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Premier, Inc.
Form 10-Q
May 12, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 001-36092

Premier, Inc.
(Exact name of registrant as specified in its charter)

Delaware 35-2477140
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

13034 Ballantyne Corporate Place 28277
Charlotte, North Carolina
(Address of principal executive offices) (Zip Code)
(704) 357-0022
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of May 8, 2015, there were 37,662,210 shares of the registrant's Class A common stock, par value \$0.01 per share, and 106,382,552 shares of the registrant's Class B common stock, par value \$0.000001 per share, outstanding.

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EXPLANATORY NOTE

This report represents the quarterly report for the quarter ended March 31, 2015 for Premier, Inc. (this "Quarterly Report"). On October 1, 2013, Premier, Inc. completed the initial public offering ("IPO") of its Class A common stock, par value \$0.01 per share (the "Class A common stock"). Premier, Inc. is a holding company that was incorporated as a Delaware corporation on May 14, 2013 which, prior to the IPO, had no substantial assets and conducted no substantial activity except in connection with the IPO. Premier, Inc.'s sole asset is a controlling equity interest in Premier Services, LLC, a Delaware limited liability company ("Premier GP"). Premier GP is the general partner of Premier Healthcare Alliance, L.P. ("Premier LP"), a California limited partnership, which historically conducted the group purchasing portion of our supply chain services business. Unless the context suggests otherwise, references in this Quarterly Report to "Premier," the "Company," "we," "us" and "our" refer (1) prior to the IPO and related transactions, to PHSI (as defined herein) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Premier, Inc. and its consolidated subsidiaries.

Immediately following the consummation of the IPO, a series of transactions, which we refer to as the "Reorganization" (and, collectively with the IPO, "the Reorganization and IPO"), occurred pursuant to which Premier GP became the general partner of Premier LP. Premier Healthcare Solutions, Inc. ("PHSI"), a Delaware corporation, through which we historically conducted the majority of the performance services portion of our business under the name "Premier, Inc.", became our indirect subsidiary through Premier LP. PHSI, Premier LP and Premier Supply Chain Improvement, Inc. ("PSCI"), a Delaware corporation and our indirect subsidiary (through Premier LP) through which we historically conducted certain portions of our supply chain services business, historically conducted all of our business. Upon the consummation of the Reorganization and IPO, our assets and business operations were substantially similar to those of PHSI, Premier LP and PSCI prior to the Reorganization and IPO, and we conduct all of our business through Premier LP and its subsidiaries.

Because the Reorganization and IPO had not yet been consummated and Premier, Inc. had no substantial assets and conducted no substantial activities until October 1, 2013, the financial statements and other information of PHSI and its consolidated subsidiaries are included in this Quarterly Report for periods prior to October 1, 2013. For more information about the Reorganization and IPO, refer to Note 2 - Initial Public Offering and Reorganization to the unaudited consolidated financial statements of this Quarterly Report.

Throughout this Quarterly Report, references to "member owners" refer collectively to our past, present and future customers, or members, who have owned, or who currently own, limited partnership interests in Premier LP and/or common stock of PHSI, and, as the context relates to the completion of the Reorganization and IPO, as described in Premier's Annual Report on Form 10-K for the year ended June 30, 2014, filed with the United States Securities and Exchange Commission (the "SEC") on September 4, 2014 (the "2014 Annual Report"), beneficially own shares of Premier, Inc. Class B common stock, par value \$0.000001 per share (the "Class B common stock"), and Class B common units of Premier LP (the "Class B common units") after giving effect to the Reorganization and IPO, provided that, in the context of discussions of the group purchasing organization ("GPO") participation agreements throughout this Quarterly Report, the term "member owner" also includes any related entity or affiliate of a member owner that is approved by Premier LP to be the signatory of such GPO participation agreement in lieu of the member owner.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this Quarterly Report that are not statements of historical or current facts, such as those under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Premier to be materially different from historical results or from any future results or projections expressed or implied by such forward-looking statements. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in conditional or future tenses or that include terms such as "believes," "belief," "expects," "estimates," "intends," "anticipates" or "plans" to be uncertain and forward-looking. Forward-looking statements may include comments as to Premier's beliefs and expectations regarding future events and trends affecting its business and are necessarily subject to uncertainties, many of which are outside Premier's control. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to: competition which could limit Premier's ability to maintain or expand market share within its industry, consolidation in the healthcare industry, potential delays in generating or an inability to generate revenues if the sales cycle takes longer than expected, the terminability of member participation in Premier's GPO programs with limited or no notice, the impact of Premier's business strategy that involves reducing the prices for products and services in its supply chain services segment, the rate at which the markets for Premier's non-GPO services and products develop, the dependency of Premier's members on payments from third-party payors, Premier's reliance on administrative fees which it receives from GPO suppliers, Premier's ability to maintain third-party provider and strategic alliances or enter into new alliances, Premier's ability to offer new and innovative products and services, the portion of revenues Premier receives from its largest members, risks and expenses related to future acquisition opportunities and integration of acquisitions, potential litigation, Premier's reliance on Internet infrastructure, bandwidth providers, data center providers, other third parties and its own systems for providing services to its users, data loss or corruption due to failures or errors in Premier's systems and service disruptions at its data centers, breaches or failures of Premier's security measures, the financial and reputational consequences of cyber-attacks or other data security breaches that disrupt Premier's operations or result in the dissemination of proprietary or confidential information about Premier or its members or other third parties, Premier's ability to use, disclose, de-identify or license data and to integrate third-party technologies, Premier's reliance on partners and other third parties, Premier's use of "open source" software, changes in industry pricing benchmarks, any increase in the safety risk profiles of prescription drugs or the withdrawal of prescription drugs from the market, Premier's ability to maintain and expand its existing base of drugs in its specialty pharmacy, Premier's dependency on contract manufacturing facilities located in various parts of the world, Premier's ability to attract, hire, integrate and retain key personnel, adequate protection of Premier's intellectual property, any alleged infringement, misappropriation or violation of third-party proprietary rights, potential sales and use tax liability in certain jurisdictions, Premier's future indebtedness and its ability to obtain additional financing, fluctuation of Premier's cash flows, quarterly revenues and results of operations, changes in the political, economic or healthcare regulatory environment, Premier's compliance with federal and state laws governing financial relationships among healthcare providers and the submission of false or fraudulent healthcare claims, interpretation and enforcement of current or future antitrust laws and regulations, potential healthcare reform and new regulatory requirements placed on Premier's software, services and content, compliance with federal and state privacy, security and breach notification laws, product safety concerns and regulation, Premier's holding company structure, different interests among Premier's member owners or between Premier's member owners and itself, Premier's ability to effectively deploy the net proceeds from future issuances of Premier's equity or debt securities, the ability of Premier member owners to exercise significant control over it, including through the election of all of Premier's directors, Premier's status as a "controlled company" within the meaning of the Nasdaq Global Select Market ("NASDAQ") rules, the terms of agreements between Premier and its member owners, payments made under the tax receivable agreement to Premier LP's limited partners, Premier's ability to realize all or a portion of the tax benefits that are expected to result from the acquisition of Class B common units from the limited partners, changes to Premier LP's allocation methods that may increase a tax-exempt limited partner's risk that some allocated income is unrelated business taxable income, the

dilutive effect of Premier LP's issuance of additional units or future issuances by Premier of common stock and/or preferred stock, provisions in Premier's certificate of incorporation and bylaws and the Amended and Restated Limited Partnership Agreement of Premier LP (as amended, the "LP Agreement") and provisions of Delaware law that discourage or prevent strategic transactions, including a takeover of Premier, any determination that Premier, Inc. is an investment company, the requirements of being a public company, Premier's inexperience and limited operating history as a publicly-traded company, failure to establish and maintain an effective system of internal controls, the impact of reduced disclosure requirements applicable to emerging growth companies, Premier's smaller public float, any downgrade in securities or industry analysts' recommendations about Premier's business or Class A common stock, the volatility of Premier's Class A common stock price, the number of shares of Class A common stock that will be eligible for sale or exchange in the near future and the dilutive effect of such issuances, Premier's intention not to pay cash dividends on its Class A common stock, possible future issuances of debt securities, and the risk factors discussed under the heading "Risk Factors" in the 2014 Annual Report.

More information on potential factors that could affect Premier's financial results is included from time to time in the "Cautionary Note Regarding Forward Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of

Financial Condition and Results of Operations" or similarly captioned sections of this Quarterly Report and Premier's other periodic and current filings made from time to time with the SEC, and which are available on Premier's website at <http://investors.premierinc.com/>. You should not place undue reliance on any of Premier's forward-looking statements which speak only as of the date they are made. Premier undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Furthermore, Premier cannot guarantee future results, events, levels of activity, performance or achievements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PREMIER, INC.

Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2015	June 30, 2014
Assets		
Cash and cash equivalents	\$155,636	\$131,786
Marketable securities	192,752	159,820
Accounts receivable (net of \$1,109 and \$1,054 allowance for doubtful accounts, respectively)	101,165	67,577
Inventories - finished goods	29,858	20,823
Prepaid expenses and other current assets	32,039	31,175
Due from related parties	712	1,228
Deferred tax assets	13,055	9,647
Total current assets	525,217	422,056
Property and equipment (net of \$219,517 and \$186,582 accumulated depreciation, respectively)	152,972	134,551
Restricted cash	5,000	5,000
Marketable securities	154,944	248,799
Deferred tax assets	348,564	286,936
Goodwill	213,849	94,451
Intangible assets (net of \$26,898 and \$20,302 accumulated amortization, respectively)	41,209	10,855
Other assets	46,778	44,008
Total assets	\$1,488,533	\$1,246,656
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Accounts payable	\$30,514	\$28,007
Accrued expenses	40,930	25,536
Revenue share obligations	56,076	56,531
Limited partners' distribution payable	23,398	22,351
Accrued compensation and benefits	45,235	46,713
Deferred revenue	32,274	15,694
Current portion of tax receivable agreement	10,940	11,035
Current portion of notes payable and line of credit	4,393	17,696
Other current liabilities	2,719	319
Total current liabilities	246,479	223,882
Notes payable, less current portion	15,970	16,051
Tax receivable agreement, less current portion	233,564	181,256
Deferred compensation plan obligations	36,031	32,872
Deferred rent	16,047	15,960
Other long-term liabilities	4,506	2,272
Total liabilities	552,597	472,293
Commitments and contingencies (Note 18)		
Redeemable limited partners' capital	3,995,025	3,244,674
Stockholders' deficit:		

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Series A Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding	—	—	
Class A common stock, \$0.01 par value, 500,000,000 shares authorized; 37,376,985 and 32,375,390 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively	374	324	
Class B common stock, \$0.000001 par value, 600,000,000 shares authorized; 106,658,535 and 112,510,905 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively	—	—	
Additional paid-in capital	—	—	
Accumulated deficit	(3,059,480)	(2,469,873))
Accumulated other comprehensive income	17	43	
Noncontrolling interest	—	(805))
Total stockholders' deficit	(3,059,089)	(2,470,311))
Total liabilities, redeemable limited partners' capital and stockholders' deficit	\$1,488,533	\$1,246,656	
See accompanying notes to the unaudited consolidated financial statements.			

PREMIER, INC.

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Net revenue:				
Net administrative fees	\$ 117,959	\$ 108,087	\$ 337,157	\$ 353,793
Other services and support	70,326	58,819	199,621	170,268
Services	188,285	166,906	536,778	524,061
Products	73,438	58,692	203,698	151,022
Net revenue	261,723	225,598	740,476	675,083
Cost of revenue:				
Services	36,026	28,382	104,066	84,887
Products	66,789	52,742	183,302	136,500
Cost of revenue	102,815	81,124	287,368	221,387
Gross profit	158,908	144,474	453,108	453,696
Operating expenses:				
Selling, general and administrative	86,847	73,327	243,404	209,096
Research and development	596	820	2,385	2,714
Amortization of purchased intangible assets	2,554	802	6,598	2,158
Total operating expenses	89,997	74,949	252,387	213,968
Operating income	68,911	69,525	200,721	239,728
Equity in net income of unconsolidated affiliates	5,197	3,566	14,812	12,171
Interest and investment income, net	204	400	517	641
(Loss) gain on investment	(1,000)	) 37,850	(1,000)	) 37,850
Other income (expense), net	743	52	(219)	) 56
Other income, net	5,144	41,868	14,110	50,718
Income before income taxes	74,055	111,393	214,831	290,446
Income tax expense	2,026	9,413	12,107	24,461
Net income	72,029	101,980	202,724	265,985
Net income attributable to noncontrolling interest in S2S Global	(252)	) (530)	) (1,836)	) (477)
Net income attributable to noncontrolling interest in Premier LP	(59,568)	) (87,925)	) (170,135)	) (246,055)
Net income attributable to noncontrolling interest	(59,820)	) (88,455)	) (171,971)	) (246,532)
Net income attributable to shareholders	12,209	13,525	30,753	19,453
Adjustment of redeemable limited partners' capital to redemption amount	(387,062)	) 495,714	(811,969)	) (3,224,098)
Net (loss) income attributable to shareholders after adjustment of redeemable limited partners' capital to redemption amount	\$(374,853)	) \$509,239	\$(781,216)	) \$(3,204,645)
Weighted average shares outstanding:				
Basic	37,316	32,375	35,066	23,394
Diluted	37,316	32,556	35,066	23,394

(Loss) earnings per share attributable to shareholders after adjustment to redeemable limited partners' capital to redemption amount:

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Basic	\$ (10.05)	\$ 15.73	\$ (22.28)	\$ (136.99)
Diluted	\$ (10.05)	\$ 15.64	\$ (22.28)	\$ (136.99)

See accompanying notes to the unaudited consolidated financial statements.

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PREMIER, INC.

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net income	\$72,029	\$101,980	\$202,724	\$265,985
Net unrealized gain (loss) on marketable securities	218	161	(128)	)104
Total comprehensive income	72,247	102,141	202,596	266,089
Less: Comprehensive income attributable to noncontrolling interest	(59,658)	) (88,580)	) (171,876)	) (246,618)
Comprehensive income attributable to shareholders	\$12,589	\$13,561	\$30,720	\$19,471

See accompanying notes to the unaudited consolidated financial statements.

PREMIER, INC.

Consolidated Statement of Stockholders' Deficit

Nine Months Ended March 31, 2015

(Unaudited)

(In thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
Balance at June 30, 2014	32,375	\$ 324	112,511	\$ —	\$ —	\$(2,469,873)	\$(805)	\$ 43	\$(2,470,311)
Redemption of limited partners	—	—	(910)	—	—	—	—	—	—
Reduction in tax receivable agreement liability related to departed member owners	—	—	—	—	1,580	—	—	—	1,580
Exchange of Class B common units for Class A common stock by member owners	4,942	50	(4,942)	—	164,605	—	—	—	164,655
Increase in deferred tax asset related to quarterly exchange by member owners	—	—	—	—	16,796	—	—	—	16,796
Issuance of Class A common stock under equity incentive plan	60	—	—	—	1,076	—	—	—	1,076
Stock-based compensation expense	—	—	—	—	21,129	—	—	—	21,129
Repurchase of vested restricted stock	—	—	—	—	(90)	—	—	—	(90)
Net income attributable to shareholders	—	—	—	—	—	30,753	—	—	30,753
Net income attributable to noncontrolling interest in S2S Global	—	—	—	—	—	—	1,836	—	1,836
Purchase of noncontrolling interest in S2S Global	—	—	—	—	(13,487)	—	(1,031)	—	(14,518)
Net unrealized loss on marketable securities	—	—	—	—	—	—	—	(26)	(26)
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	(191,609)	(20,360)	—	—	(811,969)
Balance at March 31, 2015	37,377	\$ 374	106,659	\$ —	\$ —	\$(3,059,480)	\$ —	\$ 17	\$(3,059,089)

See accompanying notes to the unaudited consolidated financial statements.

PREMIER, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended March 31,	
	2015	2014
Operating activities		
Net income	\$202,724	\$265,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,705	29,110
Equity in net income of unconsolidated affiliates	(14,812)	(12,171)
Deferred taxes	(269)	2,833
Loss (gain) on investment	1,000	(37,850)
Stock-based compensation	21,129	13,118
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other current assets	(23,645)	(15,050)
Other assets	(1,130)	(1,749)
Inventories	(9,035)	(6,539)
Accounts payable, accrued expenses, revenue share obligations and other current liabilities	35,670	51,265
Long-term liabilities	2,417	(8)
Other operating activities	1,821	(253)
Net cash provided by operating activities	255,575	288,691
Investing activities		
Purchase of marketable securities	(239,782)	(369,122)
Proceeds from sale of marketable securities	298,757	71,459
Proceeds from sale of investment in Global Healthcare Exchange, LLC	—	37,850
Acquisition of SYMMEDRx, net of cash acquired	—	(28,690)
Acquisition of Meddius, L.L.C., net of owner note receivable	—	(7,737)
Acquisition of Aperek, net of cash acquired	(47,446)	—
Acquisition of TheraDoc, net of cash acquired	(108,561)	—
Purchase of noncontrolling interest in S2S Global	(14,518)	—
Distributions received on equity investment	13,900	10,650
Purchases of property and equipment	(51,064)	(39,842)
Other investing activities	(443)	—
Net cash used in investing activities	(149,157)	(325,432)
Financing activities		
Payments made on notes payable	(1,046)	(5,121)
Proceeds from S2S Global revolving line of credit	1,007	6,000
Payments on S2S Global revolving line of credit	(14,715)	—
Proceeds from senior secured line of credit	—	60,000
Payments on senior secured line of credit	—	(60,000)
Proceeds from issuance of Class A common stock in connection with the IPO, net of underwriting fees and commissions	—	821,671
Payments made in connection with the IPO	—	(2,822)
Purchases of Class B common units from member owners	—	(543,857)
Proceeds from issuance of PHSI common stock	—	300
Proceeds from notes receivable from partners	—	12,706

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Repurchase of restricted units	(90)(4)
Proceeds from exercise of stock options under equity incentive plan	1,076	—)
Distributions to limited partners of Premier LP	(68,800	)(298,388)
Net cash used in financing activities	(82,568	)(9,515)
Net increase (decrease) in cash and cash equivalents	23,850	(46,256)
Cash and cash equivalents at beginning of period	131,786	198,296)
Cash and cash equivalents at end of period	\$155,636	\$152,040)

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Supplemental schedule of non-cash investing and financing activities:		
Issuance of limited partnership interest for notes receivable	\$—	\$7,860
Payable to member owners incurred upon repurchase of ownership interest	\$2,046	\$1,652
Reduction in tax receivable agreement liability related to departed member owners	\$1,580	\$—
Reduction in redeemable limited partners' capital to reduce outstanding receivable	\$—	\$28,009
Distributions utilized to reduce subscriptions, notes, interest and accounts receivable from member owners	\$4,884	\$6,200
Reduction in redeemable limited partners' capital for limited partners' distribution payable	\$23,398	\$21,352
Increase in redeemable limited partners' capital for adjustment to redemption amount, with offsetting decrease in additional paid-in-capital and accumulated deficit	\$811,969	\$3,224,098
Reduction in redeemable limited partners' capital, with offsetting increase in common stock and additional paid-in capital related to quarterly exchange by member owners	\$(164,655))\$—
Increase in additional paid-in-capital related to quarterly exchange by member owners	\$16,796	\$—
Increase in tax receivable agreement liability related to quarterly exchange by member owners	\$53,793	\$—
Increase in deferred tax assets related to quarterly exchange by member owners	\$70,589	\$—
Increase in deferred tax assets and additional paid-in-capital related to the Reorganization	\$—	\$282,972
Increase in payables and decrease in additional paid-in-capital pursuant to the tax receivable agreements	\$—	\$186,077
Reduction in prepaid expenses and other current assets for IPO costs capitalized to additional paid-in-capital	\$—	\$2,822

See accompanying notes to the unaudited consolidated financial statements.

PREMIER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Premier, Inc. ("Premier" or the "Company") is a publicly-held, for-profit Delaware corporation primarily owned by hospitals, health systems and other healthcare organizations (such owners of Premier are referred to herein as "member owners") located in the United States, and by public stockholders. The Company, together with its subsidiaries and affiliates, is a leading healthcare improvement company that unites hospitals, health systems, physicians and other healthcare providers to improve and innovate in the clinical, financial and operational areas of their business to meet the demands of a rapidly evolving healthcare industry.

The Company's business model and solutions are designed to provide its members access to scale efficiencies, spread the cost of their development, provide actionable intelligence derived from anonymized data in the Company's data warehouse, mitigate the risk of innovation and disseminate best practices that will help its member organizations succeed in their transformation to higher quality and more cost-effective healthcare.

The Company, together with its subsidiaries and affiliates, delivers its integrated platform of solutions through two business segments: supply chain services and performance services. The supply chain services segment includes one of the largest healthcare group purchasing organizations ("GPOs") in the United States, a specialty pharmacy and direct sourcing activities. The performance services segment includes one of the largest informatics and advisory services businesses in the United States focused on healthcare providers. The Company's software as a service ("SaaS") informatics products utilize its comprehensive data set to provide actionable intelligence to its members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety, and population health management. This segment also includes the Company's technology-enabled performance improvement collaboratives, advisory services and insurance management services.

Basis of Presentation and Consolidation

The Company, through its wholly owned subsidiary, Premier Services, LLC ("Premier GP"), holds a 26% controlling general partner interest in, and, as a result, consolidates the financial statements of, Premier Healthcare Alliance, L.P. ("Premier LP"). The limited partners' 74% ownership of Premier LP is reflected as redeemable limited partners' capital in the Company's consolidated balance sheets, and their proportionate share of income in Premier LP is reflected within net income attributable to noncontrolling interest in Premier LP in the Company's consolidated statements of income and within comprehensive income attributable to noncontrolling interest in the consolidated statements of comprehensive income. During the nine months ended March 31, 2015, the member owners exchanged approximately 4% of their Class B common units and associated Class B common stock for Class A common stock as part of their quarterly exchange rights under an exchange agreement (the "Exchange Agreement") entered into by the member owners in connection with the Reorganization and IPO. See Note 2 - Initial Public Offering and Reorganization for further information on the Exchange Agreement. As a result, at March 31, 2015, the member owners owned approximately 74% of the Company's combined Class A and Class B common stock (the "common stock") through their ownership of Class B common stock, and the public investors, which may include member owners that have received shares of Class A common stock in connection with previous exchanges, owned approximately 26% of the Company's outstanding common stock.

After the completion of a series of transactions following the consummation of the initial public offering ("IPO"), referred to as the "Reorganization" (and, collectively with the IPO, the "Reorganization and IPO"), Premier Healthcare Solutions, Inc. ("PHSI") became a consolidated subsidiary of the Company. PHSI is considered the predecessor of the Company for accounting purposes, and accordingly, PHSI's consolidated financial statements are the Company's historical financial statements, for periods prior to October 1, 2013. The historical consolidated financial statements of PHSI are reflected herein based on PHSI's historical ownership interests of Premier LP and its consolidated subsidiaries.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the

Securities and Exchange Commission (the "SEC"). Accordingly, certain information and disclosures normally included in annual financial statements have been condensed or omitted. The consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring adjustments. The Company believes that the disclosures are adequate to make the information presented not misleading and should be read in conjunction with the consolidated financial statements and related footnotes contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014 ("2014 Annual Report").

The Company has reclassified certain prior period amounts to be consistent with the current period presentation and corrected certain classification differences in both the consolidated statements of cash flows and consolidated statements of income. For the nine months ended March 31, 2014, the Company has presented \$2.8 million in costs associated with the IPO as financing rather than operating activities in the consolidated statements of cash flows. Additionally, as discussed in Note 23 to the consolidated financial statements in the June 30, 2014 Form 10-K, the Company has corrected the adjustment of redeemable limited partners' capital to redemption amount by approximately \$21.4 million for the three and nine months ended March 31, 2014, respectively, from \$517.1 million and \$(3,203) million, respectively, as reported in the prior period to \$495.7 million and \$(3,224) million, respectively, as reported herein, to correct an immaterial classification difference between redeemable limited partners' capital and (accumulated deficit) retained earnings. For the three months ended March 31, 2014, the adjustment decreased both basic and diluted net income per share attributable to shareholders by \$.66 from \$16.39 and \$16.30, respectively, as reported in the prior period, to \$15.73 and \$15.64, respectively, as reported herein. For the nine months ended March 31, 2014, the adjustment increased both basic and diluted net loss per share attributable to shareholders by \$.92 from \$136.07 as reported in the prior period to \$136.99 as reported herein.

Use of Estimates in the Preparation of Financial Statements

The preparation of the Company's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Estimates are evaluated on an ongoing basis, including allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under the tax receivable agreement, values of investments not publicly traded, the valuation allowance on deferred tax assets and the fair value of purchased intangible assets and goodwill. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(2) INITIAL PUBLIC OFFERING AND REORGANIZATION

Initial Public Offering

On October 1, 2013, Premier completed its IPO of 32,374,751 shares of its Class A common stock, at a price of \$27.00 per share, raising net proceeds of approximately \$821.7 million after underwriting discounts and commissions, but before expenses.

Premier used approximately (i) \$543.9 million of the net proceeds from the IPO to acquire 21,428,571 Class B common units from the member owners, (ii) \$30.1 million of the net proceeds to acquire 1,184,882 Class B common units from PHSI and (iii) \$247.7 million of the net proceeds to acquire 9,761,298 newly issued Class A common units of Premier LP, or the Class A common units, from Premier LP, in each case for a price per unit equal to the price paid per share of Class A common stock by the underwriters to Premier in connection with the IPO. All Class B common units purchased by Premier with the net proceeds from the IPO automatically converted to Class A common units, pursuant to the terms of the LP Agreement, and were contributed by Premier to Premier GP.

Reorganization

On October 1, 2013 (the "Effective Date"), Premier completed the Reorganization. In connection with the Reorganization and IPO, immediately following the Effective Date, all of Premier LP's limited partners that approved the Reorganization received an amount of Class B common units and capital account balances in Premier LP equal to their percentage interests and capital account balances in Premier LP immediately preceding the Reorganization.

Additionally, immediately following the Effective Date, all of the stockholders (consisting of member owners) of PHSI that approved the Reorganization contributed their PHSI common stock to Premier LP in exchange for additional Class B common units based on such stockholder's percentage interest in the fair market valuation of PHSI and Premier LP prior to the Reorganization. As a result of the foregoing contributions, PHSI became a wholly owned subsidiary of Premier LP.

In connection with the Reorganization, the member owners purchased from Premier 112,607,832 shares of Class B common stock, for par value, \$0.000001 per share, which number of Class B common stock equaled the number of Class B units held by the member owners immediately following the IPO, pursuant to a stock purchase agreement.

Below is a summary of the principal documents that effected the Reorganization and define and regulate the governance and control relationships among Premier, Premier LP and the member owners after the completion of the Reorganization and IPO.

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LP Agreement

In connection with the Reorganization and IPO, pursuant to the LP Agreement, Premier GP became the general partner of Premier LP. As the general partner of Premier LP, Premier GP generally controls the day-to-day business affairs and decision-making of Premier LP without the approval of any other partner, subject to certain limited partner approval rights. As the sole member of Premier GP, Premier is responsible for all operational and administrative decisions of Premier LP. In accordance with the LP Agreement, subject to applicable law or regulation and the terms of Premier LP's financing agreements, Premier GP will cause Premier LP to make quarterly distributions out of its estimated taxable net income to Premier GP and to the holders of Class B common units as a class in an aggregate amount equal to Premier LP's total taxable income other than net profit attributable to dispositions not in the ordinary course of business for each such quarter multiplied by the effective combined federal, state and local income tax rate then payable by Premier to facilitate payment by each Premier LP partner of taxes, if required, on its share of taxable income of Premier LP. In addition, in accordance with the LP Agreement, Premier GP may cause Premier LP to make additional distributions to Premier GP and to all limited partners holding Class B common units as a class in proportion to their respective number of units, subject to any applicable restrictions under Premier LP's financing agreements or applicable law. Premier GP will distribute any amounts it receives from Premier LP to Premier, which Premier will use to (i) pay applicable taxes, (ii) meet its obligations under the tax receivable agreement and (iii) meet its obligations to the member owners under the Exchange Agreement if they elect to convert their Class B common units for shares of its Class A common stock and Premier elects to pay some or all of the consideration to such member owners in cash.

In the event that a limited partner of Premier LP holding Class B common units not yet eligible to be exchanged for shares of Premier's Class A common stock pursuant to the terms of the Exchange Agreement (i) ceases to participate in Premier's GPO programs, (ii) ceases to be a limited partner of Premier LP (except as a result of a permitted transfer of its Class B common units), (iii) ceases to be a party to a GPO participation agreement (subject to certain limited exceptions) or (iv) becomes a related entity of, or affiliated with, a competing business of Premier LP, in each case, Premier LP will have the option to redeem all of such limited partner's Class B common units not yet eligible to be exchanged at a purchase price set forth in the LP Agreement. In addition, the limited partner will be required to exchange all Class B common units eligible to be exchanged on the next exchange date following the date of the applicable termination event described above.

Voting Trust Agreement

Additionally, in connection with the Reorganization and IPO, Premier's member owners entered into a voting trust agreement (the "Voting Trust Agreement"), which became effective upon the completion of the Reorganization and IPO and pursuant to which the member owners contributed their Class B common stock into Premier Trust, under which Wells Fargo Delaware Trust Company, N.A., as trustee, acts on behalf of the member owners for purposes of voting their shares of Class B common stock. As a result of the Voting Trust Agreement, the member owners retain beneficial ownership of the Class B common stock, while the trustee is the legal owner of such equity. Pursuant to the Voting Trust Agreement, the trustee will vote all of the member owners' Class B common stock as a block in the manner determined by the plurality of the votes received by the trustee from the member owners for the election of directors to serve on our board of directors and by a majority of the votes received by the trustee from the member owners for all other matters.

Exchange Agreement

In connection with the Reorganization and IPO, Premier, Premier LP and the member owners entered into the Exchange Agreement which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of the Exchange Agreement, subject to certain restrictions, commencing on October 31, 2014, and during each year thereafter, each member owner has the cumulative right to exchange up to one-seventh of its initial allocation of Class B common units, as well as any additional Class B common units purchased by such member owner pursuant to certain rights of first refusal (discussed below), for shares of Class A common stock (on a one-for-one basis subject to customary adjustments for subdivisions or combinations by split, reverse split, distribution, reclassification, recapitalization or otherwise), cash or a combination of both, the form of consideration to be at the discretion of Premier's audit committee (or another committee of independent directors). This exchange right can be exercised on a

quarterly basis (subject to certain restrictions contained in the registration rights agreement described below) and is subject to rights of first refusal in favor of the other holders of Class B common units and Premier LP. For each Class B common unit that is exchanged pursuant to the Exchange Agreement, the member owner will also surrender one corresponding share of our Class B common stock, which will automatically be retired.

Registration Rights Agreement