TRANSCRIPT OF Q4 2016 WEBMD EARNINGS CONFERENCE CALL – Feb. 16, 2017

All statements included in this transcript of WebMD's February 16, 2017 analyst and investor conference call and in the related earnings press release issued by WebMD on that date (the "February 16 Press Release"), other than statements of historical fact, are forward-looking statements, including those regarding: explorations of possible transactions and other strategic alternatives; guidance on our future financial results and other projections or measures of our future performance; market opportunities or momentum and our ability to capitalize on them; and the benefits expected from new or expected contracts with customers, 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: the nature and timing of any possible transaction or other strategic alternative or of any potential benefits from any such transaction or other alternative; market acceptance of our products and services; our relationships with customers and other factors affecting their use of our services and the timing of entry into and implementation of specific contracts with customers, 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.

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This transcript and the February 16 Press Release 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. Tables attached to the February 16 Press Release and the related Current Report on Form 8-K filed that day include reconciliations of these non-GAAP financial measures to GAAP financial measures. In addition, an "Explanation of Non-GAAP Financial Measures" is attached to the February 16 Press Release as Annex A.

Operator: Good afternoon and welcome to WebMD Health Corp.'s fourth quarter 2016 conference call. Today's call is being recorded. I will now turn the call over to Risa Fisher, Vice President of Investor Relations.

Risa Fisher:

Good afternoon. This conference call is to discuss WebMD's fourth quarter results. The earnings release issued today by WebMD is available at www.wbmd.com (in the Investor Relations section). The release and a related Form 8-K include reconciliations between GAAP and non-GAAP financial measures, which will be discussed during this call. The explanatory paragraphs in the release concerning forward-looking disclosures, and related risks and uncertainties, also apply to forward-looking disclosures made during this call, including those regarding our guidance on future financial results and other projections or measures of WebMD's future performance. Further information regarding WebMD, including information concerning risks and uncertainties can be found in WebMD's SEC filings and the information on this conference call is intended to be presented in conjunction with the information contained in such filings. Joining us with prepared remarks today are:

- Steve Zatz, Chief Executive Officer; and
- Blake DeSimone, Chief Financial Officer

We will take questions at the conclusion of our prepared remarks. I would now like to turn it over to Steve Zatz, CEO of WebMD.

STEVE ZATZ:

Thank you for joining us this afternoon. I trust you have all had a chance to review the press releases and accompanying guidance that we issued today. We reported strong fourth quarter and full year 2016 results, which were near the high end of the ranges of financial guidance we previously provided. Looking forward, our financial outlook for 2017 reflects a decline in growth in pharma advertising that is more significant than we had anticipated on our last call. I will discuss some of the external factors that we believe are impacting our pharma growth in 2017 in a few moments.

We announced today that our Board of Directors has commenced a process to explore and evaluate potential strategic alternatives focused on maximizing shareholder value. These alternatives could include, among other things, the sale of part or all of the company, a merger with another party or other strategic transaction or continuing to execute on WebMD's business plan. The Board has not set a timetable for this process nor has it made any decisions related to any strategic alternatives at this time. There can be no assurance that the exploration of strategic alternatives will result in a transaction. We do not intend to provide updates unless or until we determine that further disclosure is appropriate or necessary. J.P. Morgan is acting as financial advisor to the Company. We will work diligently to ensure that our customers and business partners are not impacted during this evaluation.

Although our outlook for pharma advertising shows lower growth in 2017, we remain enthusiastic about the long term opportunity in pharma, our market leading position, our highly engaged audiences and our ability to capitalize on the broader opportunities for growth.

Turning first to a review of the fourth quarter: our revenue increased 8% to $207.5 million, primarily due to higher revenue from our biopharma customers. Net income increased 32% to $36.2 million and Adjusted EBITDA increased 16% to $78.1 million.

For the full year, total revenues increased 11% to $705 million. Biopharma advertising and sponsorship revenue grew 15% to $428.5 million. OTC, CPG and other advertising and sponsorship revenue grew 4% to $132.8 million. WebMD Health Services revenue grew 3% to $113.9 million and information services revenue grew 11% to $29.8 million. Net income for the year increased 43% to $91.3 million and Adjusted EBITDA increased 19% to $230.6 million.

In 2016, we realized strong free cash flow of approximately $186 million and continue to benefit from NOL carryforwards of approximately $500 million.

Medscape, which accounted for approximately 60% of our annual advertising revenue in 2016, is the premier source of medical news, clinical reference and medical education for physicians and healthcare professionals around the world. We believe that Medscape has the broadest scale and deepest online engagement with more physicians and health professionals than any other property, either in the US or abroad.

During the fourth quarter, worldwide, we averaged approximately 8.3 million physician sessions per month on Medscape, an increase of approximately 14% over the prior year period. Medscape is a registration site and most of our health professional members come directly to Medscape, rather than through search. In the US, Medscape has approximately 675,000 registered US physicians that are active on an annual basis. They represent a substantial majority of the practicing physicians in the US. During the fourth quarter, an average of approximately 404,000 US physicians were active on Medscape monthly. We also reach approximately 2 million other health care professionals in the US annually, many of whom engage with patients and affect prescribing decisions, such as nurse practitioners and physician assistants. Additionally, outside the US, we reach approximately 1.7 million active physicians annually.

WebMD, which accounted for approximately 40% of our annual advertising revenue in 2016, is the leading source and brand of health information and tools for consumers. According to comScore, average US monthly visitors to the WebMD Health Network across both mobile and desktop on a de-duplicated basis was approximately 64 million during the fourth quarter, meaning that one-quarter of the total US online population visits the WebMD Health Network monthly. As noted by comScore, WebMD's fourth quarter traffic was understated for the quarter due to a beaconing issue that was not fixed until the middle of December. This technical issue only impacted comScore reporting and not our internal traffic analysis or any customer programs or reporting.

Within the health category, we are the clear leader, by a significant margin, across unique visitors, page views and time spent on both desktop and mobile.

We have approximately 50% more monthly visitors and 3 times more page views than our next largest competitor. We are also #1 in all of the 50 most important condition-suffering populations online.

According to our internal traffic analysis, which does not de-duplicate users across properties or devices, traffic to the WebMD Health Network averaged 179.5 million unique users per month and generated 3.63 billion page views for the fourth quarter, representing an 11% decrease in users and a 9% decrease in page views, when compared to the prior year period.

During 2016, we saw declines in the number of search referrals we received from Google and this impacted our aggregate traffic. In 2016, 58% of our traffic came from search engines, as compared to 66% in the prior year. We offset much of the decline with growth in direct sources of traffic. In 2016, we grew non-search-related traffic by approximately 21% over the prior year.

Of the 3.63 billion page views we served in the fourth quarter, 40% of our page view traffic was from a US smartphone; 20% was from a US PC; 6% was from a US tablet device; and 34% was international.

While our leadership position in overall traffic is a reflection of our strong brand and the trust consumers place in us, it is important to note that overall traffic is <u>not</u> a direct driver of our revenue. Growth in our aggregate traffic, in fact, does not correlate with our revenue growth. For example, this quarter, we delivered 8% growth in advertising revenue, despite a 9% decline in our aggregate page views.

As we discussed in November on our last earnings call, given the lack of correlation between our overall traffic and our advertising revenue, we will not be reporting these aggregate traffic statistics beginning with the first quarter of 2017. Investors will still have third-party measures to understand our market leadership and relative size vis a vis our competitors.

Of course, what is most important, is that we reach the audiences that our customers value and that we provide the right context for our advertisers to communicate their messages. Accordingly, we focus our content and editorial efforts on areas that yield the greatest return; and we drive direct traffic to these areas mainly through site design, newsletters and referrals from social platforms. In the areas of greatest demand, that our customers value the most, we have been able to grow our traffic and manage our inventory, and expect to be able to continue to do so.

Looking at the external environment: there is a more uncertain macro environment than we had anticipated a few months ago. With the new Administration, we expect there will be significant changes to national healthcare policy, however, the nature and timing of those changes is uncertain. Additionally, the focus on pharmaceutical pricing and profitability that we saw leading up to the election has further intensified, including new speculation regarding the possibility for significant changes in drug procurement for government-funded programs such as Medicare and Medicaid. All of these factors create significant short term uncertainty for many of our pharma customers.

We are seeing some major pharma companies become more cautious as demonstrated by staffing reductions or lowered financial guidance announced in the last few weeks. We are also seeing a level of conservatism as many pharma companies assess the evolving situation and delay or defer decision making and deployment of budgets.

Looking at 2017 against this backdrop, the financial guidance we issued today reflects a decrease in our biopharma advertising growth rate. Our revenue outlook for any calendar year to a large extent is informed by sales levels in the last few weeks of the fourth quarter through the early part of that year. Our advertising sales to biopharma customers during this period was approximately $20 million lower than our prior expectations. Our current 2017 revenue guidance reflects a combination of these lower than expected sales and the more uncertain pharma environment that I just discussed.

Looking beyond the current environment, we remain positive about our market positioning and the longer-term opportunities. Although there were fewer FDA approvals of new drugs in 2016 than in 2015, there is consensus in the market that the FDA pipeline will be stronger in 2017 and beyond. Additionally, the new Administration has said they are committed to reducing regulation and streamlining the FDA process which should enable pharma companies to bring products to market more quickly and benefit our business longer term.

We are optimistic and remain focused on strengthening our content, products and services for both our users and advertisers in the areas where we have the greatest differentiation. Consumers frequently use WebMD when they are at an important health care decision point. Our research shows that nearly 75% of our visitors say they learned something new from the information we provided and are more confident as to what to do for the next step in addressing their health care concerns.

Building on these considerable strengths, we believe that WebMD can become the place consumers turn to first to take health care actions, whether it be self-care, purchase of an OTC product, a telehealth visit or scheduling an appointment with a physician. And we are investing accordingly.

This flu season, we launched our largest effort in leveraging powerful geo-prevalence data to help consumers manage their health care. Using proprietary models, WebMD is able to predict cold and flu trends up to 4 weeks in advance, and with our new Alert feature, notify consumers via email about the prevalence of cold and flu in their geographic location so they can take proactive steps to avoid getting sick.

Reckitt Benckiser, one of our longtime partners and sponsor of both the map and alert, uses these insights to deliver tailored information about specific RB products that are available to treat consumers' symptoms in a targeted and efficient manner.

WebMD will soon launch a new offering with Walgreens called Relief Advisor that allows consumers to enter in symptoms and receive medically reviewed health information from WebMD, including treatment advice as well as the active ingredients they should look for when buying OTC products to treat their cold, cough and flu. Relief Advisor will be available through both Walgreens' and WebMD's PC and mobile platforms.

During 2016, we completely redesigned our iconic symptom checker tool and it will be in beta shortly. Our enhanced symptom checker will feature a new responsive design optimized for use across multiple devices, which will also make entering symptoms and finding the best-matching conditions quicker and easier. We will also enable users to easily share a "Doctor's Report" and locate a health professional based on their needs.

We have also begun to make WebMD available via alternative interfaces. In December, WebMD information about health-related topics, including conditions, drugs, medical tests, side effects, symptoms and treatments became available to users of Google Home devices. Once they've enabled the WebMD Action, they can ask a variety of health care-related questions. In response, WebMD will provide physician-reviewed answers in plain, accessible language. We expect to launch WebMD for Amazon Alexa-enabled devices very soon.

Turning to Medscape: we continue to be pleased by the market's interest in Medscape TV, which consists of highly produced video segments on important health care topics that are hosted by nationally recognized thought leaders. These video series are available through our site and apps and are also available through our app on Apple TV.

Medscape Consult, our tool that connects physicians worldwide and provides an innovative platform for them to ask, share and discuss clinical cases continues to grow – more than 200,000 physicians have used Consult since our launch just over a year ago. We also continue to add leading institutional partners, most recently Baylor College of Medicine pediatricians who practice at Texas Children's Hospital.

We are also excited about the opportunities outside the US particularly for the Medscape business. Medscape continues to expand its presence outside the US as the leading source of medical information and continuing education. Pharmaceutical companies spend roughly the same amount on promotion to health care professionals outside the US as they spend within the US, so this represents a significant opportunity for us to increase our share of promotional budgets. In 2017, we are investing to further expand Medscape's global business. According to Manhattan Research, Medscape is #1 in each of the EU, Latin America, India and Australia and, with our partner DXY, we have access to the largest physician audience in China. In addition to English, we have French, German, Spanish and Portuguese language editions of Medscape and we have also created commercial programs for our customers in more than a dozen additional languages.

Turning to WebMD Health Services: health services revenue increased 6% to $28.8 million in the fourth quarter compared to the prior year period. Despite the progress we made in 2016, new sales did not offset typical customer churn and we are expecting revenue to decline to $99 to $100 million in 2017. As I mentioned during our last call, I am working closely with the Health Services management team to understand and address the challenges in this segment. In November, we hired a new head of sales.

We are enhancing the WHS platform to make sure we continue to meet and exceed the needs of our existing customers, while also attracting new ones. We recently launched our new Invitational Team Steps Challenge, which uses gamification to motivate employees and health plan participants in adopting and sustaining healthy habits. We believe that our population health management platform and related services, including our digital and telephonic coaching tools, have applications outside of the employer/payer space where we are currently focused, which represents a potentially substantial opportunity.

Turning to information services: Our information services comprise subscription-based data products and services that we license to data services, informatics and consulting companies. Revenue from information services was $7.7 million in the fourth quarter compared to $6.6 million in the prior year period. Our information services revenue is driven by our ability to resell data from a legacy agreement that we have with Change Health, which is due to expire in early 2018. Change Health is in the process of merging with McKesson, and as a result, our discussions around extending our agreement have been stalled. We are also exploring other sources of third-party data and uses of our first party data to generate additional revenue streams, but we are early in that process.

I'd like to turn the call over to Blake at this time so he can walk you through the financial results.

BLAKE DESIMONE:

Thanks Steve. As Steve mentioned, we are pleased to report fourth quarter results near the high end of the range of financial guidance we provided in November.

Fourth quarter revenue was $207.5 million, compared to $192.1 million last year, an increase of 8%.

Advertising and sponsorship revenue grew 8% to $171 million, compared to $158.3 million in the prior year period. Breaking down our advertising and sponsorship revenue further:

- revenue from biopharma and medical device clients increased 11% compared to the prior year period; and
- revenue from OTC, CPG and other clients was comparable to the prior year period.

Health services revenue was $28.8 million, an increase of 6% compared to $27.2 million in the prior year period.

Information services revenue was $7.7 million, an increase of 16% compared to $6.6 million in the prior year period.

Fourth quarter net income increased 32% to $36.2 million or $0.73 per diluted share compared to $27.5 million, or $0.60 per diluted share in the prior year period.

Fourth quarter Adjusted EBITDA increased 16% to $78.1 million, or 38% of revenue, compared to $67.4 million, or 35% of revenue, in the prior year period.

Capital expenditures were $5.3 million in the quarter.

Operating cash flow was approximately $66.9 million in the quarter. This includes a cash tax benefit of $28 million related to the use of our tax NOL's generated by stock based compensation which, as required by GAAP, are included in the financing section of the cash flow statement rather than in the operating section.

As we have stated previously, quarterly operating cash flows can be impacted by the timing of billing and collection of receivables from our customers, compensation accruals and other accruals in relation to quarter's end, and the timing of interest payments on our convertible notes.

In the fourth quarter, we completed a $110 million tender offer for 2.0 million of our shares and also repurchased approximately 24,000 shares for an aggregate of $1.2 million in cash under the repurchase program.

As of December 31, 2016, approximately $45.6 million remained available for repurchases under our stock repurchase program. Under the repurchase program, we 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.

As a reminder, we adopted a new accounting pronouncement at the beginning of 2016 that requires debt issuance costs to be netted against the principal amount of the convertible notes on the balance sheet, rather than be reflected in other assets. The prior year balances were reclassified to reflect this change.

As of December 31, we had approximately $991 million in cash and investments; $1.06 billion in aggregate principal amount of convertible notes outstanding; and approximately 37.6 million common shares outstanding, which includes approximately 900 thousand unvested shares of restricted stock.

Turning to our financial guidance:

For the full year 2017, we expect revenue to be approximately $710 million to $730 million, an increase of approximately 1% to 4% from 2016. Our mix of revenue is expected to be as follows:

- Advertising and sponsorship revenue is expected to be approximately $580 million to $598 million, an increase of 3% to 7% over 2016. Advertising and sponsorship revenue from biopharma clients will represent approximately 75% of advertising and sponsorship revenue and is expected to grow approximately 2% to 5% in 2017. Advertising and sponsorship revenue from OTC, CPG and other clients will represent approximately 25% of advertising and sponsorship revenue and is expected to grow 8% to 11%.
- Health services revenue is expected to be approximately $99 million to $100 million, a decrease of 12% to 13% from 2016.
- Information services revenue is expected to be approximately $31 million to $32 million, an increase of 4% to 7% over 2016.

We expect net income in 2017 to be approximately $89.0 million to $98.0 million, or $1.97 to $2.10 per diluted share, compared to $91.3 million, or $1.97 per diluted share, in 2016.

We expect Adjusted EBITDA in 2017 to be approximately $233 million to $243 million, an increase of 1% to 5% from 2016. Adjusted EBITDA as a percentage of revenue is expected to be approximately 32.8% to 33.3%, compared to 32.7% in 2016.

As of December 31, 2016, our net operating loss carryforwards were approximately $500 million.

Depending on the amount of our quarterly and annual net income, some or all of our outstanding convertible notes may become dilutive. We have attached a schedule to the press release we issued today which provides the calculations under which the convertible notes would become dilutive.

In 2017, we expect capital expenditures to be approximately $25 million to $30 million.

As in prior years, we are entering the year with approximately 60% of our 2017 advertising revenue expectations in our backlog as of December 31. However, visibility into the timing of advertising and sponsorship revenue is somewhat limited due to length of contracts and the variability of the timing and implementation of programs. Quarterly revenue trends can often be lumpy throughout the year and we expect to see that again this year.

For the first quarter of 2017, we expect:

- Revenue to be approximately $151 million to $154 million, a decrease of approximately 3% to 5% from the prior year period.
- Net income to be approximately $9.8 million to $11.5 million, a decrease of approximately 27% to 38% from the prior year period.
- Adjusted EBITDA to be approximately $38.0 million to $40.0 million, a decrease of approximately 15% to 19% from the prior year period.

To highlight further the revenue breakdown in the first quarter:

- We expect advertising revenue from biopharma and medical device customers to be approximately 58.5% of revenue, representing essentially flat to an increase of 2% over the prior year period.
- We expect advertising revenue from OTC, CPG and other advertisers to be approximately 21% of revenue, representing a decrease of 4% to 6% from the prior year period.
- We expect health services revenue to be approximately 15.5% of revenue, representing a decrease of 16% to 17% from the prior year period.
- We expect information services revenue to be approximately 5% of revenue, representing a decrease of 2% to 4% from the prior year period.

Although Q1 advertising and sponsorship revenue is forecasted to be flat to slightly down versus last year, as I just mentioned, we are entering the year with approximately 60% of our 2017 advertising revenue expectations in our backlog as of December 31st. This percentage is consistent with the prior year period, so the absolute value of our backlog entering the year has grown versus last year.

However, for Q1 of 2017, our forecasted revenue from the backlog as of December 31 is flat versus the same quarter last year. Therefore, all of the growth in the year's entering backlog is currently forecasted to be delivered over the last three quarters of 2017. Our revenue guidance for advertising and sponsorship for the full year reflects this timing of revenues from the backlog entering 2017.

In the first quarter of 2017, we are required to adopt a new accounting standard which addresses, among other items, the accounting for income taxes related to share-based compensation. Upon adoption, excess tax benefits or deficiencies generated when stock awards vest or settle are no longer recognized in equity, but are instead recognized as an adjustment to the income tax provision. The income tax provision included in our 2017 guidance excludes any adjustments related to this new accounting standard because the adjustments will be dependent on actual exercise or settlement activity in future periods, which cannot be estimated at this time.

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

Please note that there is a schedule summarizing our guidance included in today's press release. I'd like to turn it back over to Steve.

STEVE ZATZ:

Thanks Blake. In summary, while we are not satisfied with the growth we are projecting at the present time for 2017, we remain positive about the longer term opportunity. We believe that as demand for digital health services continues to grow, WebMD and Medscape are uniquely positioned as the market leaders with strong brands, unparalleled engagement of consumer health and physician audiences, and a proven ability to demonstrate our value to customers, both domestically and internationally.

During the course of our strategic review, we will be working diligently to ensure that our customers and business partners are not impacted in any way. While I can't predict the outcome of our evaluation of strategic alternatives, I do believe strongly that the future of health care is undeniably tied to digital interactions and as the leading online service for physicians and consumers, I believe that we will be a vital force in shaping that future.

Operator, at this time we will take questions.

<u>Q&A</u>

(Operator Instructions): Our first question is from Nicholas Jansen, Raymond James.

Nicholas Jansen, Raymond James – Analyst: Great. Just on the biopharma dynamics. I guess when did you finally figure out that the 10% number was not in the cards? And the reason why bring it up is you guys make a sizable capital deployment decision in mid-December to repurchase a pretty large chunk of shares. So just trying to get a sense of was that the right timing to do that share repurchase in context of what was going on in the end market? And when do we think about that visibility on a re-acceleration in growth at some point in 2017? Thanks.

Steve Zatz, WebMD Health Corp. – CEO: Well, as we said in November, we knew it was early to be able to estimate 2017 growth. Based on the information that was available to us at the time we estimated 10%. As I said in the prepared remarks, there were about $20 million of sales that did not materialize in the last several weeks of the fourth quarter and in the early part of the year and that explains the shortfall.

Nicholas Jansen, Raymond James – Analyst: Okay, and I guess my second question would just be on the growth expectation for CPG, OTC and other, 8% to 11% this year. The last three quarters have been about 1% growth. What's the driving factor of that kind of acceleration that you are anticipating in that bucket? Thank you.

Steve Zatz, WebMD Health Corp. – CEO: Yes, there are a mixture of things in the CPG, OTC and other category, some of which are growing at a fair pace. So for example if you look at our business advertising for hospitals both to consumers and physicians, that business line is growing. If you look at the work we do in terms of recruiting for market research, we have a growing business that recruits physicians into market research surveys. So, it is a mixture of things in that whole bucket of OTC, CPG and other that when you net them all against each other you are seeing the growth that we are forecasting for this year. But there are a number of different things that comprise that category.

Operator: David Larsen, Leerink Partners

Matt Dellelo, Leerink Partners – Analyst: It's Matt Dellelo in for Dave. I'm wondering what have you heard in your conversations with biopharma customers in regards to their marketing budgets for this year.

Steve Zatz, WebMD Health Corp. – CEO: They have not specifically told us where their budgets are. What we are seeing, as we said in the prepared remarks, and we have seen some delays in terms of their making decisions. They are appearing to be more conservative. Both -- often the people at the manufacturers and in the agencies that we deal with aren't the folks who are necessarily setting the strategic policy for those pharma companies. So at this point we are more perceiving what's going on in the market externally, as we described, the continued discussion of pricing pressure, continued issues around managed care and some of the challenges that have taken place in terms of launching new products. But we don't right at this moment have a fix on what their marketing budgets will be for the year. Certainly our guidance has taken into account the current environment as we can assess it.

Matt Dellelo, Leerink Partners – Analyst: Okay. So if they in a few months or so got more clarity or more confident when would you expect to see that show up in terms of new ad programs or contracts with you? If there was going to be a re-acceleration, when do you think that might happen?

Steve Zatz, WebMD Health Corp. – CEO: I think we don't have a crystal ball at the moment. There is certainly some lag between the sale and the recognition of revenue. We are out there every day selling to our biopharma customers, but I don't think at this point we have a crystal ball to say when the current environment is going to change significantly, but we are certainly monitoring the situation.

Operator: Charles Rhyee, Cowen and Company

Charles Rhyee, Cowen and Company – Analyst: Steve, just to follow-up on that last one. It sounds like you are saying you are looking at external factors. Our checks indicate that brand inflation in January was actually probably able a little bit better than people were expecting. And then clearly -- and obviously recently the industry had meetings with the president and it seemed like the results were rather benign. Have you had any discussions since these recent events with your customers to see how that's had any impact? And then secondly, on the shortfall -- going into it you obviously put the 10% marker out there. Was it still your expectation at that point that $20 million let's say was -- it looked like it was going to come through and then just kind of fell out of the bottom?

Steve Zatz, WebMD Health Corp. – CEO: Well, I will answer the last one first. As we said, it was really not until the last few weeks of the fourth quarter into the beginning of this quarter that it was clear that we had that shortfall. To your earlier question about whether some of the more recent events have eased some of the pressure in the environment, I think it's just too early to tell. The reports from that meeting between the administration and the leaders in the pharma industry seemed to have a mixed result. There were still concerned about pricing. There was the statement that we noted as well that there may be an effort to speed the approval of drugs. And certainly in the long term for us that would be very positive. But I think it's really early, as you know, in the administration and I think the environment, as we described it, the macro environment I think remains fairly uncertain.

Charles Rhyee, Cowen and Company – Analyst: Okay. If I can follow up then. You announced a strategic review today. Was there a need to do that today then? What was the decision-making that brought us to this point? And I ask that in part because you guys did a tender -- obviously it was mentioned earlier. What was the decision-making process to announce this today?

Steve Zatz, WebMD Health Corp. – CEO: Sure. What we can say is, look, in the normal course of business we do periodically review and assess both the industry and our strategic alternatives in an effort to increase shareholder value. The Board decided at this time to retain JPMorgan to initiate a process that we think will help us evaluate and explore those opportunities to maximize value.

Charles Rhyee, Cowen and Company – Analyst: Okay, thank you. And then in the tender, can you remind us did management sell into the tender at all?

Blake DeSimone, WebMD Health Corp. - EVP & CFO: They did and all of that was disclosed appropriately in the offer.

Operator: Mark Kelley, Citigroup

Mark Kelley, Citigroup – Analyst: The first one is just on the pricing pressure. I know there's a lot of uncertainty, but can you think of any areas that maybe that can be offset, whether it's on the R&D side or things that aren't just advertising budget? And then the second one is I guess more on the OTC side, the WebMD Health Network. Is part of the uptick there coming from making inventory more available programmatically, or are there other levers that you can pull there to make that re-acceleration happen? Thank you.

Steve Zatz, WebMD Health Corp. – CEO: Sure. In terms of your first question in terms of offsetting some of the pricing pressure, I'm not 100% sure what you were alluding to, if you want to clarify that.

Mark Kelley, Citigroup – Analyst: Yes, sure. I don't think it's just as black and white as sales will be X therefore we are going to spend X% on advertising our products. I think there's a lot more that goes into it whether it's R&D on new products. We heard [inaudible] that maybe that could be offset elsewhere, whether it's just getting more efficient on the R&D side, but maybe it doesn't hamper ad budgets as much as you might think at first blush.

Steve Zatz, WebMD Health Corp. – CEO: Yes. Look, I think there are number of things that pharma is going to look at to operate as efficiently as possible. We continue to make the case that they are spending their dollars online is actually the most efficient way for them to spend those dollars. They still have a lot of historical channels that they have used. They continue to spend money on TV, as you know, they continue to spend money in print. So even when you just look at the efficiency of their advertising, we are certainly in conversations with them with data to show how efficient digital advertising is to both audiences, both consumers and professionals. So that alone I think is part of the discussions; as they look to get more efficient I think we can help them get there. In terms of your second question, that OTC, CPG and other, certainly programmatic is a part of that. We try to monetize our inventory as effectively as possible. If there is inventory that isn't directly sold we will use programmatic to monetize it. So it is certainly a component of that segment and we continue to look at ways to optimize it.

Mark Kelley, Citigroup – Analyst: Got it. Thank you. And if I could have just one quick follow-up. On the Change Health contract, would we expect to hear something about that before the deal closes or is it probably not until after the deal with McKesson is done?

Steve Zatz, WebMD Health Corp. – CEO: We really don't know. As we said, those discussions are stalled. We are hoping they restart, but I really couldn't say whether that is going to take place before the close or not.

Operator: Neil Doshi, Mizuho

Neil Doshi, MIzuho Securities – Analyst: On the 60% ad revenue in backlog, how does that compare to last year or the past couple years at this point in time? And then secondly, on that backlog, how sticky is that backlog if conditions continue to deteriorate? Is it easy or hard for advertising partners to pull that net spend? Thanks.

Blake DeSimone, WebMD Health Corp. - EVP & CFO: Sure. The 60% is consistent with prior years, so that answers the first question. Relative to the stickiness, we haven't seen a material change in cancellation rates, so our confidence in the ability to deliver that remains high.

Neil Doshi, MIzuho Securities – Analyst: Great. And then if I could just add one more question. On the EBITDA guide, the actual margin shows about a 30 bps improvement at the midpoint. Is that mainly just coming from keeping your costs fairly steady but having lower revenue? Or is there anything else going on there in terms of potential margin leverage that we could see for 2017?

Blake DeSimone, WebMD Health Corp. - EVP & CFO: No, there is our continued ability to leverage our infrastructure as the top line grows. The top line is growing at a slightly slower pace so there is less margin expansion this year but still some, the 30 bps that you referenced. I would add that we -- part of the culture here and part of what we do is to look for operational efficiencies and productivity gains every year. So we did realize productivity gains this year and we invested that back into the business to drive longer-term value. So there is investment; we continue to leverage the infrastructure and we are seeing some margin expansion, the 30 bps that you referenced.

Operator: Peter Stabler, Wells Fargo Securities

Peter Stabler, Wells Fargo Securities – Analyst: On the guide, on the OTC revenue guidance for 2017 on the 8% to 11% growth, that's a pretty remarkable acceleration from results you guys have seen over the last couple years. Could you provide any color on what's changed in that part of the market? Is this being driven by a renewed focus on the sales force? Do have some new ad products or better measurement products out there? And I'm just wondering if you could speak to the drivers there at all. Thanks very much.

Steve Zatz, WebMD Health Corp. – CEO: Yes, as I had said earlier, there are aspects of that business, some of them which have been growing actually over the last several years and which continue to grow. So for example, the business we have advertising hospital services to both our professional and consumer audiences, that segment continues to grow. If you look again, and I mentioned this earlier, at our recruitment business for market research, that continues to grow as well. So it's really a mixture. And certainly among our CPG customers, particularly when their products are focused on health issues even though they may be OTCs and not Rx products, we continue to focus on that segment as well, both in terms of the editorial content that we produce and in terms of having our sales force target those particular manufacturers. Because we think our audience and their propensity to look for solutions is ideally suited to those companies that are selling OTC products. So there's not one thing going on in that segment, but when you take the net of those things it has accelerated growth in that segment for this year.

Peter Stabler, Wells Fargo Securities – Analyst: Great. And one follow-up, if I could. On the biopharma side, is there any way to break out the percent of spending in that bucket that is spent on the new product introductions versus behind biopharma products that are already or have been in market? Thanks.

Steve Zatz, WebMD Health Corp. – CEO: Sure. There is no doubt that pharma puts a lot of dollars behind the marketing of launch products. So while our business contains both products that are relatively close to launch or at launch, as well as mature products, proportionally more of the spend is going to be against their launch products, not just at launch but for the next year or two or three following launch as well. In some categories that are highly competitive they will continue spending heavily even several years post-launch. But launches are important to our business, but we sell across the lifecycle of brands, really from a prelaunch to products that are about to lose their exclusivity, they are all important to our biopharma business.

Operator: Donald Hooker, KeyBanc

Donald Hooker, KeyBanc Capital Markets – Analyst: I just wanted to follow up on that last question just to make sure I am interpreting your comments. Because you talked about $20 million lower of bookings in the last couple weeks of the year, uncertainty in the market around drug pricing, etc., etc. But it seems like the reduction in the number of new drugs coming to market might have been a material driver of that. Is that fair, just to clear that last question up for me? Thanks.

Steve Zatz, WebMD Health Corp. – CEO: Yes. Look, I don't think it was necessarily a material driver. What may have been a partial driver is certainly some of the launches, as you are aware, were a little bit less successful at least than some analysts had predicted at the outset of those launches. We remain optimistic. As we said in the prepared remarks though, if you look at the pipeline moving forward, it looks like it's strong not only this year but for the next few years. But it is definitely true that there was a slowdown in 2016 in terms of new molecular entities that were approved. Some of that was because some of the 2016 approvals got pulled into 2015. There were I think 12 complete response letters which was a little bit higher than expected in 2016. So, there is certainly some noise in the environment around the approval of new products. But if you look at the long-term it looks like the pipeline is strong and we expect over the next several years that we will see relatively strong FDA approvals.

Donald Hooker, KeyBanc Capital Markets – Analyst: And in prior years you guys have talked about at the yearend what your international revenues were. I think that has historically been a good strong driver for you. Can you tell us your international revenue base for 2016?

Blake DeSimone, WebMD Health Corp. - EVP & CFO: Sure. Our international revenue in 2016 was approximately $66 million which is a 15% increase year-over-year.

Operator: Katelyn Young, William Blair

Katelyn Young, William Blair – Analyst: Thanks for the questions. Most of my questions have been answered already, but just one quick one on the Health Services side. I understand there are a few changing dynamics in the business right now. How much of that $100 million guided for the year is contracted or lockdown as opposed to being subject to renewals or including some level of expected sales throughout the year?

Blake DeSimone, WebMD Health Corp. - EVP & CFO: Due to the long sales cycle in that business, most of that -- the vast majority of that $99 million to $100 million is already through customers that are either currently customers or customer contracts that are scheduled to start and secured business. There is a nominal piece of new business revenue included in that number but it's consistent with prior year.

Katelyn Young, William Blair – Analyst: Great, thanks. And just to clarify, with the strategic review going on does that put potential share repurchases on hold, or no?

Blake DeSimone, WebMD Health Corp. - EVP & CFO: Not at this time.

Operator: Nicholas Jansen, Raymond James

Nicholas Jansen, Raymond James – Analyst: Just going back to the Change Healthcare and Emdeon kind of stalling. So if we think about the contribution there as we isolate 2018 metrics, any thoughts on the cost structure behind that information services business? If you aren't to retain that how do we think about the margin flow-through to make sure we are modeling 2018 appropriately? Thanks.

Blake DeSimone, WebMD Health Corp. - EVP & CFO: As you know, we don't break out our margin by business line, but we have said in the past that the margin profile for that business is higher than fleet average.

Nicholas Jansen, Raymond James – Analyst: Materially higher or any sort of ballpark average, because it does move the needle?

Blake DeSimone, WebMD Health Corp. - EVP & CFO: Yes, as I said, we don't break that out materially, so I can't say materially or not. It's just slightly higher.

Operator: Charles Rhyee, Cowen and Company

Charles Rhyee, Cowen and Company – Analyst: Just a question on the first-quarter guide. You talked about the revenue being flat and so our 60% backlog is coming in the back half. Is it that you are already seeing here midway through the quarter already the activity that you normally would expect in the first half just hasn't shown up? Or in terms of the timing in the first quarter is there still some variability in the back half of this quarter where there could be some shifts moving around? Just trying to get a sense on your visibility here at least in the first quarter to give you some comfort around that. Thanks.

Blake DeSimone, WebMD Health Corp. - EVP & CFO: Yes. The vast majority of our first-quarter advertising and sponsorship revenue is generated from sales that are in the backlog. Just based on the timing of when we sell programs and launch programs, the contribution from sales in the quarter just can't be that material. So it's largely -- the Q1 guide is largely based on the backlog and the timing of the programs to be delivered in the backlog.

Operator: As a reminder, if necessary, there is a replay available of this call which can be accessed toll-free at (855) 859-2056 or if you are calling from outside the US at (404) 537-3406. The passcode is 56996541. There is also a webcast replay available on www.wbmd.com. Thank you for joining us today.