

2017

LETTER TO  
SHAREHOLDERS



## FINANCIAL HIGHLIGHTS

Year Ended December 31,

(In thousands, except per share amounts)

### Statement of Income Data:

Revenues	\$ 247,662	\$ 225,974
Operating costs and expenses	237,862	220,407
Operating income	9,800	5,567
Other income, net	733	581
Income before income taxes	10,533	6,148
Income tax provision	529	2,393
Net income	\$ 10,004	\$ 3,755

### Net income per share:

Basic	\$ 0.31	\$ 0.12
Diluted	\$ 0.31	\$ 0.12

### Weighted average shares of common stock outstanding:

Basic	31,861	31,721
Diluted	32,196	32,068

### Income before interest, taxes, share-based compensation, depreciation and amortization ("Adjusted EBITDA" (I)):

Net income	\$ 10,004	\$ 3,755
Interest, income taxes, share-based compensation, depreciation and amortization	27,925	26,096

### Adjusted EBITDA

	\$ 37,929	\$ 29,851
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(I) In order to better assess the Company's financial results, management believes that income before interest, income taxes, share-based compensation, depreciation and amortization ("Adjusted EBITDA") is a useful measure for evaluating the operating performance of the Company at this stage in its life cycle because adjusted EBITDA reflects net income adjusted for non-cash and non-operating items. We believe that Adjusted EBITDA is also useful to many investors to assess the Company's results from current operations. Adjusted EBITDA 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 is not a measurement determined in accordance with generally accepted accounting principles, it is susceptible to varying calculations. Accordingly, adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

Year Ended December 31,

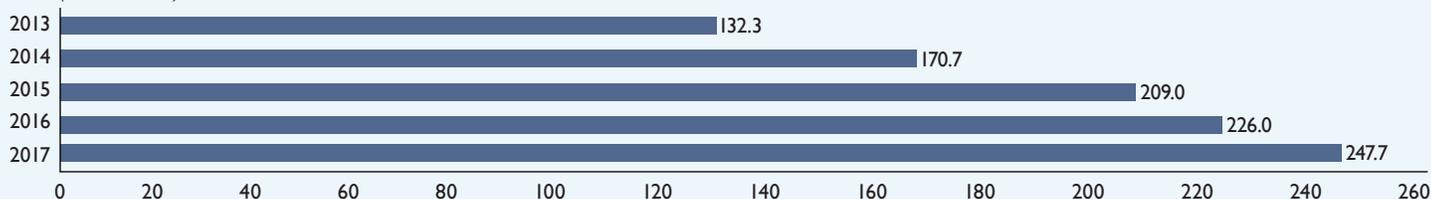
(In thousands)

### Balance Sheet Data:

Cash and cash equivalents	\$ 84,768	\$ 49,634
Investments in marketable securities	46,350	53,540
Accounts receivable, net	40,849	44,805
Goodwill and intangible assets	179,114	188,129
Working capital	98,662	82,467
Total assets	411,074	396,000
Deferred revenue – current and noncurrent	75,256	76,401
Shareholders' equity	300,170	286,108

## TOTAL REVENUES

(in \$ millions)



## DIRECTORS

**Robert A. Frist, Jr.**

*Chief Executive Officer, President, 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**

*Senior Client Partner*  
Morgan Samuels

**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, President, and Chairman of  
the Board of Directors*

**J. Edward Pearson**

*Chief Operating Officer and Senior Vice President*

**Gerard M. Hayden, Jr.**

*Chief Financial Officer and Senior Vice President*

**Michael M. Collier**

*General Counsel and Senior Vice President*

**Jeffrey S. Doster**

*Chief Information Officer and Senior Vice President*

**Jeffrey D. Cunningham**

*Chief Technology Officer and Senior Vice President*

**Michael J. Sousa**

*President, Provider Solutions and Senior Vice President*

## LETTER TO SHAREHOLDERS

Since we became a public company almost 18 years ago, the healthcare industry has experienced extraordinary change—but one thing remains constant: every patient is important and deserves the best possible care. To that end, healthcare organizations are using HealthStream’s solutions to develop and maintain a knowledgeable, highly skilled workforce to deliver patient care. I continue to be inspired by what our customers are achieving with HealthStream—and I am even more excited about the opportunities ahead of us.

Our 2017 financial performance was solid. Year-end results for 2017 included annual revenues of \$247.7 million, up 10 percent over 2016 revenues. Operating income for 2017 was \$9.8 million, up 76 percent over 2016. Adjusted EBITDA (earnings before interest, income taxes, share-based compensation, depreciation, and amortization) also improved significantly in 2017 compared to 2016. These full-year results are based on all three business segments that comprised the Company during 2017, which included Workforce Development Solutions, Provider Solutions, and Patient Experience Solutions.

HealthStream ended 2017 well capitalized with a cash and marketable securities balance of \$131.1 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 8.5 million healthcare professionals, which includes approximately 5.2 million employees working in the nation’s acute-care hospitals and 3.3 million employees in the post-acute care market. By combining the capabilities of our enterprise workforce development platform with leading content and superior data and analytics, 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 meet compliance requirements, develop their clinical workforce, improve resuscitation outcomes, manage revenue cycles, and ensure that their workforce maintains all required credentials.

HealthStream is focused on delivering innovative solutions that drive positive outcomes in healthcare—and we are increasingly seeing that happen. Our recently launched Nurse Residency Pathway™ solution, for example, is a unique, blended learning program that closes the academic-to-practice gap for nurses, optimizing safe, quality patient care and retention rates. During a pilot of this new solution at a large health system, new nurses reported a 52 percent increase in their confidence levels and nurse turnover was reduced by 12 percent, which is less than half of the industry average.

HealthStream’s enterprise workforce development solutions include a wide range of healthcare-specific applications, such as the HealthStream Learning Center™, HealthStream Performance Center™, and HealthStream Competency Center™, along with several complementary applications like Checklist Management™ and COI-Smart™. At year-end 2017, approximately 4.77 million employees of United States healthcare organizations subscribed to HealthStream’s workforce platform applications through their respective organizations.

Along with multiple 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 as well as best-in-class content providers. In 2017, some of our new industry partners included: the Association of Women’s Health, Obstetrics, and Neonatal Nurses (AWHONN); Duke University Schools of Nursing and Medicine; VitalSims; and the Association of Clinical Research Professionals (ACRP); among others.

Our industry partners are increasingly beginning to incorporate HealthStream’s core technologies into their initial thinking and development plans as they consider what is now possible for their products by leveraging our powerful network, its data and benchmarking opportunities. EBSCO Health, for example, adapted its prestigious Clinical Skills Development Program to take advantage of HealthStream’s Checklist Management application, thereby reaching hundreds of thousands of healthcare professionals that subscribe and use Checklist Management in their respective healthcare organizations.

As a leading provider of healthcare training and development 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. We have brought a wide selection of training options to customers, including, for example, two of the top three leading brands in clinical skills development. We firmly believe that such an approach benefits our customers, our industry partners, and the Company.

In contrast to our current “marketplace approach” where we aim to offer multiple, competing product/solution options for customers, our historical practice has been to select one partner only for a specific solution area. We did this for over a decade for our resuscitation solutions that we offered through a partnership with Laerdal Medical A/S (“Laerdal”). In June 2017, Laerdal provided notice that they do not intend to continue their existing agreements for sales of HeartCode and Resuscitation Quality Improvement (RQI) products or enter into new agreements with us in relation to these products. Our agreements to sell these products remain in effect through December 31, 2018 and we are prohibited from selling substantially similar products to HeartCode and RQI during that time.

Beginning in 2019, we believe that we will be well positioned to introduce choices for highly effective resuscitation solutions to our customers. HealthStream is fully committed to making the next 10 years a period of great improvement in the quality of resuscitation. We firmly believe disruptive resuscitation technologies and innovation should drive quality up and cost down for our healthcare customers—and we are excited about several newly contracted partners that are helping us get ready to do that in early 2019.

HealthStream’s Provider Solutions business now serves over 2,400 hospitals and over 1,000 medical groups, making us the leading credentialing, privileging, and enrollment company in the United States. In January 2018, we introduced “Verity, a HealthStream Company™” as the name of our newly formed business that combined our Echo and Morrisey businesses. Echo was formed in September 2015 as a combination of HealthStream’s previous acquisitions of HealthLine Systems and SyMed Development, while Morrisey Associates was acquired in August 2016. As we introduced the new name for our Provider Solutions business, Verity, we simultaneously launched our

SaaS-based provider credentialing, privileging, and enrollment solutions, which is also named Verity™. Our Verity offering combines the best platform, content, data, services, and community to deliver a foundational source of truth for healthcare organizations.

In February 2018, HealthStream divested its Patient Experience business to Press Ganey Associates for \$65.5 million in cash. We expect after-tax cash proceeds of approximately \$50.0 million, \$6.55 million of which is subject to an indemnification escrow under the terms of the purchase agreement with Press Ganey Associates. The proceeds received from this transaction provided an ideal opportunity for HealthStream to return value directly to its shareholders. Accordingly, the Board of Directors declared a \$1.00 per common share special cash dividend to shareholders of record on March 6, 2018, which was paid on April 3, 2018.

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 Company growth by utilizing a portion of our cash position and/or common stock to acquire or invest in opportunities 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 assessing and 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,

A handwritten signature in black ink that reads "Robert A. Frist, Jr." The signature is written in a cursive, flowing style.

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

## CORPORATE DATA

### Annual Meeting

The annual meeting of shareholders will be held on May 24, 2018, at 2:00 p.m. (CDT) at HealthStream, Inc., 209 10th Avenue South, Suite 450, 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) 962-4284  
Investor Centre™ portal: [www.computershare.com/investor](http://www.computershare.com/investor)

### Legal Counsel

Bass, Berry & Sims PLC  
Nashville, Tennessee

### Corporate Headquarters

HealthStream, Inc.  
209 10th Avenue South, Suite 450  
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., 209 10th Avenue South, Suite 450, 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 2015.

	High	Low
<b>2015</b>		
First Quarter	\$ 30.36	\$ 24.63
Second Quarter	\$ 31.91	\$ 25.15
Third Quarter	\$ 32.14	\$ 21.60
Fourth Quarter	\$ 25.63	\$ 21.31
<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

As of February 13, 2018, HealthStream, Inc. had approximately 10,576 shareholders, including 547 shareholders of record and 10,029 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. 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.