July 31, 2013

WebMD Announces Second Quarter Financial Results

NEW YORK, July 31, 2013 /PRNewswire/ -- WebMD Health Corp. (NASDAQ: WBMD), the leading source of health information, today announced financial results for the three months ended June 30, 2013.

"We are pleased to report strong second quarter results and reaffirm our increased revenue and earnings expectations for the balance of 2013," said David J. Schlanger, Interim CEO, WebMD. "WebMD's market leadership is demonstrated by our ability to meet the demands of consumers and physicians with health information and tools tailored to their specific interests at the right time on the right screen through our websites, mobile optimized sites and apps."

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

- Revenue was $125.3 million, compared to $112.7 million in the prior year period, an increase of 11%. Public portal advertising and sponsorship revenue was $105.8 million, compared to $93.7 million in the prior year period. Private portal services revenue was $19.5 million, compared to $18.9 million in the prior year period.
- Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") increased 105% to $29.2 million, or 23.3% of revenue, compared to $14.2 million, or 12.6% of revenue, in the prior year period.
- Net income was $2.6 million, or $0.05 per diluted share, compared to a net loss of $(5.6) million, or $(0.11) per diluted share, in the prior year period.

These results are consistent with the preliminary release issued by the Company on July 12, 2013.

Balance Sheet Highlights
As of June 30, 2013, WebMD had approximately $1 billion in cash and cash equivalents and $800 million in aggregate principal amount of convertible notes outstanding.

Traffic Highlights
Traffic to the WebMD Health Network during the second quarter reached an average of 125.5 million unique users per month and total traffic of 2.64 billion page views for the quarter, increases of 17% and 6%, respectively, from the prior year period.

Increased 2013 Financial Guidance Reaffirmed
WebMD reaffirmed its 2013 financial guidance which it increased on July 12, 2013 in conjunction with the announcement of its preliminary second quarter financial results.

David J. Schlanger said, "We are continuing to see momentum in our public portals advertising business, particularly with our biopharmaceutical customers. We are well positioned to take advantage of the opportunities ahead of us."

The Company's reaffirmed financial guidance is summarized as follows:

WebMD expects the following for 2013:

- Revenue of $485 million to $505 million, an increase of 3% to 7% from the prior year.
- Adjusted EBITDA of $100 million to $110 million, an increase of 37% to 50% from the prior year.
- Net income of $3 million to $11 million. Net loss in the prior year was $(20.3) million.

WebMD expects 2013 revenue distribution to be:

- Approximately 83% from public portals advertising and sponsorship, representing growth of approximately 3% to 7% over the prior year, and
- Approximately 17% from private portal licensing, representing growth of approximately 5% to 9% over the prior year.

WebMD's reaffirmed guidance reflects: (a) actual results for the first half of 2013; (b) visibility for the second half of 2013 based upon several factors, including orders received to date and those expected over the balance of the year; and (c) anticipated expenses relating to new private portal customer implementations as well as public portal initiatives such as enhanced data and analytics and new content and enhanced offerings for both users and advertisers.

For the third quarter of 2013, WebMD expects:

- Revenue to be in excess of $128 million;
- Adjusted EBITDA to be in excess of 22% of revenue; and
- Net income to be approximately 3% of revenue.

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

Termination of Stockholder Rights Plan
The Board of Directors has approved the termination of WebMD's Stockholder Rights Plan. The Board believes the Rights Plan, which was first adopted in November 2011, has served its purpose during what was a challenging period for the Company and has determined that it is not necessary to continue the Rights Plan at this time. The termination of the Rights Plan is expected to be completed within the next week. WebMD's Board of Directors may, in the future, adopt a new rights agreement or comparable plan if, in the exercise of its fiduciary duties, it determines that such adoption is in the best interests of WebMD and its stockholders.

Analyst and Investor Conference Call
WebMD will hold a conference call with investors and analysts to discuss its second 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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue	$ 125,317	$ 112,668	$ 238,079	$ 219,615
Cost of operations	51,596	54,243	98,539	107,714
Sales and marketing	31,422	31,822	62,355	61,925
General and administrative	24,282	21,746	47,816	50,768
Depreciation and amortization	6,635	6,713	13,488	13,643
Interest income	17	34	38	45
Interest expense	5,832	5,832	11,664	11,668
Gain on investments	-	-	-	8,074
Other expense	1,353	1,097	1,353	2,297
Income (loss) from continuing operations before income tax provision (benefit)	4,214	(8,751)	2,902	(20,281)
Income tax provision (benefit)	1,603	(2,649)	1,829	(6,402)
Income (loss) from continuing operations	2,611	(6,102)	1,073	(13,879)
Income from discontinued operations, net of tax	-	508	-	508
Net income (loss)	$ 2,611	$ (5,594)	$ 1,073	$ (13,371)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.05	$ (0.12)	$ 0.02	$ (0.26)
Income from discontinued operations	-	0.01	-	0.01
Net income (loss)	$ 0.05	$ (0.11)	$ 0.02	$ (0.25)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.05	$ (0.12)	$ 0.02	$ (0.26)
Income from discontinued operations	-	0.01	-	0.01
Net income (loss)	$ 0.05	$ (0.11)	$ 0.02	$ (0.25)
Weighted-average shares outstanding used in computing income (loss) per common share:				
Basic	49,315	49,615	49,161	52,692
Diluted	50,925	49,615	50,175	52,692

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue				
Public portal advertising and sponsorship	$ 105,783	$ 93,744	$ 199,221	$ 181,520
Private portal services	19,534	18,924	38,858	38,095
	$ 125,317	$ 112,668	$ 238,079	$ 219,615
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	$ 29,241	$ 14,238	$ 50,530	$ 25,489
Interest, taxes, non-cash and other items (b)				
Interest income	17	34	38	45
Interest expense	(5,832)	(5,832)	(11,664)	(11,668)
Income tax (provision) benefit	(1,603)	2,649	(1,829)	6,402
Depreciation and amortization	(6,635)	(6,713)	(13,488)	(13,643)

Non-cash stock-based compensation	(11,224)	(9,381)	(21,161)	(26,281)
Gain on investments	-	-	-	8,074
Other expense	(1,353)	(1,097)	(1,353)	(2,297)
Income (loss) from continuing operations	2,611	(6,102)	1,073	(13,879)
Income from discontinued operations, net of tax	-	508	-	508
Net income (loss)	$ 2,611	$ (5,594)	$ 1,073	$ (13,371)

(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)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$ 1,026,139	$ 991,835
Accounts receivable, net	103,793	106,622
Prepaid expenses and other current assets	17,520	13,882
Deferred tax assets	10,232	10,328
Total current assets	1,157,684	1,122,667
Property and equipment, net	61,223	66,604
Goodwill	202,104	202,104
Intangible assets, net	14,970	16,105
Deferred tax assets	52,711	56,039
Other assets	24,182	27,106
Total Assets	$ 1,512,874	$ 1,490,625
Liabilities and Stockholders' Equity		
Accrued expenses	$ 53,338	$ 64,256
Deferred revenue	98,325	92,176
Liabilities of discontinued operations	1,506	1,506
Total current liabilities	153,169	157,938
2.25% convertible notes due 2016	400,000	400,000
2.50% convertible notes due 2018	400,000	400,000
Other long-term liabilities	22,498	22,698
Stockholders' equity	537,207	509,989
Total Liabilities and Stockholders' Equity	$ 1,512,874	$ 1,490,625

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

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	$ 1,073	$ (13,371)
Adjustments to reconcile net income (loss) to net cash provided by		

operating activities:		
Income from discontinued operations, net of tax	-	(508)
Depreciation and amortization	13,488	13,643
Non-cash interest, net	2,163	2,163
Non-cash stock-based compensation	21,161	26,281
Deferred income taxes	856	(6,870)
Gain on investments	-	(8,074)
Changes in operating assets and liabilities:		
Accounts receivable	2,829	24,501
Prepaid expenses and other, net	(3,060)	(4,469)
Accrued expenses and other long-term liabilities	(10,665)	(9,128)
Deferred revenue	6,149	1,230
Net cash provided by operating activities	33,994	25,398
Cash flows from investing activities:		
Proceeds received from ARS option	-	9,269
Purchases of property and equipment	(7,367)	(16,606)
Net cash used in investing activities	(7,367)	(7,337)
Cash flows from financing activities:		
Proceeds from exercise of stock options	10,340	816
Cash used for withholding taxes due on stock-based awards	(1,745)	(1,958)
Purchases of treasury stock	(1,281)	(173,910)
Excess tax benefit on stock-based awards	363	-
Net cash provided by (used in) financing activities	7,677	(175,052)
Net increase (decrease) in cash and cash equivalents	34,304	(156,991)
Cash and cash equivalents at beginning of period	991,835	1,121,217
Cash and cash equivalents at end of period	$ 1,026,139	$ 964,226

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

	Guidance Range	
Revenue	$ 485.0	$ 505.0
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	$ 100.0	$ 110.0
Interest, taxes, non-cash and other items (b)		
Interest expense, net	(23.0)	(23.0)
Depreciation and amortization	(28.0)	(27.0)
Non-cash stock-based compensation	(39.0)	(37.0)
Other expense (c)	(1.4)	(1.4)
Pre-tax income	8.6	21.6
Income tax provision	(5.6)	(10.6)
Net income	$ 3.0	$ 11.0
Net income per share:		
Basic	$ 0.06	$ 0.22
Diluted	$ 0.06	$ 0.21
Weighted-average shares outstanding used in computing per share amounts:		
Basic	50.0	50.0
Diluted	52.0	52.0

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

(b) Reconciliation of Adjusted EBITDA to Net Income

(c) Represents severance expense for the Company's former Chief Executive Officer

Additional information regarding forecast for the quarter ending September 30, 2013:
- Revenue is forecasted to be in excess of $128 million
- Adjusted EBITDA as a percentage of revenue is forecasted to be in excess of 22%
- Net income as a percentage of revenue is forecasted to be approximately 3%

Additional information regarding full year forecast:
- The distribution of the annual revenue is expected to be approximately 83% public portals advertising and sponsorship and 17% 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 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 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 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 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 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 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 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 Statement of Operations are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Non-cash stock-based compensation included in:				
Cost of operations	$ 1,471	$ 1,873	$ 3,341	$ 4,630
Sales and marketing	$ 1,997	$ 2,304	$ 4,520	$ 4,465
General and administrative	$ 7,756	$ 5,204	$ 13,300	$ 17,186

- ***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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Non-cash interest expense				
2.50% Convertible Notes	$ 452	$ 452	$ 904	$ 904
2.25% Convertible Notes	$ 629	$ 629	$ 1,259	$ 1,259
Cash interest expense				
2.50% Convertible Notes	$ 2,500	$ 2,500	$ 5,000	$ 5,000
2.25% Convertible Notes	$ 2,250	$ 2,250	$ 4,500	$ 4,500

- ***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. In recent periods, these other items have included, but were not limited to: (i) gain or loss on investments; (ii) a restructuring charge; and (iii) severance expense. 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.

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