AREX
CAPITAL MANAGEMENT

August 14, 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 2.4 million shares of Enhabit, Inc. ("Enhabit" or the "Company"), representing approximately 4.7% of the Company's common shares outstanding.

We were pleased that the Company announced last week that it intends to launch a strategic alternatives process upon receiving a tax opinion that such action would not jeopardize the tax-free treatment of Enhabit's spin-off. Based on our extensive discussions with tax counsel and our experience investing in spin-offs, we are confident that this opinion can be obtained promptly. We eagerly await the Company's confirmation that it has received the requisite tax opinion and has formally launched a strategic alternatives process over the next few weeks. We will view any delay with severe skepticism.

We were simultaneously disappointed by Enhabit's second quarter performance and revised 2023 outlook. In addition to the issues that the Company has been encountering operationally, we were again struck by the magnitude of its unallocated home office expenses, which are now roughly equivalent to its overall EBITDA guidance. While we do not intend to discuss the Company's consistently underwhelming results or investor communications here, it seems manifestly clear that the appropriate path forward for the Company is a sale.

Shareholders must have full confidence in Enhabit's Board of Directors (the "Board") to conduct a fulsome, robust, and value-maximizing strategic alternatives process. Candidly, we do not believe that the Board, as currently constituted, enjoys such confidence. While there is no reason to relitigate the circumstances that resulted in Enhabit's spin-off, there was a perception at that time that the Encompass board was reluctant to sell Enhabit. We cannot help but observe that five of those same Encompass directors are now on Enhabit's Board. This lingering perception, along with the Company's overall poor performance since it became a standalone public company, has raised legitimate shareholder concerns about the effectiveness of the Board and whether it is truly focused on fulfilling its fiduciary obligations. Such sentiment adds unhelpful uncertainty to a strategic alternatives process.

In the same vein, we were disappointed when the Company recently informed us that it would not be accepting either of our proposed directors, and that it did not anticipate adding any in the near future. We presented the Company with two skilled healthcare executives with direct insight into working with payers—one of whom has broad home health operations experience—and yet our highly qualified candidates each received a single perfunctory interview with a third-party recruiter. In fact, we doubt that they were ever given serious consideration. The Company is correct that there should be no *net* additions to its Board, as Enhabit already carries a bloated home office cost burden and has too many directors for a company of its size.[1] However, in light of shareholder apprehension concerning the Board as well as the Company's commitment to replace at least four of the legacy Encompass directors by the 2024 Annual Meeting of Stockholders, we are shocked by the Board's unwillingness to accelerate its transition by adding two directors who would contribute valuable operational perspective during the strategic alternatives process.

As the Company embarks upon this critical journey to realize Enhabit's considerable strategic value, we believe that the Company should take steps to bolster shareholder confidence in the Board. One obvious solution would be the acceleration of the legacy Encompass director retirements, which would help to alleviate any investor concerns that the disappointing reasoning or outcome associated with the Encompass process might reappear. While our director candidates could immediately add value and should be considered as replacements, it is not essential that the legacy Encompass directors be replaced, as an eight-person Board seems more appropriate for a company of Enhabit's size and might facilitate better decision-making during the strategic alternatives process.

In closing, we applaud the Board's decision to initiate a strategic alternatives process, and we are confident (and believe that other investors concur) that Enhabit's strategic value significantly exceeds its current valuation. Moreover, our diligence suggests that there are many well-capitalized strategic and financial buyers interested in acquiring the Company. It seems to us that the only way that shareholders might not realize this strategic value would be if the process were not conducted in an appropriate and sincere manner. If this happens, and if the process fails to yield the proper outcome for shareholders, we will review all options at our disposal to ensure that the Board is held accountable.

Best regards,

Andrew Rechtschaffen Managing Partner	James T. Corcoran Partner

[1] According to the EY Center for Board Matters, the average S&P SmallCap 600 company has 8.9 directors.