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WebMD Announces First Quarter Financial Results

NEW YORK, May 1, 2012 /PRNewswire/ -- WebMD Health Corp. (NASDAQ: WBMD), the leading source of health information, today announced financial results for the three months ended March 31, 2012.

For the three months ended March 31, 2012:

- Revenue was \$106.9 million, compared to \$131.6 million in the prior year period. Public portal advertising and sponsorship revenue was \$87.8 million, compared to \$110.4 million in the prior year period. Private portal services revenue was \$19.2 million, compared to \$21.2 million in the prior year period.
- Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") was \$11.3 million, compared to \$37.9 million in the prior year period.
- Net loss was \$(7.8) million or \$0.14 per diluted share, compared to net income of \$19.5 million or \$0.32 per diluted share in the prior year period. Net loss in the current period includes an after-tax gain on investments of \$5.2 million, an after-tax severance expense of \$0.8 million and an after-tax stock compensation expense related to the voluntary surrender of options of \$5.3 million. Net income in the prior year period includes an after-tax gain on investments of \$8.8 million.

"Our financial results for the first quarter are consistent with our financial guidance," said Anthony Vuolo, Interim Chief Executive Officer and Chief Financial Officer, WebMD. "We continue to focus on the initiatives that best position the Company to capture future growth opportunities."

Traffic Highlights

Traffic to the WebMD Health Network during the first quarter continued to grow strongly, reaching an average of 107 million unique users per month and 2.52 billion page views for the quarter, increases of 37.5% and 34.9%, respectively, from the prior year period. 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 March 31, 2012, WebMD had \$1.1 billion in cash and cash equivalents and \$800 million in aggregate principal amount of convertible notes outstanding.

Subsequent to March 31, 2012, the company utilized \$150 million of cash to purchase 5.8 million shares of its common stock in a tender offer which was completed in early April.

Financial Guidance

WebMD updated its financial guidance for 2012 to reflect the purchase of 5.8 million shares of its common stock through its recent tender offer and the gain on investments realized during the first quarter. A detailed schedule is attached to this press release.

In summary, for 2012, WebMD expects:

- Revenue to be approximately \$500 million to \$535 million;
- Adjusted EBITDA to be approximately \$100 million to \$125 million; and
- Net income to be approximately \$2.8 million to \$19.9 million, or \$0.05 to \$0.37 per diluted share.

For the second quarter of 2012, WebMD expects:

- Revenue to be approximately \$110 million to \$115 million;
- Adjusted EBITDA to be approximately 10% to 12% of revenue; and
- Net loss to be approximately 4% to 6% of revenue.

"Our Board of Directors and management team are committed to creating value for all of our stakeholders," said Martin J. Wygod, Chairman, WebMD. "While we manage through this tough operating environment, we are focused on improving factors within our control. As we strategically deploy our unparalleled portfolio of assets and invest in the future of our business, we will continue to build upon our leadership status and be well positioned for future growth."

Analyst and Investor Conference Call

WebMD will hold a conference call with investors and analysts to discuss its first 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 and Medscape Education.

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 strategic partners; 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.

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	
	March 31,	
	2012	2011
Revenue	\$ 106,947	\$ 131,609
Cost of operations	53,471	48,449
Sales and marketing	30,103	32,294
General and administrative	29,022	22,821
Depreciation and amortization	6,930	6,424
Interest income	11	16
Interest expense	5,836	3,141
Gain on investments	8,074	14,060
Other expense	1,200	53
(Loss) income before income tax (benefit) provision	(11,530)	32,503
Income tax (benefit) provision	(3,753)	12,958
Net (loss) income	<u>\$ (7,777)</u>	<u>\$ 19,545</u>
Net (loss) income per common share:		
Basic	<u>\$ (0.14)</u>	<u>\$ 0.33</u>
Diluted	<u>\$ (0.14)</u>	<u>\$ 0.32</u>
Weighted-average shares outstanding used in computing (loss) income per common share:		
Basic	<u>55,769</u>	<u>58,184</u>
Diluted	<u>55,769</u>	<u>67,173</u>

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

	Three Months Ended	
	March 31,	
	2012	2011
Revenue		
Public portal advertising and sponsorship	\$ 87,776	\$ 110,363
Private portal services	19,171	21,246
	<u>\$ 106,947</u>	<u>\$ 131,609</u>
Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	\$ 11,251	\$ 37,858
Interest, taxes, non-cash and other items (b)		
Interest income	11	16
Interest expense	(5,836)	(3,141)
Income tax benefit (provision)	3,753	(12,958)
Depreciation and amortization	(6,930)	(6,424)
Non-cash stock-based compensation	(16,900)	(9,813)
Gain on investments	8,074	14,060
Other expense	(1,200)	(53)
Net (loss) income	<u>\$ (7,777)</u>	<u>\$ 19,545</u>

- (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)

	March 31, 2012	December 31, 2011
<u>Assets</u>		
Cash and cash equivalents	\$ 1,142,066	\$ 1,121,217
Accounts receivable, net	97,445	121,335
Prepaid expenses and other current assets	15,442	12,690
Deferred tax assets	21,316	20,482
Total current assets	<u>1,276,269</u>	<u>1,275,724</u>
Property and equipment, net	53,621	57,139
Goodwill	202,104	202,104
Intangible assets, net	19,343	19,999
Deferred tax assets	51,953	55,017
Other assets	29,957	31,042
Total Assets	<u>\$ 1,633,247</u>	<u>\$ 1,641,025</u>
<u>Liabilities and Stockholders' Equity</u>		
Accrued expenses	\$ 44,076	\$ 55,238
Deferred revenue	90,321	88,055
Liabilities of discontinued operations	1,506	1,506
Total current liabilities	<u>135,903</u>	<u>144,799</u>
2.25% convertible notes due 2016	400,000	400,000
2.50% convertible notes due 2018	400,000	400,000
Other long-term liabilities	21,503	21,790

Stockholders' equity	675,841	674,436
Total Liabilities and Stockholders' Equity	<u>\$ 1,633,247</u>	<u>\$ 1,641,025</u>

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

	Three Months Ended	
	March 31,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	\$ (7,777)	\$ 19,545
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	6,930	6,424
Non-cash interest, net	1,082	516
Non-cash stock-based compensation	16,900	9,813
Deferred income taxes	(3,971)	4,798
Gain on investments	(8,074)	(14,060)
Changes in operating assets and liabilities:		
Accounts receivable	23,890	5,688
Prepaid expenses and other, net	(4,023)	622
Accrued expenses and other long-term liabilities	(11,694)	(7,642)
Deferred revenue	2,266	(219)
Net cash provided by continuing operations	15,529	25,485
Net cash used in discontinued operations	-	(142)
Net cash provided by operating activities	15,529	25,343
Cash flows from investing activities:		
Proceeds received from ARS option	9,269	5,240
Purchases of property and equipment	(3,377)	(4,849)
Net cash provided by investing activities	5,892	391
Cash flows from financing activities:		
Proceeds from exercise of stock options	754	10,220
Cash used for withholding taxes due on stock-based awards	(911)	(3,172)
Net proceeds from issuance of the 2.50% Notes and 2.25% Notes	-	774,745
Purchases of treasury stock	(415)	(150,000)
Excess tax benefit on stock-based awards	-	7,355
Net cash (used in) provided by financing activities	(572)	639,148
Net increase in cash and cash equivalents	20,849	664,882
Cash and cash equivalents at beginning of period	1,121,217	400,501
Cash and cash equivalents at end of period	<u>\$ 1,142,066</u>	<u>\$ 1,065,383</u>

WebMD Health Corp.
Financial Guidance for the Year Ending December 31, 2012
(in millions, except per share amounts)

	Year Ending December 31, 2012 Guidance Range	
Revenue	<u>\$ 500.0</u>	<u>\$ 535.0</u>

Earnings before interest, taxes, non-cash and other items ("Adjusted EBITDA") (a)	\$ 100.0	\$ 125.0
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	(48.0)	(46.0)
Gain on investments	8.1	8.1
Other expense	(1.2)	(1.2)
Pre-tax income	7.9	35.9
Income tax provision	(5.1)	(16.0)
Net income	<u>\$ 2.8</u>	<u>\$ 19.9</u>
Net income per share		
Basic	<u>\$ 0.05</u>	<u>\$ 0.38</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.37</u>
Weighted-average shares outstanding used in computing per share amounts:		
Basic	<u>53.0</u>	<u>53.0</u>
Diluted	<u>54.0</u>	<u>54.0</u>

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

(b) Reconciliation of Adjusted EBITDA to net income

Additional information regarding forecast for the quarter ending June 30, 2012:

- Revenue is forecasted to be between \$110 million and \$115 million
- Adjusted EBITDA as a percentage of revenue is forecasted to be approximately 10% to 12%.
- Net loss as a percentage of revenue is forecasted to be approximately 4% to 6%.

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. Quarterly revenue distributions may vary from this annual estimate.
- 2012 guidance includes actual gains on investments during three months ended March 31, 2012, but excludes any gains or losses related to investments or convertible notes for the nine-months ending December 31, 2012.
- Convertible notes are not expected to be dilutive for the full year or any quarter.

ANNEX A

Explanation of Non-GAAP Financial Measures

(All dollar amounts in thousands)

The accompanying WebMD Health Corp. press release and the attached financial information and guidance 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 net loss) calculated in accordance with GAAP (which we refer to in this Annex A as "net income"). The financial information and guidance accompanying 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 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 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 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 March 31,	
	2012	2011
Non-cash stock-based compensation included in:		
Cost of operations	\$ 2,757	\$ 2,103
Sales and marketing	2,161	2,391
General and administrative	11,982	5,319

- Interest Income and Expense.** Interest income is associated with the level of marketable debt securities and other interest bearing accounts in which we invest, as well as with interest expense arising from 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
March 31,

	2012	2011
Non-cash interest expense		
2.50% Convertible Notes	\$ 452	\$ 397
2.25% Convertible Notes	\$ 630	\$ 119
Cash interest expense		
2.50% Convertible Notes	\$ 2,500	\$ 2,194
2.25% Convertible Notes	\$ 2,250	\$ 425

- 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 reversed through the statement of operations or additional paid-in capital. The timing of such reversals 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) 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, and (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. 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.

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