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WebMD Announces Second Quarter Financial Results

Revenue Increased 12%, Adjusted EBITDA Increased 30% WebMD Raises Financial Guidance for 2014

NEW YORK, Aug. 5, 2014 /PRNewswire/ -- WebMD Health Corp. (NASDAQ: WBMD), the leading source of health information, today announced financial results for the second quarter.

"We are pleased to report second quarter results that highlight strong performance across our business and reflect WebMD's continued progress in delivering an engaging experience for our users and a powerful advertising platform for customers," said David Schlanger, Chief Executive Officer, WebMD.

Financial Highlights

For the three months ended June 30, 2014:

- Revenue was \$140.4 million, compared to \$125.3 million in the prior year period, an increase of 12%. Public portal advertising and sponsorship revenue was \$116.2 million compared to \$105.8 million in the prior year period. Private portal services revenue was \$24.2 million compared to \$19.5 million in the prior year period.
- Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") was \$37.9 million, compared to \$29.2 million in the prior year period, an increase of 30%.
- Net income was \$9.7 million or \$0.23 per diluted share, compared to \$2.6 million, or \$0.05 per diluted share in the prior year period.

"During the quarter, we introduced an updated version of WebMD's flagship mobile app to help consumers make sense of biometric data; launched an increasing number of native advertising campaigns aimed at consumers and health care professionals; incorporated our targeting and analytics offerings across a broader number of customer campaigns; and continued to grow our audience," said Mr. Schlanger. He added, "The combination of these, and other actions, has helped WebMD further differentiate our offerings and strengthen our leadership position."

Traffic Highlights

Traffic to the WebMD Health Network during the second quarter reached an average of 179.4 million unique users per month generating 3.46 billion page views for the quarter, increases of 43% and 31%, respectively, from the prior year period.

Balance Sheet Highlights

During the second quarter, WebMD utilized approximately \$37 million in cash to repurchase approximately 900 thousand shares of its common stock under its stock repurchase program. Under the repurchase program, WebMD may repurchase shares from time to time in the open market, through block trades or in private transactions, depending on market conditions and other factors. Approximately \$37 million remains available under the repurchase program as of June 30, 2014.

As of June 30, 2014, WebMD had: approximately \$781 million in cash and cash equivalents; \$952 million in aggregate principal amount of convertible notes outstanding; and approximately 39 million shares of its common stock outstanding (including approximately 900 thousand unvested shares of restricted stock).

Financial Guidance

Today, WebMD increased its revenue and earnings guidance for 2014 based on year-to-date actual results and its expectations for continued strength in its business in the third and fourth quarters.

For the year ending December 31, 2014, WebMD expects:

- Revenue to be approximately \$570 million to \$580 million, an increase of approximately 11% to 13% from the prior year period.
- Adjusted EBITDA to be approximately \$152.5 million to \$157.5 million, an increase of approximately 24% to 28% from the prior year period.
- Net income to be approximately \$36.5 million to \$40.5 million.

For the third quarter of 2014, WebMD expects:

- Revenue to be approximately \$140 million to \$143 million, an increase of approximately 7% to 9% from the prior year period.
- Adjusted EBITDA to be approximately \$37.5 million to \$39.5 million, an increase of approximately 18% to 25% from the prior year period.
- Net income to be approximately \$8.5 million to \$9.5 million.

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

Analyst and Investor Conference Call

WebMD will hold a conference call with investors and analysts 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, Medscape Education and other owned WebMD sites.

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 services, including regulatory matters affecting their products and services; our ability to deploy new or updated services and to create new or enhanced revenue streams from those services; 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 information contained in 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.

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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue	\$ 140,400	\$ 125,317	\$ 274,232	\$ 238,079
Cost of operations	54,456	51,596	107,020	98,539
Sales and marketing	33,321	31,422	66,232	62,355
General and administrative	22,339	24,282	46,120	47,816
Depreciation and amortization	7,042	6,635	14,370	13,488
Interest income	17	17	32	38
Interest expense	6,172	5,832	12,344	11,664
Other expense	-	1,353	-	1,353

Income before income tax provision	17,087	4,214	28,178	2,902
Income tax provision	7,371	1,603	12,196	1,829
Net income	<u>\$ 9,716</u>	<u>\$ 2,611</u>	<u>\$ 15,982</u>	<u>\$ 1,073</u>

Net income per common share:				
Basic	<u>\$ 0.26</u>	<u>\$ 0.05</u>	<u>\$ 0.41</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.38</u>	<u>\$ 0.02</u>

Weighted-average shares outstanding used in computing income per common share:				
Basic	<u>37,819</u>	<u>49,315</u>	<u>38,543</u>	<u>49,161</u>
Diluted	<u>45,801</u>	<u>50,925</u>	<u>46,667</u>	<u>50,175</u>

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue				
Public portal advertising and sponsorship	\$ 116,212	\$ 105,783	\$ 225,415	\$ 199,221
Private portal services	24,188	19,534	48,817	38,858
	<u>\$ 140,400</u>	<u>\$ 125,317</u>	<u>\$ 274,232</u>	<u>\$ 238,079</u>
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	\$ 37,917	\$ 29,241	\$ 71,183	\$ 50,530
Interest, taxes, non-cash and other items (b)				
Interest income	17	17	32	38
Interest expense	(6,172)	(5,832)	(12,344)	(11,664)
Income tax provision	(7,371)	(1,603)	(12,196)	(1,829)
Depreciation and amortization	(7,042)	(6,635)	(14,370)	(13,488)
Non-cash stock-based compensation	(7,633)	(11,224)	(16,323)	(21,161)
Other expense	-	(1,353)	-	(1,353)
Net income	<u>\$ 9,716</u>	<u>\$ 2,611</u>	<u>\$ 15,982</u>	<u>\$ 1,073</u>

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

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

	June 30, 2014	December 31, 2013
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 781,311	\$ 824,880
Accounts receivable, net	128,493	124,232
Prepaid expenses and other current assets	16,141	13,243
Deferred tax assets	13,172	13,620
Total current assets	<u>939,117</u>	<u>975,975</u>
Property and equipment, net	61,301	64,884
Goodwill	202,980	202,980
Intangible assets, net	12,699	13,834
Deferred tax assets	36,463	38,802

Other assets	26,885	29,153
Total Assets	<u>\$ 1,279,445</u>	<u>\$ 1,325,628</u>
<u>Liabilities and Stockholders' Equity</u>		
Accrued expenses	\$ 57,668	\$ 73,739
Deferred revenue	98,336	85,148
Liabilities of discontinued operations	<u>1,506</u>	<u>1,506</u>
Total current liabilities	157,510	160,393
2.25% convertible notes due 2016	252,232	252,232
2.50% convertible notes due 2018	400,000	400,000
1.50% convertible notes due 2020	300,000	300,000
Other long-term liabilities	21,235	22,103
Stockholders' equity	148,468	190,900
Total Liabilities and Stockholders' Equity	<u>\$ 1,279,445</u>	<u>\$ 1,325,628</u>

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

	Six Months Ended	
	June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 15,982	\$ 1,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,370	13,488
Non-cash interest, net	2,256	2,163
Non-cash stock-based compensation	16,323	21,161
Deferred income taxes	2,803	856
Changes in operating assets and liabilities:		
Accounts receivable	(4,261)	2,829
Prepaid expenses and other, net	(2,668)	(3,060)
Accrued expenses and other long-term liabilities	(16,015)	(10,665)
Deferred revenue	13,188	6,149
Net cash provided by operating activities	<u>41,978</u>	<u>33,994</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(11,446)</u>	<u>(7,367)</u>
Net cash used in investing activities	(11,446)	(7,367)
Cash flows from financing activities:		
Proceeds from exercise of stock options	30,147	10,340
Cash used for withholding taxes due on stock-based awards	(10,339)	(1,745)
Purchases of treasury stock	(102,353)	(1,281)
Excess tax benefit on stock-based awards	8,444	363
Net cash (used in) provided by financing activities	<u>(74,101)</u>	<u>7,677</u>
Net (decrease) increase in cash and cash equivalents	(43,569)	34,304
Cash and cash equivalents at beginning of period	824,880	991,835
Cash and cash equivalents at end of period	<u>\$ 781,311</u>	<u>\$ 1,026,139</u>

WEBMD HEALTH CORP.
NET INCOME PER COMMON SHARE
(In thousands, except per share data, unaudited)

Three Months Ended

Six Months Ended

	June 30,		June 30,	
	2014	2013	2014	2013
Numerator:				
Net income — Basic	\$ 9,716	\$ 2,611	\$ 15,982	\$ 1,073
Interest expense on 1.50% convertible notes, net of tax	864	-	1,728	-
Net income — Diluted	<u>\$ 10,580</u>	<u>\$ 2,611</u>	<u>\$ 17,710</u>	<u>\$ 1,073</u>
Denominator:				
Weighted-average shares — Basic	37,819	49,315	38,543	49,161
Stock options and restricted stock	2,301	1,610	2,443	1,014
1.50% convertible notes	5,681	-	5,681	-
Adjusted weighted-average shares after assumed conversions — Diluted	<u>45,801</u>	<u>50,925</u>	<u>46,667</u>	<u>50,175</u>
Net income per common share:				
Basic	<u>\$ 0.26</u>	<u>\$ 0.05</u>	<u>\$ 0.41</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.38</u>	<u>\$ 0.02</u>

WebMD Health Corp.
Financial Guidance for the Year Ending December 31, 2014
(in millions, except per share amounts)

	Guidance Range	
Revenue:		
Public portal advertising and sponsorship	\$ 470.0	\$ 478.0
Private portal services	100.0	102.0
	<u>\$ 570.0</u>	<u>\$ 580.0</u>
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	\$ 152.5	\$ 157.5
Interest, taxes, non-cash and other items (b)		
Interest expense, net	(25.0)	(25.0)
Depreciation and amortization	(30.0)	(29.0)
Non-cash stock-based compensation	(33.5)	(32.5)
Pre-tax income	<u>64.0</u>	<u>71.0</u>
Income tax provision	(27.5)	(30.5)
Net income	<u>\$ 36.5</u>	<u>\$ 40.5</u>
Income per share:		
Basic	<u>\$ 0.95</u>	<u>\$ 1.04</u>
Diluted (c)	<u>\$ 0.87</u>	<u>\$ 0.92</u>
Calculation of income per share:		
Net income (numerator for basic income per share)	\$ 36.5	\$ 40.5
Add-back of interest expense on 1.50% Notes, net of tax	3.5	3.5
Numerator for diluted income per share	<u>\$ 40.0</u>	<u>\$ 44.0</u>
Weighted average shares outstanding (denominator for basic income per share)	38.5	39.0
Stock options and restricted stock	2.0	3.0
Weighted average shares issuable upon conversion of 1.50% Notes	5.7	5.7
Denominator for diluted income per share	<u>46.2</u>	<u>47.7</u>

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

(b) Reconciliation of Adjusted EBITDA to net income

(c) See Supplemental 2014 Guidance for Income Per Share Calculation below

Additional information regarding forecast for the quarter ending September 30, 2014:

- Revenue is forecasted to be between \$140 million to \$143 million
- Adjusted EBITDA is forecasted to be between \$37.5 million to \$39.5 million
- Net income is forecasted to be between \$8.5 million to \$9.5 million

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

WebMD Health Corp.
Supplemental 2014 Guidance for Income Per Share Calculation

Based on the Company's Financial Guidance for the Year Ending December 31, 2014, the 2.50% Notes and 2.25% Notes are not expected to be dilutive to the full year. However, the 1.50% Notes are expected to be dilutive to the full year. Additionally, each of the series of Notes may be dilutive in certain quarters, depending on the amount of net income for such quarter. The following table contains the approximate level of net income for an individual quarter and for the full year 2014 at which each of the series of Notes would become dilutive to income per share. To the extent this net income is exceeded for any such period, the table also includes the amounts by which the numerator and denominator should each be adjusted for purposes of the diluted income per share calculation. The amounts below assume a weighted-average diluted share count of 40.5 million shares (prior to the effect of convertible notes) and the amounts are subject to change as such weighted average share count changes.

All amounts in millions	Quarterly Amounts			Annual Amounts		
	1.50% Notes	2.50% Notes	2.25% Notes	1.50% Notes	2.50% Notes	2.25% Notes
Approximate net income at which convertible notes become dilutive:	\$ 6.2	\$ 12.5	\$ 13.8	\$ 24.6	\$ 50.2	\$ 55.3
Interest expense, net of tax to add-back to net income (numerator):	\$ 0.9	\$ 1.8	\$ 1.1	\$ 3.5	\$ 7.2	\$ 4.4
Additional shares to include in weighted-average diluted share count (denominator):	5.7	6.2	3.5	5.7	6.2	3.5

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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013

Non-cash stock-based compensation included in:

Cost of operations	\$ 1,429	\$ 1,471	\$ 2,893	\$ 3,341
Sales and marketing	\$ 1,694	\$ 1,997	\$ 3,799	\$ 4,520
General and administrative	\$ 4,510	\$ 7,756	\$ 9,631	\$ 13,300

- 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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Non-cash interest expense				
2.25% Convertible Notes	\$ 390	\$ 629	\$ 780	\$ 1,259
2.50% Convertible Notes	\$ 447	\$ 452	\$ 893	\$ 904
1.50% Convertible Notes	\$ 291	\$ —	\$ 583	\$ —
Cash interest expense				
2.25% Convertible Notes	\$ 1,419	\$ 2,250	\$ 2,838	\$ 4,500
2.50% Convertible Notes	\$ 2,500	\$ 2,500	\$ 5,000	\$ 5,000
1.50% Convertible Notes	\$ 1,125	\$ —	\$ 2,250	\$ —

- 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 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.

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