDAR from Operations	$ 14,412	$ 10,241	$ (7,514)	$ 17,139

The following table provides a reconciliation of Segment Adjusted EBITDAR from Operations to income from operations:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Segment Adjusted EBITDAR from Operations	$ 21,400	$ 17,139
Less: Depreciation and amortization	1,331	1,280
Rent—cost of services	10,384	9,597
Other income	85	30
Adjustments to Segment EBITDAR from Operations:		
Less: Costs at start-up operations[(a)]	(82)	203
Share-based compensation expense and related taxes[(b)]	1,526	1,419
Acquisition related costs and credit allowances[(c)]	137	32
Costs associated with transitioning operations[(d)]	(628)	47
Unusual, non-recurring or redundant charges[(e)]	275	398
Add: Net income attributable to noncontrolling interest	152	147
Condensed Consolidated Income from Operations	$ 8,524	$ 4,280

(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 and related payroll taxes incurred. Share-based compensation expense and related payroll taxes are included in cost of services and general and administrative expense.

(c) Non-capitalizable costs associated with acquisitions, credit allowances, and write offs for amounts in dispute with the prior owners of certain acquired operations.

(d) During the three months ended March 31, 2023, an affiliate of the Company placed its memory care units into transition and is actively seeking to sublease the units to an unrelated third party. The amount above represents the net operating impact attributable to the units in transition. The amounts reported exclude rent and depreciation and amortization expense related to such operations and include legal settlement costs associated with one of the entities transitioned to Ensign.

(e) Represents unusual or non-recurring charges for legal services, implementation costs, integration costs, and consulting fees in general and administrative and cost of services expenses.

7. ACQUISITIONS

The Company is focused on acquiring operations that are complementary to the Company’s current businesses, accretive to the Company’s business or otherwise advance the Company’s strategy. The results of all the Company’s independent operating subsidiaries are included in the Interim Financial Statements subsequent to the date of acquisition. Acquisitions are accounted for using the acquisition method of accounting.

2024 Acquisitions

During the three months ended March 31, 2024, the Company expanded its operations with the addition of one home health agency described below and two senior living communities. The Company acquired the real estate of the two senior living communities. These new communities included 223 operational senior living units to be operated by the Company's independent subsidiaries.

On January 1, 2024, the Company announced it closed on a home health joint venture with John Muir Health ("Muir"), a leading nonprofit integrated health system serving communities throughout the east bay region of San Francisco, California. The transaction combines certain assets and the operations of Muir's home health business and the assets and operations of a local Pennant-affiliated home health agency. The joint venture is majority-owned and managed by an independent operating subsidiary of the Company and provide home health services to patients throughout the San Francisco east bay region. Along with the assets contributed by a local Pennant-affiliated home health agency, the Company paid Muir $11,680 for a majority interest in the joint venture.

The fair value of assets for the joint venture acquired was mostly concentrated in goodwill and intangible assets and as such, these transaction was classified as business combination in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The fair value of assets acquired for the business combination was $23,406, which preliminarily consisted of goodwill of $16,206 and indefinite-lived intangible assets of $7,200 related to a Medicare and Medicaid license. The Company acquired 60.0% ownership interest in the joint venture. The contributions of assets by Muir to the joint venture, resulted in the Company recording a noncontrolling interest with a fair value of $11,726. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes.

The aggregate purchase price of the real estate of the two senior living communities acquired was $10,380 which preliminarily consisted primarily of land and building.

There were no material acquisition costs that were expensed related to the business combinations during the three months ended March 31, 2024.

2023 Acquisitions

During the three months ended March 31, 2023, the Company expanded its operations with the addition of one home health agency as well as two senior living communities. In connection with the addition of the two senior living communities, the Company entered into a new long-term "triple-net" lease. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction.

The one home health agency acquired was a Medicare license and is considered an asset acquisition. The fair value of the home health license acquired was $210 and was allocated to indefinite-lived intangible assets.

Subsequent Events

On April 12, 2024, the Company closed on an acquisition of one home health agency in Washington. On May 1, 2024, the Company expanded its operations with one senior living community in Idaho and the acquisition of one home health and one hospice agency in Utah. In connection with the addition of the senior living community, the Company entered into a new long-term "triple-net" lease.

The total purchase price of the two home health agencies and the one hospice agency was $1,000. As of the date of this report, the preliminary allocation of the purchase price for the acquisitions acquired subsequent to March 31, 2024 were not completed as necessary valuation information was not yet available. As such, the determination whether these acquisitions should be classified as business combinations or asset acquisitions under ASC 805 will be determined upon completion of the allocation of the purchase price.

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

	March 31, 2024	December 31, 2023
Land	$ 5,389	$ 96
Building	8,180	1,890
Leasehold improvements	19,662	21,204
Equipment	32,496	29,247
Furniture and fixtures	1,246	1,238
	66,973	53,675
Less: accumulated depreciation	(26,381)	(25,077)
Property and equipment, net	$ 40,592	$ 28,598

Depreciation expense was $1,331 for the three months ended March 31, 2024, and $1,275 for the three months ended March 31, 2023.

The Company measures certain assets at fair value on a non-recurring basis, including long-lived assets, which are evaluated for impairment. Long-lived assets include assets such as property and equipment, operating lease assets and certain intangible assets. The inputs used to determine the fair value of long-lived assets in the impairment analysis are considered Level 3 measurements due to their subjective nature. Management has evaluated its long-lived assets and determined there was no impairment recorded during the three months ended March 31, 2024 and 2023.

9. GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

The following table represents activity in goodwill by segment for the three months ended March 31, 2024:

	Home Health and Hospice Services	Senior Living Services	Total
December 31, 2023	$ 87,372	$ 3,642	$ 91,014
Additions	16,206	—	16,206
March 31, 2024	$ 103,578	$ 3,642	$ 107,220

Other indefinite-lived intangible assets consist of the following:

	March 31, 2024	December 31, 2023
Trade name	$ 1,385	$ 1,385
Medicare and Medicaid licenses	73,557	66,357
Total	$ 74,942	$ 67,742

No goodwill or intangible asset impairment charges were recorded during the three months ended March 31, 2024 and 2023.

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	March 31, 2024	December 31, 2023
Refunds payable	$ 1,835	$ 1,566
Deferred revenue	1,793	1,658
Resident deposits	2,154	2,367
Property taxes	1,157	1,255
Deferred state relief funds	383	780
Accrued self-insurance liabilities	6,504	4,392
Other	5,717	3,312
Other accrued liabilities	$ 19,543	$ 15,330

Refunds payable includes payables related to overpayments, duplicate payments and credit balances from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to residents.

11. DEBT

Long-term debt, net consists of the following:

	March 31, 2024	December 31, 2023
Revolving Credit Facility	$ 84,250	$ 65,000
Less: unamortized debt issuance costs[(a)]	(956)	(1,086)
Long-term debt, net	$ 83,294	$ 63,914

(a) Amortization expense for debt issuance costs was $130 for the three months ended March 31, 2024, and $130 for the three months ended March 31, 2023, and is recorded in interest expense, net on the Condensed Consolidated Statements of Income.

On February 23, 2021, Pennant entered into an amendment to its existing credit agreement (as amended, the “Credit Agreement”), which provides for an increased revolving credit facility with a syndicate of banks with a borrowing capacity of $150,000 (the “Revolving Credit Facility”). On June 12, 2023, Pennant entered into a second amendment to the Credit Agreement that modified the reference rate from LIBOR to Standard Overnight Financing Rate (“SOFR”). The interest rates applicable to loans under the Revolving Credit Facility are, at the Company’s election, either (i) Adjusted Term SOFR (as defined in the Credit Agreement) plus a margin ranging from 2.25% to 3.25% per annum or (ii) Base Rate plus a margin ranging from 1.25% to 2.25% per annum, in each case, based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, Pennant pays a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility which ranges from 0.35% to 0.50% per annum, depending on the Consolidated Total Net Debt to Consolidated EBITDA ratio of the Company and its subsidiaries. The Company is not required to repay any loans under the Credit Agreement prior to maturity in 2026, other than to the extent the outstanding borrowings exceed the aggregate commitments under the Credit Agreement. As of March 31, 2024, the Company’s weighted average interest rate on its outstanding debt was 8.22%. As of March 31, 2024, the Company had available borrowing on the Revolving Credit Facility of $61,564, which is net of outstanding letters of credit of $4,186.

The fair value of the Revolving Credit Facility approximates carrying value, due to the short-term nature and variable interest rates. The fair value of this debt is categorized within Level 2 of the fair value hierarchy based on the observable market borrowing rates.

The Credit Agreement is guaranteed, jointly and severally, by certain of the Company’s independent operating subsidiaries, and is secured by a pledge of stock of the Company's material independent operating subsidiaries as well as a first lien on substantially all of each material operating subsidiary's personal property. The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its independent operating subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. Financial covenants require compliance with certain levels of leverage ratios that impact the amount of interest. As of March 31, 2024, the Company was compliant with all such financial covenants.

12. OPTIONS AND AWARDS

Outstanding options and restricted stock awards of the Company were granted under the 2019 Omnibus Incentive Plan (the "OIP") and Long-Term Incentive Plan (the "LTIP", and together with the OIP, the "Pennant Plans").

Under the Pennant Plans, stock-based payment awards, including employee stock options, restricted stock awards ("RSA"), and restricted stock units ("RSU" and together with RSA, "Restricted Stock") are issued based on estimated fair value. The following disclosures represent share-based compensation expense relating to employees of the Company's subsidiaries and non-employee directors who have awards under the Pennant Plans.

Total share-based compensation expense for all Plans for the three months ended March 31, 2024 and 2023 was:

	Three Months Ended March 31,	
	2024	2023
Share-based compensation expense related to stock options	$ 997	$ 850
Share-based compensation expense related to Restricted Stock	93	177
Share-based compensation expense related to Restricted Stock to non-employee directors	350	340
Total share-based compensation	$ 1,440	$ 1,367

In future periods, the Company estimates it will recognize the following share-based compensation expense for unvested stock options and unvested Restricted Stock as of March 31, 2024:

	Unrecognized Compensation Expense	Weighted Average Recognition Period (in years)
Unvested Stock Options	$ 14,536	3.7
Unvested Restricted Stock	1,971	3.3
Total unrecognized share-based compensation expense	$ 16,507	

Stock Options

Under the Pennant Plans, options granted to employees of the subsidiaries of Pennant generally vest over five years at 20% per year on the anniversary of the grant date. Options expire ten years after the date of grant.

The Company uses the Black-Scholes option-pricing model to recognize the value of stock-based compensation expense for share-based payment awards under the Plans. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility and expected option life. The Company develops estimates based on historical data and market information, which can change significantly over time.

The fair value of each option is estimated on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted as of March 31:

Grant Year	Options Granted	Risk-Free Interest Rate	Expected Life[(a)]	Expected Volatility[(b)]	Dividend Yield	Weighted Average Fair Value of Options
2024	498	4.2 %	6.5	42.6 %	— %	$ 9.27
2023	467	4.1 %	6.5	41.5 %	— %	$ 7.25

(a) Under the midpoint method, the expected option life is the midpoint between the contractual option life and the average vesting period for the options being granted. This resulted in an expected option life of 6.5 years for the options granted.

(b) Because the Company's equity shares have been traded for a relatively short period of time, expected volatility assumption was based on the volatility of related industry stocks.

The following table represents the employee stock option activity during the three months ended March 31, 2024:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Exercise Price of Options Vested
December 31, 2023	2,924	18.79	1,190	$ 19.14
Granted	498	18.79		
Exercised	(73)	6.90		
Forfeited	(64)	23.73		
Expired	(11)	32.32		
March 31, 2024	3,274	$ 18.89	1,279	$ 19.77

Restricted Stock

A summary of the status of Pennant's non-vested Restricted Stock, and changes during the three months ended March 31, 2024, is presented below:

	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2023	265	$ 14.27
Granted	23	15.55
Vested	(26)	15.73
Forfeited	(20)	16.26
March 31, 2024	242	$ 14.07

13. LEASES

The Company's independent operating subsidiaries lease senior living communities and its administrative offices under non-cancelable operating leases, most of which have initial lease terms ranging from 15 to 25 years. The Company's independent operating subsidiaries also lease the administrative offices of home health and hospice agencies which generally range from one to 11 years. Most of these leases contain renewal options, most involve rent increases and none contain purchase options. The lease term excludes lease renewals because the renewal rents are not at a bargain, there are no economic penalties for the Company to renew the lease, and it is not reasonably certain that the Company will exercise the extension options. The Company elected the accounting policy practical expedients in ASC 842 to: (i) combine associated lease and non-lease components into a single lease component; and (ii) exclude recording short-term leases as right-of-use assets and liabilities on the consolidated balance sheets. Non-lease components, which are not significant overall, are combined with lease components.

As of March 31, 2024, the Company's independent operating subsidiaries leased 29 senior living communities from subsidiaries of Ensign ("Ensign Leases") under a master lease arrangement. The existing leases with subsidiaries of Ensign are for initial terms of between 14 to 20 years. The total amount of rent expense included in rent - cost of services paid to subsidiaries of Ensign was $3,488 for the three months ended March 31, 2024, and $3,416 for the three months ended March 31, 2023. In addition to rent, each of the operating companies are required to pay the following: (1) all impositions and taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); (2) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties; (3) all insurance required in connection with the leased properties and the business conducted on the leased properties; (4) all community maintenance and repair costs; and (5) all fees in connection with any licenses or authorizations necessary or appropriate for the leased properties and the business conducted on the leased properties.

Fourteen of the Company's affiliated senior living communities, excluding the communities that are operated under the Ensign Leases (as defined herein), are operated under three separate master lease arrangements. Under these master leases, a breach at a single community could subject one or more of the other communities covered by the same master lease to the same default risk. Failure to comply with Medicare and Medicaid provider requirements is a default under several of the Company's leases and master leases. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the master lease without the consent of the landlord.

The components of operating lease cost, are as follows:

	Three Months Ended March 31,	
	2024	2023
Operating Lease Costs:		
Community Rent—cost of services	$ 8,627	$ 8,274
Office Rent—cost of services	1,757	1,323
Rent—cost of services	$ 10,384	$ 9,597
General and administrative expense	$ 87	$ 93
Variable lease cost [(a)]	$ 2,030	$ 1,730

(a) Represents variable lease cost for operating leases, which costs include property taxes and insurance, common area maintenance, and consumer price index increases, incurred as part of the Company's triple net lease, and which is included in cost of services for the three months ended March 31, 2024 and 2023.

The following table shows the lease maturity analysis for all leases as of March 31, 2024, for the years ended December 31:

Year	Amount
2024 (Remainder)	$ 28,189
2025	36,403
2026	34,894
2027	33,963
2028	33,227
Thereafter	249,086
Total lease payments	415,762
Less: present value adjustments	(154,204)
Present value of total lease liabilities	261,558
Less: current lease liabilities	(17,378)
Long-term operating lease liabilities	$ 244,180

Operating lease liabilities are based on the net present value of the remaining lease payments over the remaining lease term. In determining the present value of lease payments, the Company used its incremental borrowing rate based on the information available at each lease's commencement date to determine each lease's operating lease liability. As of March 31, 2024, the weighted average remaining lease term is 12.3 years and the weighted average discount rate is 8.1%.

14. INCOME TAXES

The Company recorded income tax expense of $1,759 and $907, or 25.8% and 31.2% of earnings before income taxes for the three months ended March 31, 2024 and 2023, respectively. The decrease in the effective tax rate is primarily due to the increase in deductible equity compensation.

15. DEFINED CONTRIBUTION PLAN

The Company has a 401(k) defined contribution plan (the "401(k) Plan"), whereby eligible employees may contribute up to 90% of their annual basic earnings, subject to applicable annual Internal Revenue Code limits. Additionally, the 401(k) Plan provides for discretionary matching contributions (as defined in the 401(k) Plan) by the Company. The Company expensed matching contributions to the 401(k) Plan of $291 and $213 during the three months ended March 31, 2024 and 2023, respectively.

During fiscal year 2021, the Company implemented a non-qualified deferred compensation plan (the "DCP") for executives, other highly compensated employees, independent contractors and non-employee directors which went into effect on June 1, 2021, effective for compensation to be paid in 2022 and thereafter. The independent contractors and non-employee directors are otherwise ineligible for participation in the Company's 401(k) plan. The DCP allows participants to defer the receipt of a portion of their base compensation, and further allows certain participants to defer up to 80% of their base salary and bonus compensation or director fees. At the participant's election, payments can be deferred until a specific date at least one year after the year of deferral or until termination of engagement with the Company and can be paid in a lump sum or in up to ten annual installments. Separate deferral elections can be made for each year, and in limited circumstances, existing payment elections may be changed. The amounts deferred are credited with earnings and losses based upon the actual performance of the deemed investments selected by the participant. The rate of return for each participant varies depending on the specific investment elections made by the participant. Additionally, the plan deposits the employee deferrals into a rabbi trust and the funds are generally invested in individual variable life insurance contracts owned by the Company that are specifically designed to informally fund savings plans of this nature. The Company paid for related administrative costs, which were immaterial during the fiscal years presented.

As of March 31, 2024 and 2023, the Company's deferred compensation liabilities were $1,965 and $855, respectively, in other long-term liabilities on the consolidated balance sheets. The cash surrender value of the individual variable life insurance contracts is based on investment funds that shadow the investment allocations specified by participants in the DCP. As of March 31, 2024 and 2023, the cash surrender value of the company owned life insurance ("COLI") policies were $1,997 and $852, respectively, and were included as a component of restricted and other assets on the consolidated balance sheets. There are no outstanding loan amounts offset against the cash surrender value of the COLI policies. The losses recorded for the change in cash surrender value were immaterial for each period presented.

16. COMMITMENTS AND CONTINGENCIES

Regulatory Matters - The Company provides services in complex and highly regulated industries. The Company's compliance with applicable U.S. federal, state and local laws and regulations governing these industries may be subject to governmental review and adverse findings may result in significant regulatory action, which could include sanctions, damages, fines, penalties (many of which may not be covered by insurance), and even exclusion from government programs. The Company is a party to various regulatory and other governmental audits and investigations in the ordinary course of business and cannot predict the ultimate outcome of any federal or state regulatory survey, audit or investigation. While governmental audits and investigations are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve and penalties subject to appeal may remain in place during such appeals, which may include suspension, termination, or revocation of participation in governmental programs for the payment of the services the Company provides. The Department of Justice, CMS, or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses. The Company believes it is presently in compliance in all material respects with all applicable laws and regulations.

Cost-Containment Measures - Government and third-party payors have instituted cost-containment measures designed to limit payments made to providers of healthcare services, may propose future cost-containment measures, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect the Company.

Indemnities - From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily include (i) certain real estate leases, under which the Company may be required to indemnify property owners or prior operators for post-transfer environmental or other liabilities and other claims arising from the Company's use of the applicable premises, (ii) operations transfer agreements, in which the Company agrees to indemnify past operators of agencies and communities the Company acquires against certain liabilities arising from the transfer of the operation and/or the operation thereof after the transfer, (iii) certain Ensign lending agreements, and (iv) certain agreements with management, directors and employees, under which the subsidiaries of the Company may be required to indemnify such persons for liabilities arising out of their employment relationships. The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, no liabilities have been recorded for these obligations on the Company's Condensed Consolidated Balance Sheets for any of the periods presented.

Litigation - The Company's businesses involve a significant risk of liability given the age and health of the patients and residents served by its independent operating subsidiaries. The Company, its operating companies, and others in the industry may be subject to a number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, elder abuse, wrongful death or other related claims. Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims and theories, and the Company is routinely subjected to these claims in the ordinary course of business, including potential claims related to patient care and treatment, and professional negligence, as well as employment-related claims. Certain of the states where we conduct business, including California, recently adopted laws that increase the maximum amount of non-economic damages that may be awarded to a successful plaintiff in a claim for professional negligence or malpractice arising from care provided by our independent operating subsidiaries. These changes in applicable law may also increase the cost of obtaining and maintaining professional liability insurance to pay for the defense of, and any liability arising under, such claims. If there were a significant increase in the number of these claims or an increase in amounts owing should plaintiffs be successful in their prosecution of these claims, this could materially adversely affect the Company's business, financial condition, results of operations and cash flows. In addition, the defense of these lawsuits may result in significant legal costs, regardless of the outcome, and may result in large settlement amounts or damage awards.

In addition to the potential lawsuits and claims described above, the Company also is subject to potential lawsuits under the False Claims Act (the "FCA") and comparable state laws alleging submission of fraudulent claims for services to any governmental healthcare program (such as Medicare) or commercial payor. A violation may provide the basis for exclusion from federally funded healthcare programs. Such exclusions could have a correlative negative impact on the Company's financial performance. Some states, including California, Arizona and Texas, have enacted similar whistleblower and false claims laws and regulations. In addition, the Deficit Reduction Act of 2005 created incentives for states to enact anti-fraud legislation modeled on the FCA, for which 18 states have qualified, including California and Texas, where we conduct business. As such, the Company could face scrutiny, potential liability and legal expenses and costs based on claims under state false claims acts in markets in which it conducts business.

Under the Fraud Enforcement and Recovery Act ("FERA") and its associated rules, healthcare providers face significant penalties for the knowing retention of government overpayments, even if no false claim was involved. Providers have an obligation to proactively exercise "reasonable diligence" to identify overpayments and return those overpayments to CMS within 60 days of "identification" or the date any corresponding cost report is due, whichever is later. Retention of overpayments beyond this period may create liability under the FCA. In addition, FERA protects whistleblowers (including employees, contractors, and agents) from retaliation.

The Company cannot predict or provide any assurance as to the possible outcome of any litigation. If any litigation were to proceed, and the Company and its operating companies are subjected to, alleged to be liable for, or agree to a settlement of, claims or obligations under federal Medicare statutes, the FCA, or similar state and federal statutes and related regulations, the Company's business, financial condition and results of operations and cash flows could be materially and adversely affected. Among other things, any settlement or litigation could involve the payment of substantial sums to settle any alleged civil violations, and may also include the assumption of specific procedural and financial obligations by the Company or its independent operating subsidiaries going forward under a corporate integrity agreement and/or other arrangement with the government.

Medicare Revenue Recoupments - The Company is subject to probe reviews relating to Medicare services, billings and potential overpayments by Unified Program Integrity Contractors ("UPIC"), Recovery Audit Contractors ("RAC"), Zone Program Integrity Contractors ("ZPIC"), Program Safeguard Contractors ("PSC"), Supplemental Medical Review Contractors ("SMRC") and Medicaid Integrity Contributors ("MIC") programs, each of the foregoing collectively referred to as "Reviews."

As of March 31, 2024, ten of the Company's independent operating subsidiaries had Reviews scheduled, on appeal or in dispute resolution process, both pre- and post-payment. If an operation fails an initial or subsequent Review, the operation could then be subject to extended Review, suspension of payment, or extrapolation of the identified error rate to all billing in the same time period. The Company, from time to time, receives record requests in Reviews which have resulted in claim denials on previously paid claims. The Company has appealed substantially all denials arising from these Reviews using the applicable appeals process. As of March 31, 2024, and through the filing of this Quarterly Report on Form 10-Q, the Company's independent operating subsidiaries have responded to the Reviews that are currently ongoing, on appeal or in dispute resolution process. The Company cannot predict the ultimate outcome of any regulatory and other governmental Reviews. While such Reviews are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve. The costs to respond to and defend such Reviews may be significant and an adverse determination in such Reviews may subject the Company to sanctions, damages, extrapolation of damage findings, additional recoupments, fines, other penalties (some of which may not be covered by insurance), and termination from Medicare programs which may, either individually or in the aggregate, have a material adverse effect on the Company's business and financial condition.

From June 2021 to May 2022, one hospice provider number was subject to a Medicare payment suspension imposed by a UPIC. The total amounts suspended was $5,105, which represents all Medicare payments due to the provider number during the suspension. As of March 31, 2024, the total amount due from the government payor impacted by the suspension was $1,774 and was recorded in long-term other assets.

In May 2022, the Company received communication that the Medicare payment suspension, for the above-referenced hospice provider number, was terminated and the UPIC's review was complete. The UPIC reviewed 107 patient records covering a 10-month period to determine whether, in its view, a Medicare overpayment was made. Based on the results of the review, the UPIC initially alleged sampled and extrapolated overpayments of $5,105, and withheld that amount through continued recoupment of Medicare payments. The Company is pursuing its appeal rights through the administrative appeals process, including contesting the methodology used by the UPIC to perform statistical extrapolation. To date the Company has been successful in appealing most of the previously denied claims. The Company received the refund of previously withheld amounts totaling $3,363 as of March 31, 2024. Subsequent to March 31, 2024, the Company received refund payments totaling $1,431. The Company continues to work through the appeals process for the remaining denied claims and expects to be successful in those appeals. Based on the information currently available to the Company, the Company cannot predict the timing or the ultimate outcome of this review including refunds to be received. As of March 31, 2024, the Company has an accrued liability that is immaterial for this review which was recorded as an offset to revenue.

Insurance - The Company retains risk for a substantial portion of potential claims for general and professional liability, workers' compensation and automobile liability. Based on changes in law that increase the maximum damages that may be recovered for professional negligence or malpractice claims in states where we operate, including, California, the costs of maintaining some of these insurance policies may increase in the future. The Company recognizes obligations associated with these costs, up to specified deductible limits in the period in which a claim is incurred, including with respect to both reported claims and claims incurred but not reported. The general and professional liability insurance has a retention limit of $150 per claim with a $500 corridor as an additional out-of-pocket retention we must satisfy for claims within the policy year before the carrier will reimburse losses. The workers' compensation insurance has a retention limit of $250 per claim, except for policies held in Texas, Washington and Wyoming which are subject to state insurance and possess their own limits.

The Company is self-insured for claims related to employee health, dental, and vision care. To protect itself against loss exposure, the Company has purchased individual stop-loss insurance coverage that insures individual health claims that exceed $350 for each covered person for fiscal year 2024 and fiscal year 2023.

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

You should read the following discussion and analysis in conjunction with the Interim Financial Statements and the related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report"). The information contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Annual Report"), which discusses our business and related risks in greater detail, as well as subsequent reports we may file from time to time on Form 10-K, Form 10-Q and Form 8-K, for additional information. The section entitled "Risk Factors" filed within our 2023 Annual Report describes some of the important risk factors that may affect our business, financial condition, results of operations and/or liquidity. You should carefully consider those risks, in addition to the other information in this Quarterly Report and in our other filings with the SEC, before deciding to purchase, hold or sell our common stock.

Special Note About Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "outlook," "believes," "expects," "potential," "continues," "may," "might," "will," "should," "could," "seeks," "approximately," "goals," "future," "projects," "predicts," "guidance," "target," "intends," "plans," "estimates," "anticipates", the negative version of these words or other comparable words. Forward-looking statements include, but are not limited to, statements related to our expectations regarding the performance of our business, our financial results, our liquidity and capital resources, the effects of competition and the effects of future legislation or regulations and other non-historical statements.

The risk factors discussed in this Quarterly Report and the 2023 Annual Report under the heading "Risk Factors," could cause our results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- federal and state changes to, or delays receiving, reimbursement and other aspects of Medicaid and Medicare;
- changes in, and compliance with, the laws and regulations affecting the U.S. healthcare industry;
- proposed changes to payment models and reimbursement amounts within the Medicare and Medicaid fee schedules for future calendar years;
- future cost containment measures undertaken by payors;
- government reviews, audits and investigations of our business;
- potential additional regulation affecting the transparency, ownership, operating standards, and staffing of businesses in our industry;
- increased competition and increased cost of acquisition or retention for, or a shortage of, skilled personnel;
- achievement and maintenance of competitive quality of care ratings and referrals from referral sources;
- changes in, and compliance with, state and federal employment, fair housing, safety, licensing and other laws;
- competition from other healthcare providers, state efforts to regulate or deregulate the healthcare services industry, or the construction or expansion of the number of home health, hospice or senior living operations;
- actions of labor unions, including strikes, work stoppages, unfair labor practices claims, or related labor activity;
- costs associated with litigation or any future litigation settlements;
- the leases of our affiliated senior living communities;
- inability to complete future acquisitions at attractive prices or at all, and failure to successfully or efficiently integrate new acquisitions into our existing operations and operating subsidiaries;
- general economic conditions, including a housing downturn, which could affect seniors' ability to afford resident fees, or inflation and increasing interest rates, which raise the costs of goods and borrowing capital, which may affect the delivery and affordability of our services;

- security breaches and other cyber security incidents;
- the performance of the financial and credit markets and uncertainties related to our ability to obtain financing or the terms of such financing; and
- uncertainties related to the lingering effect of the COVID-19 pandemic, including new regulatory risks impacting our operations, potential litigation, and vaccination mandates

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any forward-looking statements in this Quarterly Report. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim any commitment to do so except as required by applicable securities laws.

Overview

We are a leading provider of high-quality healthcare services to patients of all ages, including the growing senior population, in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We operate in multiple lines of businesses including home health, hospice and senior living services across Arizona, California, Colorado, Idaho, Montana, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. As of March 31, 2024, our home health and hospice business provided home health, hospice and home care services from 112 agencies operating across these 13 states, and our senior living business operated 53 senior living communities throughout six states.

The following table summarizes our affiliated home health and hospice agencies and senior living communities as of:

	December 31,								March 31,
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Home health and hospice agencies	39	46	54	63	76	88	95	111	112
Senior living communities	36	43	50	52	54	54	49	51	53
Senior living units	3,184	3,434	3,820	3,963	4,127	4,127	3,500	3,588	3,811
Total number of home health, hospice, and senior living operations	75	89	104	115	130	142	144	162	165

Recent Activities

Acquisitions. During the three months ended March 31, 2024, we expanded our operations with the addition of one home health agency and two senior living communities. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction.

Trends

We have experienced modest senior living occupancy improvement through the three months ended March 31, 2024, as a result of renewed consideration of senior living communities as a home-based care setting as the negative impacts of the global pandemic have subsided. Though we have seen steady improvements in occupancy throughout 2023 and the first quarter of 2024, the highly competitive environment for senior living residents and inflationary factors will continue to impact the rate at which we return our occupancy levels in our senior living communities to pre-pandemic levels.

When we acquire turnaround or start-up operations, we expect that our combined metrics may be impacted. We expect these metrics to vary from period to period based upon the maturity of the operations within our portfolio. We have generally experienced lower occupancy rates and higher costs at our senior living communities and lower census and higher costs at our home health and hospice agencies for recently acquired operations; as a result, we generally anticipate lower and/or fluctuating consolidated and segment margins during years of acquisition growth.

Government Regulation

We have disclosed under the heading "Government Regulation" in the 2023 Annual Report a summary of regulations that we believe materially affect our business, financial condition or results of operations. Since the time of the filing of the 2023 Annual Report, the following regulations have been updated.

On April 22, 2024, CMS published the Ensuring Access to Medicaid Services (the "Access Rule") which creates new obligations for providers of home- and community-based services ("HCBS"), including non-skilled personal care services in the home. The Access Rule requires that, beginning in 2030, states must implement data collection and monitoring systems to ensure that, subject to exceptions, Medicaid-funded HCBS providers spend at least 80% of their Medicaid HCBS reimbursement on compensation for direct care workers, as opposed to administrative overhead or profits. The Access Rule further requires states to establish hardship exemptions and separate requirements for small providers. The Company anticipates potential changes to the Access Rule, or offsetting Medicaid rate increases, before its ultimate implementation in six years.

On March 28, 2024, CMS issued the 2025 Hospice Payment Rate Update proposed rule (the "Hospice Payment Proposed Rule"). The Hospice Payment Proposed Rule's payment update percentage is 2.6%, which is an estimated increase of $705 million in payments from fiscal year 2024. The payment update percentage is based on a 3.0% market basket percentage increase, which is reduced by a 0.4% productivity adjustment. Hospices that fail to meet quality reporting requirements will receive a 4% reduction to the annual hospice payment update percentage increase for that year, which would more than negate the payment update percentage for fiscal year 2025 contained in the Hospice Payment Proposed Rule for hospices that fail to submit required quality reporting data to CMS. In addition, the Hospice Payment Proposed Rule updates the statutory aggregate cap that limits the overall payments per patient that may be made to a hospice annually. The proposed hospice cap amount for the 2025 fiscal year is $34,364.85. The Hospice Payment Proposed Rule also proposes clarifying revisions to the hospice conditions of payment, proposes to update statistical area delineations, and solicits comments regarding a proposed separate payment mechanism for certain high-intensity hospice palliative care services. As this is a proposed rule, the final rule that is expected later in 2024 may contain significant changes, or even remove, the provisions contained within the Hospice Payment Proposed Rule.

On March 6, 2024, the SEC issued its final climate disclosure rule (the "Climate Rule"), intended to regulate how public companies report on the risks and impacts of climate-related matters. The Climate Rule requires companies to report on how they manage and assess climate-related risks, as well as how the board and management oversee these risks. The Climate Rule also mandates companies to disclose the financial consequences of extreme weather events and other natural conditions in their audited financial statements. Additionally, larger companies will have to report on their greenhouse gas emissions, which will be subject to a gradual assurance requirement. The Company anticipates that it will be required to disclose information about its management and oversight of climate risks beginning in 2027, and its greenhouse gas emissions beginning in 2029, assuming no further changes to the Climate Rule, or to the Company's status as an Accelerated Filer under SEC rules. The Climate Rule is the subject of litigation in various courts and on April 4, 2024, the SEC stayed the Climate Rule pending the outcome of these cases.

Segments

We have two reportable segments: (1) home health and hospice services, which includes our home health, home care and hospice businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. Our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), reviews financial information at the operating segment level. We also report an "all other" category that includes general and administrative expense from our Service Center.

Key Performance Indicators

We manage the fiscal aspects of our business by monitoring key performance indicators that affect our financial performance. These indicators and their definitions include the following:

Home Health and Hospice Services

- ***Total home health admissions***. Total admissions of home health patients, including new acquisitions, new admissions and readmissions.
- ***Total Medicare home health admissions***. Total admissions of home health patients, who are receiving care under Medicare reimbursement programs, including new acquisitions, new admissions and readmissions.

- ***Average Medicare revenue per completed 60-day home health episode***. The average amount of revenue for each completed 60-day home health episode generated from patients who are receiving care under Medicare reimbursement programs.
- ***Total hospice admissions***. Total admissions of hospice patients, including new acquisitions, new admissions and recertifications.
- ***Average hospice daily census***. The average number of patients who are receiving hospice care during any measurement period divided by the number of days during such measurement period.
- ***Hospice Medicare revenue per day***. The average daily Medicare revenue recorded during any measurement period for services provided to hospice patients.

The following table summarizes our overall home health and hospice statistics for the periods indicated:

	Three Months Ended March 31,	
	2024	**2023**
Home health services:		
Total home health admissions	14,649	10,910
Total Medicare home health admissions	6,346	4,948
Average Medicare revenue per 60-day completed episode[(a)]	$ 3,535	$ 3,419
Hospice services:		
Total hospice admissions	3,080	2,451
Average hospice daily census	2,962	2,439
Hospice Medicare revenue per day	$ 187	$ 183

(a) The year-to-date average Medicare revenue per 60-day completed episode includes post period claim adjustments for prior quarters.

Senior Living Services

- ***Occupancy***. The ratio of actual number of days our units are occupied during any measurement period to the number of days units are available for occupancy during such measurement period.
- ***Average monthly revenue per occupied unit***. The revenue for senior living services during any measurement period divided by actual occupied senior living units for such measurement period divided by the number of months for such measurement period.

The following table summarizes our senior living statistics for the periods indicated:

	Three Months Ended March 31,	
	2024	**2023**
Occupancy	78.5 %	78.1 %
Average monthly revenue per occupied unit	$ 4,667	$ 4,300

Revenue Sources

Home Health and Hospice Services

Home Health. We derive the majority of our home health revenue from Medicare and managed care. The Medicare payment is adjusted for differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Net service revenue is recognized in accordance with PDGM methodology. Under PDGM, Medicare provides agencies with payments for each 30-day period of care provided to beneficiaries. If a beneficiary is still eligible for care after the end of the first 30-day payment period, a second 30-day payment period can begin. There are no limits to the number of periods of care a beneficiary who remains eligible for the home health benefit can receive. While payment for each 30-day period of care is adjusted to reflect the beneficiary's health condition and needs, a special outlier provision exists to ensure appropriate payment for those beneficiaries that have the most expensive care needs. The PDGM payment under the Medicare program is also adjusted for certain variables including, but not limited to: (a) a low utilization payment adjustment if the number of visits is below an established threshold that varies based on the diagnosis of a beneficiary; (b) a partial payment if the patient transferred to another provider or the Company received a patient from another provider before completing the period of care; (c) adjustment to the admission source of claim if it is determined that the patient had a qualifying stay in a post-acute care setting within 14 days prior to the start of a 30-day payment period; (d) the timing of the 30-day payment period provided to a patient in relation to the admission date, regardless of whether the same home health provider provided care for the entire series of episodes; (e) changes to the acuity of the patient during the previous 30-day period of care; (f) changes in the base payments established by the Medicare program; (g) adjustments to the base payments for case mix and geographic wages; and (h) recoveries of overpayments. For further detail regarding PDGM see the *Government Regulation* section of our 2023 Annual Report.

Hospice. We derive the majority of our hospice business revenue from Medicare reimbursement. The estimated payment rates are calculated as daily rates for each of the levels of care we deliver. Rates are set based on specific levels of care, are adjusted by a wage index to reflect healthcare labor costs across the country and are established annually through federal legislation. The following are the four levels of care provided under the hospice benefit:

- ***Routine Home Care ("RHC").*** Care that is not classified under any of the other levels of care, such as the work of nurses, social workers or home health aides.
- ***General Inpatient Care.*** Pain control or acute or chronic symptom management that cannot be managed in a setting other than an inpatient Medicare-certified facility, such as a hospital, skilled nursing facility or hospice inpatient facility.
- ***Continuous Home Care.*** Care for patients experiencing a medical crisis that requires nursing services to achieve palliation and symptom control, if the agency provides a minimum of eight hours of care within a 24-hour period.
- ***Inpatient Respite Care.*** Short-term, inpatient care to give temporary relief to the caregiver who regularly provides care to the patient.

CMS has established a two-tiered payment system for RHC. Hospices are reimbursed at a higher rate for RHC services provided from days of service one through 60 and a lower rate for all subsequent days of service. CMS also provides for a Service Intensity Add-On, which increases payments for certain RHC services provided by registered nurses and social workers to hospice patients during the final seven days of life.

Medicare reimbursement is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap limit and an overall payment cap, we monitor our provider numbers and estimate amounts due back to Medicare to the extent that the cap has been exceeded.

Senior Living Services. As of March 31, 2024, we provided assisted living, independent living and memory care services in 53 communities. Within our senior living operations, we generate revenue primarily from private pay sources, with a portion earned from Medicaid or other state-specific programs.

Primary Components of Expense

Cost of Services (excluding rent, general and administrative expense and depreciation and amortization). Our cost of services represents the costs of operating our independent operating subsidiaries, which primarily consists of payroll and related benefits, supplies, purchased services, and ancillary expenses such as the cost of pharmacy and therapy services provided to patients. Cost of services also includes the cost of general and professional liability insurance and other general cost of services specifically attributable to our operations.

Rent—Cost of Services. Rent—cost of services consists solely of base minimum rent amounts payable under lease agreements to our landlords. Our subsidiaries lease and operate but do not own the underlying real estate at our operations, and these amounts do not include taxes, insurance, impounds, capital reserves or other charges payable under the applicable lease agreements.

General and Administrative Expense. General and administrative expense consists primarily of payroll and related benefits and travel expenses for our Service Center personnel, including training and other operational support. General and administrative expense also includes professional fees (including accounting and legal fees), costs relating to information systems, stock-based compensation and rent for our Service Center offices.

Depreciation and Amortization. Property and equipment are recorded at their original historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets (ranging from one to 40 years). Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the remaining lease term.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on Interim Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of the Interim Financial Statements and related disclosures requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis we review our judgments and estimates, including but not limited to those related to self-insurance reserves, revenue, intangible assets, and goodwill. We base our estimates and judgments upon our historical experience, knowledge of current conditions and our belief of what could occur in the future considering available information, including assumptions that we believe to be reasonable under the circumstances. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty, and actual results could differ materially from the amounts reported. While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information available when the estimate was made. Refer to Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, within the 2023 Annual Report for further information on our critical accounting estimates and policies, which are as follows:

- ***Self-insurance reserves*** - The valuation methods and assumptions used in estimating costs up to retention amounts to settle open claims of insureds and an estimate of the cost of insured claims up to retention amounts that have been incurred but not reported;
- ***Revenue recognition*** - The amounts owed by private pay individuals for services and estimate of variable considerations to arrive at the transaction price, including methods and assumptions, used to determine settlements with Medicare and Medicaid adjustments due to audits and reviews; and
- ***Acquisition accounting and goodwill*** - The assumptions used to allocate the purchase price paid for assets acquired and liabilities assumed in connection with our acquisitions, and the review of goodwill for impairment at the Company's annual impairment test date or upon the occurrence of a triggering event.

Recent Accounting Pronouncements

Information concerning recently issued accounting pronouncements, if applicable, are included in Note 2, *Basis of Presentation and Summary of Significant Accounting Policies* in the Interim Financial Statements.

Results of Operations

The following table sets forth details of our revenue, expenses and earnings as a percentage of total revenue for the periods indicated:

	Three Months Ended March 31,	
	2024	2023
Total revenue	100.0 %	100.0 %
Expense:		
Cost of services	80.3	81.1
Rent—cost of services	6.6	7.6
General and administrative expense	7.3	6.9
Depreciation and amortization	0.9	1.0
Gain on disposition of property and equipment, net	(0.5)	—
Total expenses	94.6	96.6
Income from operations	5.4	3.4
Other expense:		
Other income	0.1	—
Interest expense, net	(1.1)	(1.1)
Other expense, net	(1.0)	(1.1)
Income before provision for income taxes	4.4	2.3
Provision for income taxes	1.2	0.7
Net income	3.2	1.6
Less: net income attributable to noncontrolling interest	0.1	0.1
Net income attributable to Pennant	3.1 %	1.5 %

The following table presents our consolidated GAAP Financial measures for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Consolidated GAAP Financial Measures:		
Total revenue	$ 156,915	$ 126,464
Total expenses	$ 148,391	$ 122,184
Income from operations	$ 8,524	$ 4,280

	Home Health and Hospice Services	Senior Living Services	All Other	Total
		(In thousands)		
Segment GAAP Financial Measures:				
Three Months Ended March 31, 2024				
Revenue	$ 116,490	$ 40,425	$ —	$ 156,915
Segment Adjusted EBITDAR from Operations	$ 19,550	$ 12,011	$ (10,161)	$ 21,400
Three Months Ended March 31, 2023				
Revenue	$ 91,079	$ 35,385	$ —	$ 126,464
Segment Adjusted EBITDAR from Operations	$ 14,412	$ 10,241	$ (7,514)	$ 17,139

The table below provides a reconciliation of Segment Adjusted EBITDAR from Operations to Condensed Consolidated Income from operations:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Segment Adjusted EBITDAR from Operations[(a)]	$ 21,400	$ 17,139
Less: Depreciation and amortization	1,331	1,280
Rent—cost of services	10,384	9,597
Other (expense) income	85	30
Adjustments to Segment EBITDAR from Operations:		
Less: Costs at start-up operations[(b)]	(82)	203
Share-based compensation expense[(c)]	1,526	1,419
Acquisition related costs and credit allowances[(d)]	137	32
Costs associated with transitioning operations[(e)]	(628)	47
Unusual, non-recurring or redundant charges[(f)]	275	398
Add: Net income attributable to noncontrolling interest	152	147
Condensed Consolidated Income from Operations	$ 8,524	$ 4,280

(a) Segment Adjusted EBITDAR from Operations is net income (loss) attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, and, in order to view the operations performance on a comparable basis from period to period, certain adjustments including: (1) costs at start-up operations, (2) share-based compensation, (3) acquisition related costs and credit allowances, (4) the costs associated with transitioning operations, (5) unusual, non-recurring or redundant charges, and (6) net income attributable to noncontrolling interest. General and administrative expenses are not allocated to the reportable segments, and are included as "All Other", accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

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

(c) Share-based compensation expense and related payroll taxes incurred. Share-based compensation expense and related payroll taxes are included in cost of services and general and administrative expense.

(d) Non-capitalizable costs associated with acquisitions, credit allowances, and write offs for amounts in dispute with the prior owners of certain acquired operations.

(e) During the three months ended March 31, 2023, an affiliate of the Company placed its memory care units into transition and is actively seeking to sublease the units to an unrelated third party. The amount above represents the net operating impact attributable to the units in transition. The amounts reported exclude rent and depreciation and amortization expense related to such operations and include legal settlement costs associated with one of the entities transitioned to Ensign.

(f) Represents unusual or non-recurring charges for legal services, implementation costs, integration costs, and consulting fees in general and administrative and cost of services expenses.

Performance and Valuation Measures:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Consolidated Non-GAAP Financial Measures:		
Performance Metrics		
Consolidated EBITDA	$ 9,788	$ 5,443
Consolidated Adjusted EBITDA	$ 11,224	$ 7,916
Valuation Metric		
Consolidated Adjusted EBITDAR	$ 21,400	

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Segment Non-GAAP Measures:[(a)]		
Segment Adjusted EBITDA from Operations		
Home health and hospice services	$ 17,886	$ 13,182
Senior living services	$ 3,499	$ 2,248

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

The tables below reconcile Consolidated Net Income to the consolidated Non-GAAP financial measures, Consolidated EBITDA and Consolidated Adjusted EBITDA, and to the Non-GAAP valuation measure, Consolidated Adjusted EBITDAR, for the periods presented:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Consolidated net income	$ 5,058	$ 1,997
Less: Net income attributable to noncontrolling interest	152	147
Add: Provision for income taxes	1,759	907
Interest expense, net	1,792	1,406
Depreciation and amortization	1,331	1,280
Consolidated EBITDA	9,788	5,443
Adjustments to Consolidated EBITDA		
Add: Costs at start-up operations[(a)]	(82)	203
Share-based compensation expense[(b)]	1,526	1,419
Acquisition related costs and credit allowances[(c)]	137	32
Costs associated with transitioning operations[(d)]	(628)	47
Unusual, non-recurring or redundant charges[(e)]	275	398
Rent related to items (a) and (d) above	208	374
Consolidated Adjusted EBITDA	11,224	7,916
Rent—cost of services	10,384	9,597
Rent related to items (a) and (d) above	(208)	(374)
Adjusted rent—cost of services	10,176	9,223
Consolidated Adjusted EBITDAR	$ 21,400	

(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 and related payroll taxes incurred. Share-based compensation expense and related payroll taxes are included in cost of services and general and administrative expense.

(c) Non-capitalizable costs associated with acquisitions, credit allowances, and write offs for amounts in dispute with the prior owners of certain acquired operations.

(d) During the three months ended March 31, 2023, an affiliate of the Company placed its memory care units into transition and is actively seeking to sublease the units to an unrelated third party. The amount above represents the net operating impact attributable to the units in transition. The amounts reported exclude rent and depreciation and amortization expense related to such operations and include legal settlement costs associated with one of the entities transitioned to Ensign.

(e) Represents unusual or non-recurring charges for legal services, implementation costs, integration costs, and consulting fees in general and administrative and cost of services expenses.

	Three Months Ended March 31,			
	Home Health and Hospice		Senior Living	
	2024	2023	2024	2023
	(In thousands)			
Segment Adjusted EBITDAR from Operations	$ 19,550	$ 14,412	$ 12,011	$ 10,241
Less: Rent—cost of services	1,729	1,323	8,655	8,274
Rent related to start-up and transitioning operations	(65)	(93)	(143)	(281)
Segment Adjusted EBITDA from Operations	$ 17,886	$ 13,182	$ 3,499	$ 2,248

The following discussion includes references to certain performance and valuation measures, which are non-GAAP financial measures, including Consolidated EBITDA, Consolidated Adjusted EBITDA, Segment Adjusted EBITDA from Operations, and Consolidated Adjusted EBITDAR (collectively, "Non-GAAP Financial Measures"). Non-GAAP Financial Measures are used in addition to, and in conjunction with, results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Non-GAAP Financial Measures reflect an additional way of viewing aspects of our operations and company that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, we believe can provide a more comprehensive understanding of factors and trends affecting our business.

We believe these Non-GAAP Financial Measures are useful to investors and other external users of our financial statements regarding our results of operations because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall performance of companies in our industry without regard to items such as interest expense, rent expense and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets, the method by which assets were acquired, and differences in capital structures;
- they help investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base and capital structure from our operating results; and
- Consolidated Adjusted EBITDAR is used by investors and analysts in our industry to value the companies in our industry without regard to capital structures.

We use Non-GAAP Financial Measures:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis from period to period;
- to allocate resources to enhance the financial performance of our business;
- to assess the value of a potential acquisition;
- to assess the value of a transformed operation's performance;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We typically use Non-GAAP Financial Measures to compare the operating performance of each operation from period to period. We find that Non-GAAP Financial Measures are useful for this purpose because they do not include such costs as interest expense, income taxes, depreciation and amortization expense, which may vary from period-to-period depending upon various factors, including the method used to finance operations, the date of acquisition of a community or business, and the tax law of the state in which a business unit operates.

We also establish compensation programs and bonuses for our leaders that are partially based upon the achievement of Consolidated Adjusted EBITDAR targets.

Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, our Non-GAAP Financial Measures have limitations as analytical tools, and they should not be considered in isolation, or as a substitute for analysis of our results as reported in accordance with GAAP. Some of these limitations are:

- they do not reflect our current or future cash requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the net interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- in the case of Consolidated Adjusted EBITDAR, it does not reflect rent expenses, which are normal and recurring operating expenses that are necessary to operate our leased operations;
- they do not reflect any income tax payments we may be required to make;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and do not reflect any cash requirements for such replacements; and

- other companies in our industry may calculate the same Non-GAAP Financial Measures differently than we do, which may limit their usefulness as comparative measures.

We compensate for these limitations by using Non-GAAP Financial Measures only to supplement net income on a basis prepared in accordance with GAAP in order to provide a more complete understanding of the factors and trends affecting our business. Our use of Non-GAAP Financial Measures should not be construed as an inference that our future results will be unaffected by unusual or unexpected items.

We strongly encourage investors to review the Interim Financial Statements, included in this Quarterly Report in their entirety and to not rely on any single financial measure. Because these Non-GAAP Financial Measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These Non-GAAP Financial Measures should not be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. We strongly urge you to review the reconciliation of Consolidated Net Income to the Non-GAAP Financial Measures in the table presented above, along with the Interim Financial Statements and related notes included elsewhere in this Quarterly Report.

We believe the following Non-GAAP Financial Measures are useful to investors as key operating performance measures and valuation measures:

Performance Measures:

Consolidated EBITDA

We believe Consolidated EBITDA is useful to investors in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base (depreciation and amortization expense) from our operating results.

We calculate Consolidated EBITDA as net income, before (a) interest expense (b) provision for income taxes and (c) depreciation and amortization.

Consolidated Adjusted EBITDA

We adjust Consolidated EBITDA when evaluating our performance because we believe that the exclusion of the additional items described below provides useful supplemental information to investors regarding our ongoing operating performance. We believe that the presentation of Consolidated Adjusted EBITDA, when considered with Consolidated EBITDA and GAAP Consolidated Net Income is beneficial to an investor's complete understanding of our operating performance.

We calculate Consolidated Adjusted EBITDA by adjusting Consolidated EBITDA to exclude the effects of non-core business items, which for the reported periods includes, to the extent applicable:

- costs at start-up operations;
- share-based compensation expense;
- acquisition related costs and credit allowances;
- costs associated with transitioning operations; and
- unusual, non-recurring, or redundant charges.

Segment Adjusted EBITDA from Operations

We calculate Segment Adjusted EBITDA from Operations by adjusting Segment Adjusted EBITDAR from Operations to include rent-cost of services. We believe that the inclusion of rent-cost of services provides useful supplemental information to investors regarding our ongoing operating performance for each segment.

***Valuation Measure*:**

Consolidated Adjusted EBITDAR

We use Consolidated Adjusted EBITDAR as one measure in determining the value of prospective acquisitions. It is also a measure commonly used by us, research analysts and investors to compare the enterprise value of different companies in the healthcare industry, without regard to differences in capital structures. Additionally, we believe the use of Consolidated Adjusted EBITDAR allows us, research analysts and investors to compare operational results of companies with operating and finance leases. A significant portion of finance lease expenditures are recorded in interest, whereas operating lease expenditures are recorded in rent expense.

This measure is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring operating expense and, as such, does not reflect our cash requirements for leasing commitments. Our presentation of Consolidated Adjusted EBITDAR should not be construed as a financial performance measure.

The adjustments made and previously described in the computation of Consolidated Adjusted EBITDA are also made when computing Consolidated Adjusted EBITDAR. We calculate Consolidated Adjusted EBITDAR by excluding rent-cost of services and rent related to start up operations from Consolidated Adjusted EBITDA.

Three Months Ended March 31, 2024 Compared to the Three Months Ended March 31, 2023

Revenue

	Three Months Ended March 31,			
	2024		2023	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services				
Home health	$ 57,212	36.5 %	$ 41,780	33.0 %
Hospice	54,607	34.8	43,289	34.2
Home care and other[(a)]	4,671	3.0	6,010	4.8
Total home health and hospice services	116,490	74.3	91,079	72.0
Senior living services	40,425	25.7	35,385	28.0
Total revenue	$ 156,915	100.0 %	$ 126,464	100.0 %

(a) Home care and other revenue is included with home health revenue in other disclosures in this Quarterly Report.

Our total revenue increased $30.5 million, or 24.1%, during the three months ended March 31, 2024. The increase in revenue was driven by increases in key metrics for home health and hospice and senior living, including hospice admissions, hospice revenue per day, hospice average daily census, senior living occupancy, and senior living revenue per occupied room.

Home Health and Hospice Services

	Three Months Ended March 31, 2024	2023	Change	% Change
	(In thousands)			
Home health and hospice revenue				
Home health services	$ 57,212	$ 41,780	$ 15,432	36.9 %
Hospice services	54,607	43,289	11,318	26.1
Home care and other	4,671	6,010	(1,339)	(22.3)
Total home health and hospice revenue	$ 116,490	$ 91,079	$ 25,411	27.9 %

	Three Months Ended March 31, 2024	2023	Change	% Change
Home health services:				
Total home health admissions	14,649	10,910	3,739	34.3 %
Total Medicare home health admissions	6,346	4,948	1,398	28.3
Average Medicare revenue per 60-day completed episode[a]	$ 3,535	$ 3,419	$ 116	3.4
Hospice services:				
Total hospice admissions	3,080	2,451	629	25.7
Average daily census	2,962	2,439	523	21.4
Hospice Medicare revenue per day	$ 187	$ 183	$ 4	2.2
Number of home health and hospice agencies at period end	112	96	16	16.7

(a) The year-to-date average for Medicare revenue per 60-day completed episode includes post period claim adjustments for prior periods.

Home health and hospice revenue increased $25.4 million, or 27.9% during the three months ended March 31, 2024 compared to the same period in the prior year primarily due to an increase in hospice average daily census of 21.4%, an increase of 34.3% in home health admissions, inclusive of an increase in total Medicare home health admissions of 28.3%, and an increase of 25.7% in hospice admissions. The addition of sixteen home health and hospice operations between March 31, 2023 and March 31, 2024, added revenue of $12.8 million or 14.1%.

Senior Living Services

	Three Months Ended March 31, 2024	2023	Change	% Change
Revenue (in thousands)	$ 40,425	$ 35,385	$ 5,040	14.2 %
Number of communities at period end	53	51	2	3.9
Occupancy	78.5 %	78.1 %	0.4 %	
Average monthly revenue per occupied unit	$ 4,667	$ 4,300	$ 367	8.5

Senior living revenue increased $5.0 million, or 14.2%, for the three months ended March 31, 2024 compared to the same period in the prior year primarily due to an increase of 8.5% in average monthly revenue per occupied unit and an increase of 40 basis points in the occupancy rate between March 31, 2023 and March 31, 2024. The acquisition of two senior living communities between March 31, 2023 and March 31, 2024, added $1.5 million or 4.1% in revenue.

Cost of Services

	Three Months Ended March 31,			
	2024	2023	Change	% Change
	(In thousands)			
Home Health and Hospice	$ 97,320	$ 77,406	$ 19,914	25.7 %
Senior Living	28,675	25,196	3,479	13.8
Total cost of services	$ 125,995	$ 102,602	$ 23,393	22.8 %

Consolidated cost of services increased $23.4 million, or 22.8%, during the three months ended March 31, 2024 compared to the same period in the prior year. Cost of services as a percentage of revenue for the three months ended March 31, 2024 decreased by 80 basis points to 80.3% from 81.1% compared to the three months ended March 31, 2023.

Home Health and Hospice Services

	Three Months Ended March 31,			
	2024	2023	Change	% Change
Cost of service (in thousands)	$ 97,320	$ 77,406	$ 19,914	25.7 %
Cost of services as a percentage of revenue	83.5 %	85.0 %	(1.5)%	

Cost of services related to our Home Health and Hospice services segment increased $19.9 million, or 25.7%, compared to the same period in the prior year primarily due to the increased volume of services from the growth in admissions and average daily census. Cost of services as a percentage of revenue for the three months ended March 31, 2024 decreased by 150 basis points compared to the three months ended March 31, 2023 primarily due to decreased wages and benefits as a percent of revenue.

Senior Living Services

	Three Months Ended March 31,			
	2024	2023	Change	% Change
Cost of service (in thousands)	$ 28,675	$ 25,196	$ 3,479	13.8 %
Cost of services as a percentage of revenue	70.9 %	71.2 %	(0.3)%	

Cost of services related to our Senior Living services segment increased $3.5 million, or 13.8%, during the three months ended March 31, 2024 compared to the same period in the prior year primarily due to higher occupancy and wage rate increases. As a percentage of revenue, costs of service decreased by 30 basis points during the three months ended March 31, 2024 when compared to the three months ended March 31, 2023.

Rent—Cost of Services. Rent increased 8.2% from $9.6 million to $10.4 million during the three months ended March 31, 2024 compared to the same period in the prior year, primarily as a result of the newly acquired senior living communities. As a percentage of revenue, rent—cost of services decreased 100 basis points when compared to the three months ended March 31, 2023 due to improved senior living performance.

General and Administrative Expense. Our general and administrative expense increased $2.7 million, or 31.4%, from $8.7 million to $11.4 million for the three months ended March 31, 2024 when compared to the three months ended March 31, 2023. The increase in general and administrative expense was due to an increase of $2.2 million in payroll and related benefits, for the three months ended March 31, 2024 when compared to the three months ended March 31, 2023.

Depreciation and Amortization. Depreciation and amortization expense was essentially flat.

Gain on disposition of property and equipment, net. We recorded a gain of $0.8 million for insurance proceeds received in excess of the carrying values of related assets during the three months ended March 31, 2024. No gain on disposition of property and equipment was recorded during the three months ended March 31, 2023.

Provision for Income Taxes. We recorded income tax expense of $1.8 million and $0.9 million, or 25.8% and 31.2% of earnings before income taxes, for the three months ended March 31, 2024 and 2023, respectively. The decrease in the effective tax rate is primarily due to the increase in deductible equity compensation.

Liquidity and Capital Resources

Our primary sources of liquidity are net cash provided by operating activities and borrowings under our revolving credit facility.

Revolving Credit Facility

On February 23, 2021, Pennant entered into an amendment to its existing credit agreement (as amended, the "Credit Agreement"), which provides for an increased revolving credit facility with a syndicate of banks with a borrowing capacity of $150.0 million (the "Revolving Credit Facility"). The Revolving Credit Facility is not subject to interim amortization and the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity in 2026. On June 12, 2023, Pennant entered into a second amendment to the Credit Agreement that modified the reference rate from LIBOR to Standard Overnight Financing Rate ("SOFR"). The Company is permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any SOFR breakage costs of the lenders.

The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its independent operating subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. Financial covenants require compliance with certain levels of leverage ratios that impact the amount of interest. As of March 31, 2024, the Company was compliant with all such financial covenants.

As of March 31, 2024, we had $2.7 million of cash and $61.6 million of available borrowing capacity on our Revolving Credit Facility.

We believe that our existing cash, cash generated through operations, and access to available borrowing capacity under our existing Credit Agreement, will be sufficient to provide adequate liquidity for the next twelve months for our operating activities and for opportunities of acquisition growth.

The following table presents selected data from our Condensed Consolidated Statement of Cash Flows for the periods presented:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net cash provided by operating activities	$ 545	$ 8,996
Net cash used in investing activities	(23,636)	(2,326)
Net cash provided by (used in) financing activities	19,754	(5,797)
Net (decrease) increase in cash	(3,337)	873
Cash at beginning of period	6,059	2,079
Cash at end of period	$ 2,722	$ 2,952

Three Months Ended March 31, 2024 Compared to the Three Months Ended March 31, 2023

Our net cash flow from operating activities for the three months ended March 31, 2024 decreased by $8.5 million when compared to the three months ended March 31, 2023. The primary driver of this difference was a decrease in cash flows from the change in operating assets and liabilities of $10.5 million net and a decrease of $1.0 million in non-cash expenses partially offset by an increase in Net income of $3.1 million.

Our net cash used in investing activities for the three months ended March 31, 2024 increased by $21.3 million compared to the three months ended March 31, 2023, primarily driven by an increase in business and asset acquisitions.

Our net cash used in financing activities increased by approximately $25.6 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The increase was primarily due to a net increase in the balance on our line of credit during the three months ended March 31, 2024 compared to the three months ended March 31, 2023.

Contractual Obligations, Commitments and Contingencies

We continue to make draws and payments on our Revolving Credit Facility, as described in Note 11, *Debt*, to the Interim Financial Statements in Part I of this Quarterly Report. Additionally, we have right-of-use assets obtained in exchange for new operating lease obligations, as described in the supplemental disclosures of cash flow information in the Condensed Consolidated Statement of Cash Flows and in Note 13, *Leases,* to the Interim Financial Statements in Part I of this Quarterly Report.

Other than those transactions there have been no other material changes to our total obligations during the period covered by this Quarterly Report outside of the normal course of our business.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk. We are exposed to risks associated with market changes in interest rates. On June 12, 2023, Pennant entered into a second amendment to the Credit Agreement that modified the reference rate from LIBOR to SOFR. A 1.0% interest rate change would cause interest expense to change by approximately $0.8 million annually based upon our outstanding long-term debt as of March 31, 2024. We manage our exposure to this market risk by monitoring available financing alternatives.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this Quarterly Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recent fiscal quarter 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 are involved in various claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on our results of operations or financial condition. However, the results of such matters cannot be predicted with certainty and we cannot assure you that the ultimate resolution of any legal or administrative proceeding or dispute will not have a material adverse effect on our business, financial condition, results of operations and cash flows. See Note 15, *Commitments and Contingencies*, to the Interim Financial Statements for a description of claims and legal actions arising in the ordinary course of our business.

Item 1A. ***Risk Factors***

We have disclosed under the heading “Risk Factors” in the 2023 Annual Report risk factors that materially affect our business, financial condition or results of operations. You should carefully consider the risk factors set forth in the 2023 Annual Report and the other information set forth elsewhere in this Quarterly Report. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of The Pennant Group, Inc., effective as of September 27, 2019 (incorporated by reference to Exhibit 3.1 to The Pennant Group, Inc.'s Current Report on Form 8-K (File No. 001-38900) filed with the SEC on October 3, 2019).
3.2	Second Amended and Restated Bylaws of The Pennant Group, Inc., effective as of February 21, 2022 (incorporated by reference to Exhibit 3.1 to The Pennant Group, Inc.'s Current Report on Form 8-K (File No. 001-38900) filed with the SEC February 22, 2022).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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 (embedded within the Inline XBRL document)

SIGNATURES

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.

		The Pennant Group, Inc.
Dated: May 6, 2024	BY:	/s/ LYNETTE B. WALBOM
		Lynette B. Walbom
		Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

EXHIBIT 31.1

I, Brent J. Guerisoli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Pennant Group, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 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

   (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(s) 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: May 6, 2024

/s/ BRENT J. GUERISOLI

Name:	Brent J. Guerisoli
Title:	Chief Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

I, Lynette B. Walbom, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Pennant Group, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 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

   (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(s) 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: May 6, 2024

/s/ LYNETTE B. WALBOM

Name:	Lynette B. Walbom
Title:	*Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)*

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Pennant Group, Inc. (the Company) on Form 10-Q for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Brent J. Guerisoli, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to 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 the Company.

/s/ BRENT J. GUERISOLI

Name:	Brent J. Guerisoli
Title:	Chief Executive Officer (Principal Executive Officer)

May 6, 2024

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Pennant Group, Inc. (the Company) on Form 10-Q for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Lynette B. Walbom, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to 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 the Company.

/s/ LYNETTE B. WALBOM

Name:	Lynette B. Walbom
Title:	*Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)*

May 6, 2024

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.