



Value Company: Encompass Health

MARCH 2022	COMPANY HIGHLIGHT	jenseninvestment.com	
<p>Encompass Health is a post-acute healthcare provider offering Inpatient Rehab Facilities (IRF) and Home Health & Hospice services. It is the leading operator of freestanding IRF, accepting patients after a qualifying event, such as a stroke or hip replacement, and when additional rehab or care is required. IRFs typically compete with Skilled Nursing Facilities but provide a higher level of care as they are subject to more stringent requirements¹ such as three hours of daily physical therapy. Encompass Health’s Home Health and Hospice business focuses on nursing, physical, occupational and speech therapies, and end of life care.</p>			
		Ticker	(EHC)
		Year Founded	1984
		Headquarters	Birmingham, Alabama
		Entered Strategy	Q4 2017

Know What You Own

We added **Encompass Health (EHC)** to the Jensen Quality Value Strategy in October 2017 due to its attractive valuation, competitive advantages, and growth prospects. Notably, EHC provides a nondiscretionary service that we believe is likely to provide portfolio stability in most market environments.

The company’s primary competitive advantages include a market-leading position in an industry with relatively high barriers to entry, IT-enabled solutions that provide margin expansion and growth opportunities (e.g., clinical and operational software), and a solid management team with a track record of consistent execution despite numerous industrywide regulatory changes.

Over the past decade, Encompass Health has proven its ability to provide cost-efficient, quality care, treating higher acuity patients at a lower average cost, with higher discharge and lower readmissions rates in comparison to its peers. This is especially significant as a majority of EHC’s revenue stems from Medicare/Medicaid reimbursement based on the quality and cost of care.

Outlook

We believe Encompass Health has attractive, long-term growth prospects resulting from the demographic tailwinds of an aging population, industry consolidation and capacity expansion. Additionally, clinical collaboration efforts between IRF and

¹ Centers for Medicare and Medicaid Services (CMS)



Home Health & Hospice services have driven growth as patients typically require home health care after leaving a facility.

Recently, EHC has been out of favor due to pandemic-related challenges, including the inability to conduct home health visits and pauses in elective procedures as hospitals prioritize care for emergent needs. The company has also been impacted by industrywide nursing shortages, which resulted in increased operating expenses, pressuring profitability. At Jensen, it is our belief that these challenges are shorter-term in nature and we expect demand for services to return to pre-pandemic levels or higher. The Jensen Quality Value Strategy has opportunistically added to its position over the past year to capitalize on its stock price weakness, in the belief that the company’s competitive advantages and growth drivers remain intact.

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