



2020

Letter to Shareholders

**Health**Stream™

## 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.**

*Mckesson Foundation Professor of  
Biomedical Informatics and Medicine  
Vanderbilt University Medical Center*

### **Linda E. Rebrovick**

*President  
Impact Corporate Consulting*

### **Frank E. Gordon**

*Managing Partner  
Crofton Capital*

### **Michael Shmerling**

*Chairman  
Clearbrook Holdings Corporation*

### **C. Martin Harris, M.D. (through February 26, 2021)**

*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**

*Chief Financial Officer and Senior Vice President*

### **Michael M. Collier**

*Senior Vice President, Business Development  
and General Counsel*

### **Trisha L. Coady**

*Senior Vice President and General Manager,  
Workforce Development Solutions*

### **Jeffrey D. Cunningham**

*Chief Technology Officer and Senior Vice President*

### **Michael J. Sousa**

*Senior Vice President and President, VerityStream*

### **Scott McQuigg**

*Senior Vice President and General Manager,  
Workforce Scheduling Solutions*

### **Kevin P. O'Hara**

*Senior Vice President and General Manager,  
Platform Solutions*

### **Scott C. Fenstermacher**

*Senior Vice President, Sales*

# Financial Highlights

Year Ended December 31,

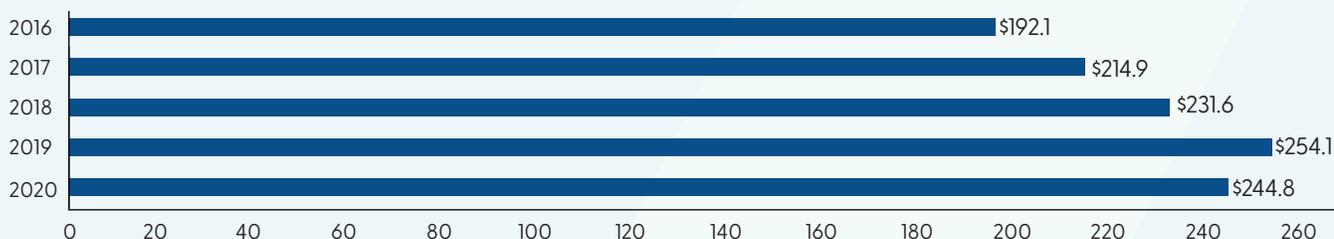
(In thousands, except per share amounts)

	2020	2019
<b>Statement of Income Data:</b>		
Revenues, net	\$ 244,826	\$ 254,112
Operating costs and expenses	229,008	239,392
Operating income	15,818	14,720
Other income, net	2,005	3,209
Income from continuing operations before income taxes	17,823	17,929
Income tax provision	3,732	3,733
Income from continuing operations	14,091	14,196
Discontinued operations	–	1,574
Net income	\$ 14,091	\$ 15,770
<b>Net income per share – diluted:</b>		
Continuing operations	\$ 0.44	\$ 0.44
Discontinued operations	–	0.05
Net income per share – diluted	\$ 0.44	\$ 0.49
Weighted average shares of common stock outstanding – diluted	31,989	32,428
<b>Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 36,566	\$ 131,538
Investments in marketable securities	9,928	41,328
Accounts receivable, net	40,726	27,650
Goodwill and intangible assets, net	279,155	162,277
Working capital	(4,717)	119,387
Total assets	500,313	489,544
Deferred revenue – current and noncurrent	82,779	67,429
Shareholders' equity	334,062	338,168
<b>Reconciliation of GAAP income from continuing operations to Adjusted EBITDA from continuing operations:</b>		
GAAP income from continuing operations	\$ 14,091	\$ 14,196
Deferred revenue write-down	1,274	280
Interest income	(993)	(3,272)
Interest expense	96	102
Income tax provision	3,732	3,733
Stock based compensation expense	2,218	4,244
Depreciation and amortization	30,189	27,869
Change in fair value of cost method investments	(1,181)	–
Non-cash royalty expense	(3,440)	–
Adjusted EBITDA from continuing operations	\$ 45,986	\$ 47,152

Management believes that net income excluding the impact of the deferred revenue write-downs associated with fair value accounting for acquired businesses and before interest, income taxes, stock-based compensation, depreciation and amortization, changes in fair value of non-marketable equity investments, and the de-recognition of non-cash royalty expense resulting from our resolution of a mutual disagreement related to various elements of a past partnership which resulted in a reduction to cost of sales in the first quarter of 2020 ("adjusted EBITDA") from continuing operations, a non-GAAP financial measure, 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 certain GAAP accounting, non-cash, and/or non-operating items which may not, in any such case, fully reflect the underlying operating performance of our business. Adjusted EBITDA from continuing operations excludes the gain on sale in connection with the sale of our Patient Experience business in February 2018 and thus reflects the Company's ongoing business operations and assists in comparing the Company's results of operations between periods.

## Total Revenues\*

(in \$ millions)



\*Full-year revenues reflect revenues associated with continuing operations consistent with GAAP.

## Dear Shareholders

Considering the formidable challenges experienced in healthcare delivery in 2020, the extraordinary importance of our nation's dedicated, competent, and caring healthcare professionals has never been more apparent. As the global COVID-19 pandemic took center stage last year, HealthStream marshalled its resources and network connections to support the healthcare workforce. This support continues today as we remain steadfast in our vision *"to improve the quality of healthcare by developing the people who deliver care."* At HealthStream, our 1,000+ employees are inspired every day to continue making this vision a reality—and we are all excited about the opportunities ahead of us to make a positive difference in healthcare delivery.

In this letter to you, our shareholders, I want to review the Company's progress made in 2020, highlight recent achievements, and comment on our growth strategies.

Without question, 2020 was a great year at HealthStream for technology innovations. We believe HealthStream has the most widely adopted technology platform and the most robust ecosystem of solutions in healthcare—all driven by our strong commitment to innovation. In 2020 alone, several HealthStream products were, collectively, nationally recognized with 15 prestigious "Excellence Awards" from the Brandon Hall Group, the leading research organization focused on learning and technology. Included among these awards were top honors for some of our new products utilizing artificial intelligence (AI) technology and virtual and augmented reality modalities. Last year, HealthStream was also awarded two patents for its next generation clinical solutions that help healthcare providers drive outcomes and recognize efficiencies. We are already seeing early enthusiasm from healthcare providers for the use of our ground-breaking, new technologies and their potential for empowering and managing the healthcare workforce more efficiently and effectively than ever before.

As we reflect back on 2020, our financial performance was solid as we achieved results that meaningfully offset several headwinds, such as our transition of legacy resuscitation solutions to our more advanced, new resuscitation solution suite and the general uncertainties caused by the pandemic. Year-end results for 2020 included annual revenues of \$244.8 million and adjusted EBITDA from continued operations of \$46.0 million. After using approximately \$121 million of cash to fund four acquisitions made in 2020, we ended 2020 well capitalized with a cash and marketable securities balance of \$46.5 million and full availability of our \$65 million line of credit—which remains untapped.

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. 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 their workforce maintains all required credentials.

During 2020, HealthStream made significant progress with acquisitions in a manner which I believe sets up the Company for expanded growth opportunities in the future. In March, HealthStream acquired NurseGrid, a Portland, Oregon-based company, which resulted in HealthStream gaining the #1 rated and top downloaded app for nurses. In October, we acquired ShiftWizard, a Raleigh, North Carolina-based healthcare technology company where we gained an award-winning, SaaS-based solution for workforce scheduling for healthcare organizations. In December, HealthStream acquired Change Healthcare's staff scheduling business, which includes their market-leading staff scheduling application, ANSOS™, and related products. Together, the acquisitions of NurseGrid, ShiftWizard, and Change Healthcare's staff scheduling business create an exciting new business solution area for HealthStream: Workforce Scheduling Solutions. We believe our scheduling solutions area is a strong complement to our existing core of solutions, making it a natural expansion of our offerings to healthcare organizations.

In December, we also acquired myClinicalExchange, a Denver-based information technologies company where we gained an application that allows healthcare organizations to track, manage, and report the intern and clinical rotation educational requirements of medical, nursing, and allied healthcare students. Additionally, in January of 2021, HealthStream acquired ComplyALIGN, a Chicago-based healthcare technology company where we gained a powerful policy management application for healthcare organizations. All five of these strategic acquisitions extend our offerings, add market share, and expand our customer channels and network.

HealthStream's software-as-a-service (SaaS)-based platform has long been one of the most adopted workforce development platforms in healthcare. To facilitate innovation and growth, HealthStream continues its transition to the platform-as-a-service (PaaS)-enabled hStream™ platform. At year-end 2020, the cumulative total of hStream subscriptions was 4.22 million, which is up from 3.15 million at year-end 2019. In 2020, subscribers to our HealthStream platform were able to recognize benefits, including data mobility and enhanced functionality that were not possible before. In 2021, we look forward to adding even more value to being a member of hStream.

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 2020, some of our new industry partners included: Jones & Bartlett Learning, Psych Hub, ZeroedIn Technologies, Innovation Institute, and the Assisted Living Education Academy, among others.

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, we now aim to offer multiple product/solution options for customers, creating a dynamic marketplace of workforce solutions where customers can choose which solution is best for them.

Our movement toward a marketplace approach is demonstrated clearly in our resuscitation solutions business. In January 2019, HealthStream announced the launch of the American Red Cross Resuscitation Suite, which marked the beginning of a long-term 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.

While healthcare organizations' immediate focus necessarily shifted to responding to developments related to the pandemic during 2020, including treating COVID-19 patients, HealthStream continued to see new sales of our resuscitation offering with continued market adoption of the American Red Cross certification credential. In 2020, over 180 new contracts were signed for the American Red Cross Suite, which extended our market reach of this solution to all 50 states in the United States.

We believe these results affirm that the market not only views our new resuscitation solutions as viable, but also embraces them as preferable to legacy alternatives. Our collaboration with the American 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.

HealthStream's Provider Solutions business now serves over 2,500 hospitals and over 1,300 outpatient facilities, making us a market-leading credentialing, privileging, and enrollment company in the United States. We continue to add customers to our new VerityStream offering, which combines the best platform, content, data, services, and community to deliver a foundational source of truth for healthcare organizations.

As HealthStream has grown, we have been fortunate to add executive leadership around key areas of the business in early January 2021. Kevin O'Hara joined HealthStream as our Senior Vice President & General Manager of Platform Solutions, where he will oversee the growth, development, and integration of our hStream platform. In addition, Scott Fenstermacher was promoted to HealthStream's executive team as Senior Vice President, Sales, where he will serve as the Company's top sales executive. Both Mr. O'Hara

and Mr. Fenstermacher have extensive industry expertise and experience, making them well qualified to lead these important areas of our business.

Looking forward, we intend to continue growing HealthStream organically by increasing our customer base and expanding the number of solutions provided to existing accounts. Alongside our acquisitions made in the last 12 months, we remain open to pursuing additional inorganic growth opportunities and minority investments arising from our M&A pipeline. At the same time, we are continuing to invest in new products, as well as the integration and enhancement of existing product capabilities for our customers.

With the national rollout of COVID-19 vaccines that is ongoing, a palpable sense of cautious optimism seems to be growing across the country. While there remains uncertainty about the extent, timing, and duration of the pandemic's continued impact on our financial performance, we announced in February 2021 that we anticipate solid financial results for 2021 and, building on those results, our goal is to deliver organic, high, single-digit revenue growth rates and improved profitability in 2022. I believe that we are starting to see many of our multi-year investments make a decisive pivot toward financial contribution that will help lay the groundwork for generating long-term shareholder value.

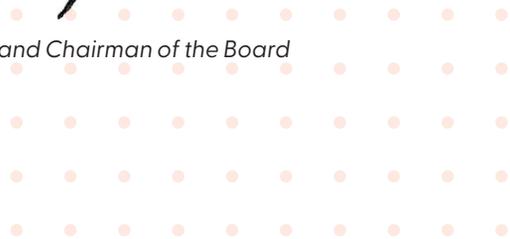
It was obvious to our employees that last year was unlike any other for many reasons beyond the challenges presented by the pandemic and our work-from-home requirement. The events of the year generated a renewed sense of community and social responsibility. HealthStream's employees have built a thriving culture where, according to the public online site, Comparably.com, 97 percent report that they are "proud to be a part of HealthStream." Our corporate social responsibility program, which we call "Streaming Good," held numerous events over the year that raised funds for the American Cancer Society. The Company's strong commitment to social justice and equality was demonstrated by the formation of a new employee-led group called "StreamForward," which is focused on supporting our commitment to diversity, equity, and inclusion to employees and all of the communities we serve.

As we review our 2020 results and consider the year ahead, I am grateful to our valued employees, whose dedication and support continues to drive the Company's success. I also want to thank our customers, partners, board of directors, and investors for their support—and I look forward to keeping you apprised of our progress throughout the coming year.

Sincerely,



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



# Corporate Data

## Annual Meeting

The annual meeting of shareholders will be held on May 20, 2021, at 2:00 p.m. (CDT) in a virtual meeting format only, via live webcast.

## 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.  
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 mailed 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 2018.

	High	Low
<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
<b>2019</b>		
First Quarter	\$ 28.44	\$ 23.90
Second Quarter	\$ 28.91	\$ 24.45
Third Quarter	\$ 28.64	\$ 25.17
Fourth Quarter	\$ 29.26	\$ 25.35
<b>2020</b>		
First Quarter	\$ 27.74	\$ 20.03
Second Quarter	\$ 25.89	\$ 20.96
Third Quarter	\$ 23.25	\$ 19.64
Fourth Quarter	\$ 22.01	\$ 18.18

As of February 18, 2021, HealthStream, Inc. had approximately 7,375 shareholders, including 967 shareholders of record and 6,408 persons or entities holding common stock in nominee name.

In the Company's history, it has only declared and paid a dividend one time. In connection with the proceeds from divestiture of the Patient Experience business unit in 2018, the Company declared a \$1.00 per common share special cash dividend, which was paid on April 3, 2018 to shareholder of record on March 6, 2018. We do not anticipate paying normal cash dividends in the future as we intend to retain earnings for use in the operation of our business.

## 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 10-K made available with this letter for more detailed disclosure regarding forward-looking statements and associated risks and uncertainties.