



2021
Letter to
Shareholders

HealthStream™

Financial Highlights

Year Ended December 31,

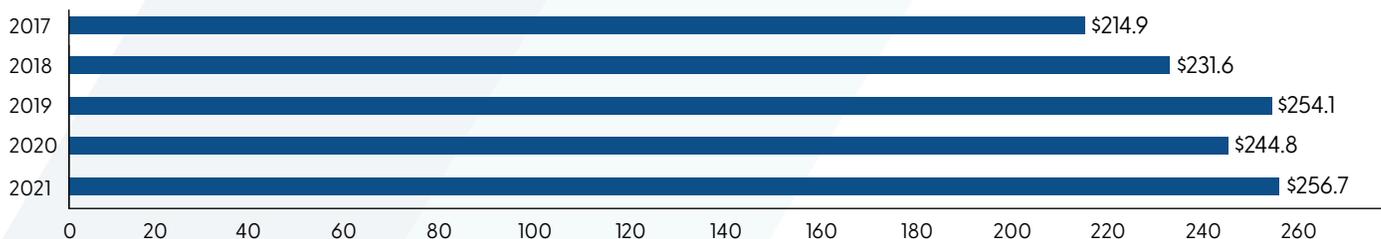
(In thousands, except per share amounts)

	2021	2020
Statement of Income Data:		
Revenues, net	\$ 256,712	\$ 244,826
Operating costs and expenses	248,657	229,008
Operating income	8,055	15,818
Other (loss) income, net	(289)	2,005
Income before income taxes	7,766	17,823
Income tax provision	1,921	3,732
Net income	<u>\$ 5,845</u>	<u>\$ 14,091</u>
Net Income Per Share – Diluted:		
Net income per share – diluted	\$ 0.18	\$ 0.44
Weighted average shares of common stock outstanding – diluted	<u>31,618</u>	<u>31,989</u>
Balance Sheet Data:		
Cash and cash equivalents	\$ 46,905	\$ 36,566
Investments in marketable securities	5,041	9,928
Accounts receivable, net	30,308	40,726
Goodwill and intangible assets, net	271,706	279,155
Working capital	6,495	(4,717)
Total assets	486,753	500,313
Deferred revenue – current and noncurrent	75,399	82,779
Shareholders' equity	339,019	334,062
Reconciliation of GAAP Net Income to Adjusted EBITDA:		
GAAP net income	\$ 5,845	\$ 14,091
Deferred revenue write-down	4,040	1,274
Interest income	(80)	(993)
Interest expense	132	96
Income tax provision	1,921	3,732
Stock-based compensation expense	5,303	2,218
Depreciation and amortization	36,813	30,189
Non-cash paid time off expense	(1,011)	–
Change in fair value of non-marketable equity investments	(279)	(1,181)
Non-cash royalty expense	–	(3,440)
Adjusted EBITDA	<u>\$ 52,684</u>	<u>\$ 45,986</u>

Adjusted EBITDA equals 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, the de-recognition of non-cash expense resulting from the paid time off expense reduction in the first quarter of 2021, and the 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.

Total Revenues*

(in \$ millions)



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

Dear Shareholders

Last year was an important year; we delivered record revenues, launched fantastic new products, acquired two companies, received new patents and product awards, and positioned HealthStream for an incredible future. In this letter to you, our shareholders, I want to review the Company's progress made in 2021, highlight recent achievements, and comment on our growth strategies.

At the end of the first quarter of 2022, the ability to reference the Covid-19 pandemic in past tense appears to be closer than ever—and for our nation's healthcare workforce, that day surely can't come soon enough. At HealthStream, we are honored to support the nation's dedicated, competent, and caring healthcare professionals that have always relentlessly provided outstanding care to patients. Our 1,100+ employees are inspired every day by our customers who have been and continue to be the frontline warriors fighting Covid-19.

In 2021, our value of "driving innovation" was well implemented as HealthStream advanced its technology solutions for the healthcare industry. We believe HealthStream has one of the most widely adopted technology platform and the most robust ecosystem of solutions in healthcare—all driven by our strong commitment to innovation. In 2021, several HealthStream products were nationally recognized with four 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 advances in onboarding technology for clinicians. Last year, HealthStream was also awarded two patents for its next generation clinical solutions that help healthcare providers drive outcomes and recognize efficiencies, which brings our total number of patents to 17. 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 2021, 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 2021 included annual revenues of \$256.7 million and record-setting adjusted EBITDA of \$52.7 million. We ended 2021 well capitalized with a cash and marketable securities balance of \$51.9 million and full availability of our \$65 million line of credit—which remains untapped.

Our target market is a workforce of approximately 10.9 million healthcare professionals, which includes approximately 5.1 million employees working in the nation's acute-care hospitals and 5.8 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 and scheduling 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 2021, HealthStream made two acquisitions, building upon the four acquisitions made in 2020, which I believe further sets the Company up for expanded growth opportunities in the future. In January 2021, HealthStream acquired ComplyALIGN, a Chicago-based healthcare technology company where we gained a powerful policy management application for healthcare organizations. In December 2021, we acquired Rievent Technologies, a Virginia-based healthcare technology company where we gained an innovative continuing education (CME/CE) management and delivery application. Both of these strategic acquisitions extend our offerings, add market share, and expand our customer channels and network.

HealthStream's newest business solution area, known as our Workforce Scheduling and Capacity Management application suite, was created through our 2020 acquisitions of NurseGrid, ShiftWizard, and ANSOS. In 2021, we made meaningful progress toward our vision of an innovative, integrated application, drawing upon the best among the three acquisitions and leveraging the unique opportunities that our ecosystem offers. HealthStream currently has approximately 400 customers across this new business area. We believe our Workforce Scheduling and Capacity Management application suite is a strong complement to our existing core of solutions, making it a natural expansion of our offerings to healthcare organizations.

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 expansion toward a platform-as-a-service (PaaS) approach with its hStream™ platform. At year-end 2021, the cumulative total of hStream subscriptions was 5.04 million, which is up from 4.22 million at year-end 2020. In 2021, subscribers to our hStream platform were able to recognize benefits, including data mobility and enhanced functionality that were not possible before. In 2022, 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 2021, some of our new industry partners included: National Association of Healthcare Quality, Just Health Collective, Emergency Nurses Association, and Pineapple 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' overarching focus necessarily remained on developments related to the pandemic in 2021, HealthStream continued to see new sales of our resuscitation offering with continued market adoption of the American Red Cross certification credential. At year-end 2021, approximately 400,000 certifications from the American Red Cross had been earned through HealthStream. In addition, we have deployed over 7,600 Innosonian Braydon Pro manikins in less than three years. These results were achieved through HealthStream's offering of the American Red Cross Suite to healthcare organizations of all types and sizes from across all 50 of 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 we believe combines the best platform, content, data, services,

and community to deliver a foundational source of truth for healthcare organizations.

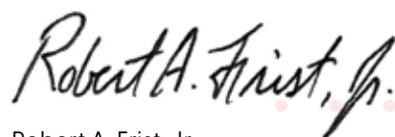
Looking forward, we intend to continue growing HealthStream organically by increasing our customer base and expanding the number of solutions provided to existing accounts. Alongside our recent acquisitions, we remain open to pursuing additional inorganic growth opportunities and minority investments 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.

By most accounts, the COVID-19 pandemic appears to be in retreat, sparking a cautious optimism that seems to be growing across the country and among our customers. While there remains an inevitable degree of uncertainty regarding a post-pandemic environment, we announced in February 2022 that we anticipate revenue growth for 2022 as we work toward improved profitability. 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.

Last year proved to be a continuation of the prior year for our employees in facing 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 as we embraced a permanent hybrid workplace where employees may now work wherever they like. HealthStream's employees have built a thriving culture where, according to the public online site, Comparably.com, 98 percent report that they "look forward to interacting with their co-workers when they work." 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 our 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 2021 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



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
Executive 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*

Deborah Taylor Tate, J.D.

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

Terry Allison Rappuhn *(began in January 2022)*

*Former Board Chair
Quorum Health Corporation*

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

Corporate Data

Annual Meeting

The annual meeting of shareholders will be held on May 26, 2022, 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

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 2019.

	High	Low
2019		
First Quarter	\$ 28.44	\$ 23.90
Second Quarter	\$ 28.91	\$ 24.45
Third Quarter	\$ 28.64	\$ 25.17
Fourth Quarter	\$ 29.26	\$ 25.35
2020		
First Quarter	\$ 27.74	\$ 20.03
Second Quarter	\$ 25.89	\$ 20.96
Third Quarter	\$ 23.25	\$ 19.64
Fourth Quarter	\$ 22.01	\$ 18.18
2021		
First Quarter	\$ 25.35	\$ 22.34
Second Quarter	\$ 28.23	\$ 21.64
Third Quarter	\$ 30.62	\$ 27.61
Fourth Quarter	\$ 29.23	\$ 23.22

As of February 11, 2022, HealthStream, Inc. had approximately 10,672 shareholders, including 1,389 shareholders of record and 9,283 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.