

WebMD Health Corp.

NASDAQ:WBMD

Analyst: Dylan Cirrilla

Sector: Healthcare

Long

Price Target: \$69.86

Key Statistics as of 2/19/2016

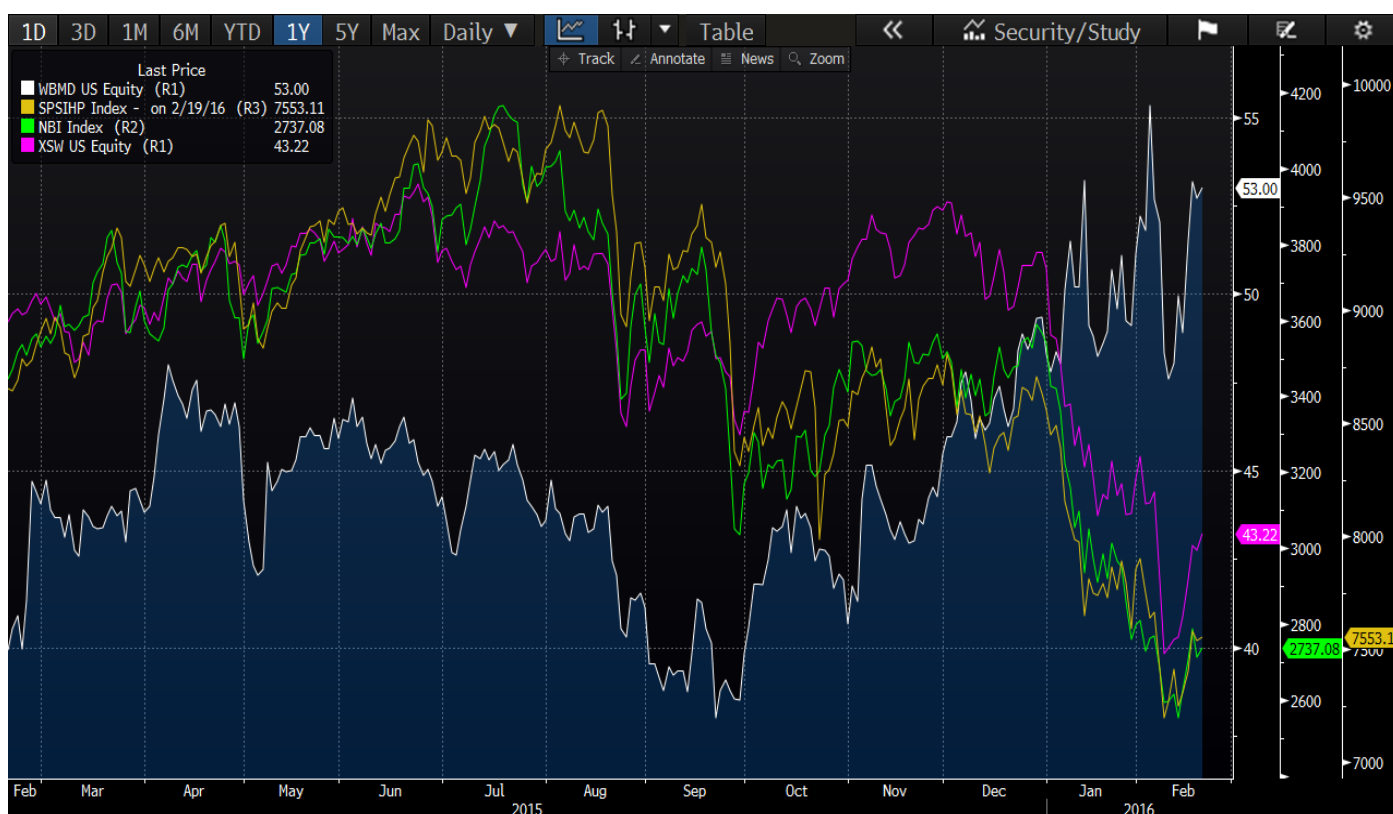
Market Price:	\$53.00
Industry:	Internet
Market Cap:	\$1986.43m
52-Week Range:	\$58.25 – \$37.57
Beta:	0.98

Thesis Points:

- Growth piggybacked from growth in other industries
- Targeted and efficient marketing
- General market excitement

Company Description:

WebMD Health Corp. provides health information services to consumers, physicians, healthcare professionals, employers, and health plans. The company provides its services through its public and private online portals and health-focused publications. WebMD's first IPO was in September of 2005. Since then, WebMD has experienced fluctuations in price, trending with the industry, until the previous year where WebMD outperformed SPSIHP (-15% vs. 20%). Advertising for pharmaceuticals makes up approximately 79% of WebMD's revenue with the remainder coming from private portal services and other informational services. WebMD's private portal service provides information to employers and their employees on health plan options, medication facts, and other healthcare related questions. This also plays as an advertising space. WebMD's marketing is more efficient than traditional methods because the audience, physicians and concerned "patients", are more attentive and knowledgeable.



Thesis

WebMD Health Corp. is the leader of online health and medical knowledge. While functioning as an online database of ailments and pharmaceuticals, WebMD has developed efficient marketing with precise targeting. As CEO David Schlanger has stated, WebMD markets to knowledgeable physicians and concerned patients who are both highly focused and generally keen to the information they are viewing. This differs from traditional marketing on social media or another platform as these potential buyers are focused and attentive, showing a positive future for WebMD's advertising revenue. The large upside that WebMD possesses has been noticed by UnitedHealth Group and Walgreens Boots Alliance as both firms attempted to enter acquisition negotiations with WebMD. These negotiations were stomped out by WebMD executives but the market responded well. With acquisition talks and an upgrade in outlook by Cowen & Co. helped WBMD spike in late 2015 and continues to provide high trade volume for the stock. WBMD traded at a low of 64,044 shares on 11/27/15 and a high of 7.123 million shares on 1/14/16. WebMD is a standout stock in all of the industries it may fall into. YTD WBMD shows a return of 32% compared to an average YTD return of -17.1% in biotech, healthcare services, and biopharmaceuticals. Long-term prospects of revenue growth with a modest escalation of CAPEX and Operating Costs show a large upside to WebMD. A recommendation of a buy is made for WebMD with a one-year target price of \$69.86. At the current price of \$53.00 this shows a potential 31% upside.

Industry Outlook

WebMD is classified in the US Life Sciences & Health Care industry by Deloitte. Because of WebMD's unique market position of straddling technology and healthcare, both industries will affect the outlook and going concern of the company. Healthcare, in WebMD's largest market the US, has seen considerable growth and promises to sustain or better that growth in the coming years. With the passage of the Affordable Care Act and other groundbreaking healthcare legislation, nearly all Americans are covered under expensive health insurance. The increasing average cost of health insurance plans has created a paradigm shift in healthcare to focus more on value than on volume.

The shift to "bang for buck" treatments, pharmaceuticals, and physicians will create an attractive marketing space for WebMD. A highly interested and concerned pool of patients will continue to grow the marketing revenue of WebMD and their physicians will continue to look towards trusted sources of treatment and pharmaceutical information, such as the information found on WebMD. The technology industry shows similar trends. As computing power and the potential for big data analytics continues to improve, online marketing and data mining are becoming a lucrative and efficient business. WebMD will benefit from improvements to these technologies as their main source of revenue is advertising to physicians and potential patients. The sale of data as well as mining of data is essential to effectively market to these populations. This task will be made easier and more efficient by the macro-level growth of the technology industry.

Business Model

WebMD holds a simple business model. The main website holds a database of treatments, pharmaceuticals, physicians, and other health questions that the public may have. This is an advertising space for WebMD where they are paid by advertisers on a Click Per Minute (CPM) basis. This is the meat of WebMD's revenue. WebMD also offers an online portal, Medscape, to physicians that holds forums, pharmaceutical information, and relevant news. This requires a login, but is free. This allows for another advertising space with the potential for data collection as logins are required. Aside from the major advertising business, WebMD also produces publications, such as WebMD the Magazine, that is distributed throughout the United States' physician waiting rooms. The final piece of WebMD's model is the private portal offered to employers to encourage the release and availability of information. These portals are targeted to be sold to employers with employees in mind. They provide information on health plans, pharmaceuticals, and physicians. This is a paid service. WebMD's revenue is broken down as follows: advertising and sponsorship from biopharma, about 57% of revenue; advertising and sponsorship for over-the-counter and consumer packaged goods, about 22% of revenue; private portal services, about

18% of revenue; information services, about 4% of revenue.

People

WebMD's CEO, David Schlanger, has been a part of the company since 1995 and has a strong M&A background as a participant in the Healthcon merger that established WebMD. The other executives share the common characteristics of being extremely well-educated (nearly all have a JD) and having been with WebMD for a long period of time. Most of the company's shares are owned by institutional investors. However, about 5% of WebMD's shares are held by insiders. The majority of these insider shares are held by Chairman Martin Wygod.

Product Differentiation

WebMD is the first, and to this day, only true competitor in this unique industry. As directly considered by consumers, WebMD is a massive database of extensive healthcare and medical knowledge. This database can be accessed anywhere with an internet connection as WebMD's mobile app exceeds 5 million downloads. The vast majority of WebMD's services are free and extensive, without a true competitor matching on any level of user-friendliness, exhaustion, or ease of access. The professional portal that WebMD has developed also provides a unique space for physicians to engage in conversation via forums and discussion boards and utilize a similar database to the often seen public webpage. WebMD's private portals have adopted the same philosophy. The portals are accessible via mobile app as well as desktop, are simple and friendly interfaces, and are available at a low cost to the employers that wish to purchase it. The publications that WebMD distributes throughout the country to physician's offices are supplemental to the core drivers of revenue in advertising through professional and public databases.

Financials

WebMD has performed positively in recent years with attractive trends forecasted for the future. For background, YTD growth has been exceptional for WebMD at about 32%. This growth has been sustained through a diversification of services and

revenue as the company is able to straddle different industries. This growth has been contrast with the fall of indexes in biopharma, healthcare information, and software/services by over 17%. This growth will be sustained by proper management of operation costs, revenue growth, and modest capital expenditures. These factors have been recognized as the key determinants of stock price through a Crystal Ball sensitivity analysis. Revenue growth is forecast to have steady and substantial growth throughout the next five years, averaging about 8% per annum. This is believed to be a result of more efficient marketing and an expansion of marketing opportunities as a product of growth in the biopharmaceutical sector. Operating costs are expected to remain constant relative to revenue for the next five years. This consistency is rationalized through a lack of expansion in R&D expenses and a lack of necessity to expand operations as organic growth in other industries, like biopharma, will result in growth for the main revenue driver of WebMD. WebMD's next earnings call is confirmed for 2/23/2016.

Proforma forecasts and assumptions have an intrinsic value of \$56.11 and a one-year target price of \$69.86; a 24.5% upside.

Conclusion

WebMD is a unique healthcare information company that has a strong position in the online and tangible market. Through extensive, free, and user-friendly databases, WebMD has built an unmatched rapport with a massive consumer base, reaching both physicians and patients. These attentive consumers have created a highly efficient marketing space for WebMD which is supplemented by publications and private services. Organic growth of the biopharmaceutical and healthcare industry as a whole will result in large growth for WebMD in the coming years. Fast-growing revenue, consistent operating costs, and modest capital expenditures show true long-term value in WebMD.

WebMD Health Corp.
(wbmd)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by P.C. Principal
2/19/2016

Current Price: **\$52.72**

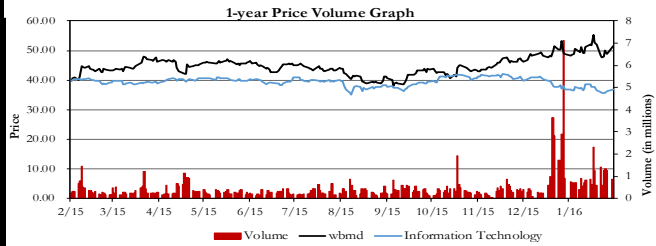
Divident Yield: **0.0%**

Intrinsic Value **\$69.49**

Target Price **\$69.86**

Target 1 year Return: **32.51%**

Probability of Price Increase: **99.86%**



1-year Price Volume Graph

Description		Market Data	
WebMD Health Corp. provides health information services to consumers, physicians and other healthcare professionals, employers, and health plans through its public and private online portals, mobile platforms, and health-focused publications in the United States.		Market Capitalization	\$1,944.53
		Daily volume (mil)	0.67
		Shares outstanding (mil)	36.88
		Diluted shares outstanding (mil)	48.28
		% shares held by institutions	62%
		% shares held by investments Managers	42%
		% shares held by hedge funds	29%
		% shares held by insiders	4.75%
		Short interest	13.90%
		Days to cover short interest	6.08
		52-week high	\$58.25
		52-week low	\$37.57
		Levered Beta	0.93
		Volatility	43.25%

General Information		Peers	
Sector	Information Technology	Yelp Inc.	
Industry	Internet Software and Services	Quality Systems Inc.	
Last Guidance	November 3, 2015	Monster Worldwide, Inc.	
Next earnings date	February 23, 2016	Web.com Group, Inc.	
Estimated Country Risk Premium	6.00%	Allscripts Healthcare Solutions, Inc.	
Effective Tax rate	40%	Angie's List, Inc.	
Effective Operating Tax rate	28%	VeriSign, Inc.	
		Zillow Group, Inc.	

Past Earning Surprises			Total return to shareholders	
Quarter ending	Revenue	EBITDA		
9/30/2014	0.13%	-21.13%	0.13% per annum over 1y	13.19%
12/31/2014	0.97%	-12.08%	3.41% per annum over 5y	17.1%
3/31/2015	0.93%	-17.05%	0% per annum over 0y	0.77
6/30/2015	0.81%	-14.79%	0% per annum over 0y	14.12%
9/30/2015	1.28%	-12.85%	0% per annum over 0y	16.1%
Mean	0.82%	-15.58%		1.58
Standard error	0.2%	1.6%		0.88

Management		Position		Total compensations growth		Industry (LTM)	
Schlanger, David	Chief Executive Officer	-85.38% per annum over 1y	0.13% per annum over 1y			13.19%	
Zatz, Steven	President	18.02% per annum over 5y	3.41% per annum over 5y			17.1%	
Anevski, Peter	Chief Financial Officer and	-82.52% per annum over 1y	0.13% per annum over 1y			0.77	
Wamsley, Douglas	Executive Vice President, Co	N/M	0% per annum over 0y			14.12%	
Glick, Michael	Executive Vice President and	N/M	0% per annum over 0y			16.1%	
Leicher, Lewis	Senior Vice President, Compl	N/M	0% per annum over 0y			1.58	

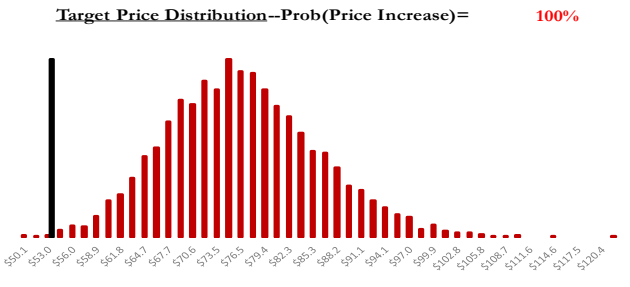
Profitability		wbmd (LTM)		wbmd (5 years historical average)		Industry (LTM)	
ROIC	15.3%	34.17%	34.17%	50.2%	68%	68%	
NOPAT Margin	19%	30.02%	30.02%	2.9%	N/A	N/A	
Revenue/Invested Capital	0.82	1.14	1.14	-0.2%	-13%	-13%	
ROE	24.9%	43.44%	43.44%	39.5%	46%	46%	
Adjusted net margin	16%	27.47%	27.47%	1.58	0.88	0.88	
Revenue/Adjusted Book Value	1.55	1.58	1.58	50.2%	68%	68%	

Invested Funds		wbmd (LTM)		wbmd (5 years historical average)		Industry (LTM)	
Total Cash/Total Capital	39.3%	50.2%	50.2%	3.5%	N/A	N/A	
Estimated Operating Cash/Total Capital	3.5%	2.9%	2.9%	-0.2%	-13%	-13%	
Non-cash working Capital/Total Capital	0.3%	-0.2%	-0.2%	39.5%	46%	46%	
Invested Capital/Total Capital	50.0%	39.5%	39.5%	1.58	0.88	0.88	

Capital Structure		wbmd (LTM)		wbmd (5 years historical average)		Industry (LTM)	
Total Debt/Common Equity (LTM)	0.59	0.75	0.75	0.09	0.09	0.09	
Cost of Existing Debt	2.63%	9.72%	9.72%	3.78%	3.78%	3.78%	
Estimated Cost of new Borrowing	3.83%	3.86%	3.86%	3.78%	3.78%	3.78%	
CGFS Risk Rating	BB	B	B	BB	BB	BB	
Unlevered Beta (LTM)	0.65	1.10	1.10	1.10	1.10	1.10	
WACC	5.69%	6.27%	6.27%	9.33%	9.33%	9.33%	

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			\$405.17	\$502.99	\$70.02
9/30/2016	11.0%	3.03	\$548.61	\$352.55	\$75.94
9/30/2017	8.4%	3.29	\$597.29	\$162.77	\$82.67
9/30/2018	11.5%	3.64	\$680.22	-\$60.01	\$90.11
9/30/2019	12.1%	3.87	\$742.46	-\$319.20	\$98.24
9/30/2020	10.8%	3.81	\$778.94	-\$613.26	\$107.00
9/30/2021	9.5%	3.65	\$823.03	-\$930.65	\$116.29
9/30/2022	8.2%	3.44	\$875.51	-\$1,374.34	\$128.02
9/30/2023	6.9%	3.22	\$948.09	-\$1,717.62	\$137.61
9/30/2024	5.6%	3.02	\$1,038.88	-\$2,074.44	\$147.44
9/30/2025	4.3%	2.82	\$1,134.62	-\$2,440.53	\$157.46
Continuing Period	3.0%	2.64			

Target Price Distribution--Prob(P Price Increase)= 100%



Sensitivity Analysis

