

Premier, Inc.
Form 10-Q
May 10, 2016

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, 2016

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)

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

As of May 6, 2016, there were 45,554,075 shares of the registrant's Class A common stock, par value \$0.01 per share, and 96,132,723 shares of the registrant's Class B common stock, par value \$0.000001 per share, outstanding.

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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 our actual results, performance or achievements 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 our beliefs and expectations regarding future events and trends affecting our business and are necessarily subject to uncertainties, many of which are outside our 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 our ability to maintain or expand market share within our 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 our group purchasing organization ("GPO") programs with limited or no notice;
- the impact of our business strategy that involves reducing the prices for products and services in our supply chain services segment;
- the rate at which the markets for our non-GPO services and products develop;
- the dependency of our members on payments from third-party payers;
- our reliance on administrative fees which we receive from GPO suppliers;
- our ability to maintain third-party provider and strategic alliances or enter into new alliances;
- our ability to offer new and innovative products and services;
- the portion of revenues we receive from our largest members;
- risks and expenses related to future acquisition opportunities and integration of acquisitions;
- financial and operational risks associated with investments in, or partnerships or joint ventures with, other businesses, particularly those that we do not control;
- potential litigation;
- our reliance on Internet infrastructure, bandwidth providers, data center providers and other third parties and our own systems for providing services to our users;
- data loss or corruption due to failures or errors in our systems and service disruptions at our data centers, or breaches or failures of our security measures;
- the financial and reputational consequences of cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our members or other third parties;
- our ability to use, disclose, de-identify or license data and to integrate third-party technologies;
- our reliance on partners and other third parties;
- our use of "open source" software;
- changes in industry pricing benchmarks;
- any adverse changes in the safety risk profiles of prescription drugs or the withdrawal of prescription drugs from the market;

- our ability to maintain and expand our existing base of drugs in our specialty pharmacy;
- our dependency on contract manufacturing facilities located in various parts of the world;
- our ability to attract, hire, integrate and retain key personnel;
- adequate protection of our intellectual property;
- any alleged infringement, misappropriation or violation of third-party proprietary rights;
- potential sales and use tax liability in certain jurisdictions;
- our current and future indebtedness and our ability to obtain additional financing;
- fluctuation of our cash flows, quarterly revenues and results of operations;
- changes in the political, economic or healthcare regulatory environment;
- our 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 our software, services and content;
- compliance with federal and state privacy, security and breach notification laws;
- product safety concerns and regulation;
- our holding company structure and dependence on distributions from Premier Healthcare Alliance, L.P. ("Premier LP");
- different interests among our member owners or between us and our member owners;
- our ability to effectively deploy the net proceeds from future issuances of our equity or debt securities;
- the ability of our member owners to exercise significant control over us, including through the election of all of our directors;
- exemption from certain corporate governance requirements due to our status as a "controlled company" within the meaning of the Nasdaq Global Select Market rules;
- the terms of agreements between us and our member owners;
- payments made to Premier LP's limited partners under the tax receivable agreements;
- our 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 us of common stock or preferred stock;
- provisions in our 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 us;
- the requirements of being a public company and our inexperience and limited operating history as a publicly-traded company;
- failure to establish and maintain an effective system of internal controls;
- our relatively smaller public float in comparison to other public companies;
- any downgrade in securities or industry analysts' recommendations about our business or Class A common stock;
- the potential volatility of our 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;

our intention not to pay cash dividends on our Class A common stock;

possible future issuances of debt securities; and

the risk factors discussed under the heading "Risk Factors" herein and under Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2015 (the "2015 Annual Report"), filed with the Securities and Exchange Commission ("SEC") on August 26, 2015.

More information on potential factors that could affect our 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 our other periodic and current filings made from time to time with the SEC, which are available on our website at <http://investors.premierinc.com/>. You should not place undue reliance on any of our forward-looking statements which speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PREMIER, INC.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2016	June 30, 2015
Assets		
Cash and cash equivalents	\$238,384	\$146,522
Marketable securities	27,170	240,667
Accounts receivable (net of \$1,899 and \$1,153 allowance for doubtful accounts, respectively)	128,981	99,120
Inventory	29,307	33,058
Prepaid expenses and other current assets	24,970	22,353
Due from related parties	4,445	3,444
Total current assets	453,257	545,164
Marketable securities	39,456	174,745
Property and equipment (net of \$255,085 and \$220,685 accumulated depreciation, respectively)	165,736	147,625
Intangible assets (net of \$41,873 and \$17,815 accumulated amortization, respectively)	167,212	38,669
Goodwill	537,902	215,645
Deferred income tax assets	423,766	353,723
Deferred compensation plan assets	38,791	37,483
Other assets	28,856	17,137
Total assets	\$1,854,976	\$1,530,191
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Accounts payable	\$26,365	\$37,634
Accrued expenses	68,308	41,261
Revenue share obligations	62,630	59,259
Limited partners' distribution payable	24,743	22,432
Accrued compensation and benefits	43,236	51,066
Deferred revenue	52,820	39,824
Current portion of tax receivable agreements	10,845	11,123
Current portion of long-term debt	4,731	2,256
Other liabilities	5,412	4,776
Total current liabilities	299,090	269,631
Long-term debt, less current portion	64,243	15,679
Tax receivable agreements, less current portion	278,406	224,754
Deferred compensation plan obligations	38,791	37,483
Other liabilities	24,138	20,914
Total liabilities	704,668	568,461
Commitments and contingencies		
Redeemable limited partners' capital	3,218,086	4,079,832
Stockholders' deficit:		
Class A common stock, \$0.01 par value, 500,000,000 shares authorized; 45,342,351 and 37,668,870 shares issued and outstanding at March 31, 2016 and June 30, 2015, respectively	453	377

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Class B common stock, \$0.000001 par value, 600,000,000 shares authorized; 96,674,787 and 106,382,552 shares issued and outstanding at March 31, 2016 and June 30, 2015, respectively	—	—
Additional paid-in capital	—	—
Accumulated deficit	(2,068,152)	(3,118,474)
Accumulated other comprehensive loss	(79)	(5)
Total stockholders' deficit	(2,067,778)	(3,118,102)
Total liabilities, redeemable limited partners' capital and stockholders' deficit	\$1,854,976	\$1,530,191
See accompanying notes to the unaudited condensed consolidated financial statements.		

PREMIER, INC.

Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Net revenue:				
Net administrative fees	\$131,270	\$117,959	\$369,952	\$337,157
Other services and support	87,389	70,326	252,114	199,621
Services	218,659	188,285	622,066	536,778
Products	80,010	73,438	239,107	203,698
Net revenue	298,669	261,723	861,173	740,476
Cost of revenue:				
Services	40,685	36,026	119,301	104,066
Products	71,408	66,789	214,512	183,302
Cost of revenue	112,093	102,815	333,813	287,368
Gross profit	186,576	158,908	527,360	453,108
Operating expenses:				
Selling, general and administrative	101,898	86,847	288,120	243,404
Research and development	1,180	596	2,060	2,385
Amortization of purchased intangible assets	8,740	2,554	24,058	6,598
Operating expenses	111,818	89,997	314,238	252,387
Operating income	74,758	68,911	213,122	200,721
Equity in net income of unconsolidated affiliates	6,627	5,197	16,002	14,812
Interest and investment (expense) income, net	(285)	)204	(981)	)517
Loss on investment	—	(1,000)	) —	(1,000)
Other income (expense), net	—	743	(2,081)	) (219)
Other income, net	6,342	5,144	12,940	14,110
Income before income taxes	81,100	74,055	226,062	214,831
Income tax expense	9,543	2,026	41,257	12,107
Net income	71,557	72,029	184,805	202,724
Net income attributable to non-controlling interest in S2S Global	—	(252)	) —	(1,836)
Net income attributable to non-controlling interest in Premier LP	(56,018)	) (59,568)	) (153,735)	) (170,135)
Net income attributable to non-controlling interest	(56,018)	) (59,820)	) (153,735)	) (171,971)
Adjustment of redeemable limited partners' capital to redemption amount	284,409	(387,062)	) 685,649	(811,969)
Net income (loss) attributable to stockholders	\$299,948	\$(374,853)	\$716,719	\$(781,216)
Weighted average shares outstanding:				
Basic	44,716	37,316	41,329	35,066
Diluted	145,018	37,316	145,558	35,066
Earnings (loss) per share attributable to stockholders:				
Basic	\$6.71	\$(10.05)	) \$17.34	\$(22.28)
Diluted	\$0.43	\$(10.05)	) \$1.03	\$(22.28)

See accompanying notes to the unaudited condensed consolidated financial statements.

PREMIER, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three months		Nine months ended	
	ended March 31,		March 31,	
	2016	2015	2016	2015
Net income	\$71,557	\$72,029	\$184,805	\$202,724
Net unrealized gain (loss) on marketable securities	283	218	(226)	(128)
Total comprehensive income	71,840	72,247	184,579	202,596
Less: comprehensive income attributable to non-controlling interest	(56,219)	(59,658)	(153,578)	(171,876)
Comprehensive income attributable to Premier, Inc.	\$15,621	\$12,589	\$31,001	\$30,720

See accompanying notes to the unaudited condensed consolidated financial statements.

PREMIER, INC.

Condensed Consolidated Statement of Stockholders' Deficit

Nine Months Ended March 31, 2016

(Unaudited)

(In thousands)

	Class A Common Stock Shares		Class B Common Stock Shares		Additional Paid-In Capital		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance at June 30, 2015	37,669	\$ 377	106,383	\$ —	\$ —	—	\$(3,118,474)	\$ (5)	\$(3,118,102)
Redemption of limited partners	—	—	(2,194)	—	—	—	—	—	—
Exchange of Class B common units for Class A common stock by member owners	7,514	75	(7,514)	—	260,523	—	—	—	260,598
Increase in additional paid-in capital related to quarterly exchange by member owners and departure of member owners	—	—	—	—	34,195	—	—	—	34,195
Issuance of Class A common stock under equity incentive plan	116	1	—	—	2,519	—	—	—	2,520
Final remittance of net income attributable to S2S Global before February 1, 2015	—	—	—	—	—	(1,890)	—	—	(1,890)
Stock-based compensation expense	—	—	—	—	36,785	—	—	—	36,785
Employee stock purchase plan	43	—	—	—	1,534	—	—	—	1,534
Repurchase of restricted units	—	—	—	—	(63)	—	—	—	(63)
Net income	—	—	—	—	—	184,805	—	—	184,805
Net income attributable to non-controlling interest	—	—	—	—	—	(153,735)	—	—	(153,735)
Net unrealized loss on marketable securities	—	—	—	—	—	—	(74)	(74)	(74)
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	(335,498)	21,142	—	—	685,649
Balance at March 31, 2016	45,342	\$ 453	96,675	\$ —	\$ —	—	\$(2,068,152)	\$ (79)	\$(2,067,778)

See accompanying notes to the unaudited condensed consolidated financial statements.

PREMIER, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended March 31,	
	2016	2015
Operating activities		
Net income	\$184,805	\$202,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,232	39,705
Equity in net income of unconsolidated affiliates	(16,002)	(14,812)
Deferred income taxes	22,345	(269)
Loss on investment	—	1,000
Stock-based compensation	36,785	21,129
Adjustment to tax receivable agreement liability	(4,818))—
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other current assets	(27,071)	(23,645)
Other assets	(9,773)	(1,130)
Inventory	3,751	(9,035)
Accounts payable, accrued expenses, revenue share obligations and other current liabilities	21,450	35,670
Long-term liabilities	(1,246)	2,417
Other operating activities	(521)	1,821
Net cash provided by operating activities	270,937	255,575
Investing activities		
Purchase of marketable securities	(19,211)	(239,782)
Proceeds from sale of marketable securities	367,600	298,757
Acquisition of CECity.com, Inc., net of cash acquired	(398,261))—
Acquisition of Healthcare Insights, LLC, net of cash acquired	(64,274))—
Acquisition of InFlowHealth, LLC	(6,088))—
Acquisition of Aperek, Inc., net of cash acquired	—	(47,446)
Acquisition of TheraDoc, Inc., net of cash acquired	—	(108,561)
Purchase of noncontrolling interest in S2S Global	—	(14,518)
Investment in unconsolidated affiliates	(3,250))—
Distributions received on equity investment	17,043	13,900
Purchases of property and equipment	(54,684)	(51,064)
Proceeds from sale of property and equipment	95	—
Other investing activities	(101)	(443)
Net cash used in investing activities	(161,131)	(149,157)
Financing activities		
Payments made on notes payable	(1,847)	(1,046)
Proceeds from S2S Global revolving line of credit	—	1,007
Payments on S2S Global revolving line of credit	—	(14,715)
Proceeds from credit facility	150,000	—
Payments on credit facility	(100,000))—
Proceeds from exercise of stock options under equity incentive plan	2,519	1,076
Proceeds from issuance of Class A common stock under stock purchase plan	1,302	—
Repurchase of restricted units	(63)	(90)
Final remittance of net income attributable to former S2S Global minority shareholder	(1,890))—

Distributions to limited partners of Premier LP	(67,965)	(68,800)
Net cash used in financing activities	(17,944)	(82,568)
Net increase in cash and cash equivalents	91,862	23,850
Cash and cash equivalents at beginning of period	146,522	131,786
Cash and cash equivalents at end of period	\$238,384	\$155,636

Supplemental schedule of non-cash investing and financing activities:

Payable to member owners incurred upon repurchase of ownership interest	\$2,888	\$2,046
Reduction in tax receivable agreement liability related to departed member owners	\$12,225	\$1,580
Distributions and notes payable utilized to reduce subscriptions, notes, interest and accounts receivable from member owners	\$4,813	\$4,884
Reduction in redeemable limited partners' capital for limited partners' distribution payable	\$24,743	\$23,398
Increase in redeemable limited partners' capital for adjustment to redemption amount, with offsetting increase in additional paid-in-capital and accumulated deficit	\$685,649	\$811,969
Reduction in redeemable limited partners' capital, with offsetting increase in common stock and additional paid-in capital related to quarterly exchange by member owners	\$(260,598)	\$(164,655)
Increase in additional paid-in capital related to quarterly exchanges by member owners and departure of member owners	\$34,195	\$16,796
Increase in tax receivable agreement liability related to quarterly exchanges by member owners	\$70,418	\$53,793
Increase in deferred tax assets related to quarterly exchanges by member owners	\$97,108	\$70,589
Reduction in deferred tax assets related to departed member owners	\$4,721	\$—

See accompanying notes to the unaudited condensed consolidated financial statements.

PREMIER, INC.

NOTES TO CONDENSED 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 businesses 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 the Company's 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 the three main categories of cost management, quality and safety, and population health management. The performance services segment also includes the Company's technology-enabled performance improvement collaboratives, advisory services and insurance management services.

Basis of Presentation and Principles of Consolidation

Basis of Presentation

The Company, through its wholly-owned subsidiary, Premier Services, LLC ("Premier GP"), holds an approximate 32% controlling general partner interest in, and, as a result, consolidates the financial statements of, Premier Healthcare Alliance, L.P. ("Premier LP"). The limited partners' approximate 68% ownership of Premier LP is reflected as redeemable limited partners' capital in the Company's accompanying condensed consolidated balance sheets, and the limited partners' proportionate share of income in Premier LP is reflected within net income attributable to non-controlling interest in Premier LP in the Company's accompanying condensed consolidated statements of income and within comprehensive income attributable to non-controlling interest in the accompanying condensed consolidated statements of comprehensive income. During the nine months ended March 31, 2016, the member owners exchanged approximately 7.5 million of their Class B common units and associated Class B common stock for an equal number of 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 completion of a series of transactions (the "Reorganization") following the consummation of the Company's initial public offering (the "IPO", and collectively with the Reorganization, the "Reorganization and IPO") on October 1, 2013 (see Note 13 - Earnings (Loss) Per Share). As a result of the February 1, 2016 exchange, member owners' ownership percentage of the Company's combined Class A and Class B common stock ("Common Stock") decreased from approximately 70% at December 31, 2015 to approximately 68% at March 31, 2016 through their ownership of Class B common stock. The ownership percentage of public investors' ownership percentage, which may include member owners that have received shares of Class A common stock in connection with previous exchanges, increased from approximately 30% at December 31, 2015 to approximately 32% at March 31, 2016.

Principles of Consolidation

The accompanying condensed 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 accompanying condensed 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 audited consolidated financial statements and