**HLS BUSINESS DESCRIPTION**

HealthSouth Corporation provides facility-based and home-based post-acute healthcare services in the United States. The company operates through two segments, Inpatient Rehabilitation, and Home Health and Hospice.

**STOCK PERFORMANCE (%)**

- **3 Mo.** -8.30
- **1 Yr.** 6.81
- **3 Yr (Ann)** 4.17

**GROWTH (%)**

- **Last Qtr** 6.88
- **12 Mo.** 9.95
- **3 Yr CAGR** 17.88

**RETURN ON EQUITY (%)**

<table>
<thead>
<tr>
<th></th>
<th>HLS</th>
<th>Ind Avg</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2017</td>
<td>23.25</td>
<td>17.09</td>
<td>13.16</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>32.33</td>
<td>16.04</td>
<td>11.83</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>28.53</td>
<td>14.63</td>
<td>13.71</td>
</tr>
</tbody>
</table>

**P/E COMPARISON**

<table>
<thead>
<tr>
<th></th>
<th>HLS</th>
<th>Ind Avg</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.97</td>
<td>23.06</td>
<td>24.93</td>
</tr>
</tbody>
</table>

**EPS ANALYSIS**

- Q2 2015: $0.44
- Q2 2016: $0.47
- Q3 2016: $0.52
- Q4 2016: $0.48
- Q1 2017: $0.51
- Q2 2017: $0.64
- Q3 2017: $0.69
- Q4 2017: $0.70

**RECOMMENDATION**

We rate HEALTHSOUTH CORP (HLS) a **BUY**. This is driven by multiple strengths, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company’s strengths can be seen in multiple areas, such as its revenue growth, growth in earnings per share, increase in stock price during the past year, increase in net income and notable return on equity. We feel its strengths outweigh the fact that the company shows weak operating cash flow.

**HIGHLIGHTS**

- HLS’s revenue growth has slightly outpaced the industry average of 5.7%. Since the same quarter one year ago, revenues slightly increased by 6.9%. This growth in revenue appears to have trickled down to the company’s bottom line, improving the earnings per share.

- HEALTHSOUTH CORP has improved earnings per share by 7.7% in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past two years. We feel that this trend should continue. During the past fiscal year, HEALTHSOUTH CORP increased its bottom line by earning $2.58 versus $1.91 in the prior year. This year, the market expects an improvement in earnings ($2.70 versus $2.58).

- The stock price has risen over the past year, but, despite its earnings growth and some other positive factors, it has underperformed the S&P 500 so far. Turning our attention to the future direction of the stock, it goes without saying that even the best stocks can fall in an overall down market. However, in any other environment, this stock still has good upside potential despite the fact that it has already risen in the past year.

- Current return on equity is lower than its ROE from the same quarter one year prior. This is a clear sign of weakness within the company. When compared to other companies in the Health Care Providers & Services industry and the overall market, HEALTHSOUTH CORP’s return on equity exceeds that of the industry average and significantly exceeds that of the S&P 500.

- The company, on the basis of net income growth from the same quarter one year ago, has significantly underperformed when compared to that of the S&P 500 and the Health Care Providers & Services industry. The net income increased by 0.6% when compared to the same quarter one year prior, going from $62.80 million to $63.00 million.
PEER GROUP ANALYSIS

REVENUE GROWTH AND EBITDA MARGIN*

Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $335.4 Million and $28.1 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -9.1% and 20.6%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The healthcare providers and services industry includes establishments offering healthcare facilities and managed care services such as hospitals, long-term care centers, assisted living facilities, outpatient rehabilitation clinics, outpatient dialysis centers, radiation oncology facilities and ambulatory surgical suites. The industry has witnessed continued growth during recent years. An aging population, increasing consumer awareness and advancement in technology will remain primary growth drivers in the near future.

Healthcare spending in the US exceeds $2 trillion per year. A major shift in healthcare spending - from the private to the public sector - is expected as more and more baby boomers enter the Medicare system. In addition to demographic factors, the passage of comprehensive healthcare reform legislation including an individual mandate to have health insurance will reshape the industry in the coming decade.

The largest two segments of publically funded healthcare are Medicaid and Medicare. Medicaid is a means-tested program for the poor funded at the federal level and state level. Medicare is a single-payer healthcare program entirely funded at the federal level and focuses on the older population of people age 65 and older.

Small businesses, which have struggled to provide adequate health insurance to employees, will receive tax benefits to offer health insurance to their employees. Most large companies offer benefits to compete in the labor market, even though the associated outflow has a significant impact on the bottom line. Collection challenges contribute to rising expenses for providers. Administrative expenses, which include billing, collection and payment processes account for up to 30% of all expenditures. Cost-saving initiatives by payers, providers and employers have helped keep expenses under check, but have been generally insufficient to bring about any systemic optimization.

The introduction of consumer-driven healthcare (CDHC) is a significant step toward disrupting this cost cycle. CDHC increases consumer awareness regarding cost and quality of healthcare while providing greater control over personal health management.

Looking forward, more brand-name drugs will continue to become available as generics over the next few years. This could help healthcare providers realize savings in their pharmacy costs. The individual mandate for healthcare insurance creates a solid base of customers for the healthcare providers and services industry. This may build in a steady growth rate for the healthcare providers and services industry in the intermediate future.

PEER GROUP: Health Care Providers & Services

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Recent Price ($)</th>
<th>Market Cap ($M)</th>
<th>Price/Earnings</th>
<th>Net Sales TTM ($M)</th>
<th>Net Income TTM ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HLS</td>
<td>HEALTHSOUTH CORP</td>
<td>43.44</td>
<td>4,289</td>
<td>15.97</td>
<td>3,773.40</td>
<td>256.80</td>
</tr>
<tr>
<td>UHS</td>
<td>UNIVERSAL HEALTH SVCS INC</td>
<td>108.43</td>
<td>9,585</td>
<td>14.75</td>
<td>10,108.17</td>
<td>717.52</td>
</tr>
<tr>
<td>NHC</td>
<td>NATIONAL HEALTHCARE CORP</td>
<td>62.46</td>
<td>949</td>
<td>19.64</td>
<td>947.98</td>
<td>48.36</td>
</tr>
<tr>
<td>CYH</td>
<td>COMMUNITY HEALTH SYSTEMS IN</td>
<td>7.28</td>
<td>835</td>
<td>NA</td>
<td>17,478.00</td>
<td>-635.00</td>
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<tr>
<td>ACHC</td>
<td>ACADIA HEALTHCARE CO INC</td>
<td>45.60</td>
<td>4,007</td>
<td>506.67</td>
<td>2,832.64</td>
<td>8.60</td>
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<tr>
<td>HCA</td>
<td>HCA HEALTHCARE INC</td>
<td>77.85</td>
<td>28,051</td>
<td>10.39</td>
<td>42,267.00</td>
<td>2,854.00</td>
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<tr>
<td>SEM</td>
<td>SELECT MEDICAL HOLDINGS CORP</td>
<td>18.30</td>
<td>2,433</td>
<td>28.59</td>
<td>4,332.10</td>
<td>84.57</td>
</tr>
<tr>
<td>LPNT</td>
<td>LIFEPONTS HEALTH INC</td>
<td>56.10</td>
<td>2,251</td>
<td>12.52</td>
<td>6,415.90</td>
<td>185.80</td>
</tr>
<tr>
<td>BKD</td>
<td>BROOKDALE SENIOR LIVING INC</td>
<td>11.22</td>
<td>2,090</td>
<td>NM</td>
<td>4,858.23</td>
<td>-492.76</td>
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<tr>
<td>THC</td>
<td>TENET HEALTHCARE CORP</td>
<td>15.92</td>
<td>1,605</td>
<td>NM</td>
<td>19,324.00</td>
<td>-195.00</td>
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<tr>
<td>ENSG</td>
<td>ENSIGN GROUP INC</td>
<td>21.10</td>
<td>1,073</td>
<td>25.12</td>
<td>1,751.13</td>
<td>44.55</td>
</tr>
</tbody>
</table>

The peer group comparison is based on Major Health Care Facilities companies of comparable size.
HealthSouth Corporation (HLS) was founded in 1983 and is headquartered in Birmingham, Alabama. The company operates through two segments, Inpatient Rehabilitation and Home Health and Hospice. The Inpatient Rehabilitation segment provides specialized rehabilitative treatment on both an inpatient and outpatient basis to patients who are recovering from conditions, such as stroke and other neurological disorders, cardiac and pulmonary conditions, brain and spinal cord injuries, complex orthopedic conditions, and amputations. As of December 31, 2016, it operated 123 inpatient rehabilitation hospitals; and managed 5 inpatient rehabilitation units through management contracts. The Home Health and Hospice segment provides home health and hospice services in 223 locations across 25 states primarily in the Southeast, Oklahoma, and Texas. Its home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care, which comprise skilled nursing, medical social work, and home health aide services, as well as physical, occupational, and speech therapy. This segment’s hospice services comprise in-home services to terminally ill patients and their families to address patients’ physical needs, including pain control and symptom management, and to provide emotional and spiritual support. The company was founded in 1983 and is headquartered in Birmingham, Alabama.

HEALTHSOUTH CORP
3660 Grandview Parkway, Suite 200
Birmingham, AL 35243
USA
Phone: 205-967-7116
http://www.healthsouth.com

STOCK-AT-A-GLANCE
Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of HLS shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>SCORE</th>
<th>OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>4.5 out of 5 stars</td>
<td>weak to strong</td>
</tr>
<tr>
<td>Measures the growth of both the company’s income statement and cash flow. On this factor, HLS has a growth score better than 80% of the stocks we rate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Return</td>
<td>3.0 out of 5 stars</td>
<td>weak to strong</td>
</tr>
<tr>
<td>Measures the historical price movement of the stock. The stock performance of this company has beaten 50% of the companies we cover.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td>3.5 out of 5 stars</td>
<td>weak to strong</td>
</tr>
<tr>
<td>Measures the strength and historic growth of a company’s return on invested capital. The company has generated more income per dollar of capital than 80% of the companies we review.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price volatility</td>
<td>4.0 out of 5 stars</td>
<td>weak to strong</td>
</tr>
<tr>
<td>Measures the volatility of the company’s stock price historically. The stock is less volatile than 70% of the stocks we monitor.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solvency</td>
<td>3.0 out of 5 stars</td>
<td>weak to strong</td>
</tr>
<tr>
<td>Measures the solvency of the company based on several ratios. The company is more solvent than 50% of the companies we analyze.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>4.0 out of 5 stars</td>
<td>weak to strong</td>
</tr>
<tr>
<td>Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 70% of the companies we track.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THE STREET RATINGs RESEARCH METHODOLOGY
TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

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Report Date: September 24, 2017
HEALTHSOUTH CORP

FINANCIAL ANALYSIS

HEALTHSOUTH CORP’s gross profit margin for the second quarter of its fiscal year 2017 is essentially unchanged when compared to the same period a year ago. Sales and net income have grown, and although the growth in revenues has outpaced the average competitor within the industry, the net income growth has not. HEALTHSOUTH CORP has average liquidity. Currently, the Quick Ratio is 1.19 which shows that technically this company has the ability to cover short-term cash needs. The company’s liquidity has decreased from the same period last year, indicating deteriorating cash flow.

At the same time, stockholders’ equity (“net worth”) has greatly increased by 64.07% from the same quarter last year. Together, the key liquidity measurements indicate that it is relatively unlikely that the company will face financial difficulties in the near future.

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.

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The Street Ratings

HEALTHSOUTH CORP

Sector: Health Care | Health Care Facilities | Source: S&P

<table>
<thead>
<tr>
<th>Annual Dividend Rate</th>
<th>Annual Dividend Yield</th>
<th>Beta</th>
<th>Market Capitalization</th>
<th>52-Week Range</th>
<th>Price as of 9/21/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.96</td>
<td>2.20%</td>
<td>0.61</td>
<td>$4.3 Billion</td>
<td>$36.97-$49.71</td>
<td>$43.44</td>
</tr>
</tbody>
</table>

VALUATION

BUY. This stock’s P/E ratio indicates a discount compared to an average of 23.06 for the Health Care Providers & Services industry and a discount compared to the S&P 500 average of 24.93. For additional comparison, its price-to-book ratio of 3.88 indicates a premium versus the S&P 500 average of 3.11 and a premium versus the industry average of 3.28. The current price-to-sales ratio is well below the S&P 500 average, but above the industry average.

Price/Earnings

HLS 15.97 Peers 23.06
- Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
- HLS is trading at a significant discount to its peers.

Price/Projected Earnings

HLS 15.08 Peers 16.60
- Average. An average price-to-projected earnings ratio can signify an industry neutral stock price and average future growth expectations.
- HLS is trading at a valuation on par with its peers.

Price/Book

HLS 3.88 Peers 3.28
- Premium. A higher price-to-book ratio makes a stock less attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- HLS is trading at a premium to its peers.

Price/Sales

HLS 1.14 Peers 0.90
- Premium. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- HLS is trading at a significant premium to its industry.

Price/CashFlow

HLS 6.48 Peers 11.62
- Discount. The P/CF ratio, a stock’s price divided by the company’s cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- HLS is trading at a significant discount to its peers.

Price to Earnings/Growth

HLS 3.77 Peers 0.68
- Premium. The PEG ratio is the stock’s P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- HLS trades at a significant premium to its peers.

Earnings Growth

HLS 20.35 Peers 21.04
- Average. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- HLS is expected to keep pace with its peers on the basis of earnings growth.

Sales Growth

HLS 9.95 Peers 8.33
- Higher. A sales growth rate that exceeds the industry implies that a company is gaining market share.
- HLS has a sales growth rate that exceeds its peers.

RATINGS HISTORY

Our rating for HEALTHSOUTH CORP has not changed since 10/3/2013. As of 9/21/2017, the stock was trading at a price of $43.44 which is 12.6% below its 52-week high of $49.71 and 17.5% above its 52-week low of $36.97.

MOST RECENT RATINGS CHANGES

Date | Price | Action | From | To
--- | --- | --- | --- | ---
9/21/15 | $41.35 | No Change | Buy | Buy

Price reflects the closing price as of the date listed, if available.

RATINGS DEFINITIONS & DISTRIBUTION OF THE STREET RATINGS

(as of 9/21/2017)

43.27% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

31.09% Hold - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

25.64% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

TheStreet Ratings
14 Wall Street, 15th Floor
New York, NY 10005
www.thestreet.com

Research Contact: 212-321-5381
Sales Contact: 866-321-8726

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