October 29, 2013

WebMD Announces Third Quarter Financial Results

WebMD Increases Revenue and Earnings Expectations for 2013

NEW YORK, Oct. 29, 2013 /PRNewswire/ -- WebMD Health Corp. (NASDAQ: WBMD), the leading source of health information, today announced financial results for the three months ended September 30, 2013.

"Our third quarter results and our increased expectations for the fourth quarter reflect the positive changes that we are seeing in our business and in the marketplace," said David Schlanger, Chief Executive Officer, WebMD. "We expect this momentum to continue as we exit the year. We believe that we are taking the steps needed to capture additional advertising and sponsorship revenue, including in mobile, and to create diversified revenue streams and additional long-term growth opportunities."

Financial Highlights
For the three months ended September 30, 2013:

- Revenue was $130.9 million, compared to $117.5 million in the prior year period, an increase of 11%. Public portal advertising and sponsorship revenue was $109.6 million, compared to $97.6 million in the prior year period. Private portal services revenue was $21.3 million, compared to $19.9 million in the prior year period.
- Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") increased 80% to $31.7 million, or 24% of revenue, compared to $17.6 million, or 15% of revenue, in the prior year period.
- Net income was $3.2 million, or $0.06 per diluted share, compared to a net loss of $(0.9) million, or $(0.02) per diluted share, in the prior year period. Net income would have been $5.2 million, or $0.10 per diluted share, in the current period excluding an after-tax loss on convertible notes of $(2.0) million, or $(0.04) per diluted share. Net loss in the prior year period would have been $(3.1) million, or $(0.06) per diluted share, excluding after-tax income from discontinued operations of $2.2 million, or $0.04 per diluted share.

Traffic Highlights
Traffic to the WebMD Health Network during the third quarter reached an average of 138.0 million unique users per month and total traffic of 2.95 billion page views for the quarter, increases of 29% and 15%, respectively, from the prior year period.

Balance Sheet Highlights
During the quarter, WebMD utilized: $170.5 million in cash to repurchase 5 million shares of its Common Stock in a tender offer; $7.7 million in cash to repurchase approximately 0.3 million shares of its Common Stock under its authorized share buyback program; and $101.8 million in cash to repurchase $100 million principal amount of its 2.25% Convertible Notes due 2016.

As of September 30, 2013, WebMD had approximately $776 million in cash and cash equivalents and $700 million in aggregate principal amount of convertible notes outstanding.

After the end of the quarter, WebMD utilized: $177.3 million in cash to repurchase all of the approximately 5.5 million shares of WebMD common stock beneficially owned by Carl C. Icahn and certain of his affiliates; and $48.6 million in cash to repurchase $47.8 million principal amount of its 2.25% Convertible Notes due 2016.

As of today, WebMD has: approximately 40.5 million shares of its common stock outstanding (including approximately 1.0 million unvested shares of restricted stock); approximately $550 million in cash and cash equivalents; and $652.2 million in aggregate principal amount of convertible notes outstanding.

WebMD has approximately $54 million remaining in its authorized share buyback program.

Financial Guidance
Today, WebMD increased its revenue and earnings guidance for 2013 based on year-to-date actual results and its expectations for continued momentum in its public portals advertising business in the fourth quarter.

For the fourth quarter of 2013, WebMD expects:

- Revenue to be in excess of $141 million;

- Adjusted EBITDA to be in excess of $36 million; and
- Net income to be in excess of $7.7 million.

WebMD expects the following for 2013:

- Revenue to be in excess of $510 million;
- Adjusted EBITDA to be in excess of $118 million; and
- Net income to be in excess of $12 million.

WebMD expects 2013 revenue distribution to be:

- Approximately 84% from public portals advertising and sponsorship, representing growth in such revenue of 9% or greater over the prior year, and
- Approximately 16% from private portal licensing, representing growth in such revenue of 4% or greater over the prior year.

A schedule summarizing the Company's increased financial guidance is attached to this press release.

Acquisition of Avado, Inc.
Today, WebMD also announced that it has acquired Avado, Inc., a developer of cloud-based patient relationship management (PRM) tools and technologies that enable better communication between consumers and health care professionals. A copy of that press release can be found at www.wbmd.com.

Analyst and Investor Conference Call
WebMD will hold a conference call with investors and analysts to discuss its third quarter 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 expected contracts with customers, 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 and this press release is intended to be read in conjunction with those 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	$ 130,937	$ 117,513	$ 369,016	$ 337,128
Cost of operations	53,438	53,295	151,977	161,009
Sales and marketing	32,561	33,136	94,916	95,061
General and administrative	22,689	23,083	70,505	73,851
Depreciation and amortization	6,552	6,508	20,040	20,151
Interest income	16	19	54	64
Interest expense	5,833	5,832	17,497	17,500
Gain on investments	-	-	-	8,074
Loss on convertible notes	3,296	-	3,296	-
Other expense	-	-	1,353	2,297
Income (loss) from continuing operations before income tax provision (benefit)	6,584	(4,322)	9,486	(24,603)
Income tax provision (benefit)	3,353	(1,202)	5,182	(7,604)
Income (loss) from continuing operations	3,231	(3,120)	4,304	(16,999)
Income from discontinued operations, net of tax	-	2,235	-	2,743
Net income (loss)	$ 3,231	$ (885)	$ 4,304	$ (14,256)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.07	$ (0.06)	$ 0.09	$ (0.33)
Income from discontinued operations	-	0.04	-	0.05
Net income (loss)	$ 0.07	$ (0.02)	$ 0.09	$ (0.28)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.06	$ (0.06)	$ 0.09	$ (0.33)
Income from discontinued operations	-	0.04	-	0.05
Net income (loss)	$ 0.06	$ (0.02)	$ 0.09	$ (0.28)
Weighted-average shares outstanding used in computing income (loss) per common share:				
Basic	48,540	49,021	48,954	51,468
Diluted	50,594	49,021	50,315	51,468

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue				
Public portal advertising and sponsorship	$ 109,608	$ 97,562	$ 308,829	$ 279,082
Private portal services	21,329	19,951	60,187	58,046
	$ 130,937	$ 117,513	$ 369,016	$ 337,128
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	$ 31,720	$ 17,611	$ 82,250	$ 43,100
Interest, taxes, non-cash and other items (b)				
Interest income	16	19	54	64

Interest expense	(5,833)	(5,832)	(17,497)	(17,500)
Income tax (provision) benefit	(3,353)	1,202	(5,182)	7,604
Depreciation and amortization	(6,552)	(6,508)	(20,040)	(20,151)
Non-cash stock-based compensation	(9,471)	(9,612)	(30,632)	(35,893)
Gain on investments	-	-	-	8,074
Loss on convertible notes	(3,296)	-	(3,296)	-
Other expense	-	-	(1,353)	(2,297)
Income (loss) from continuing operations	3,231	(3,120)	4,304	(16,999)
Income from discontinued operations, net of tax	-	2,235	-	2,743
Net income (loss)	$ 3,231	$ (885)	$ 4,304	$ (14,256)

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

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

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$ 776,098	$ 991,835
Accounts receivable, net	99,705	106,622
Prepaid expenses and other current assets	13,836	13,882
Deferred tax assets	9,821	10,328
Total current assets	899,460	1,122,667
Property and equipment, net	56,786	66,604
Goodwill	202,104	202,104
Intangible assets, net	14,402	16,105
Deferred tax assets	51,247	56,039
Other assets	22,007	27,106
Total Assets	$ 1,246,006	$ 1,490,625
Liabilities and Stockholders' Equity		
Accrued expenses	$ 58,620	$ 64,256
Deferred revenue	86,850	92,176
Liabilities of discontinued operations	1,506	1,506
Total current liabilities	146,976	157,938
2.25% convertible notes due 2016	300,000	400,000
2.50% convertible notes due 2018	400,000	400,000
Other long-term liabilities	22,224	22,698
Stockholders' equity	376,806	509,989
Total Liabilities and Stockholders' Equity	$ 1,246,006	$ 1,490,625

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	$ 4,304	$ (14,256)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Income from discontinued operations, net of tax	-	(2,743)
Depreciation and amortization	20,040	20,151

Non-cash interest, net	3,245	3,244
Non-cash stock-based compensation	30,632	35,893
Deferred income taxes	4,592	(7,702)
Loss on convertible notes	3,296	-
Gain on investments	-	(8,074)
Changes in operating assets and liabilities:		
Accounts receivable	6,917	26,325
Prepaid expenses and other, net	(100)	(2,529)
Accrued expenses and other long-term liabilities	(5,689)	(1,760)
Deferred revenue	(5,326)	(4,517)
Net cash provided by continuing operations	61,911	44,032
Net cash provided by discontinued operations	-	759
Net cash provided by operating activities	61,911	44,791
Cash flows from investing activities:		
Proceeds received from ARS option	-	9,269
Purchases of property and equipment	(9,901)	(29,039)
Proceeds from sale of property and equipment	1,381	-
Net cash used in investing activities	(8,520)	(19,770)
Cash flows from financing activities:		
Proceeds from exercise of stock options	19,482	827
Cash used for withholding taxes due on stock-based awards	(7,321)	(2,332)
Repurchase of convertible notes	(101,750)	-
Repurchases of shares through tender offers	(170,516)	(150,759)
Purchases of treasury stock	(9,023)	(24,879)
Excess tax benefit on stock-based awards	-	301
Net cash used in financing activities	(269,128)	(176,842)
Net decrease in cash and cash equivalents	(215,737)	(151,821)
Cash and cash equivalents at beginning of period	991,835	1,121,217
Cash and cash equivalents at end of period	$ 776,098	$ 969,396

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

Revenue to be in excess of	$ 510.0
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)(c)	$ 118.0
Interest, taxes, non-cash and other items (b)(d)	
Interest expense, net	(22.2)
Depreciation and amortization	(27.0)
Non-cash stock-based compensation	(39.0)
Loss on convertible notes	(4.9)
Other expense	(1.4)
Pre-tax income (a)	23.5
Income tax provision (a)	(11.5)
Net income (a)	$ 12.0
Net income per share:	
Basic	$ 0.26
Diluted	$ 0.24
Weighted-average shares outstanding used in computing per share amounts:	
Basic	47.0
Diluted	49.0

(a) "Adjusted EBITDA", Pre-tax income, Income tax provision and Net income assume revenue is at the $510.0 million minimum contemplated by our guidance. All of these amounts could be higher to the extent revenue is in excess of $510.0 million.

(b) While the above forecasts for the line items used to reconcile "Adjusted EBITDA" to Pre-tax income do not vary directly with revenue, these amounts are estimates and are subject to change.

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

(d) Reconciliation of Adjusted EBITDA to Net income.

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

- Revenue is forecasted to be in excess of $141 million.
- Adjusted EBITDA is forecasted to be in excess of $36 million.
- Net income is forecasted to be in excess of $7.7 million.
- Convertible Notes are not expected to be dilutive for the quarter.

Additional information regarding full year forecast:

- The distribution of the annual revenue is expected to be approximately 84% public portals advertising and sponsorship and 16% private portal licensing.
- Convertible Notes are not expected to be dilutive for the full year.

The above guidance includes the impact of the Company's repurchase of approximately 5.5 million shares of common stock for $177.3 million and $47.8 principal amount of convertible notes in October 2013 as previously disclosed but does not include the impact, if any, of future deployment of capital for items such as share repurchases, convertible debt 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 net income or loss calculated in accordance with GAAP (referred to below as "net income") or income or loss from continuing operations calculated in accordance with GAAP (referred to below as "income from continuing operations"). 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 net income or income from continuing operations. 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 net income or income from continuing operations, 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 net income or income from continuing operations 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 net income or income from continuing operations, 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 net income or income from continuing operations. 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 net income and income from continuing operations:

- ***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 Statement of Operations are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Non-cash stock-based compensation included in:				
Cost of operations	$ 1,693	$ 2,046	$ 5,034	$ 6,676
Sales and marketing	$ 2,066	$ 1,932	$ 6,586	$ 6,397
General and administrative	$ 5,712	$ 5,634	$ 19,012	$ 22,820

- ***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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Non-cash interest expense				

2.50% Convertible Notes	$ 452	$ 451	$ 1,356	$ 1,355
2.25% Convertible Notes	$ 630	$ 630	$ 1,889	$ 1,889
Cash interest expense				
2.50% Convertible Notes	$ 2,500	$ 2,500	$ 7,500	$ 7,500
2.25% Convertible Notes	$ 2,250	$ 2,250	$ 6,750	$ 6,750

- ***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 net income or income from continuing operations. In recent periods or in the attachment containing "Financial Guidance for the Year Ending December 31, 2013" accompanying today's press release, these other items included, but were not limited to: (i) gain or loss on investments; (ii) a restructuring charge; (iii) severance expense; and (iv) loss on repurchases of our convertible notes. 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.