AREX
CAPITAL MANAGEMENT

June 13, 2023

<u>Via Electronic Mail</u>

The Board of Directors
Enhabit, Inc.
6688 N. Central Expressway
Suite 1300
Dallas, TX 75206

Attention: Barbara A. Jacobsmeyer, Chief Executive Officer

Dear Barbara and Members of the Board:

AREX Capital Management, LP and its affiliates (together, "AREX" or "we"), are collectively the beneficial owners of approximately 2.25 million shares of Enhabit, Inc. ("Enhabit" or the "Company"), representing approximately 4.5% of the Company's common shares outstanding.

We have appreciated the conversations with you over the past few weeks. We initially reached out to Enhabit's Board of Directors (the "Board") to express our frustration with the Company's poor operational and share price performance, and to offer suggestions that would benefit the Company and its shareholders. We are pleased that the Board has begun interviewing the two director candidates we suggested, and we are confident you will find them highly qualified and additive to the Board's skills matrix. However, the broader issue of Enhabit's future as a standalone public company must be addressed.

For context, we have been Enhabit shareholders since the Company's spin-off from Encompass Health Corporation ("Encompass"), and for more than a year prior to that we were invested in the Company indirectly through our ownership of Encompass shares. Throughout this period, we have remained enthusiastic about the Company's long-term prospects due to the aging U.S. population and the increased incidence of clinical care being provided in the home, a trend that is yielding improved outcomes, greater patient satisfaction, and lower overall costs.

Despite the Company's secular growth opportunity and attractive business model, Enhabit's shares are down ~47% since its spin-off from Encompass on July 1, 2022—and during that same period, the S&P 500 and Russell 2000 indices have appreciated by ~16% and ~11%, respectively.[1] In fact, Enhabit's shares have underperformed all of the peer group members outlined in its recent proxy statement. Although it is true that the home health and hospice industries have recently faced unique regulatory and operational challenges, Amedisys, arguably the public company most similar to Enhabit, saw its shares decline by far less than Enhabit's over this period—even prior to Amedisys' recent M&A-driven increase. In our opinion, Enhabit's poor share price performance on both an absolute and relative basis is primarily self-inflicted, as a surprisingly large number of missteps have badly eroded confidence in management and contributed to a deeply discounted

[1] As of June 12, 2023.

valuation. In our experience, when such mistakes occur early in a newly public company's journey, it can be incredibly difficult for that company to emerge from the "penalty box" with investors—even with vastly improved execution over an exceedingly long period.

At the same time, the secular trend towards value-based care has substantially increased the strategic value of home health businesses, as evidenced by Humana's acquisition of Kindred at Home, UnitedHealth's acquisition of LHC Group, and most recently by Option Care Health's announced acquisition of Amedisys, which was followed by an even higher bid from UnitedHealth. In fact, once the Amedisys deal closes (with whichever suitor is victorious), Enhabit will be the last remaining publicly traded company focused primarily on home health, and our diligence suggests that there are many market participants who would logically have interest in acquiring Enhabit.

The recent M&A activity among Enhabit's peers illustrates the enormous potential returns to shareholders if Enhabit were to pursue a sale. Just over a year ago, in March 2022, UnitedHealth paid ~21x NTM EBITDA for LHC Group. And over the past two months, both Option Care Health (in stock) and UnitedHealth (in cash) have offered to buy Amedisys for ~15x NTM EBITDA.[2] Applying those multiples to consensus NTM EBITDA forecasts for Enhabit yields a potential sale price range of $30-40 per share, more than triple Enhabit's current share price at the high end of the range. Moreover, court filings have revealed that former CEO April Anthony offered to acquire a majority of the Company at an enterprise value of $3.6 billion in early January 2021 (prior to Enhabit's spin-off), a valuation that would imply a share price for Enhabit of approximately $60. While there are various factors that could make an acquisition multiple for Enhabit higher or lower than any specific precedent, we believe that the likely involvement of numerous large, well-capitalized potential buyers would cause a sale process to be vigorous and competitive.

We are not privy to the details of the strategic review that Encompass conducted that ultimately resulted in Enhabit's July 2022 spin-off. However, it is widely believed that the Encompass board rejected bids dramatically above the Company's current valuation, and above even an optimistic view of where Enhabit's shares could trade in the foreseeable future as a standalone company.

Enhabit's Board, including the five former Encompass directors that it still counts as members, has both the opportunity and the responsibility to correct the mistake seemingly made by the Encompass board. We believe Enhabit's Board should immediately commit to shareholders that it will commence a review of strategic alternatives before the end of 2023, with an eye towards a potential transaction closing shortly after the two-year anniversary of the spin-off to avoid any tax complications. The road to fully restoring an independent Enhabit's credibility and valuation is long, arduous, and fraught with operational, public market, and other risks. Given Enhabit's objectively challenged execution and share price performance, the Board should fully explore the potential delivery of substantial and fair value to shareholders through a sale of the Company. We are highly confident that a full and fair strategic alternatives review will make it very clear to the

[2] UnitedHealth's purchase price of $170.00 per LHCG share implied an enterprise value of $6.0 billion, and consensus NTM EBITDA for LHC Group at the time of announcement was $281 million. Option Care Health's announced acquisition price of $97.38 per AMED share implied an enterprise value of $3.6 billion, and consensus NTM EBITDA for Amedisys at the time of announcement was $241 million. UnitedHealth's bid of $100.00 per AMED share implied a similar enterprise value.

Board that, as compared to the risks and potential rewards inherent in the status quo, a sale is the obvious way to maximize value for all shareholders.

We understand that in the very short term the Company must consider spin-off tax rules and its Tax Matters Agreement with Encompass, but we are certain that a review of alternatives can be commenced within the time frame we described. In the meantime, our director candidates are prepared to join the Board where they could immediately provide valuable operational and strategic insights and could later guide the Company through its strategic alternatives review.

If the Board is unwilling to make this important and appropriate commitment to shareholders, we will consider all options at our disposal to ensure that shareholder value is maximized and that the Board is held accountable.

Best regards,

Andrew Rechtschaffen
Managing Partner

James T. Corcoran
Partner