February 21, 2013

WebMD Announces Fourth Quarter and Year End Financial Results

NEW YORK, Feb. 21, 2013 /PRNewswire/ -- WebMD Health Corp. (NASDAQ: WBMD), the leading source of health information, today announced financial results for the three and twelve months ended December 31, 2012.

"During the fourth quarter, we took actions to streamline operations and reduce costs," said Cavan M. Redmond, Chief Executive Officer of WebMD. "We enter 2013 as a more nimble organization that is well positioned to meet the needs of our users and clients in a dynamic and demanding marketplace. We will build on our strengths in providing consumers and physicians with trusted content and valuable tools across a market leading multi-screen platform."

WebMD's fourth quarter revenue was at the high end of the range of financial guidance provided on November 1, 2012 and earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") exceeded the high end of that range.

For the three months ended December 31, 2012:

- Revenue was $132.7 million compared to $150.7 million in the prior year period. Public portal advertising and sponsorship revenue was $112.3 million compared to $130.8 million in the prior year period. Private portal services revenue was $20.5 million compared to $19.8 million in the prior year period.
- Adjusted EBITDA was $30.0 million, compared to $54.6 million in the prior year period.
- Net loss was $(6.1) million or $(0.12) per diluted share compared to net income of $19.2 million or $0.33 per diluted share in the prior year period. Net loss would have been net income of $4.1 million or $0.08 per diluted share in the current period as compared to net income of $18.0 million or $0.31 per diluted share in the prior year period, without the effect, in the current period, of an after-tax restructuring expense of $5.5 million, non-cash income tax valuation allowance of $4.7 million and, in the prior year period, of an after-tax gain on investments of $2.5 million and after-tax transaction costs of $1.3 million.

For the twelve months ended December 31, 2012:

- Revenue was $469.9 million, compared to $558.8 million in the prior year period. Public portal advertising and sponsorship revenue was $391.3 million compared to $477.3 million in the prior year period. Private portal services revenue was $78.5 million compared to $81.5 million in the prior year period.
- Adjusted EBITDA was $73.1 million, compared to $181.2 million in the prior year period.
- Net loss was $(20.3) million or $(0.40) per diluted share compared to net income of $74.6 million or $1.25 per diluted share in the prior year period. Net loss would have been $(10.6) million or $(0.21) per diluted share in the current period as compared to net income of $53.8 million or $0.90 per diluted share in the prior year period, without the effect, in the current period, of an after-tax gain on investments of $5.2 million, after-tax restructuring expense of $5.5 million, non-cash income tax valuation allowance of $4.7 million, after-tax stock compensation expense related to the voluntary surrender of options of $5.8 million, after-tax severance expenses of $1.6 million and after-tax income from discontinued operations of $2.7 million, and, in the prior year period, of an after-tax gain on investments of $11.7 million, after-tax transaction costs of $1.3 million and after-tax income from discontinued operations of $10.4 million.

Traffic Highlights

Traffic to the WebMD Health Network continued to grow, reaching an average of 117.4 million unique users per month and total traffic of 2.57 billion page views during the fourth quarter, increases of 28% and 20%, respectively, from a year ago. The prior year comparisons exclude traffic from WebMD's former affiliate partner sites, which were phased out at the end of 2011.

Balance Sheet Highlights

As of December 31, 2012, WebMD had $992 million in cash and cash equivalents and $800 million in aggregate principal amount of convertible notes outstanding.

Financial Guidance

Today WebMD issued financial guidance for 2013. For 2013, WebMD expects:

- Revenue to be approximately $430 million to $455 million.
- Adjusted EBITDA to be approximately $60 million to $80 million.
- Net loss from continuing operations to be approximately $(22) million to $(7) million, or $(0.45) to $(0.13) per diluted share.

For the first quarter of 2013, WebMD expects:

- Revenue to be in excess of $105 million.
- Adjusted EBITDA to be in excess of 13% of revenue.
- Net loss from continuing operations to be approximately 6% of revenue.

WebMD is providing a schedule (attached to this press release) with additional detail.

Analyst and Investor Conference Call

WebMD will hold a conference call with investors and analysts to discuss its fourth quarter and year end results at 4:45 p.m. (Eastern) today. The call can be accessed at www.wbmd.com (in the Investor Relations section). A replay of the audio webcast will be available at the same web address.

About WebMD

WebMD Health Corp. (NASDAQ: WBMD) is the leading provider of health information services, serving consumers, physicians, healthcare professionals, employers, and health plans through our public and private online portals, mobile platforms and health-focused publications.

The WebMD Health Network includes WebMD Health, Medscape, MedicineNet, eMedicineHealth, RxList, theheart.org, Medscape Education and other owned WebMD sites.

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All statements contained in this press release and the related analyst and investor conference call, other than statements of historical fact, are forward-looking statements, including those regarding: guidance on our future financial results and other projections or measures of our future performance; market opportunities and our ability to capitalize on them; and the benefits expected from new or updated products or services and from other potential sources of additional revenue. These statements speak only as of the date of this press release, are based on our current plans and expectations, and involve risks and uncertainties that could cause actual future events or results to be different than those described in or implied by such forward-looking statements. These risks and uncertainties include those relating to: market acceptance of our products and services; our relationships with customers and other factors affecting their use of our products and services, including regulatory matters affecting their products; our ability to successfully implement changes to, among other things, our product and service offerings, capital allocation plans and cost structure; our ability to attract and retain qualified personnel; and changes in economic, political or regulatory conditions or other trends affecting the healthcare, Internet and information technology industries. Further information about these matters can be found in our Securities and Exchange Commission filings. Except as required by applicable law or regulation, we do not undertake any obligation to update our forward-looking statements to reflect future events or circumstances.

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This press release, and the accompanying tables, include both financial measures in accordance with accounting principles generally accepted in the United States of America, or GAAP, as well as certain non-GAAP financial measures. The tables attached to this press release include reconciliations of these non-GAAP financial measures to GAAP financial measures. In addition, an "Explanation of Non-GAAP Financial Measures" is attached to this press release as Annex A.

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WEBMD HEALTH CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data, unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Years Ended December 31, 2012	Years Ended December 31, 2011
Revenue	$ 132,738	$ 150,659	$ 469,866	$ 558,775
Cost of operations	55,352	52,979	216,361	201,677
Sales and marketing	32,598	30,165	127,659	124,326
General and administrative	23,767	23,657	97,618	91,271
Depreciation and amortization	8,248	6,872	28,399	26,801
Interest income	22	24	86	112
Interest expense	5,834	5,809	23,334	20,645
Gain on investments	-	3,837	8,074	18,516
Restructuring	7,579	-	7,579	-
Other expense	-	2,275	2,297	2,328
(Loss) income from continuing operations before income tax provision (benefit)	(618)	32,763	(25,221)	110,355
Income tax provision (benefit)	5,470	13,561	(2,134)	46,167
(Loss) income from continuing operations	(6,088)	19,202	(23,087)	64,188
Income from discontinued operations, net of tax	-	-	2,743	10,388
Net (loss) income	$ (6,088)	$ 19,202	$ (20,344)	$ 74,576
Basic (loss) income per common share:				
(Loss) income from continuing operations	$ (0.12)	$ 0.34	$ (0.45)	$ 1.11
Income from discontinued operations	-	-	0.05	0.18
Net (loss) income	$ (0.12)	$ 0.34	$ (0.40)	$ 1.29
Diluted (loss) income per common share:				
(Loss) income from continuing operations	$ (0.12)	$ 0.33	$ (0.45)	$ 1.08
Income from discontinued operations	-	-	0.05	0.17
Net (loss) income	$ (0.12)	$ 0.33	$ (0.40)	$ 1.25
Weighted-average shares outstanding used in computing (loss) income per common share:				
Basic	49,041	55,685	50,862	57,356
Diluted	49,041	68,326	50,862	59,124

WEBMD HEALTH CORP.
CONSOLIDATED SUPPLEMENTAL FINANCIAL INFORMATION
(In thousands, unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Years Ended December 31, 2012	Years Ended December 31, 2011
Revenue				
Public portal advertising and sponsorship	$ 112,257	$ 130,821	$ 391,339	$ 477,325
Private portal services	20,481	19,838	78,527	81,450
	$ 132,738	$ 150,659	$ 469,866	$ 558,775
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	$ 30,049	$ 54,626	$ 73,149	$ 181,238
Interest, taxes, non-cash and other items (b)				
Interest income	22	24	86	112
Interest expense	(5,834)	(5,809)	(23,334)	(20,645)
Income tax (provision) benefit	(5,470)	(13,561)	2,134	(46,167)
Depreciation and amortization	(8,248)	(6,872)	(28,399)	(26,801)
Non-cash stock-based compensation	(9,028)	(10,768)	(44,921)	(39,737)
Gain on investments	-	3,837	8,074	18,516
Restructuring	(7,579)	-	(7,579)	-
Other expense	-	(2,275)	(2,297)	(2,328)
(Loss) income from continuing operations	(6,088)	19,202	(23,087)	64,188

Income from discontinued operations, net of tax	-	-	2,743	10,388
Net (loss) income	$ (6,088)	$ 19,202	$ (20,344)	$ 74,576

(a) See Annex A-Explanation of Non-GAAP Financial Measures.
(b) Reconciliation of Adjusted EBITDA to net (loss) income.

WEBMD HEALTH CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	December 31,	
	2012	2011
Assets		
Cash and cash equivalents	$ 991,835	$ 1,121,217
Accounts receivable, net	106,622	121,335
Prepaid expenses and other current assets	13,882	12,690
Deferred tax assets	10,328	20,482
Total current assets	1,122,667	1,275,724
Property and equipment, net	66,604	57,139
Goodwill	202,104	202,104
Intangible assets, net	16,105	19,999
Deferred tax assets	56,039	55,017
Other assets	27,106	31,042
Total Assets	$ 1,490,625	$ 1,641,025
Liabilities and Stockholders' Equity		
Accrued expenses	$ 64,256	$ 55,238
Deferred revenue	92,176	88,055
Liabilities of discontinued operations	1,506	1,506
Total current liabilities	157,938	144,799
2.25% convertible notes due 2016	400,000	400,000
2.50% convertible notes due 2018	400,000	400,000
Other long-term liabilities	22,698	21,790
Stockholders' equity	509,989	674,436
Total Liabilities and Stockholders' Equity	$ 1,490,625	$ 1,641,025

WEBMD HEALTH CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Years Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	$ (20,344)	$ 74,576
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(2,743)	(10,388)
Depreciation and amortization	28,399	26,801
Non-cash interest, net	4,326	3,758
Non-cash stock-based compensation	44,921	39,737
Deferred income taxes	(2,337)	13,696
Gain on investments	(8,074)	(18,516)
Changes in operating assets and liabilities:		
Accounts receivable	14,713	13,113

Prepaid expenses and other, net	(1,589)	1,416
Accrued expenses and other long-term liabilities	9,429	2,511
Deferred revenue	4,121	(8,988)
Net cash provided by continuing operations	70,822	137,716
Net cash provided by (used in) discontinued operations	4,324	(440)
Net cash provided by operating activities	75,146	137,276
Cash flows from investing activities:		
Proceeds received from ARS option	9,269	21,566
Purchases of property and equipment	(35,171)	(20,911)
Net cash (used in) provided by investing activities	(25,902)	655
Cash flows from financing activities:		
Proceeds from exercise of stock options	827	28,339
Cash used for withholding taxes due on stock-based awards	(2,740)	(9,234)
Net proceeds from issuance of the 2.50% Notes and 2.25% Notes	-	774,745
Purchases of treasury stock	(177,090)	(241,263)
Excess tax benefit on stock-based awards	377	30,198
Net cash (used in) provided by financing activities	(178,626)	582,785
Net (decrease) increase in cash and cash equivalents	(129,382)	720,716
Cash and cash equivalents at beginning of period	1,121,217	400,501
Cash and cash equivalents at end of period	$ 991,835	$ 1,121,217

WebMD Health Corp.
Financial Guidance for the Year Ending December 31, 2013
(in millions, except per share amounts)

	Guidance Range	
Revenue	$ 430.0	$ 455.0
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	$ 60.0	$ 80.0
Interest, taxes, non-cash and other items (b)		
Interest expense, net	(23.0)	(23.0)
Depreciation and amortization	(30.0)	(28.0)
Non-cash stock-based compensation	(38.0)	(34.0)
Pre-tax loss from continuing operations	(31.0)	(5.0)
Income tax benefit (provision)	8.7	(1.5)
Loss from continuing operations	$ (22.3)	$ (6.5)
Loss from continuing operations per share:		
Basic and Diluted	$ (0.45)	$ (0.13)
Weighted-average shares outstanding used in computing per share amounts:		
Basic and Diluted	50.0	50.0

(a) See Annex A - Explanation of Non-GAAP Financial Measures

(b) Reconciliation of Adjusted EBITDA to loss from continuing operations

Additional information regarding forecast for the quarter ending March 31, 2013:

- Revenue is forecasted to be in excess of $105 million.
- Adjusted EBITDA as a percentage of revenue is forecasted to be in excess of 13%.

- Loss from continuing operations as a percentage of revenue is forecasted to be approximately (6%).

Additional information regarding full year forecast:

- The distribution of the annual revenue is expected to be approximately 82% public portals advertising and sponsorship and 18% private portal licensing. Quarterly revenue distributions may vary from this annual estimate.
- Convertible Notes are not expected to be dilutive for the full year or any quarter.

The above guidance does not include the impact, if any, of future deployment of capital for items such as share repurchases or acquisitions, gains or losses from discontinued operations, or other non-recurring, one-time or unusual items.

ANNEX A

Explanation of Non-GAAP Financial Measures

The accompanying WebMD Health Corp. press release and attachments include both financial measures in accordance with U.S. generally accepted accounting principles, or GAAP, as well as non-GAAP financial measures. The non-GAAP financial measures represent earnings before interest, taxes, non-cash and other items (which we refer to as "Adjusted EBITDA") and related per share amounts. Adjusted EBITDA should be viewed as supplemental to, and not as an alternative for: income or loss from continuing operations calculated in accordance with GAAP (referred to below as "income from continuing operations"); or net income or loss calculated in accordance with GAAP (referred to below as "net income"). The attachments to the press release include reconciliations of non-GAAP financial measures to GAAP financial measures.

Adjusted EBITDA is used by our management as an additional measure of our company's performance for purposes of business decision-making, including developing budgets, managing expenditures, and evaluating potential acquisitions or divestitures. Period-to-period comparisons of Adjusted EBITDA help our management identify additional trends in our company's financial results that may not be shown solely by period-to-period comparisons of income from continuing operations or net income. In addition, we may use Adjusted EBITDA in the incentive compensation programs applicable to some of our employees in order to evaluate our company's performance. Our management recognizes that Adjusted EBITDA has inherent limitations because of the excluded items, particularly those items that are recurring in nature. In order to compensate for those limitations, management also reviews the specific items that are excluded from Adjusted EBITDA, but included in income from continuing operations or net income, as well as trends in those items. The amounts of those items are set forth, for the applicable periods, in the reconciliations of Adjusted EBITDA to income from continuing operations or to net income that accompany our press releases and disclosure documents containing non-GAAP financial measures, including the reconciliations contained in the accompanying press release attachments.

We believe that the presentation of Adjusted EBITDA is useful to investors in their analysis of our results for reasons similar to the reasons why our management finds it useful and because it helps facilitate investor understanding of decisions made by management in light of the performance metrics used in making those decisions. In addition, as more fully described below, we believe that providing Adjusted EBITDA, together with a reconciliation of Adjusted EBITDA to income from continuing operations or to net income, helps investors make comparisons between our company and other companies that may have different capital structures, different effective income tax rates and tax attributes, different capitalized asset values and/or different forms of employee compensation. However, Adjusted EBITDA is intended to provide a supplemental way of comparing our company with other public companies and is not intended as a substitute for comparisons based on income from continuing operations or net income. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable SEC rules.

The following is an explanation of the items excluded by us from Adjusted EBITDA but included in income from continuing operations and net income:

- ***Depreciation and Amortization***. Depreciation and amortization expense is a non-cash expense relating to capital expenditures and intangible assets arising from acquisitions that are expensed on a straight-line basis over the estimated useful life of the related assets. We exclude depreciation and amortization expense from Adjusted EBITDA because we believe that (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of new acquisitions and full amortization of previously acquired tangible and intangible assets. Accordingly, we believe that this exclusion assists management and investors in making period-to-period comparisons of operating performance. Investors should note that the use of tangible and intangible assets contributed to revenue in the periods presented and will contribute to future revenue generation and should also note that such expense will recur in future periods.

- ***Stock-Based Compensation Expense***. Stock-based compensation expense is a non-cash expense arising from the grant of stock-based awards to employees. We believe that excluding the effect of stock-based compensation from Adjusted EBITDA assists management and investors in making period-to-period comparisons in our company's operating performance because (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (ii) such expenses can vary significantly between periods as a result of the timing of grants of new stock-based awards, including grants in connection with acquisitions. Additionally, we believe that excluding stock-based compensation from Adjusted EBITDA assists management and investors in making meaningful comparisons between our company's operating performance and the operating performance of other companies that may use different forms of employee compensation or different valuation methodologies for their stock-based compensation. Investors should note that stock-based compensation is a key incentive offered to employees whose efforts contributed to the operating results in the periods presented and are expected to contribute to operating results in future periods. Investors should also note that such expenses will recur in the future. Stock-based compensation expenses included in the Consolidated Statements of Operations are summarized as follows:

	Three Months Ended December 31,		Year Ended December 31,	
	2012	2011	2012	2011
Non-cash stock-based compensation included in:				
Cost of operations	$ 1,484	$ 2,030	$ 8,160	$ 7,707
Sales and marketing	$ 1,804	$ 2,214	$ 8,201	$ 9,079
General and administrative	$ 5,740	$ 6,524	$ 28,560	$ 22,951

- ***Interest Income and Expense.*** Interest income is associated with the level of marketable debt securities and other interest bearing accounts in which we invest, and interest expense is related to our company's capital structure (including non-cash interest expense relating to our convertible notes). Interest income and expense varies over time due to a variety of financing transactions and due to acquisitions and divestitures that we have entered into or may enter into in the future. We have, in the past, issued convertible debentures, repurchased shares in cash tender offers and repurchased shares and convertible debentures through other repurchase transactions, and completed the divestiture of certain businesses. We exclude interest income and interest expense from Adjusted EBITDA (i) because these items are not directly attributable to the performance of our business operations and, accordingly, their exclusion assists management and investors in making period-to-period comparisons of operating performance and (ii) to assist management and investors in making comparisons to companies with different capital structures. Investors should note that interest income and expense will recur in future periods. The following provides detail regarding the components of interest expense of our convertible notes:

	Three Months Ended December 31,		Year Ended December 31,	
	2012	2011	2012	2011
Non-cash interest expense				
2.50% Convertible Notes	$ 452	$ 452	$ 1,807	$ 1,757
2.25% Convertible Notes	$ 630	$ 604	$ 2,519	$ 2,001
Cash interest expense				
2.50% Convertible Notes	$ 2,500	$ 2,500	$ 10,000	$ 9,722
2.25% Convertible Notes	$ 2,250	$ 2,250	$ 9,000	$ 7,150

- ***Income Tax Provision (Benefit).*** We maintain a valuation allowance on a portion of our net deferred tax assets (including our net operating loss carryforwards), the amount of which may change from quarter to quarter based on factors that are not directly related to our results for the quarter. The valuation allowance is either adjusted through the statement of operations or additional paid-in capital. The timing of such adjustments has not been consistent and as a result, our income tax expense can fluctuate significantly from period to period in a manner not directly related to our operating performance. We exclude the income tax provision (benefit) from Adjusted EBITDA (i) because we believe that the income tax provision (benefit) is not directly attributable to the underlying performance of our business operations and, accordingly, its exclusion assists management and investors in making period-to-period comparisons of operating performance and (ii) to assist management and investors in making comparisons to companies with different tax attributes. Investors should note that income tax provision (benefit) will recur in future periods.

- ***Other Items.*** We engage in other activities and transactions that can impact our income from continuing operations and net income. In recent periods, these other items have included, but were not limited to, (i) legal expenses relating to the Department of Justice investigation, (ii) a reduction of certain sales and use tax contingencies resulting from the expiration of certain applicable statutes of limitations, (iii) gain or loss on investments, (iv) legal fees and other expenses incurred in connection with the process conducted by our Board of Directors to explore strategic alternatives for our company; and (v) a restructuring charge. We exclude these other items from Adjusted EBITDA because we believe these activities or transactions are not directly attributable to the performance of our business operations and, accordingly, their exclusion assists management and investors in making period-to-period comparisons of operating performance. Investors should note that some of these other items may recur in future periods.

SOURCE WebMD Health Corp.