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**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, 2025.

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
(State or Other Jurisdiction of
Incorporation or Organization)

83-3349931
(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 Exchange 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 Exchange 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 2, 2025, 34,468,981 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, 2025
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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, 2025	December 31, 2024
Assets		
Current assets:		
Cash	\$ 5,221	\$ 24,246
Accounts receivable—less allowance for doubtful accounts of \$373 and \$232, respectively	94,992	81,302
Prepaid expenses and other current assets	23,676	17,308
Total current assets	123,889	122,856
Property and equipment, net	43,524	43,296
Operating lease right-of-use assets	278,210	270,586
Restricted and other assets	24,214	17,477
Goodwill	154,904	129,124
Other indefinite-lived intangibles	118,882	96,182
Total assets	\$ 743,623	\$ 679,521
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 18,800	\$ 18,737
Accrued wages and related liabilities	27,691	43,106
Operating lease liabilities—current	20,557	19,671
Other accrued liabilities	20,925	20,186
Total current liabilities	87,973	101,700
Long-term operating lease liabilities—less current portion	260,236	253,420
Deferred tax liabilities, net	2,776	1,861
Other long-term liabilities	17,112	10,575
Long-term debt	52,500	—
Total liabilities	420,597	367,556
Commitments and contingencies		
Equity:		
Common stock, \$0.001 par value; 100,000 shares authorized; 34,736 and 34,445 shares issued and outstanding, respectively, at March 31, 2025; and 34,670 and 34,373 shares issued and outstanding, respectively, at December 31, 2024	35	35
Additional paid-in capital	238,630	236,091
Retained earnings	64,997	57,222
Treasury stock, at cost, 3 shares at March 31, 2025 and December 31, 2024	(65)	(65)
Total The Pennant Group, Inc. stockholders' equity	303,597	293,283
Noncontrolling interest	19,429	18,682
Total equity	323,026	311,965
Total liabilities and equity	\$ 743,623	\$ 679,521

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,	
	2025	2024
Revenue	\$ 209,842	\$ 156,915
Expense		
Cost of services	168,745	125,995
Rent—cost of services	11,715	10,384
General and administrative expense	14,840	11,436
Depreciation and amortization	1,892	1,331
Gain on disposition of property and equipment, net	—	(755)
Total expenses	197,192	148,391
Income from operations	12,650	8,524
Other (expense) income, net:		
Other (expense) income	(69)	85
Interest expense, net	(1,205)	(1,792)
Other expense, net	(1,274)	(1,707)
Income before provision for income taxes	11,376	6,817
Provision for income taxes	2,854	1,759
Net income	8,522	5,058
Less: Net income attributable to noncontrolling interest	747	152
Net income attributable to The Pennant Group, Inc.	\$ 7,775	\$ 4,906
Earnings per share:		
Basic	\$ 0.23	\$ 0.16
Diluted	\$ 0.22	\$ 0.16
Weighted average common shares outstanding:		
Basic	34,471	30,046
Diluted	35,202	30,403

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, 2024	34,670	\$ 35	\$ 236,091	\$ 57,222	3	\$ (65)	\$ 18,682	\$ 311,965
Net income attributable to The Pennant Group, Inc.	—	—	—	7,775	—	—	—	7,775
Net income attributable to noncontrolling interests	—	—	—	—	—	—	747	747
Share-based compensation	—	—	2,147	—	—	—	—	2,147
Issuance of common stock from the exercise of stock options	41	—	392	—	—	—	—	392
Net issuance of restricted stock	25	—	—	—	—	—	—	—
Balance at March 31, 2025	<u>34,736</u>	<u>\$ 35</u>	<u>\$ 238,630</u>	<u>\$ 64,997</u>	<u>3</u>	<u>\$ (65)</u>	<u>\$ 19,429</u>	<u>\$ 323,026</u>

	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	<u>30,371</u>	<u>\$ 30</u>	<u>\$ 107,644</u>	<u>\$ 39,569</u>	<u>3</u>	<u>\$ (65)</u>	<u>\$ 17,054</u>	<u>\$ 164,232</u>

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,	
	2025	2024
Cash flows from operating activities:		
Net income	\$ 8,522	\$ 5,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,892	1,331
Amortization of deferred financing fees	221	130
Gain on disposition of property and equipment, net	—	(755)
Provision for doubtful accounts	193	244
Share-based compensation	2,147	1,440
Deferred income taxes	915	285
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(13,884)	(10,483)
Prepaid expenses and other assets	(7,337)	(1,298)
Operating lease obligations	77	(13)
Accounts payable	1	2,414
Accrued wages and related liabilities	(16,275)	(3,001)
Other accrued liabilities	(560)	2,922
Income taxes payable	1,900	536
Other long-term liabilities	959	1,735
Net cash (used in) provided by operating activities	(21,229)	545
Cash flows from investing activities:		
Purchase of property and equipment	(1,960)	(3,144)
Cash payments for business acquisitions	(47,620)	(11,680)
Cash payments for asset acquisitions	—	(10,380)
Escrow deposits	(1,366)	248
Other	645	1,320
Net cash used in investing activities	(50,301)	(23,636)
Cash flows from financing activities:		
Proceeds from Revolving Credit Facility	96,500	69,000
Payments on Revolving Credit Facility	(44,000)	(49,750)
Issuance of common stock upon the exercise of options	392	493
Other financing activities	(387)	11
Net cash provided by financing activities	52,505	19,754
Net decrease in cash	(19,025)	(3,337)
Cash beginning of period	24,246	6,059
Cash end of period	\$ 5,221	\$ 2,722

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,	
	2025	2024
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 757	\$ 1,711
Income taxes	\$ 4	\$ 41
Operating lease liabilities	\$ 10,691	\$ 9,471
Operating lease right-of-use assets obtained in exchange for new lease obligations	\$ 12,952	\$ 755
Finance lease right-of-use assets obtained in exchange for new lease obligations	\$ 5,349	\$ —
Non-cash investing activity:		
Capital expenditures in accounts payable and accrued liabilities	\$ 225	\$ 125

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, 2025, the Company’s subsidiaries operated 137 home health, hospice and home care agencies and 60 senior living communities located in Arizona, California, Colorado, Idaho, Montana, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. We also provide home health and hospice operational support through a management service agreement in Connecticut.

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. The Service Center also provides certain of these services to unaffiliated third parties under management agreements.

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, 2024 is derived from the Company’s annual audited Consolidated Financial Statements for the fiscal year ended December 31, 2024, 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 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 Interim 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 Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates in the Interim 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, 2025 and December 31, 2024, the Company had \$238 and \$705 in unapplied state relief funds, respectively. The

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

unapplied state relief funds received are recorded in other accrued liabilities. The Company recognized state relief funding totaling \$682 for the three months ended March 31, 2025, and \$453 for the three months ended March 31, 2024, 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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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 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 is currently evaluating the impact of this ASU on the Consolidated Financial Statements.

In November 2024, the FASB issued ASU 2024-03 “*Disaggregation of Income Statement Expenses*,” which requires the Company to disaggregate key expense categories such as employee compensation, depreciation and intangible asset amortization within its financial statements. This guidance is effective for annual periods beginning after December 15, 2026, which will be the Company's fiscal year 2027, and interim periods within the Company's fiscal year 2028, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements.

3. TRANSACTIONS WITH ENSIGN

Pennant completed its separation from The Ensign Group, Inc. (“Ensign”) in 2019. Certain directors who serve on our Board of Directors also serve as directors of Ensign and own shares of Ensign common stock. Pennant and Ensign continue to partner in the provision of services along the healthcare continuum.

The Company incurred costs of \$195 for the three months ended March 31, 2025, and \$280 for the three months ended March 31, 2024, 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 \$1,672 for the three months ended March 31, 2025, and \$1,500 for the three months ended March 31, 2024, and are included in cost of services.

The Company's independent operating subsidiaries leased 32 communities from subsidiaries of Ensign under a master lease arrangement as of March 31, 2025. 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 PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Three Months Ended March 31,	
	2025	2024
Numerator:		
Net income attributable to The Pennant Group, Inc.	\$ 7,775	\$ 4,906
Denominator:		
Weighted average shares outstanding for basic net income per share	34,471	30,046
Plus: assumed incremental shares from exercise of options and assumed conversion or vesting of restricted stock ^(a)	731	357
Adjusted weighted average common shares outstanding for diluted income per share	35,202	30,403
Earnings Per Share:		
Basic net income per common share	\$ 0.23	\$ 0.16
Diluted net income per common share	\$ 0.22	\$ 0.16

(a) The diluted per share amounts do not reflect common share equivalents outstanding of 1,578 for the three months ended March 31, 2025, and 2,043 for the three months ended March 31, 2024, 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 Medicare, Medicaid, 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 or residents 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 PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 who 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.

Effective January 1, 2025, CMS implemented a permanent behavioral adjustment of -1.975% to the national 30-day payment rate under the PDGM. This adjustment aims to account for differences between assumed and actual behavior changes following the implementation of PDGM, as mandated by the Bipartisan Budget Act of 2018. CMS estimates that Medicare payments to home health agencies in calendar year 2025 will increase in the aggregate by 0.5%, or \$85 million, compared to calendar year 2024.

Also in January of 2025, CMS implemented updates to the PDGM case-mix weights, low utilization payment adjustment ("LUPA") thresholds, functional impairment levels, and comorbidity adjustment subgroups. CMS based these updates on the most recent data available to it and are intended to better align payments with patient care needs.

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 administering 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.

Management Services Revenue - The Company recognizes revenue earned from its management service agreements as the services are provided. Fees charges are based upon the contractual terms of each agreement.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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* (“ASC 842”) 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, we record 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, 2025 and 2024, is summarized in the following tables:

Three Months Ended March 31, 2025						
	Home Health and Hospice Services					
	Home Health Services	Hospice Services				
Medicare	\$ 39,676	\$ 61,449	\$ —	\$ 101,125		48.2 %
Medicaid	3,537	7,588	16,213	27,338		13.0
Subtotal	43,213	69,037	16,213	128,463		61.2
Managed care	29,782	932	—	30,714		14.6
Private and other ^(a)	16,289	617	33,759	50,665		24.2
Total revenue	\$ 89,284	\$ 70,586	\$ 49,972	\$ 209,842		100.0 %

(a) Private and other payors in the Company’s home health services includes revenue from all payors generated in the Company’s home care operations and management services agreement.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Three Months Ended March 31, 2024

	Home Health and Hospice Services		Senior Living Services	Total Revenue	Revenue %
	Home Health Services	Hospice Services			
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 services 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, 2025 and December 31, 2024 is summarized in the following table:

	March 31, 2025	December 31, 2024
Medicare	\$ 55,694	\$ 46,677
Medicaid	13,261	13,382
Managed care	15,999	14,220
Private and other	10,411	7,255
Accounts receivable, gross	95,365	81,534
Less: allowance for doubtful accounts	(373)	(232)
Accounts receivable, net	\$ 94,992	\$ 81,302

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 72.3% and 73.7% of its total gross accounts receivable as of March 31, 2025 and December 31, 2024, respectively. Combined revenue from reimbursement under the Medicare and Medicaid programs accounted for 61.2% of the Company's revenue for the three months ended March 31, 2025, and 65.1% of the Company's revenue for the three months ended March 31, 2024.

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 Topic 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.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, home care, and geriatric primary and palliative 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.

As of March 31, 2025, the Company provided services through 137 affiliated home health, hospice and home care agencies, and 60 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. The CODM monitors these results and provides guidance to the segment leadership to allocate enterprise-wide resources. Segment Adjusted EBITDAR from Operations is net income attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, unallocated corporate and administrative expenses, and, in order to view the operations' performance on a comparable basis from period to period, certain adjustments including: (1) start-up operations, (2) share-based compensation expense, (3) acquisition related costs and credit allowances, (4) costs associated with transitioning operations, (5) unusual, non-recurring, or redundant charges, and (6) net income attributable to noncontrolling interest. "All Other" consists of revenues generated at operating locations not included in the segment financial information reviewed by the CODM. Revenue included in the "All Other" category is insignificant individually, and therefore does not constitute a reportable segment. General and administrative expenses are not allocated to the reportable segments, and are included as "Unallocated corporate expenses", 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, provided that general and administrative expenses are not allocated to the reportable segments:

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Three Months Ended March 31, 2025				
Segment Revenue	\$ 159,443	\$ 49,534	\$ 865	\$ 209,842
Segment Cost of Services	132,169	35,085		
Segment Adjusted EBITDAR from Operations	\$ 27,274	\$ 14,449		\$ 41,723
Three Months Ended March 31, 2024				
Segment Revenue	\$ 114,490	\$ 40,015	\$ 2,410	\$ 156,915
Segment Cost of Services	94,940	28,004		
Segment Adjusted EBITDAR from Operations	\$ 19,550	\$ 12,011		\$ 31,561

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	Three Months Ended March 31,	
	2025	2024
Segment Adjusted EBITDAR from Operations	\$ 41,723	\$ 31,561
Less: Unallocated corporate expenses	13,694	10,161
Depreciation and amortization	1,892	1,331
Rent—cost of services	11,715	10,384
Other (expense) income	(69)	85
Adjustments to Segment EBITDAR from Operations:		
Less: Start-up operations ^(a)	78	(82)
Share-based compensation expense and related taxes ^(b)	2,167	1,526
Acquisition related costs and credit allowances ^(c)	272	137
Activities associated with transitioning operations ^(d)	20	(628)
Unusual, non-recurring or redundant charges ^(e)	51	275
Add: Net income attributable to noncontrolling interest	747	152
Condensed Consolidated Income from Operations	<u>\$ 12,650</u>	<u>\$ 8,524</u>

(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 year ended December 31, 2023, an affiliate of the Company placed its memory care units into transition and is converting the facility into an assisted living community. We received insurance proceeds related to the property in 2024 which were recorded as a gain on asset disposition on the consolidated statements of income.

(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.

Adjusted segment depreciation expense	Home Health and Hospice Services	Senior Living Services
Three Months Ended March 31, 2025	\$ 230	\$ 1,111
Three Months Ended March 31, 2024	\$ 146	\$ 929

7. ACQUISITIONS

The Company's acquisition focus is to purchase or lease 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.

2025 Acquisitions

During the three months ended March 31, 2025, the Company expanded its operations with the addition of five home health agencies, four hospice agencies, and three senior living communities. In connection with the senior living communities acquired, the Company entered into new long-term "triple-net" leases. A subsidiary of the Company entered into a separate

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

operations transfer agreement with the prior operator of each acquired operation as part of each transaction. These new communities included 188 operational senior living units to be operated by the Company's independent operating subsidiaries.

The five home health agencies and four hospice agencies were acquired on January 1, 2025, when the Company closed the second part of its planned acquisition of certain Signature Group, LLC operations. The transaction was classified as a business combination in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The aggregate purchase price for the business combination, paid through cash and acquired liabilities, was \$48,480, which preliminarily consisted of goodwill of \$25,780, indefinite-lived intangible assets of \$18,000 related to Medicare and Medicaid licenses, and trade names of \$4,700. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes. This Signature Group, LLC acquisition contributed \$15,891 in revenue and operating income of \$2,704 during the three months ended March 31, 2025.

Supplemental pro forma information for the Company's first quarter 2025 acquisitions has not been presented for the pre-acquisition periods due to the impracticability of obtaining accurate or reliable historical financial information for the periods the acquired entities were not owned by the Company.

There were no material acquisition costs that were expensed related to the business combinations during the three months ended March 31, 2025.

2024 Acquisitions

During the three months ended March 31, 2024, the Company expanded its operations with the addition of one home health agency 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.

Additionally, the Company closed on a home health joint venture, which is majority-owned and managed by an independent operating subsidiary of the Company and provides home health services to patients throughout the San Francisco east bay region. The fair value of assets for the joint venture acquired was mostly concentrated in goodwill and intangible assets and as such, this transaction was classified as a business combination in accordance with ASC 805. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes.

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

Subsequent Events

On April 1, 2025, the Company acquired the real estate of one senior living community located in Arizona. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of the acquired operation as part of the transaction. The acquisition adds to the Company's existing strength in the region while building out its operational footprint. This new community includes 128 operational senior living units to be operated by one of the Company's independent operating subsidiaries.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

	<u>March 31, 2025</u>	<u>December 31, 2024</u>
Land	\$ 5,677	\$ 5,632
Building	8,779	8,778
Leasehold improvements	22,294	21,879
Equipment	33,396	31,200
Furniture and fixtures	1,563	1,541
Construction in progress	2,061	2,715
	<u>73,770</u>	<u>71,745</u>
Less: accumulated depreciation	(30,246)	(28,449)
Property and equipment, net	<u>\$ 43,524</u>	<u>\$ 43,296</u>

Depreciation expense was \$1,892 for the three months ended March 31, 2025, and \$1,331 for the three months ended March 31, 2024.

The Company measures certain assets at fair value on a non-recurring basis, including long-lived assets, which are evaluated for impairment on an annual basis or when a triggering event occurs. 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, 2025 and 2024.

9. GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

The following table represents activity in goodwill by segment for the three months ended March 31, 2025:

	<u>Home Health and Hospice Services</u>	<u>Senior Living Services</u>	<u>Total</u>
December 31, 2024	\$ 125,482	\$ 3,642	\$ 129,124
Additions	25,780	—	25,780
March 31, 2025	<u>\$ 151,262</u>	<u>\$ 3,642</u>	<u>\$ 154,904</u>

Other indefinite-lived intangible assets consist of the following:

	<u>March 31, 2025</u>	<u>December 31, 2024</u>
Trade names	\$ 13,165	\$ 8,465
Medicare and Medicaid licenses	105,717	87,717
Total	<u>\$ 118,882</u>	<u>\$ 96,182</u>

No goodwill or intangible asset impairment charges were recorded during the three months ended March 31, 2025 and 2024.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	<u>March 31, 2025</u>	<u>December 31, 2024</u>
Refunds payable	\$ 1,850	\$ 1,382
Deferred revenue	2,338	2,284
Resident deposits	1,148	1,399
Property taxes	1,193	1,028
Deferred state relief funds	238	705
Accrued self-insurance liabilities	6,522	5,396
Hospice CAP liabilities	2,365	4,007
Software license payable	879	1,170
Other	4,392	2,815
Other accrued liabilities	<u>\$ 20,925</u>	<u>\$ 20,186</u>

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 consists of the following:

	<u>March 31, 2025</u>	<u>December 31, 2024</u>
Revolving credit facility ^(a)	\$ 52,500	\$ —

(a) During the year ended December 31, 2024, the Company used the proceeds from a public offering of common stock to pay in full the outstanding balance on our revolving credit facility.

At March 31, 2025 and December 31, 2024, the Company had unamortized deferred debt issuance costs of \$3,700 and \$3,906, respectively, recorded in restricted and other assets on our Condensed Consolidated Balance Sheets. Amortization expense for deferred debt issuance costs was \$221 for the three months ended March 31, 2025, and \$130 for the three months ended March 31, 2024, and is recorded in interest expense, net on the Condensed Consolidated Statements of Income.

On July 31, 2024, Pennant entered into an Amended and Restated Credit Agreement (the “Amended Credit Agreement”), which provides for a revolving credit facility (the “Amended Revolving Credit Facility”) with a syndicate of banks with a borrowing capacity of \$250,000. In conjunction with the amendment, the Company incurred additional debt issuance costs of \$3,915 and wrote off previously deferred unamortized debt issuance costs of \$428 in 2024. Per the terms of the Amended Credit Agreement, the interest rates applicable to loans under the Amended Revolving Credit Facility are, at the Company’s election, either (i) Term Standard Overnight Financing Rate (“SOFR”) (as defined in the Amended Credit Agreement) plus a margin ranging from 1.75% to 2.75% per annum or (ii) Base Rate plus a margin ranging from 0.75% to 1.75% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Amended Credit Agreement). In addition, Pennant pays a commitment fee on the undrawn portion of the commitments under the Amended Revolving Credit Facility that ranges from 0.25% to 0.45% 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 Amended Credit Agreement prior to maturity in July 2029. As of March 31, 2025, the Company’s weighted average interest rate on its outstanding debt was 6.42%. As of March 31, 2025, the Company had available borrowing on the Amended Revolving Credit Facility of \$193,314, which was net of outstanding letters of credit of \$4,186.

The fair value of the Amended 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 PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Amended 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 Amended 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 leverage ratios that impact the amount of interest. As of March 31, 2025, 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 Pennant Plans for the three months ended March 31, 2025 and 2024 was:

	Three Months Ended March 31,	
	2025	2024
Share-based compensation expense related to stock options	\$ 1,332	997
Share-based compensation expense related to Restricted Stock	432	93
Share-based compensation expense related to Restricted Stock to non-employee directors	383	350
Total share-based compensation	<u>\$ 2,147</u>	<u>\$ 1,440</u>

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, 2025:

	Unrecognized Compensation Expense	Weighted Average Recognition Period (in years)
Unvested Stock Options	\$ 15,676	3.6
Unvested Restricted Stock	2,022	3.1
Total unrecognized share-based compensation expense	<u>\$ 17,698</u>	

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 Pennant 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.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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
2025	224	4.0 %	6.5	42.1 %	— %	\$ 10.96
2024	498	4.2 %	6.5	42.6 %	— %	\$ 9.27

(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, 2025:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Exercise Price of Options Vested
December 31, 2024	3,331	20.01	1,367	\$ 20.67
Granted	224	22.53		
Exercised	(41)	9.55		
Forfeited	(20)	19.52		
Expired	(2)	28.63		
March 31, 2025	<u>3,492</u>	\$ 20.30	1,582	\$ 20.75

Restricted Stock

A summary of the status of Pennant's non-vested Restricted Stock, and changes during the three months ended March 31, 2025, is presented below:

	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2024	152	\$ 16.27
Granted	25	25.43
Vested	(25)	25.43
March 31, 2025	<u>152</u>	\$ 16.27

13. LEASES

The Company has operating leases through which their independent operating subsidiaries lease administrative offices of home health and hospice agencies, senior living communities, and corporate offices with initial lease terms ranging from one to 25 years. Most of these operating leases are non-cancelable, 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 Condensed Consolidated Balance Sheets. Non-lease components, which are not significant overall, are combined with lease components.

As of March 31, 2025, the Company's independent operating subsidiaries leased 32 senior living communities from

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

subsidiaries of Ensign (“Ensign Leases”) under a master lease arrangement. The existing leases with subsidiaries of Ensign have 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 \$3,754 for the three months ended March 31, 2025, and \$3,488 for the three months ended March 31, 2024. 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 Company also has finance lease right of use assets included in restricted and other assets and finance lease liabilities included in other accrued liabilities and other long-term liabilities on our Condensed Consolidated Balance Sheets. These finance leases have initial terms between 2 and 5 years. As of March 31, 2025, the Company has a real estate lease with a purchase option that we are reasonably certain to exercise in 2 years and leased vehicles that are considered finance leases under ASC 842. As of March 31, 2025, the weighted average remaining lease term and the weighted average discount rate was 2.2 years and 6.28%, respectively. The total amount of costs pertaining to finance leases include \$97 and \$69 amortization and interest expense for the three months ended March 31, 2025, respectively and \$42 and \$11 amortization and interest expense for the three months ended March 31, 2024, respectively.

The components of operating lease cost, are as follows:

	Three Months Ended March 31,	
	2025	2024
Operating Lease Costs:		
Community Rent—cost of services	\$ 9,573	\$ 8,627
Office Rent—cost of services	2,142	1,757
Rent—cost of services	<u>\$ 11,715</u>	<u>\$ 10,384</u>
General and administrative expense	\$ 161	\$ 87
Variable lease cost ^(a)	\$ 2,403	\$ 2,030

(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 leases, and which is included in cost of services for our home health and hospice and senior living leases, and general and administrative expense for our Service Center leases for the three months ended March 31, 2025 and 2024.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table shows the lease maturity analysis for all leases as of March 31, 2025, for the years ended December 31:

Year	Operating Lease Amounts	Finance Lease Amounts
2025 (Remainder)	\$ 31,562	\$ 548
2026	40,365	721
2027	39,140	5,436
2028	37,669	217
2029	36,546	14
Thereafter	248,467	—
Total lease payments	433,749	6,936
Less: present value adjustments	(152,956)	(732)
Present value of total lease liabilities	280,793	6,204
Less: current lease liabilities	(20,557)	(351)
Long-term lease liabilities	\$ 260,236	\$ 5,853

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, 2025, the weighted average remaining lease term is 11.6 years and the weighted average discount rate is 8.0%.

14. INCOME TAXES

The Company recorded income tax expense of \$2,854 and \$1,759, or 25.1% and 25.8% of earnings before income taxes for the three months ended March 31, 2025 and 2024, respectively. Certain of the Company's subsidiaries are treated for income tax purposes like partnerships. The noncontrolling portion of those subsidiaries' earnings reduces the Company's effective tax rate. The decrease in the effective tax rate is primarily due to having more earnings by those subsidiaries.

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 \$578 and \$291 for the three months ended March 31, 2025, and 2024, respectively.

The Company has a non-qualified deferred compensation plan (the "DCP") for executives, other highly compensated employees, independent contractors and non-employee directors. 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.

At March 31, 2025 and December 31, 2024, the Company's deferred compensation liabilities were \$3,128 and \$2,170, respectively, in other long-term liabilities on the Condensed 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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

participants in the DCP. At March 31, 2025 and December 31, 2024, the cash surrender value of the company owned life insurance (“COLI”) policies were \$3,169 and \$2,182, respectively, and were included as a component of restricted and other assets on the Condensed 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. 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. The Company may also face employment related claims, including wage and hour class actions, which are frequent in our industries. 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 healthcare program (such as Medicare) or 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.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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. The Company establishes reserves to cover the anticipated costs of such litigation, including legal fees and expected settlements, based on the Company’s historical litigation experience, current developments, and other factors.

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, 2025, 12 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 paid claims. The Company has appealed substantially all denials arising from these Reviews using the applicable appeals process. As of March 31, 2025, 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.

Insurance - The Company retains risk for a substantial portion of potential claims for general and professional liability, workers’ compensation and automobile liability. 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 \$250 per claim with a \$500 corridor as an additional out-of-pocket retention the Company 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 2025 and fiscal year 2024.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

17. SUBSEQUENT EVENTS

On April 30, 2025, the Company entered into a purchase agreement with UnitedHealth Group Incorporated (“UnitedHealth”), Amedisys, Inc. (“Amedisys”), and certain other sellers (collectively, the “Sellers”). Pursuant to the purchase agreement, the Company may acquire from the Sellers certain equity interests in and certain assets of the Seller related to the business of providing home health, hospice, or palliative care services. The Purchase Agreement contains customary representations, warranties, covenants, conditions to closing (including regulatory approvals under any antitrust law or any healthcare law for the transaction and approval of a proposed merger of Amedisys with UnitedHealth pursuant to a previously disclosed merger agreement), and indemnification obligations of the parties. The purchase price is \$102,484, subject to pre-closing adjustments and post-closing adjustments as set forth in the purchase agreement.

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, 2024 (the "2024 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 2024 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 2024 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, conditions of licensure or participation in certain payment programs, 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, federal and state efforts to regulate or deregulate the healthcare services industry, including through staffing levels and requirements, 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; and
- the performance of the financial and credit markets and uncertainties related to our ability to obtain financing or the terms of such financing.

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 and residents 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. We also provide home health and hospice operational support through a management service agreement in Connecticut. As of March 31, 2025, our home health and hospice business provided home health, hospice and home care services from 137 agencies operating across these 13 states, and our senior living business operated 60 senior living communities throughout seven states.

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

	December 31,								March 31,
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Home health and hospice agencies	46	54	63	76	88	95	111	123	137
Senior living communities	43	50	52	54	54	49	51	57	60
Senior living units	3,434	3,820	3,963	4,127	4,127	3,500	3,588	3,960	4,148
Total number of home health, hospice, and senior living operations	89	104	115	130	142	144	162	180	197

Recent Activities

Acquisitions. During the three months ended March 31, 2025, we expanded our operations with the addition of five home health agencies, four hospice agencies, and three 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 improvement in senior living revenue per occupied unit during the three months ended March 31, 2025, compared to the same period in 2024. Though we have seen improvements in revenue per occupied unit year over year, the highly competitive environment for senior living residents and inflationary factors will continue to impact the rate at which our revenue per occupied unit changes in our senior living communities.

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 2024 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 2024 Annual Report, the following regulations have been updated.

On April 11, 2025, CMS issued the 2026 Hospice Payment Rate Update proposed rule (the “Hospice Payment Proposed Rule”). The Hospice Payment Proposed Rule’s payment update percentage is 2.4%, which is an estimated increase of \$695 million in payments from fiscal year 2025. The payment update percentage is based on a 3.2% market basket percentage increase, which is reduced by a 0.8% productivity adjustment. The Hospice Payment Proposed Rule clarifies that the physician member of a hospice’s interdisciplinary group may recommend admission to hospice care, which aligns certification regulations with the hospice conditions of participation. 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 hospice cap amount for the 2026 fiscal year is \$35,292.51, increased from the 2025 fiscal year cap of \$34,465.34. The Hospice Payment Proposed Rule also proposes two new quality measures for potential adoption into the Hospice Quality Reporting Program: timely reassessment of pain impact and timely reassessment of non-pain symptom impact. If finalized and adopted for implementation beginning in fiscal year 2028, these measures would be intended to evaluate timely follow-up on patient symptoms. Finally, the Hospice Payment Proposed Rule contained a request for information seeking public comment on approaches and opportunities to streamline regulations and reduce burdens on participating providers, including hospice agencies.

On April 2, 2025, President Trump signed the executive order to impose a variety of tariffs to the global trading partners of the United States. These tariffs have the potential to increase costs on goods that are imported into the United States. As it pertains to our independent subsidiaries, tariffs on medical supplies may lead to higher costs to providers and the federal government through the Medicare and Medicaid programs and may impact the formulas used to calculate federal reimbursements.

Segments

We have two reportable segments: (1) home health and hospice services, which includes our home health, hospice, home care, and geriatric primary and palliative care businesses; and (2) senior living services, which includes our assisted living, independent living, and memory care services. Our Chief Executive Officer, who is our CODM, reviews financial information at the operating segment level using segment adjusted EBITDAR from operations.

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,	
	2025	2024
Home health services:		
Total home health admissions	18,878	14,649
Total Medicare home health admissions	7,599	6,346
Average Medicare revenue per 60-day completed episode ^(a)	\$ 3,801	\$ 3,477
Hospice services:		
Total hospice admissions	3,783	3,080
Average hospice daily census	3,794	2,962
Hospice Medicare revenue per day	\$ 190	\$ 187

(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,	
	2025	2024
Occupancy	78.5 %	78.5 %
Average monthly revenue per occupied unit	\$ 5,193	\$ 4,667

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 LUPA 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. These variables are subject to periodic

adjustments set by CMS regulations. For further detail regarding PDGM see the *Government Regulation* section of our 2024 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 1 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 based upon empirical experience estimate amounts due back to Medicare to the extent that the cap has been exceeded.

Senior Living Services. 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 employee wages and related benefits, share-based compensation, supplies, purchased services, and ancillary expenses such as the cost of pharmacy and therapy services provided to patients and res. 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 employee wages and related benefits and travel expenses for our Service Center personnel in providing 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 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 2024 Annual Report for further information on our critical accounting estimates and policies, which are as follows:

- **Self-insurance reserves** - The Company is self-insured for general and professional liability, workers’ compensation, automobile, and its employee health plans while maintaining stop-loss coverage with third-party insurers to limit its total liability exposure. 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,	
	2025	2024
Total revenue	100.0 %	100.0 %
Expense:		
Cost of services	80.4	80.3
Rent—cost of services	5.6	6.6
General and administrative expense	7.1	7.3
Depreciation and amortization	0.9	0.9
Gain on disposition of property and equipment, net	—	(0.5)
Total expenses	94.0	94.6
Income from operations	6.0	5.4
Other expense:		
Other income	—	0.1
Interest expense, net	(0.6)	(1.1)
Other expense, net	(0.6)	(1.0)
Income before provision for income taxes	5.4	4.4
Provision for income taxes	1.3	1.2
Net income	4.1	3.2
Less: net income attributable to noncontrolling interest	0.4	0.1
Net income attributable to Pennant	3.7 %	3.1 %

The following table presents our consolidated GAAP Financial measures for the three months ended March 31, 2025 and 2024:

	Three Months Ended March 31,	
	2025	2024
(In thousands)		
Consolidated GAAP Financial Measures:		
Total revenue	\$ 209,842	\$ 156,915
Total expenses	197,192	148,391
Income from operations	\$ 12,650	\$ 8,524

The following tables present certain financial information regarding our reportable segments for the periods presented. General and administrative expenses are not allocated to the reportable segments.

	Home Health and Hospice Services	Senior Living Services	All Other	Total
(In thousands)				
Segment GAAP Financial Measures:				
Three Months Ended March 31, 2025				
Segment Revenue	\$ 159,443	\$ 49,534	\$ 865	\$ 209,842
Segment Cost of Services	132,169	35,085		
Segment Adjusted EBITDAR from Operations	\$ 27,274	\$ 14,449		\$ 41,723
Three Months Ended March 31, 2024				
Segment Revenue	\$ 114,490	\$ 40,015	\$ 2,410	\$ 156,915
Segment Cost of Services	94,940	28,004		
Segment Adjusted EBITDAR from Operations	\$ 19,550	\$ 12,011		\$ 31,561

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

	Three Months Ended March 31,	
	2025	2024
(In thousands)		
Segment Adjusted EBITDAR from Operations ^(a)	\$ 41,723	\$ 31,561
Less: Unallocated corporate expenses	13,694	10,161
Less: Depreciation and amortization	1,892	1,331
Rent—cost of services	11,715	10,384
Other income (expense)	(69)	85
Adjustments to Segment EBITDAR from Operations:		
Less: Start-up operations ^(b)	78	(82)
Share-based compensation expense ^(c)	2,167	1,526
Acquisition related costs and credit allowances ^(d)	272	137
Activities associated with transitioning operations ^(e)	20	(628)
Unusual, non-recurring or redundant charges ^(f)	51	275
Add: Net income attributable to noncontrolling interest	747	152
Income from operations	<u>\$ 12,650</u>	<u>\$ 8,524</u>

(a) Segment Adjusted EBITDAR from Operations is net income attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, unallocated corporate and administrative expenses, and, in order to view the operations' performance on a comparable basis from period to period, certain adjustments including: (1) start-up operations, (2) share-based compensation expense, (3) acquisition related costs and credit allowances, (4) costs associated with transitioning operations, (5) unusual, non-recurring, or redundant charges, and (6) net income attributable to noncontrolling interest. "All Other" consists of revenues generated at operating locations not included in the segment financial information reviewed by the CODM. Revenue included in the "All Other" category is insignificant individually, and therefore does not constitute a reportable segment. General and administrative expenses are not allocated to the reportable segments, and are included as "Unallocated corporate expenses", 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 year ended December 31, 2023, an affiliate of the Company placed its memory care units into transition and is converting the facility into an assisted living community. We received insurance proceeds related to the property in 2024 which were recorded as a gain on asset disposition on the consolidated statements of income.
- (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,	
	2025	2024
(In thousands)		
Consolidated Non-GAAP Financial Measures:		
Performance Metrics		
Consolidated EBITDA	\$ 13,726	\$ 9,788
Consolidated Adjusted EBITDA	\$ 16,373	\$ 11,224
Valuation Metric		
Consolidated Adjusted EBITDAR	\$ 28,029	

	Three Months Ended March 31,	
	2025	2024
(In thousands)		
Segment Non-GAAP Measures:^(a)		
Segment Adjusted EBITDA from Operations		
Home health and hospice services	\$ 25,139	\$ 17,886
Senior living services	\$ 4,928	\$ 3,499

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

The table below reconciles 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,	
	2025	2024
	(In thousands)	
Consolidated net income	\$ 8,522	\$ 5,058
Less: Net income attributable to noncontrolling interest	747	152
Add: Provision for income taxes	2,854	1,759
Interest expense, net	1,205	1,792
Depreciation and amortization	1,892	1,331
Consolidated EBITDA	13,726	9,788
Adjustments to Consolidated EBITDA		
Add: Start-up operations ^(a)	78	(82)
Share-based compensation expense ^(b)	2,167	1,526
Acquisition related costs and credit allowances ^(c)	272	137
Activities associated with transitioning operations ^(d)	20	(628)
Unusual, non-recurring or redundant charges ^(e)	51	275
Rent related to items (a) and (d) above	59	208
Consolidated Adjusted EBITDA	16,373	11,224
Rent—cost of services	11,715	10,384
Rent related to items (a) and (d) above	(59)	(208)
Adjusted rent—cost of services	11,656	10,176
Consolidated Adjusted EBITDAR	\$ 28,029	

- (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 year ended December 31, 2023, an affiliate of the Company placed its memory care units into transition and is converting the facility into an assisted living community. We received insurance proceeds related to the property in 2024 which were recorded as a gain on asset disposition on the consolidated statements of income.
- (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.

The table below reconciles Segment Adjusted EBITDAR from Operations to Segment Adjusted EBITDA from Operations for the periods presented:

	Three Months Ended March 31,			
	Home Health and Hospice		Senior Living	
	2025	2024	2025	2024
	(In thousands)			
Segment Adjusted EBITDAR from Operations	\$ 27,274	\$ 19,550	\$ 14,449	\$ 12,011
Less: Rent—cost of services	2,142	1,729	9,573	8,655
Rent related to start-up and transitioning operations	(7)	(65)	(52)	(143)
Segment Adjusted EBITDA from Operations	\$ 25,139	\$ 17,886	\$ 4,928	\$ 3,499

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 length of the lease to which the asset applies, 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 these non-cash charges 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.

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, adjusted for net income (loss) attributable to noncontrolling interest, 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 certain 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 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 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 without regard to 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, 2025 Compared to the Three Months Ended March 31, 2024
Revenue

	Three Months Ended March 31,			
	2025		2024	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services				
Home health	\$ 74,118	35.3 %	\$ 57,212	36.5 %
Hospice	70,586	33.6	54,607	34.8
Home care and other ^(a)	15,166	7.2	4,671	3.0
Total home health and hospice services	159,870	76.1	116,490	74.3
Senior living services	49,972	23.9	40,425	25.7
Total revenue	<u>\$ 209,842</u>	<u>100.0 %</u>	<u>\$ 156,915</u>	<u>100.0 %</u>

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

Our total revenue increased \$52.9 million, or 33.7%, during the three months ended March 31, 2025. We experienced growth of \$43.4 million from increased operational performance in our Home Health and Hospice segment from increased admissions and census, in part driven by newly acquired agencies when compared to the three months ended March 31, 2024. The growth in our Senior Living segment resulted in an increase in revenue of \$9.5 million driven by acquired senior living communities and the improved average rate per occupied room.

Home Health and Hospice Services

	Three Months Ended March 31,		Change	% Change
	2025	2024		
	(In thousands)			
Home health and hospice revenue				
Home health services	\$ 74,118	\$ 57,212	\$ 16,906	29.5 %
Hospice services	70,586	54,607	15,979	29.3
Home care and other	15,166	4,671	10,495	224.7
Total home health and hospice revenue	<u>\$ 159,870</u>	<u>\$ 116,490</u>	<u>\$ 43,380</u>	<u>37.2 %</u>

	Three Months Ended March 31,		Change	% Change
	2025	2024		
Home health services:				
Total home health admissions	18,878	14,649	4,229	28.9 %
Total Medicare home health admissions	7,599	6,346	1,253	19.7
Average Medicare revenue per 60-day completed episode	\$ 3,801	\$ 3,477	\$ 324	9.3
Hospice services:				
Total hospice admissions	3,783	3,080	703	22.8
Average daily hospice census	3,794	2,962	832	28.1
Hospice Medicare revenue per day	\$ 190	\$ 187	\$ 3	1.6
Number of home health and hospice agencies at period end	137	112	25	22.3

Home health and hospice revenue increased \$43.4 million, or 37.2%, for the three months ended March 31, 2025 compared to the prior year quarter. Revenue grew due to an increase in certain key performance indicators, including an increase of 28.9% in total home health admissions, an increase in total hospice admissions of 22.8%, and an increase in average daily hospice census of 28.1% during the three months ended March 31, 2025 compared to the prior year quarter. Growth was also driven by the addition of twenty-five home health and hospice operations between March 31, 2024 and March 31, 2025. Agencies acquired during calendar year 2024 and year-to-date March 31, 2025 drove an increase of \$30.9 million, or 26.6%.

Senior Living Services

	Three Months Ended March 31,		Change	% Change
	2025	2024		
Revenue (in thousands)	\$ 49,972	\$ 40,425	\$ 9,547	23.6 %
Number of communities at period end	60	53	7	13.2
Occupancy	78.5 %	78.5 %	— %	
Average monthly revenue per occupied unit	\$ 5,193	\$ 4,667	\$ 526	11.3

Senior living revenue increased \$9.5 million, or 23.6%, for the three months ended March 31, 2025 compared to the prior year quarter. Revenue grew due to an 11.3% increase in average monthly revenue per occupied unit between March 31, 2024 and March 31, 2025. Growth was also driven by the addition of seven senior living communities between March 31, 2024 and March 31, 2025. Communities acquired during calendar year 2024 and year-to-date March 31, 2025 drove an increase of \$6.0 million, or 14.9%, overall.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

	Three Months Ended March 31,		Change	% Change
	2025	2024		
	(In thousands)			
Home Health and Hospice	\$ 132,769	\$ 97,320	\$ 35,449	36.4 %
Senior Living	35,976	28,675	7,301	25.5
Total cost of services	<u>\$ 168,745</u>	<u>\$ 125,995</u>	<u>\$ 42,750</u>	<u>33.9 %</u>

Total consolidated cost of services increased \$42.8 million, or 33.9%, for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024. Cost of services as a percentage of revenue increased by 10 basis points from 80.3% to 80.4% for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024.

Home Health and Hospice Services

	Three Months Ended March 31,		Change	% Change
	2025	2024		
	(In thousands)			
Cost of service	\$ 132,769	\$ 97,320	\$ 35,449	36.4 %
Cost of services as a percentage of revenue	83.0 %	83.5 %	(0.5)%	

Cost of services related to our Home Health and Hospice Services segment increased \$35.4 million, or 36.4%, primarily due to increased volume of services provided. Cost of services as a percentage of revenue for the three months ended March 31, 2025 decreased 50 basis points when compared to the three months ended March 31, 2024 due to increased efficiency in our operations.

Senior Living Services

	Three Months Ended March 31,		Change	% Change
	2025	2024		
	(In thousands)			
Cost of service	\$ 35,976	\$ 28,675	\$ 7,301	25.5 %
Cost of services as a percentage of revenue	72.0 %	70.9 %	1.1 %	

Cost of services related to our Senior Living Services segment increased \$7.3 million, or 25.5%, primarily due to increased wages and benefits and acquisition activity. As a percentage of revenue, costs of service increased by 110 basis points for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024.

Rent—Cost of Services. Rent expense increased 12.8% from \$10.4 million to \$11.7 million in the three months ended March 31, 2025 when compared to the three months ended March 31, 2024, primarily as a result of the new leases on the acquired home health and hospice operations and senior living communities. Rent as a percentage of total revenue decreased 100 basis points from 6.6% for the three months ended March 31, 2024, compared to 5.6% for the three months ended March 31, 2025.

General and Administrative Expense. Our general and administrative expense increased \$3.4 million, or 29.8%, from \$11.4 million to \$14.8 million for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024. General and administrative expense as a percentage of revenue decreased 20 basis points from 7.3% to 7.1% during the

period. The primary driver of the increase in general and administrative expense was due to an increase in payroll and related benefits for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024.

Depreciation and Amortization. Depreciation and amortization expense increased \$0.6 million, or 42.1%, from \$1.3 million to \$1.9 million for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024. The primary driver of the increase in depreciation and amortization was due to the acquisition of two senior living communities in 2024.

Provision for Income Taxes. We recorded income tax expense of \$2.9 million and \$1.8 million or 25.1% and 25.8% of earnings before income taxes for the three months ended March 31, 2025 and 2024, respectively. Certain of our subsidiaries are treated for income tax purposes like partnerships. The noncontrolling portion of those subsidiaries' earnings reduces our effective tax rate. The decrease in the effective tax rate is primarily due to having more earnings by those subsidiaries.

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 July 31, 2024, Pennant amended and restated its existing credit agreement (as amended, the "Amended Credit Agreement"), which provides for an increased revolving credit facility with a syndicate of banks with a borrowing capacity of \$250.0 million (the "Amended Revolving Credit Facility"). The Amended Revolving Credit Facility is not subject to interim amortization and the Company will not be required to repay any loans under the Amended Revolving Credit Facility prior to maturity in 2029. The Company is permitted to prepay all or any portion of the loans under the Amended Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any SOFR breakage costs of the lenders.

The Amended 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, 2025, the Company was compliant with all such financial covenants.

As of March 31, 2025, we had \$5.2 million of cash and \$193.3 million of available borrowing capacity on our Amended Revolving Credit Facility.

We believe that our existing cash, cash generated through operations, and access to available borrowing capacity under our Amended Credit Agreement, will be sufficient to provide adequate liquidity for the next twelve months for both 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,	
	2025	2024
	(In thousands)	
Net cash (used in) provided by operating activities	\$ (21,229)	\$ 545
Net cash used in investing activities	(50,301)	(23,636)
Net cash provided by financing activities	52,505	19,754
Net decrease in cash	(19,025)	(3,337)
Cash at beginning of period	24,246	6,059
Cash at end of period	<u>\$ 5,221</u>	<u>\$ 2,722</u>

Three Months Ended March 31, 2025 Compared to the Three Months Ended March 31, 2024

Our net cash flow from operating activities for the three months ended March 31, 2025 decreased by \$21.8 million when compared to the three months ended March 31, 2024. The primary driver of this difference was a decrease in cash flows from the change in operating assets and liabilities of \$27.9 million, net, and a decrease of \$2.7 million in non-cash expenses, partially offset by an increase in net income of \$3.5 million.

Our net cash used in investing activities for the three months ended March 31, 2025 increased by \$26.7 million compared to the three months ended March 31, 2024, primarily driven by an increase in business and asset acquisitions.

Our net cash provided by financing activities increased by approximately \$32.8 million for the three months ended March 31, 2025 compared to the three months ended March 31, 2024. The increase was primarily due to a net increase in the balance on our line of credit during the three months ended March 31, 2025 compared to the three months ended March 31, 2024.

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 July 31, 2024, Pennant entered into the Amended Credit Agreement, which provides for a revolving credit facility with a syndicate of banks with a borrowing capacity of \$250.0 million. A 1.0% interest rate change would cause interest expense to change by approximately \$0.5 million annually based upon our outstanding long-term debt as of March 31, 2025. 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 16, *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 2024 Annual Report risk factors that materially affect our business, financial condition or results of operations, and disclosed more recent events relevant to our business under Item 2, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*. You should carefully consider the risk factors set forth in the 2024 Annual Report and the other information set forth elsewhere in this Quarterly Report. In particular, if CMS adopts the Home Health Payment Proposed Rule as a final rule in its current form or in a substantially similar form, we may be adversely affected by decreased Medicare reimbursement for home health services in calendar year 2025. Medicare’s rates for home health services not only affect Medicare beneficiaries but may also have consequences for home health patients whose benefits are paid by commercial insurance or other payors that base their payments to home health agencies on Medicare’s payment rates. 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 5. *Other Information*

Rule 10b5-1 Plan Termination

Jason P. Steik, Chief Clinical Officer, entered into a Rule 10b5-1 trading arrangement on August 16, 2024 (the “Rule 10b5-1 Plan”). On March 4, 2025, Mr. Steik terminated the Rule 10b5-1 Plan.

This Rule 10b5-1 trading arrangement was entered into during open trading windows and is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended, and the Company's policies regarding transactions in Company securities.

Item 6. Exhibits**EXHIBIT INDEX**

<u>Exhibit</u>	<u>Description</u>
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).
4.1	Form of Indenture (incorporated by reference to Exhibit 4.4 to The Pennant Group, Inc.'s Registration Statement on Form S-3 (File No. 333-281302) filed with the SEC August 6, 2024).
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.

Dated: May 6, 2025

The Pennant Group, Inc.

BY: /s/ LYNETTE B. WALBOM

Lynette B. Walbom
Chief Financial Officer (Principal Financial Officer and Duly
Authorized Officer)

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's 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, 2025

/s/ BRENT J. GUERISOLI

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's 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, 2025

/s/ LYNETTE B. WALBOM

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

**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, 2025, 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, 2025

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.

**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, 2025, 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, 2025

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.