

**HealthStream**™



2018

LETTER TO SHAREHOLDERS

## FINANCIAL HIGHLIGHTS

Year Ended December 31,

(In thousands, except per share amounts)

### Statement of Income Data:

	2018	2017
Revenues, net	\$ 231,616	\$ 214,899
Operating costs and expenses	216,125	205,492
Operating income	15,491	9,407
Other income, net	1,084	733
Income from continuing operations before income taxes	16,575	10,140
Income tax provision	3,324	1,302
Income from continuing operations	13,251	8,838
Discontinued operations	18,966	1,166
Net income	\$ 32,217	\$ 10,004

### Net income per share – diluted:

Continuing operations	\$ 0.41	\$ 0.27
Discontinued operations	0.59	0.04
Net income per share – diluted	\$ 1.00	\$ 0.31

### Weighted average shares of common stock outstanding:

	32,335	32,196
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### Balance Sheet Data:

Cash and cash equivalents	\$ 134,321	\$ 84,768
Investments in marketable securities	34,497	46,350
Accounts receivable, net	38,124	36,691
Goodwill and intangible assets, net	145,522	154,641
Working capital	134,580	98,662
Total assets	441,948	411,119
Deferred revenue – current and noncurrent	68,929	71,225
Shareholders' equity	318,947	300,170

### Reconciliation of GAAP income from continuing operations to

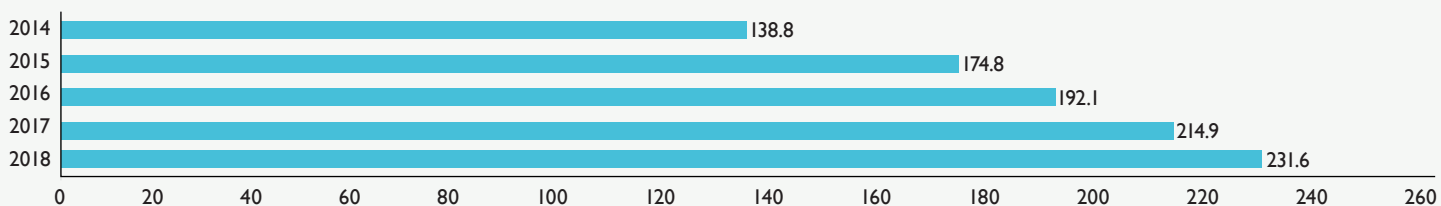
#### Adjusted EBITDA from continuing operations:

GAAP income from continuing operations	\$ 13,251	\$ 8,838
Interest income	(2,444)	(870)
Interest expense	130	132
Income tax provision	3,324	1,302
Stock based compensation expense	1,777	1,736
Depreciation and amortization	24,231	24,047
Change in fair value of cost method investments	1,271	--
Adjusted EBITDA	\$ 41,540	\$ 35,185

In order to better assess the Company's financial results, management believes that net income before interest, income taxes, stock-based compensation, depreciation and amortization, and changes in fair value of cost method investments ("Adjusted EBITDA") from continuing operations is a useful measure for evaluating the operating performance of the Company because adjusted EBITDA from continuing operations reflects net income from the Company's ongoing business operations adjusted for non-cash and non-operating items. In this regard, Adjusted EBITDA for continuing operations excludes the results of operations of the Patient Experience business which the Company sold in February 2018 and thus reflects the Company's ongoing business operations and assists in comparing the Company's results of operations between periods. Adjusted EBITDA from continuing operations is a non-GAAP financial measure and should not be considered as a measure of financial performance under generally accepted accounting principles. Because adjusted EBITDA from continuing operations is not a measurement determined in accordance with generally accepted accounting principles, it is susceptible to varying calculations. Accordingly, adjusted EBITDA from continuing operations, as presented, may not be comparable to other similarly titled measures of other companies.

## TOTAL REVENUES\*

(in \$ millions)



\* Full-year revenue metrics are adjusted retroactively to exclude HealthStream's Patient Experience business, which was divested in February 2018.

## DEAR SHAREHOLDERS

At HealthStream, we see the brave, caring actions of those on the frontlines of healthcare delivery—and we are honored to support them with our innovative solutions that help them improve patient care. 2018 was a year of core operational actions that I believe position the Company for exceptional growth opportunities in the future. During 2018, we divested a business unit; launched a new PaaS platform; developed a new, high profile, potentially disruptive resuscitation solution suite; expanded our executive team; and immersed our R&D into new innovative technologies—like machine learning; virtual and augmented reality; and artificial intelligence. It is a great time to be at HealthStream—and I am excited about the solutions we are delivering to healthcare professionals to improve the quality of healthcare delivery.

Our 2018 financial performance was solid. Year-end results for 2018 included annual revenues of \$231.6 million, up eight percent over 2017 revenues. Operating income for 2018 was \$15.5 million, up 65 percent over 2017. Our Patient Experience (PX) business was divested in February 2018 and it is, therefore, excluded from these financial results. From the proceeds received from this transaction, the board of directors declared a special cash dividend, which was paid to shareholders in April 2018.

HealthStream ended 2018 well capitalized with a cash and marketable securities balance of \$168.8 million and full availability of our \$50 million line of credit—which remains untapped. This strong capital position allows us to utilize multiple strategies for creating shareholder value, such as developing and launching new products and pursuing an active M&A pipeline.

Our target market is a workforce of approximately 10.5 million healthcare professionals, which includes approximately 5.2 million employees working in the nation's acute-care hospitals and 5.3 million employees in a more broadly defined continuum of care market, which we recently expanded. We define the continuum of care as ambulatory services—including physician offices; health & human services—including behavioral care facilities; and post-acute care—including skilled nursing facilities. By combining the capabilities of our enterprise workforce development platform with leading content, superior data and analytics, and innovative credentialing applications, we are equipping healthcare organizations with powerful solutions to optimize the impact of their workforce in delivering outstanding patient-centered care. Every day, we help our customers support their respective workforces to meet compliance requirements, develop their clinical performance, improve resuscitation outcomes, manage revenue cycles, and ensure that they maintain all required credentials.

HealthStream is focused on delivering innovative solutions that drive positive outcomes in healthcare—and we are increasingly seeing that happen. Our Checklist Management™ and Learning Center™ applications, for example, were effectively used by Kettering Health Network as key components of its initiative to reduce the impact of central line-associated bloodstream infections (CLABSI) in its hospitals and outpatient facilities. Checklist Management was used to support clinicians in adhering to new treatment protocols, while the HealthStream Learning Center was utilized to deploy required education to nursing units, networkwide. The result of this initiative was impressive. In the period from January 2017 to April 2018, Kettering Health Network's CLABSI decreased 90 percent.

Along with multiple enterprise workforce applications on our platform, we have amassed an ecosystem of over 100 healthcare industry partners, which include highly regarded professional medical and nursing associations, many best-in-class content providers, and a variety of specialty application, solution, and service providers. In 2018, some of our new industry partners included: Innosonian America, Inc., MedTrainer, Kaltura, Nucleus Medical Media, United States Pharmacopeial Convention, and Astute Doctor Education, Inc., among others. Also in 2018, some of our existing partners, including EBSCO Health, chose to expand their partnership by increasing their number of offerings to our customers.

With over 4.9 million healthcare professional subscribers at year-end 2018, HealthStream's software-as-a-service based (SaaS) platform has long been one of the most adopted workforce development platforms in healthcare. To facilitate innovation and growth of our ecosystem, HealthStream's new platform-as-a-service (PaaS) technology, hStream™, was launched in April 2018. As of February 2019, healthcare organizations representing 1.51 million subscriptions have contracted for hStream™.

As a leading provider of healthcare workforce solutions, HealthStream is uniquely positioned to bring choice and competition to the market on behalf of the thousands of hospitals and health systems that we serve on a daily basis. While our historical practice has been to select one partner only for a specific solution area—like we did for over a decade for our resuscitation solutions—we now aim to offer multiple, competing product/solution options for customers.

Our movement toward a marketplace approach is demonstrated clearly in our resuscitation solutions business. HealthStream's reseller partnership with the American Heart Association (AHA) and Laerdal Medical A/S expired at year-end 2018 and, therefore, we ceased the selling of their resuscitation suite at that time, although we will continue to service customers'

agreements for those solutions throughout their contracts—which may extend to year-end 2020. While we are no longer selling, marketing, or servicing these solutions, we are committed to the open marketplace concept. As such, we signed an agreement in December 2018 with RQI Partners, a joint venture between Laerdal and the AHA, to allow connectivity of RQI Partners' content for our HealthStream Learning Center customers—for a fee paid by RQI Partners.

In January 2019, HealthStream announced the launch of the American Red Cross Resuscitation Suite, which marked the beginning of a seven-year collaboration with one of the most trusted and recognizable organizations, worldwide. The new resuscitation suite is comprised of a comprehensive competency-development curricula. It brings an updated, highly adaptive, competency-based solution to healthcare professionals, offering certification to those who successfully demonstrate proficiency of life-saving resuscitation knowledge and skills. Our new collaboration with the Red Cross is one of several long-term relationships we have formed to develop and launch new resuscitation solutions for healthcare professionals.

HealthStream is fully committed to making the next 10 years a period of great improvement in the quality of resuscitation. We firmly believe improving resuscitation technologies through innovation should drive quality up and cost down for our healthcare customers—and we are excited about our new partnerships that we believe will help us do that in the coming months and years.

HealthStream's Provider Solutions business now serves over 2,400 hospitals and over 1,000 medical groups, making us a market-leading credentialing, privileging, and enrollment company in the United States. In January 2018, we introduced "Verity, a HealthStream Company™" as our newly formed business that combined our SyMed Development, HealthLine, and Morrissey Associates acquired businesses. We simultaneously launched our SaaS-based provider credentialing, privileging, and enrollment solutions, also referred to as Verity™. We believe that our Verity™ offering combines the best platform, content, data, services, and community to deliver a foundational source of truth for healthcare organizations.

To press forward on our momentum as we grow the Company, we have recently invested in leadership by expanding our executive team. Trisha Coady was promoted to Senior Vice President & General Manager of Clinical Solutions in November 2018 and Scott McQuigg joined HealthStream as Senior Vice President of hStream Solutions in January 2019. Both Ms. Coady and Mr. McQuigg have extensive industry

expertise and experience as entrepreneurs, making them well qualified to lead these important areas of our business.

In May 2018, Chief Operating Officer (COO) J. Edward Pearson was promoted to President & COO, HealthStream. In March 2019, our Chief Financial Officer (CFO), Gerry Hayden, resigned from his position after a decade of service with the Company. Upon his departure, Scott Roberts, HealthStream's Vice President of Accounting & Finance, was named Interim CFO. These updates to our executive team are a testament to the strong bench of leaders within the Company that have consistently contributed to our success.

In January 2019, HealthStream acquired Providigm, LLC, a Denver-based company focused on quality assurance and performance improvement in healthcare, primarily serving skilled nursing facilities. This investment extends our offerings for the continuum of care market, which includes abaqis, Providigm's market-leading SaaS-based quality improvement program. ABAQIS is currently used in over 2,000 skilled nursing facilities and nursing homes.

Looking forward, we intend to continue growing HealthStream organically by increasing our customer base and expanding the number of solutions provided to existing accounts. We may also pursue growth opportunities by utilizing a portion of our cash position and/or common stock to make acquisitions or minority investments arising from our M&A pipeline while we, at the same time, continue to invest in the integration and enhancement of new products and capabilities for our customers.

In closing, I want to thank you, our shareholders, for your continued commitment and support of HealthStream. I, along with the rest of the management team, believe that HealthStream is achieving its vision to improve the quality of healthcare by developing the people who deliver care. We will continue to put forth our best efforts to the task of producing superior results for you.

Sincerely,



Robert A. Frist, Jr.  
*Chief Executive Officer and Chairman of the Board*

## DIRECTORS

### Robert A. Frist, Jr.

*Chief Executive Officer and Chairman  
of the Board of Directors*  
HealthStream, Inc.

### Jeffrey L. McLaren

*Chief Executive Officer*  
Medaxion, Inc.

### Thompson S. Dent

*Chairman and Chief Executive Officer*  
Urgent Team  
*Chairman*  
Re:Cognition Health

### William W. Stead, M.D.

*Chief Strategy Officer*  
Vanderbilt University Medical Center

### Linda E. Rebrovick

*President*  
Impact Corporate Consulting

### Frank E. Gordon

*Managing Partner*  
Crofton Capital

### Michael Shmerling

*Chairman*  
Clearbrook Holdings Corporation

### Dale W. Polley

*Past President and Vice Chairman*  
First American Corporation

### C. Martin Harris, M.D.

*Associate Vice President of the Health Enterprise*  
*Chief Business Officer*  
Dell Medical School  
The University of Texas at Austin

### Deborah Taylor Tate, J.D.

*Former Commissioner*  
Federal Communications Commission  
*Director*  
State of Tennessee / Administrative Office of the Courts

## EXECUTIVE OFFICERS

### Robert A. Frist, Jr.

*Chief Executive Officer and Chairman  
of the Board of Directors*

### J. Edward Pearson

*Chief Operating Officer and President*

### Scott A. Roberts

*Interim Chief Financial Officer and Vice President,  
Accounting & Finance*

### Jeffrey D. Cunningham

*Chief Technology Officer and Senior Vice President*

### Michael J. Sousa

*Senior Vice President and President, Provider Solutions*

### Trisha L. Coady

*Senior Vice President & General Manager, Clinical Solutions*

### Scott McQuigg

*Senior Vice President, hStream Solutions*

## CORPORATE DATA

### Annual Meeting

The annual meeting of shareholders will be held on May 23, 2019, at 2:00 p.m. (CDT) at HealthStream, Inc., 500 11th Avenue North, Suite 1000, Nashville, Tennessee 37203.

### Independent Auditors

Ernst & Young LLP  
Nashville, Tennessee

### Transfer Agent

Computershare Investor Services  
462 S. 4th Street, Suite 1600  
Louisville, KY 40202  
(800) 368-5948  
Investor Centre™ portal: [www.computershare.com/investor](http://www.computershare.com/investor)

### Legal Counsel

Bass, Berry & Sims PLC  
Nashville, Tennessee

### Corporate Headquarters

HealthStream, Inc.  
500 11th Avenue North, Suite 1000  
Nashville, Tennessee 37203

### Form 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is being made available with this letter. Additional copies of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, are available without exhibits, free of charge, to its shareholders. Requests should be addressed to Mollie Condra, Investor Relations Department, HealthStream, Inc., 500 11th Avenue North, Suite 1000, Nashville, Tennessee 37203.

### Corporate Stock

HealthStream, Inc.'s common stock is traded on the NASDAQ Stock Market under the symbol HSTM. The following table shows the quarterly range of high and low closing sales prices of the common stock from 2016.

	High	Low
<b>2016</b>		
First Quarter	\$ 22.35	\$ 18.20
Second Quarter	\$ 26.58	\$ 21.17
Third Quarter	\$ 27.65	\$ 23.73
Fourth Quarter	\$ 28.39	\$ 22.36
<b>2017</b>		
First Quarter	\$ 25.56	\$ 21.45
Second Quarter	\$ 30.89	\$ 23.39
Third Quarter	\$ 26.39	\$ 22.50
Fourth Quarter	\$ 24.81	\$ 22.37
<b>2018</b>		
First Quarter	\$ 25.39	\$ 22.00
Second Quarter	\$ 28.75	\$ 23.19
Third Quarter	\$ 31.73	\$ 27.26
Fourth Quarter	\$ 30.15	\$ 23.17

As of February 7, 2019, HealthStream, Inc. had approximately 9,875 shareholders, including 517 shareholders of record and 9,358 persons or entities holding common stock in nominee name.

On February 12, 2018, in order to return value from the divestiture of its Patient Experience business segment, the Company declared a special cash dividend of \$1.00 per common share, which was paid on April 3, 2018 to shareholders of record on March 6, 2018. Other than the aforementioned dividend, the Company has never declared or paid any regular or recurring cash dividends on its common stock and does not anticipate doing so in the foreseeable future.

### Cautionary Note Regarding Forward-looking Statement

This report contains forward-looking statements (all statements other than those made solely with respect to historical fact) within the meaning of Section 21E of the Securities and Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These forward-looking statements are subject to known and unknown risks and uncertainties (some of which are beyond the Company's control) that could cause actual results to differ materially and adversely from those anticipated in the forward-looking statements. See the Company's Annual Report on Form 10-K made available with this letter for more detailed disclosure regarding forward-looking statements and associated risks and uncertainties.