

2019 Letter to Shareholders



HealthStream™

FINANCIAL HIGHLIGHTS

Year Ended December 31,

(In thousands, except per share amounts)

Statement of Income Data:

	2019	2018
Revenues, net	\$ 254,112	\$ 231,616
Operating costs and expenses	239,392	216,125
Operating income	14,720	15,491
Other income, net	3,209	1,084
Income from continuing operations before income taxes	17,929	16,575
Income tax provision	3,733	3,324
Income from continuing operations	14,196	13,251
Discontinued operations	1,574	18,966
Net income	\$ 15,770	\$ 32,217

Net income per share – diluted:

Continuing operations	\$ 0.44	\$ 0.41
Discontinued operations	0.05	0.59
Net income per share – diluted	\$ 0.49	\$ 1.00

Weighted average shares of common stock outstanding:

	32,428	32,335
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Balance Sheet Data:

Cash and cash equivalents	\$ 131,538	\$ 134,321
Investments in marketable securities	41,328	34,497
Accounts receivable, net	27,650	38,124
Goodwill and intangible assets, net	162,227	145,522
Working capital	119,387	134,580
Total assets	489,544	441,948
Deferred revenue – current and noncurrent	67,429	68,929
Shareholders' equity	338,168	318,947

Reconciliation of GAAP income from continuing operations to

Adjusted EBITDA from continuing operations:

GAAP income from continuing operations	\$ 14,196	\$ 13,251
Interest income	(3,272)	(2,444)
Interest expense	102	130
Income tax provision	3,733	3,324
Stock based compensation expense	4,244	1,777
Depreciation and amortization	27,869	24,231
Change in fair value of non-marketable equity investments	--	1,271
Adjusted EBITDA	\$ 46,872	\$ 41,540

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 revenues reflect revenues associated with continuing operations consistent with GAAP.

DEAR SHAREHOLDERS

It is customary in my annual letter to you, our shareholders, to review and highlight HealthStream's performance for the prior year (2019)—and I intend to do that as we had a strong year with exciting developments. The global coronavirus COVID-19 pandemic, however, has taken center stage in 2020 with the death toll and number of new cases in patients surging, both in the U.S. and worldwide. This deadly virus has disrupted daily life for most everyone in dramatic ways. Nearly a third of the world's population, 2.5 billion people, are under coronavirus-related movement restrictions at the time of this writing in late March of 2020.

During the current COVID-19 pandemic, the U.S. healthcare workforce has provided—and continues to provide—care to all patients in an extraordinary manner, risking their own health and well-being for others. They continue to do this in the midst of dire shortages of personal protective equipment (PPE), including protective masks, gloves, and clothing, which increases their personal risk of contracting the infectious coronavirus. They are tirelessly working around the clock, quickly mobilizing as required to provide care where it is most urgently needed in their organizations and communities. We are clearly at war against the coronavirus pandemic and healthcare professionals are our heroes on the frontlines battling it for all of us. At HealthStream, our nearly 900 employees have never been more honored to support the healthcare workforce.

HealthStream is marshalling its resources and network connections to support the healthcare workforce during the current crisis. We are providing a curated bundle of COVID-19-related courses, free of charge, to our customers and non-customers alike. A special COVID-19 online site has been created where a multitude of resources are available, including FAQs, important links to CDC and WHO information and materials, relevant podcasts and blog posts, a series of webinars, and a toolkit of posters for healthcare organizations to remind staff of protocols. In addition, we have created a new, virtual training center to accommodate critical training to customers. We are actively engaging our network of partners, who are also stepping up to contribute content and resources to the healthcare workforce. I assure you that as current developments related to COVID-19 continue to unfold, HealthStream will remain steadfast in our ongoing support of healthcare professionals. We believe HealthStream has the most widely adopted technology platform and the most robust ecosystem of solutions in healthcare, and we intend to bring both to bear to help defeat COVID-19.

As we reflect back on 2019, our financial performance was solid. Year-end results for 2019 included annual revenues of \$254.1 million, up 10 percent over 2018 revenues. Adjusted

EBITDA (earnings before interest, income taxes, share-based compensation, depreciation, and amortization and change in fair value of non-marketable equity investments) from continued operations improved to \$46.9 million, which is 13 percent higher than 2018. We ended 2019 well capitalized with a cash and marketable securities balance of \$172.9 million and full availability of our \$50 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, which we expanded in 2018. 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 has made significant progress with recent acquisitions in a manner which I believe sets up the Company for expanded growth opportunities in the future. In January of 2019, HealthStream acquired Providigm LLC, a Denver-based company focused on quality assurance and performance improvement in healthcare, primarily serving skilled nursing facilities. In December of 2019, HealthStream, through our VerityStream business, acquired CredentialMyDoc, a Savannah, Georgia-based company focused on SaaS-based solutions used to credential providers, enroll providers with payers for reimbursement, and apply and maintain privileges in the outpatient facilities market. Finally, in the first quarter of 2020, HealthStream acquired NurseGrid, a Portland, Oregon-based company, which resulted in HealthStream gaining the #1 rated and top downloaded app for nurses. These investments extend our offerings, add market share, and expand our customer channels and network.

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, HealthStream continues its transition to the hStream™ platform, which is the essential technology working behind

the scenes that powers all activity in our ecosystem. At year-end 2019, the cumulative total of hStream subscriptions was up to 3.15 million, which is up from 1.51 million at year-end 2018.

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 2019, some of our new industry partners included: Aspent Health, American College of Emergency Physicians (ACEP), AMPT, National Quality Forum, and Advance Medical Technology Association (AdvaMed), 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, competing product/solution options for customers, creating a marketplace of workforce solutions.

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 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.

Sales momentum for our new resuscitation offering has been strong. For full-year 2019, we contracted for 108 accounts totaling over \$38.8 million in order value, representing a mix of over 3,000 hospitals and healthcare facilities from across the continuum of care, including new and transitioning customers. We believe these results affirm that the market not only views our new resuscitation solutions as a viable alternative, but also has embraced them. 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. In the fourth quarter of 2019, we updated our name of this business to "VerityStream," which we believe better conveys our unique vision of providing customers a subscription to a continual stream of platform enhancements, evidence-based content, and curated data. 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.

In 2019, we invested in leadership by expanding our executive team. Scott McQuigg joined HealthStream as Senior Vice President of hStream Solutions in January 2019. Scott Roberts, who was previously serving as HealthStream's Vice President of Accounting & Finance and Interim Chief Financial Officer (CFO), was named CFO in September 2019. Both Mr. McQuigg and Mr. Roberts 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. We may also pursue inorganic 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 (through May, 2019)

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

Chief Financial Officer and Senior Vice President

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 21, 2020, at 2:00 p.m. (CT) 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 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 2017.

	High	Low
2017		
First Quarter	\$ 25.56	\$ 21.45
Second Quarter	\$ 30.89	\$ 23.39
Third Quarter	\$ 26.39	\$ 22.50
Fourth Quarter	\$ 24.81	\$ 22.37
2018		
First Quarter	\$ 25.39	\$ 22.00
Second Quarter	\$ 28.75	\$ 23.19
Third Quarter	\$ 31.73	\$ 27.26
Fourth Quarter	\$ 30.15	\$ 23.17
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

As of February 21, 2020, HealthStream, Inc. had approximately 8,698 shareholders, including 1,018 shareholders of record and 7,680 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 shareholders 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 Form 10-K made available with this letter for more detailed disclosure regarding forward-looking statements and associated risks and uncertainties.