Premier, Inc.
Form 10-Q
May 08, 2018

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

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FORM 10-Q

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(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o 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

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

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| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 35-2477140<br>(I.R.S. Employer Identification No.) |
| 13034 Ballantyne Corporate Place<br>Charlotte, North Carolina | 28277 |
| (Address of principal executive offices) | (Zip Code) |

(704) 357-0022
(Registrant's telephone number, including area code)

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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 x No o

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 x No o

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

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o | Non-accelerated filer (Do not check if a smaller reporting company) | o |
| Smaller reporting company | o | Emerging growth company | o | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of May 4, 2018, there were 52,587,645 shares of the registrant's Class A common stock, par value $0.01 per share, and 80,335,701 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 recognizing or increasing revenue if the sales cycle or implementation period takes longer than expected;
- the terminability of member participation in our group purchasing organization ("GPO") programs with limited or no notice, or the failure of a significant number of members to renew their GPO participation agreements;
- 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 that we receive from GPO suppliers;
- our ability to maintain third-party provider and strategic alliances or enter into new alliances;
- our ability to timely 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, operational 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 use of "open source" software;
- changes in industry pricing benchmarks;
- our inability to grow our integrated pharmacy business or maintain current patients due to increases in the safety risk profiles of prescription drugs or the withdrawal of prescription drugs from the market, or our inability to maintain and expand our existing base of drugs in our integrated pharmacies;
- 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 and potential claims against our use of the intellectual property of third parties;
- potential sales and use tax liability in certain jurisdictions;
- changes in tax laws that materially impact our tax rate, income tax expense, cash flows or tax receivable agreement ("TRA") liabilities;
- our indebtedness and our ability to obtain additional financing on favorable terms;
- fluctuation of our quarterly cash flows, revenues and results of operations;
- changes and uncertainty in the political, economic or regulatory environment affecting healthcare organizations, including with respect to the status of the Patient Protection and Affordable Care Act, as amended by the Healthcare and Education Reconciliation Act of 2010, collectively referred to as the "ACA";
- our compliance with complex 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;
- compliance with complex federal and state privacy, security and breach notification laws;
- compliance with current or future laws, rules or regulations adopted by the Food & Drug Administration ("FDA") applicable to our software applications that may be considered medical devices;
- compliance with, and potential changes to, extensive federal, state and local laws, regulations and procedures governing our integrated pharmacy operations;
- risks inherent in the filling, packaging and distribution of pharmaceuticals, including the counseling required to be provided by our pharmacists for dispensing of products;
- 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;
- 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 rules;
- the terms of agreements between us and our member owners;
- payments made under the TRAs to Premier LP's limited partners and our ability to realize the expected tax benefits related to the acquisition of Class B common units from Premier LP's limited partners;
- changes to Premier LP's allocation methods or examinations or changes in interpretation of applicable tax laws and regulations by various taxing authorities that may increase a tax-exempt limited partner's risk that some allocated income is unrelated business taxable income;
- 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;
- failure to maintain an effective system of internal controls;
- 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;
- when or whether we implement our recently announced Class A common stock repurchase program and the number of shares of Class A common stock, if any, purchased under the program;
- possible future issuances of common stock, preferred stock, limited partnership units or debt securities and the dilutive effect of such issuances; and

- the risk factors discussed under the heading "Risk Factors" in Item 1A of Part II herein and under Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the "2017 Annual Report"), filed with the Securities and Exchange Commission ("SEC").

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 data)

| | March 31, 2018 | June 30, 2017 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $149,410 | $156,735 |
| Accounts receivable (net of $2,149 and $1,812 allowance for doubtful accounts, respectively) | 174,092 | 159,745 |
| Inventory | 57,230 | 50,426 |
| Prepaid expenses and other current assets | 24,374 | 35,164 |
| Due from related parties | 491 | 6,742 |
| Total current assets | 405,597 | 408,812 |
| Property and equipment (net of $282,678 and $236,460 accumulated depreciation, respectively) | 198,853 | 187,365 |
| Intangible assets (net of $139,802 and $99,198 accumulated amortization, respectively) | 335,948 | 377,962 |
| Goodwill | 906,545 | 906,545 |
| Deferred income tax assets | 306,738 | 482,484 |
| Deferred compensation plan assets | 43,267 | 41,518 |
| Investments in unconsolidated affiliates | 93,448 | 92,879 |
| Other assets | 4,241 | 10,271 |
| Total assets | $2,294,637 | $2,507,836 |
| | | |
| Liabilities, redeemable limited partners' capital and stockholders' deficit | | |
| Accounts payable | $43,708 | $42,815 |
| Accrued expenses | 69,094 | 55,857 |
| Revenue share obligations | 75,341 | 72,078 |
| Limited partners' distribution payable | 13,157 | 24,951 |
| Accrued compensation and benefits | 52,857 | 53,506 |
| Deferred revenue | 44,534 | 44,443 |
| Current portion of tax receivable agreements | 17,925 | 17,925 |
| Current portion of long-term debt | 200,255 | 227,993 |
| Other liabilities | 7,044 | 32,019 |
| Total current liabilities | 523,915 | 571,587 |
| Long-term debt, less current portion | 6,962 | 6,279 |
| Tax receivable agreements, less current portion | 232,783 | 321,796 |
| Deferred compensation plan obligations | 43,267 | 41,518 |
| Deferred tax liabilities | 33,787 | 48,227 |
| Other liabilities | 56,456 | 42,099 |
| Total liabilities | 897,170 | 1,031,506 |

| | March 31, 2018 | June 30, 2017 |
|---|---|---|
| Redeemable limited partners' capital | 2,532,731 | 3,138,583 |
| Stockholders' deficit: | | |
| Class A common stock, $0.01 par value, 500,000,000 shares authorized; 57,352,698 shares issued and 51,940,576 shares outstanding at March 31, 2018 and 51,943,281 shares issued and outstanding at June 30, 2017 | 574 | 519 |
| Class B common stock, $0.000001 par value, 600,000,000 shares authorized; 80,978,267 and 87,298,888 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively | — | — |
| Treasury stock, at cost; 5,412,122 shares | (170,274) | — |
| Additional paid-in-capital | — | — |
| Accumulated deficit | (965,564) | (1,662,772) |
| Accumulated other comprehensive income (loss) | — | — |
| Total stockholders' deficit | (1,135,264) | (1,662,253) |
| Total liabilities, redeemable limited partners' capital and stockholders' deficit | $2,294,637 | $2,507,836 |

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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net revenue: | | | | |
| Net administrative fees | $161,612 | $143,915 | $471,946 | $398,962 |
| Other services and support | 97,492 | 97,756 | 274,357 | 265,974 |
| Services | 259,104 | 241,671 | 746,303 | 664,936 |
| Products | 166,234 | 138,132 | 480,997 | 386,639 |
| Net revenue | 425,338 | 379,803 | 1,227,300 | 1,051,575 |
| Cost of revenue: | | | | |
| Services | 47,037 | 47,319 | 141,228 | 134,865 |
| Products | 156,511 | 129,929 | 454,222 | 356,900 |
| Cost of revenue | 203,548 | 177,248 | 595,450 | 491,765 |
| Gross profit | 221,790 | 202,555 | 631,850 | 559,810 |
| Other operating income: | | | | |
| Remeasurement of tax receivable agreement liabilities | — | — | 177,174 | 5,722 |
| Other operating income | — | — | 177,174 | 5,722 |
| Operating expenses: | | | | |
| Selling, general and administrative | 109,007 | 108,668 | 331,948 | 302,555 |
| Research and development | 292 | 755 | 1,105 | 2,328 |
| Amortization of purchased intangible assets | 13,881 | 14,080 | 41,597 | 34,440 |
| Operating expenses | 123,180 | 123,503 | 374,650 | 339,323 |
| Operating income | 98,610 | 79,052 | 434,374 | 226,209 |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | — | — | 204,833 |
| Equity in net income (loss) of unconsolidated affiliates | (4,939) | 83 | 570 | 14,789 |
| Interest and investment loss, net | (1,236) | (2,017) | (4,239) | (3,026) |
| Loss on disposal of long-lived assets | (5) | (725) | (1,725) | (2,243) |
| Other income (expense) | (2,593) | 2,260 | (14,486) | 3,135 |
| Other income (expense), net | (8,773) | (399) | (19,880) | 217,488 |
| Income before income taxes | 89,837 | 78,653 | 414,494 | 443,697 |
| Income tax expense | 13,288 | 7,315 | 257,560 | 68,080 |
| Net income | 76,549 | 71,338 | 156,934 | 375,617 |
| Net income attributable to non-controlling interest in Premier LP | (53,047) | (51,433) | (154,142) | (282,207) |
| Adjustment of redeemable limited partners' capital to redemption amount | (127,039) | (100,506) | 511,301 | 296,566 |
| Net income (loss) attributable to stockholders | $(103,537) | $(80,601) | $514,093 | $389,976 |
| | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 53,529 | 50,525 | 53,885 | 49,051 |
| Diluted | 53,529 | 50,525 | 138,254 | 141,372 |
| | | | | |
| Earnings (loss) per share attributable to stockholders: | | | | |
| Basic | $(1.93) | $(1.60) | $9.54 | $7.95 |
| Diluted | $(1.93) | $(1.60) | $(0.84) | $2.22 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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PREMIER, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $76,549 | $71,338 | $156,934 | $375,617 |
| Net unrealized gain on marketable securities | — | — | — | 128 |
| Total comprehensive income | 76,549 | 71,338 | 156,934 | 375,745 |
| Less: comprehensive income attributable to non-controlling interest | (53,047) | (51,433) | (154,142) | (282,292) |
| Comprehensive income attributable to stockholders | $23,502 | $19,905 | $2,792 | $93,453 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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PREMIER, INC.
Condensed Consolidated Statement of Stockholders' Deficit
Nine Months Ended March 31, 2018
(Unaudited)
(In thousands)

| | Class A Common Stock | | Class B Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance at June 30, 2017 | 51,943 | $ 519 | 87,299 | $ — | — | $— | $ — | $(1,662,772) | $(1,662,253 ) |
| Exchange of Class B units for Class A common stock by member owners | 5,889 | 50 | (5,889 ) | — | (1,006) | 29,855 | 165,019 | — | 194,924 |
| Redemption of limited partners | — | — | (432 ) | — | — | — | — | — | — |
| Decrease in additional paid-in capital related to quarterly exchange by member owners, including associated TRA revaluation | — | — | — | — | — | — | (5,916 ) | — | (5,916 ) |
| Issuance of Class A common stock under equity incentive plan | 479 | 5 | — | — | — | — | 3,610 | — | 3,615 |
| Issuance of Class A common stock under employee stock purchase plan | 48 | — | — | — | — | — | 1,388 | — | 1,388 |
| Treasury stock | (6,418 ) | — | — | — | 6,418 | (200,129 ) | — | — | (200,129 ) |
| Stock-based compensation expense | — | — | — | — | — | — | 24,930 | — | 24,930 |
| Repurchase of vested restricted units for employee tax-withholding | — | — | — | — | — | — | (5,916 ) | — | (5,916 ) |
| Net income | — | — | — | — | — | — | — | 156,934 | 156,934 |
| Net income attributable to non-controlling interest in Premier LP | — | — | — | — | — | — | — | (154,142 ) | (154,142 ) |
| Adjustment of redeemable limited partners' capital to redemption amount | — | — | — | — | — | — | (183,115 ) | 694,416 | 511,301 |
| Balance at March 31, 2018 | 51,941 | $ 574 | 80,978 | $ — | 5,412 | $(170,274) | $ — | $(965,564 ) | $(1,135,264 ) |

See accompanying notes to the unaudited condensed consolidated financial statements.

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PREMIER, INC.
Condensed Consolidated Statement of Stockholders' Deficit
Nine Months Ended March 31, 2017
(Unaudited)
(In thousands)

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at June 30, 2016 | 45,996 | $ 460 | 96,133 | $ — | $ — | $ (1,951,878) | $ (43) | $ (1,951,461) |
| Exchange of Class B units for Class A common stock by member owners | 3,858 | 38 | (3,858) | — | 123,743 | — | — | 123,781 |
| Exchange of Class B units for cash by member owners | — | — | (3,810) | — | — | — | — | — |
| Redemption of limited partners | — | — | (58) | — | — | — | — | — |
| Increase in additional paid-in capital related to quarterly exchange by member owners, including associated TRA revaluation | — | — | — | — | 23,886 | — | — | 23,886 |
| Issuance of Class A common stock under equity incentive plan | 812 | 8 | — | — | 3,314 | — | — | 3,322 |
| Issuance of Class A common stock under employee stock purchase plan | 41 | 1 | — | — | 1,255 | — | — | 1,256 |
| Stock-based compensation expense | — | — | — | — | 19,125 | — | — | 19,125 |
| Repurchase of vested restricted units for employee tax-withholding | — | — | — | — | (17,678) | — | — | (17,678) |
| Net income | — | — | — | — | — | 375,617 | — | 375,617 |
| Net income attributable to non-controlling interest in Premier LP | — | — | — | — | — | (282,207) | — | (282,207) |
| Net unrealized loss on marketable securities | — | — | — | — | — | — | 43 | 43 |
| Adjustment of redeemable limited partners' capital to redemption amount | — | — | — | — | (153,645) | 450,211 | — | 296,566 |
| Balance at March 31, 2017 | 50,707 | $ 507 | 88,407 | $ — | $ — | $ (1,408,257) | $ — | $ (1,407,750) |

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, | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities | | |
| Net income | $156,934 | $375,617 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 93,998 | 77,758 |
| Equity in net income of unconsolidated affiliates | (570) | (14,789) |
| Deferred income taxes | 243,550 | 45,961 |
| Stock-based compensation | 24,930 | 19,125 |
| Remeasurement of tax receivable agreement liabilities | (177,174) | (2,954) |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | (204,833) |
| Loss on disposal of long-lived assets | 1,725 | 2,243 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, prepaid expenses and other current assets | (3,558) | 7,037 |
| Other assets | 378 | 405 |
| Inventories | (6,804) | (14,693) |
| Accounts payable, accrued expenses and other current liabilities | 9,690 | (11,082) |
| Long-term liabilities | 1,336 | (1,221) |
| Loss on FFF put and call rights | 18,674 | 86 |
| Other operating activities | 6,625 | (4,449) |
| Net cash provided by operating activities | 369,734 | 274,211 |
| Investing activities | | |
| Purchases of property and equipment | (65,260) | (51,892) |
| Proceeds from sale of marketable securities | — | 48,013 |
| Acquisition of Innovatix, LLC and Essensa Ventures, LLC, net of cash acquired | — | (319,717) |
| Acquisition of Acro Pharmaceuticals, net of cash acquired | — | (64,500) |
| Investments in unconsolidated affiliates | — | (65,660) |
| Distributions received on equity investments in unconsolidated affiliates | — | 6,550 |
| Other investing activities | — | 25 |
| Net cash used in investing activities | (65,260) | (447,181) |
| Financing activities | | |
| Payments made on notes payable | (7,997) | (3,336) |
| Proceeds from credit facility | 30,000 | 425,000 |
| Payments on credit facility | (50,000) | (57,500) |
| Proceeds from exercise of stock options under equity incentive plan | 3,615 | 3,322 |
| Proceeds from issuance of Class A common stock under stock purchase plan | 1,388 | 1,256 |
| Repurchase of vested restricted units for employee tax-withholding | (5,916) | (17,678) |
| Settlement of exchange of Class B units by member owners | — | (123,330) |
| Distributions to limited partners of Premier LP | (66,098) | (67,363) |
| Repurchase of Class A common stock (held as treasury stock) | (200,129) | — |
| Earn-out liability payment to GNYHA Holdings | (16,662) | — |
| Net cash provided by (used in) financing activities | (311,799) | 160,371 |
| Net decrease in cash and cash equivalents | (7,325) | (12,599) |
| Cash and cash equivalents at beginning of year | 156,735 | 248,817 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $149,410 | $236,218 |

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| | Nine Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Decrease in redeemable limited partners' capital for adjustment to fair value, with offsetting increases in additional paid-in-capital and accumulated deficit | $511,301 | $296,566 |
| Reduction in redeemable limited partners' capital, with offsetting increases in common stock and additional paid-in capital related to quarterly exchanges by member owners | $194,924 | $123,781 |
| Reduction in redeemable limited partners' capital for limited partners' distribution payable | $54,305 | $67,941 |
| Distributions utilized to reduce subscriptions, notes, interest and accounts receivable from member owners | $1,478 | $1,561 |
| Net increase in deferred tax assets related to quarterly exchanges by member owners and other adjustments | $82,244 | $94,594 |
| Net increase in tax receivable agreement liabilities related to quarterly exchanges by member owners and other adjustments | $88,160 | $70,708 |
| Net increase (decrease) in additional paid-in capital related to quarterly exchanges by member owners and other adjustments | $(5,916) | $23,886 |
| Net increase in investments in unconsolidated affiliates related to FFF Enterprises, Inc. put and call rights, with offsetting increases in other assets and other liabilities | $— | $15,460 |
| Net increase in investments in unconsolidated affiliates related to deferred taxes attributed to the net fair value of FFF Enterprises, Inc. put and call rights, with offsetting increases in deferred tax assets and deferred tax liabilities | $— | $5,955 |
| Payable to member owners incurred upon repurchase of ownership interest | $942 | $132 |

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 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 performance 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 to 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. See Note 16 - Segments for further information related to the Company's reportable business segments. The Supply Chain Services segment includes one of the largest healthcare group purchasing organization ("GPO") programs in the United States, and integrated pharmacy and direct sourcing activities. The Performance Services segment includes one of the largest informatics and consulting services businesses in the United States focused on healthcare providers. The Company's software as a service ("SaaS") informatics products utilize the Company's 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, consulting services, government services and insurance management services.
The Company, through its wholly-owned subsidiary, Premier Services, LLC ("Premier GP"), held an approximate 39% and 37% sole general partner interest in our main operating company, Premier Healthcare Alliance, L.P. ("Premier LP"), at March 31, 2018 and June 30, 2017, respectively. In addition to their ownership interest in Premier, our member owners held an approximate 61% and 63% limited partner interest in Premier LP at March 31, 2018 and June 30, 2017, respectively.
Basis of Presentation and Consolidation
Basis of Presentation
The member owners' interest in 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 Premier LP in the Company's accompanying Condensed Consolidated Statements of Comprehensive Income.
At March 31, 2018 and June 30, 2017, the member owners owned approximately 61% and 63%, respectively, of the Company's combined Class A and Class B common stock through their ownership of Class B common stock. During the nine months ended March 31, 2018, the member owners exchanged 5.9 million Class B common units and associated Class B common shares for an equal number of Class A common shares pursuant to an exchange agreement (the "Exchange Agreement") entered into by the member owners in connection with the completion of our initial public offering on October 1, 2013. The Exchange Agreement provides each member owner 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, 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 the Company's independent Audit and Compliance Committee of the Board of

Directors (the "Audit and Compliance Committee"). In connection with Class B common units exchanged for Class A common shares during the nine months ended March 31, 2018, approximately 5.9 million Class B common units were contributed to Premier LP and converted to Class A common units, which remain outstanding.
Refer to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the "2017 Annual Report") filed with the Securities and Exchange Commission ("SEC") on August 23, 2017 for further discussion of the Exchange Agreement. At March 31, 2018 and June 30, 2017, the public investors, which may include member owners that have received shares of Class

A common stock in connection with previous exchanges of their Class B common units and associated Class B common shares for an equal number of Class A common shares, owned approximately 39% and 37%, respectively, of the Company's outstanding common stock through their ownership of Class A common stock.

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 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 related footnotes contained in the 2017 Annual Report.

We have reclassified $5.7 million from selling, general and administrative expenses to the remeasurement of tax receivable agreement liabilities for the nine months ended March 31, 2017 within the Condensed Consolidated Statements of Income in order to conform with the current period presentation.

Variable Interest Entities

Premier LP is a variable interest entity ("VIE") as the limited partners do not have the ability to exercise a substantive removal right with respect to the general partner. The Company does not hold a majority interest but, through Premier GP, has the exclusive power and authority to manage the business and affairs of Premier LP, to make all decisions with respect to driving the economic performance of Premier LP, and has both an obligation to absorb losses and a right to receive benefits. As such, the Company is the primary beneficiary of the VIE and consolidates the operations of Premier LP under the Variable Interest Model.

The assets and liabilities of Premier LP at March 31, 2018 and June 30, 2017 consisted of the following (in thousands):

| | March 31, 2018 | June 30, 2017 |
|---|---|---|
| Assets | | |
| Current | $367,537 | $385,477 |
| Noncurrent | 1,582,302 | 1,616,539 |
| Total assets of Premier LP | $1,949,839 | $2,002,016 |
| | | |
| Liabilities | | |
| Current | $521,353 | $560,582 |
| Noncurrent | 136,235 | 134,635 |
| Total liabilities of Premier LP | $657,588 | $695,217 |

Net income attributable to Premier LP during the three and nine months ended March 31, 2018 and 2017 was as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Premier LP net income | $87,920 | $80,837 | $255,050 | $436,811 |

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Premier LP's cash flows for the nine months ended March 31, 2018 and 2017 consisted of the following (in thousands):

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net cash provided by (used in): | | |
| Operating activities | $388,340 | $320,185 |
| Investing activities | (65,260 ) | (447,181 ) |
| Financing activities | (344,463 ) | 121,090 |
| Net decrease in cash and cash equivalents | (21,383 ) | (5,906 ) |
| Cash and cash equivalents at beginning of year | 133,450 | 210,048 |
| Cash and cash equivalents at end of period | $112,067 | $204,142 |

Use of Estimates in the Preparation of Financial Statements

The preparation of the Company's condensed consolidated financial statements in accordance with GAAP 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. Significant estimates are evaluated on an ongoing basis, including estimates for allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under tax receivable agreements ("TRAs"), deferred tax balances including valuation allowances on deferred tax assets, uncertain tax positions, values of investments not publicly traded, deferred revenue, future cash flows associated with asset impairments, values of put and call rights, values of earn-out liabilities and the allocation of purchase prices. 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.

Given the Company's use of estimates referenced above, it is important to highlight that on December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA includes significant changes to the U.S. corporate income tax system, specifically reducing the U.S. federal corporate income tax rate from 35% to 21%. As changes under the TCJA are broad and complex, the Company continues to interpret the breadth of its immediate and long-term impacts. The Company notes that concurrent with the enactment of the TCJA, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA.

SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional amount on its financial statements. If a company cannot determine a provisional estimate to be included on its financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately prior to the enactment of the TCJA. With this in mind, the Company has prescribed such provisional relief via SAB 118 by incorporating various estimates regarding timing and determination of temporary difference recognition when calculating components of its deferred tax balances. While the Company is able to provide reasonable estimates of the impacts related to the TCJA, the final impact may differ from these estimates, due to, among other things, changes in interpretations, assumptions, additional guidance that may be released by the I.R.S. and other actions that we may take that are yet to be determined.

(2) SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company's significant accounting policies as described in the 2017 Annual Report.

Recently Adopted Accounting Standards

In July 2015, the FASB issued Accounting Standards Update ("ASU") 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the guidance under which an entity must measure inventory at the lower of cost or market. This guidance does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The Company adopted this standard effective July 1, 2017 using the prospective approach. The implementation of this ASU did not have a material effect on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. The Company adopted this standard effective October 1, 2017 using the prospective approach. The implementation of this ASU did not have a material effect on the Company's condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU amendments add or clarify guidance on eight cash flow issues. The Company adopted this standard effective January 1, 2018 using the retrospective approach. The implementation of this ASU did not impact the classification or presentation of cash flows within the Company's condensed consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. The guidance requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. In addition, the guidance eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2020. Early adoption is permitted for interim and annual goodwill impairment tests performed after January 1, 2017. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The guidance is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations of accounting for leasing arrangements. This guidance establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Entities will be required to recognize and measure leases as of the earliest period presented using a modified retrospective approach. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2018. Early

adoption is permitted for certain amendments. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede nearly all existing revenue recognition guidance. The new standard requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new standard allows for either full retrospective or modified retrospective adoption.

In August 2015, the FASB issued an amendment in ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of the new standard for all entities by one year. The new standard, as amended, will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption as of the original effective date for public entities will be permitted.
In March 2016, the FASB issued another amendment in ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, related to a third party providing goods or services to a customer. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself or to arrange for the good or service to be provided by a third party. If the entity provides the specific good or service itself, the entity acts as a principal. If an entity arranges for the good or service to be provided by a third party, the entity acts as an agent. The standard requires the principal to recognize revenue for the gross amount and the agent to recognize revenue for the amount of any fee or commission for which it expects to be entitled in exchange for arranging for the specified good or service to be provided. The new standard will be effective with ASU 2014-09.
In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which amends specific aspects of ASU 2014-09, including how to identify performance obligations and guidance related to licensing implementation. This amendment provides guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property or a right to access the entity's intellectual property. The amendment will be effective with ASU 2014-09.
In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which clarifies specific aspects of ASU 2014-09, clarifying how to identify performance obligations and guidance related to its promise in granting a license of intellectual property. This new standard provides guidance to allow entities to disregard items that are immaterial in the context of the contract, clarify when a promised good or service is separately identifiable and allow an entity to elect to account for the cost of shipping and handling performed after control of a good has been transferred to the customer as a fulfillment cost. The new standard also clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property to help determine whether it recognizes revenue over time or at a point in time and addresses how entities should consider license renewals and restrictions. The new standard will be effective with ASU 2014-09.
In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers, which clarifies specific aspects of ASU 2014-09, including allowing entities not to make quantitative disclosures about remaining performance obligations in certain cases and requiring entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. The new standard also makes twelve other technical corrections and modifications to ASU 2014-09. The new standard will be effective with ASU 2014-09.
The new revenue recognition standard related to Topic 606 discussed above, as amended, will be effective for the Company for the fiscal year beginning July 1, 2018, at which time we plan to adopt the standard using the modified retrospective approach. To-date, the Company has identified the following preliminary impacts of adopting the new standard on various revenue streams across its operating segments.
Within the Supply Chain Services segment, the Company is continuing to assess the impact of adopting the new standard on its various revenue streams. Under the new standard, the Company expects to recognize administrative fee revenue upon the occurrence of a sale by suppliers to the Company’s members. This differs from the current treatment in which the Company recognizes revenue in the period that the respective supplier reports member purchasing data, which is usually a month or a quarter in arrears of the actual member purchase activity. This change is expected to result in the Company recognizing revenue sooner in the revenue cycle than under the Company's current revenue recognition policy and the creation of a contract asset associated with this shift in revenue recognition timing. With regards to product revenue, the Company does not expect a significant impact on the timing of revenue recognition. The Company is continuing to assess the impact of the new standard on the financial statements and disclosures.
Within the Performance Services segment, the Company is continuing to assess the impact of adopting the new standard on its various revenue streams. Under the new standard, the Company expects to recognize revenue

associated with its perpetual and term licenses upon delivery to the customer (point in time) and the associated mandatory post-contract customer support ratably over the period during which the support is provided (over time). The Company expects that this change will result in a shift and acceleration in timing of revenue recognition relative to the existing guidance. Also under the new standard, the Company will be required to capitalize the incremental costs of obtaining a contract, which the Company has preliminarily identified as sales commissions and costs associated with implementing our SaaS informatics tools, and to amortize these costs in a manner that reflects the transfer of services to the customer. These costs are expensed as incurred under the Company's current policy. The Company is continuing to assess the impact of the new standard on the financial statements and disclosures.

Additionally, the Company is evaluating the potential impact of adopting the new standard on its business processes, systems and controls necessary to support revenue recognition and disclosure requirements under the new standard.

(3) BUSINESS ACQUISITIONS

Acquisition of Innovatix and Essensa

Innovatix, LLC ("Innovatix") and Essensa Ventures, LLC ("Essensa") are GPOs focused on serving alternate site healthcare providers and other organizations throughout the United States. Prior to December 2, 2016, the Company, through its consolidated subsidiary, Premier Supply Chain Improvement ("PSCI"), held 50% of the membership interests in Innovatix (see Note 4 - Investments). On December 2, 2016, the Company, through PSCI, acquired from GNYHA Holdings, LLC ("GNYHA Holdings") (see Note 14 - Related Party Transactions) the remaining 50% ownership interest of Innovatix and 100% of the ownership interest in Essensa for $325.0 million, of which $227.5 million in cash was paid at closing and $97.5 million in cash was paid on January 10, 2017. As a result of certain purchase price adjustments provided for in the purchase agreement, the adjusted purchase price was $336.0 million. In connection with the acquisition, the Company utilized its credit facility dated June 24, 2014, as amended on June 4, 2015 (the "Credit Facility") to fund the $325.0 million purchase price (see Note 8 - Debt). The Company also incurred transaction costs related to this acquisition of $0.9 million and $0.4 million during the three months ended March 31, 2018 and 2017, respectively, and $4.2 million and $5.1 million during the nine months ended March 31, 2018 and 2017, respectively. These transaction costs were included in selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income.

The Company has accounted for the Innovatix and Essensa acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets acquired (see Note 6 - Intangible Assets, Net) and liabilities assumed based on their fair values. The acquisition resulted in the recognition of approximately $334.7 million of goodwill (see Note 7 - Goodwill) attributable to the anticipated profitability of Innovatix and Essensa. The acquisition was considered an asset acquisition for tax purposes, and accordingly, the Company expects the goodwill to be deductible for tax purposes.

The fair values assigned to the net assets acquired and the liabilities assumed as of the acquisition date were as follows (in thousands):

| | Acquisition Date Fair Value |
|---|---|
| Cash paid at closing | $ 227,500 |
| Cash paid on January 10, 2017 | 97,500 |
| Purchase price | 325,000 |
| Additional cash paid at closing | 10,984 |
| Adjusted purchase price | 335,984 |
| Earn-out liability | 16,662 |
| Receivable from GNYHA Holdings, LLC | (3,000 ) |
| Total consideration paid | 349,646 |
| Cash acquired | (16,267 ) |
| Net consideration | 333,379 |
| 50% ownership interest in Innovatix | 218,356 |
| Payable to Innovatix and Essensa | (5,765 ) |
| Enterprise value | 545,970 |
| | |
| Accounts receivable | 21,242 |
| Prepaid expenses and other current assets | 686 |
| Fixed assets, net | 3,476 |
| Intangible assets | 241,494 |
| Total assets acquired | 266,898 |
| Accrued expenses | 5,264 |
| Revenue share obligations | 7,011 |
| Other current liabilities | 694 |
| Total liabilities assumed | 12,969 |
| Deferred tax liability | 42,636 |
| Goodwill | $ 334,677 |

The acquisition provided the seller an earn-out opportunity of up to $43.0 million based on Innovatix's and Essensa's Adjusted EBITDA (as defined in the purchase agreement) for the fiscal year ending June 30, 2017. The Company and the seller finalized the amount payable pursuant to the earn-out opportunity and the Company paid the seller $21.1 million during the nine months ended March 31, 2018 (see Note 5 - Fair Value Measurements).

Certain executive officers of Innovatix and Essensa executed employment agreements that became effective upon the closing of the acquisition. The purchase agreement provides that in the event that Innovatix's and Essensa's Adjusted EBITDA exceeds agreed upon amounts, certain of those executive officers are entitled to receive a retention bonus payment of up to $3.0 million in the aggregate, for which the Company will be reimbursed by GNYHA Holdings of which $1.5 million was paid and reimbursed during the nine months ended March 31, 2018.

The Company's 50% ownership interest in Innovatix prior to the acquisition was accounted for under the equity method and had a carrying value of $13.3 million (see Note 4 - Investments). In connection with the acquisition, the Company's investment was remeasured under business combination accounting rules to a fair value of $218.4 million, resulting in a one-time gain of $205.1 million which was recorded as other income.

Pro forma results of operations for the acquisition have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements. The Company reports Innovatix and Essensa as part of its Supply Chain Services segment.

Acquisition of Acro Pharmaceuticals

Acro Pharmaceutical Services LLC ("Acro") and Community Pharmacy Services, LLC (collectively with Acro, "Acro Pharmaceuticals") are specialty pharmacy businesses that provide customized healthcare management solutions to members. On August 23, 2016, the Company, through its consolidated subsidiary, NS3 Health, LLC, acquired 100% of the membership interests of Acro Pharmaceuticals for $75.0 million in cash. As a result of certain purchase price adjustments provided for in the purchase agreement, the adjusted purchase price was $62.9 million. The acquisition was funded with available cash on hand.

The Company has accounted for the Acro Pharmaceuticals acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their fair values. The Acro Pharmaceuticals acquisition resulted in the recognition of approximately $33.9 million of goodwill (see Note 7 - Goodwill) attributable to the anticipated profitability of Acro Pharmaceuticals. The Acro Pharmaceuticals acquisition was considered an asset acquisition for tax purposes and accordingly, the Company expects the goodwill to be deductible for tax purposes.

Pro forma results of operations for the acquisition have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements. The Company reports Acro Pharmaceuticals as part of its Supply Chain Services segment.

(4) INVESTMENTS

Investments in Unconsolidated Affiliates

The Company's investments in unconsolidated affiliates consisted of the following (in thousands):

| | Carrying Value | | Equity in Net Income (Loss) | | | |
|---|---|---|---|---|---|---|
| | | | Three Months Ended March 31, | | Nine Months Ended March 31, | |
| | March 31, 2018 | June 30, 2017 | 2018 | 2017 | 2018 | 2017 |
| FFF | $91,189 | $85,520 | $64 | $217 | $5,668 | $4,394 |
| Bloodbuy | 1,963 | 2,066 | (37) | (42) | (102) | (94) |
| PharmaPoint | — | 4,232 | (4,073) | (92) | (4,232) | (254) |
| Innovatix | — | — | — | — | — | 10,743 |
| Other investments | 296 | 1,061 | (893) | — | (764) | — |
| Total investments | $93,448 | $92,879 | $(4,939) | $83 | $570 | $14,789 |

On July 26, 2016, the Company, through its consolidated subsidiary, PSCI, acquired 49% of the issued and outstanding stock of FFF Enterprises, Inc. ("FFF") for $65.7 million in cash plus consideration in the form of the FFF put and call rights. The Company recorded the initial investment in FFF in the accompanying Condensed Consolidated Balance Sheets at $81.1 million, of which $65.7 million was in cash and $15.4 million was consideration in the form of the initial net fair value of the FFF put and call rights (see Note 5 - Fair Value Measurements for additional information related to the fair values of the FFF put and call rights). The Company accounts for its investment in FFF using the equity method of accounting and includes the investment as part of the Supply Chain Services segment.

The Company, through its consolidated subsidiary, PSCI, held a 15% ownership interest in BloodSolutions, LLC ("Bloodbuy") through its ownership of 5.3 million units of Class B Membership Interests in Bloodbuy at March 31, 2018 and June 30, 2017. The Company accounts for its investment in Bloodbuy using the equity method of accounting as the Company has rights to appoint a Board member, and includes the investment as part of the Supply Chain Services segment.

The Company, through its consolidated subsidiary, PSCI, held a 28% ownership interest in PharmaPoint, LLC ("PharmaPoint") through its ownership of 5.0 million units of Class B Membership Interests in PharmaPoint at March 31, 2018 and June 30, 2017. During the three months ended March 31, 2018, the Company determined that it was unlikely to recover its investment in PharmaPoint, and as a result recognized an other-than-temporary impairment of $4.0 million, which is included in equity in net income (loss) of unconsolidated affiliates in the accompanying

Condensed Consolidated Statements of Income. The Company accounts for its investment in PharmaPoint using the equity method of accounting and includes the investment as part of the Supply Chain Services segment.

The Company, through its consolidated subsidiary, PSCI, held 50% of the membership interests in Innovatix until December 2, 2016, at which time it acquired the remaining 50% membership interests (see Note 3 - Business Acquisitions and Note 14 - Related Party Transactions). Prior to the acquisition, the Company accounted for its investment in Innovatix using the equity method of accounting and included the investment as part of the Supply Chain Services segment.

Marketable Securities

The Company has historically invested its excess cash in commercial paper, U.S. government debt securities, corporate debt securities and other securities with maturities generally ranging from three months to five years from the date of purchase. The Company uses the specific-identification method to determine the cost of securities sold. At March 31, 2018 and June 30, 2017, the Company had no marketable securities other than those included in deferred compensation plan assets (see Note 5 - Fair Value Measurements).

(5) FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The following table provides a summary of the Company's financial assets and liabilities which are measured at fair value on a recurring basis (in thousands):

| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| March 31, 2018 | | | | |
| Cash equivalents | $460 | $460 | $ — | $ — |
| FFF call right | 752 | — | — | 752 |
| Deferred compensation plan assets | 46,773 | 46,773 | — | — |
| Total assets | $47,985 | $47,233 | $ — | $ 752 |
| Earn-out liabilities | $61 | $— | $ — | $ 61 |
| FFF put right | 38,821 | — | — | 38,821 |
| Total liabilities | $38,882 | $— | $ — | $ 38,882 |
| | | | | |
| June 30, 2017 | | | | |
| Cash equivalents | $22,218 | $22,218 | $ — | $ — |
| FFF call right | 4,655 | — | — | 4,655 |
| Deferred compensation plan assets | 47,202 | 47,202 | — | — |
| Total assets | $74,075 | $69,420 | $ — | $ 4,655 |
| Earn-out liabilities | $21,310 | $— | $ — | $ 21,310 |
| FFF put right | 24,050 | — | — | 24,050 |
| Total liabilities | $45,360 | $— | $ — | $ 45,360 |

Cash equivalents were included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets (see Note 4 - Investments).

Deferred compensation plan assets consisted of highly liquid mutual fund investments, which were classified as Level 1. The current portion of deferred compensation plan assets was included in prepaid expenses and other current assets ($3.5 million and $5.7 million at March 31, 2018 and June 30, 2017, respectively) in the accompanying Condensed Consolidated Balance Sheets.

Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

Earn-out liabilities

Earn-out liabilities were established in connection with acquisitions of Healthcare Insights, LLC (acquired on July 31, 2015), Inflow Health, LLC (acquired on October 1, 2015) and Innovatix and Essensa (acquired on December 2, 2016) (see Note 3 - Business Acquisitions). At March 31, 2018 and June 30, 2017, the earn-out liabilities were classified within Level 3 of the fair value hierarchy. The fair values of the earn-out liabilities were determined based on estimated future earnings and the probability of achieving them. The current portion of the earn-out liabilities was $0.0 million and $21.1 million at March 31, 2018 and June 30, 2017, respectively, and was included in other liabilities, current in the accompanying Condensed Consolidated Balance Sheets. The decrease in the current portion of the earn-out liabilities is attributable to the $21.1 million earn-out payment to GNYHA Holdings that occurred during the current year (see Note 3 - Business Acquisitions). The long-term portion of the earn-out liabilities was $0.1 million and $0.2 million at March 31, 2018 and June 30, 2017, respectively, and was included in other liabilities, non-current in the accompanying Condensed Consolidated Balance Sheets. Changes in the fair values of the earn-out liabilities were recorded within selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income.

FFF put and call rights

Pursuant to a shareholders' agreement entered into in connection with the Company's equity investment in FFF (see Note 4 - Investments), which shareholders' agreement was amended and restated November 22, 2017, the majority shareholder of FFF holds a put right that (i) provides such shareholder the right to require the Company to purchase up to 50% of its interest in FFF, which is exercisable beginning on the fourth anniversary of the investment closing date, July 26, 2020, and (ii) requires the Company to purchase all or a portion of its remaining interest in FFF on or after December 31, 2020. Any such required purchases are to be made at a per share price equal to FFF's earnings before interest, taxes, depreciation and amortization ("EBITDA") over the twelve calendar months prior to the purchase date multiplied by a market adjusted multiple, adjusted for any outstanding debt and cash and cash equivalents ("Equity Value per Share"). In addition, the amended and restated shareholders' agreement provides the Company with a call right requiring the majority shareholder to sell its remaining interest in FFF to the Company, which is exercisable at any time within the later of 180 calendar days after the date of a Key Man Event (generally defined in the amended and restated shareholders' agreement as the resignation, termination for cause, death or disability of the majority shareholder) or 30 calendar days after December 31, 2020. In the event that the FFF put or call rights are exercised, the purchase price for the additional interest in FFF will be at a per share price equal to the Equity Value per Share. The fair value of the FFF put and call rights were determined based on the Equity Value per Share calculation using unobservable inputs, which included the estimated FFF put and call rights' expiration dates, the forecast of FFF's EBITDA over the option period, forecasted movements in the overall market and the likelihood of a Key Man Event. Significant changes to the Equity Value per Share resulting from changes in the unobservable inputs could have a significant impact on the fair values of the FFF put and call rights.

The Company recorded the FFF put and call rights within long-term other liabilities and long-term other assets, respectively, in the accompanying Condensed Consolidated Balance Sheets. Net changes in the fair value of the FFF put and call rights were recorded within other income in the accompanying Condensed Consolidated Statements of Income.

A reconciliation of the Company's earn-out liabilities and FFF put and call rights is as follows (in thousands):

| | Beginning Balance | Purchases (Settlements) | Gain (Loss) | Ending Balance |
|---|---|---|---|---|
| Three Months Ended March 31, 2018 | | | | |
| FFF call right | $ 2,108 | $ — | $ (1,356) | $ 752 |
| Total Level 3 assets | $ 2,108 | $ — | $ (1,356) | $ 752 |
| Earn-out liabilities | $ 2,792 | $ (2,625) | $ 106 | $ 61 |
| FFF put right | 37,110 | — | (1,711) | 38,821 |
| Total Level 3 liabilities | $ 39,902 | $ (2,625) | $ (1,605) | $ 38,882 |
| | | | | |
| Three Months Ended March 31, 2017 | | | | |
| FFF call right | $ 10,750 | $ — | $ (814) | $ 9,936 |
| Total Level 3 assets | $ 10,750 | $ — | $ (814) | $ 9,936 |
| Earn-out liabilities | $ 16,713 | $ — | $ (2,074) | $ 18,787 |
| FFF put right | 26,384 | — | 902 | 25,482 |
| Total Level 3 liabilities | $ 43,097 | $ — | $ (1,172) | $ 44,269 |
| | | | | |
| Nine Months Ended March 31, 2018 | | | | |
| FFF call right | $ 4,655 | $ — | $ (3,903) | $ 752 |
| Total Level 3 assets | $ 4,655 | $ — | $ (3,903) | $ 752 |
| Earn-out liabilities | $ 21,310 | $ (21,125) | $ 124 | $ 61 |
| FFF put right | 24,050 | — | (14,771) | 38,821 |
| Total Level 3 liabilities | $ 45,360 | $ (21,125) | $ (14,647) | $ 38,882 |
| | | | | |
| Nine Months Ended March 31, 2017 | | | | |
| FFF call right | $ — | $ 10,361 | $ (425) | $ 9,936 |
| Total Level 3 assets | $ — | $ 10,361 | $ (425) | $ 9,936 |
| Earn-out liabilities | $ 4,128 | $ 16,662 | $ 2,003 | $ 18,787 |
| FFF put right | — | 25,821 | 339 | 25,482 |
| Total Level 3 liabilities | $ 4,128 | $ 42,483 | $ 2,342 | $ 44,269 |

Non-Recurring Fair Value Measurements

During the nine months ended March 31, 2018, no non-recurring fair value measurements were required related to the measurement of goodwill and intangible assets for impairment.

Financial Instruments for Which Fair Value Only is Disclosed

The fair values of non-interest bearing notes payable, classified as Level 2, were less than their carrying values by approximately $0.6 million at March 31, 2018 and June 30, 2017, based on assumed market interest rates of 3.5% and 2.6% for March 31, 2018 and June 30, 2017, respectively.

Other Financial Instruments

The fair values of cash, accounts receivable, accounts payable, accrued liabilities and the Company's Credit Facility approximated carrying value due to the short-term nature of these financial instruments.

(6) INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following (in thousands):

| | Useful Life | March 31, 2018 | June 30, 2017 |
|---|---|---|---|
| Member relationships | 14.7 years | $220,100 | $220,100 |
| Technology | 5.0 years | 142,317 | 143,727 |
| Customer relationships | 8.3 years | 48,120 | 48,120 |
| Trade names | 8.3 years | 22,710 | 22,710 |
| Distribution network | 10.0 years | 22,400 | 22,400 |
| Favorable lease commitments | 10.1 years | 11,393 | 11,393 |
| Non-compete agreements | 5.9 years | 8,710 | 8,710 |
| Total intangible assets | | 475,750 | 477,160 |
| Accumulated amortization | | (139,802 ) | (99,198 ) |
| Intangible assets, net | | $335,948 | $377,962 |

Intangible asset amortization totaled $13.9 million and $14.1 million for the three months ended March 31, 2018 and 2017, respectively, and $41.6 million and $34.4 million for the nine months ended March 31, 2018 and 2017, respectively.

(7) GOODWILL

Goodwill consisted of the following (in thousands):

| | March 31, 2018 | June 30, 2017 |
|---|---|---|
| Supply Chain Services | $400,348 | $400,348 |
| Performance Services | 506,197 | 506,197 |
| Total goodwill | $906,545 | $906,545 |

(8) DEBT

Long-term debt consisted of the following (in thousands):

| | Commitment Amount | Due Date | March 31, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Credit Facility | $ 750,000 | June 24, 2019 | $200,000 | $220,000 |
| Notes payable | — | Various | 7,217 | 14,272 |
| Total debt | | | 207,217 | 234,272 |
| Less: Current portion | | | (200,255 ) | (227,993 ) |
| Total long-term debt | | | $6,962 | $6,279 |

Credit Facility

Premier LP, along with its consolidated subsidiaries, PSCI and PHSI, as Co-Borrowers, Premier GP and certain domestic subsidiaries of Premier GP, as guarantors, entered into an unsecured Credit Facility, dated as of June 24, 2014 and amended on June 4, 2015. The Credit Facility has a maturity date of June 24, 2019. The Credit Facility provides for borrowings of up to $750.0 million with (i) a $25.0 million sub-facility for standby letters of credit and (ii) a $75.0 million sub-facility for swingline loans. The Credit Facility may be increased from time to time at the Company's request up to an aggregate additional amount of $250.0 million, subject to lender approval. The Credit Facility includes an unconditional and irrevocable guaranty of all obligations under the Credit Facility by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier, Inc. is not a guarantor under the Credit Facility.

At the Company's option, committed loans may be in the form of Eurodollar rate loans ("Eurodollar Loans") or base rate loans ("Base Rate Loans"). Eurodollar Loans bear interest at the Eurodollar rate (defined as the London Interbank Offered Rate, or LIBOR, plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility))). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.750% for Eurodollar Loans and 0.125% to 0.750% for Base Rate Loans. At March 31, 2018, the interest rate for three-month Eurodollar Loans was 3.435%, the interest rate for six-month Eurodollar Loans was 3.575% and the interest rate for Base Rate Loans was 4.875%. The Co-Borrowers are required to pay a commitment fee ranging from 0.125% to 0.250% per annum on the actual daily unused amount of commitments under the Credit Facility. At March 31, 2018, the commitment fee was 0.125%.

The Credit Facility contains customary representations and warranties as well as customary affirmative and negative covenants, including, among others, limitations on liens, indebtedness, fundamental changes, dispositions, restricted payments and investments, of which certain covenant calculations use EBITDA, a Non-GAAP financial measure. Under the terms of the Credit Facility, Premier GP is not permitted to allow its consolidated total leverage ratio (as defined in the Credit Facility) to exceed 3.00 to 1.00 for any period of four consecutive quarters. In addition, Premier GP must maintain a minimum consolidated interest coverage ratio (as defined in the Credit Facility) of 3.00 to 1.00 at the end of every fiscal quarter. Premier GP was in compliance with all such covenants at March 31, 2018.

The Credit Facility also contains customary events of default including, among others, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults of any indebtedness or guarantees in excess of $30.0 million, bankruptcy and other insolvency events, judgment defaults in excess of $30.0 million, and the occurrence of a change of control (as defined in the Credit Facility). If any event of default occurs and is continuing, the administrative agent under the Credit Facility may, with the consent, or shall, at the request of the required lenders, terminate the commitments and declare all of the amounts owed under the Credit Facility to be immediately due and payable. The Company may prepay amounts outstanding under the Credit Facility without premium or penalty provided that Co-Borrowers compensate the lenders for losses and expenses incurred as a result of the prepayment of any Eurodollar Loan, as defined in the Credit Facility.

Proceeds from borrowings under the Credit Facility may generally be used to finance ongoing working capital requirements, including permitted acquisitions, discretionary cash settlements of Class B unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to a stock repurchase program, and other general corporate activities. During the nine months ended March 31, 2018, the Company repaid $50.0 million of borrowings and borrowed an additional $30.0 million under the Credit Facility. The Company had outstanding borrowings under the Credit Facility of $200.0 million at March 31, 2018. Borrowings due within one year of the balance sheet date are classified as current liabilities in the Condensed Consolidated Balance Sheets. They may be renewed or extended at the option of the Company through the maturity date of the Credit Facility.

Notes Payable

At March 31, 2018 and June 30, 2017, the Company had $7.2 million and $14.3 million, respectively, in notes payable consisting primarily of non-interest bearing notes payable outstanding to departed member owners, of which $0.2 million and $8.0 million, respectively, were included in current portion of long-term debt and $7.0 million and $6.3 million, respectively, were included in long-term debt, less current portion, in the accompanying Condensed Consolidated Balance Sheets. Notes payable generally have stated maturities of five years from their date of issuance.

(9) REDEEMABLE LIMITED PARTNERS' CAPITAL

Redeemable limited partners' capital represents the member owners' 61% ownership of Premier LP through their ownership of Class B common units at March 31, 2018. The member owners hold the majority of the votes of the Board of Directors and any redemption or transfer or choice of consideration cannot be assumed to be within the control of the Company. Therefore, redeemable limited partners' capital is recorded at the greater of the book value or redemption amount per the Amended and Restated Limited Partnership Agreement of Premier LP (as amended, the "LP Agreement"), and is calculated as the fair value of all Class B common units as if immediately exchangeable into Class A common shares. For the nine months ended March 31, 2018 and 2017, the Company recorded decreases to the fair value of redeemable limited partners' capital as an adjustment of redeemable limited partners' capital to redemption amount in the accompanying Condensed Consolidated Statements of Income in the amount of $511.3 million and $296.6 million, respectively.

Redeemable limited partners' capital is classified as temporary equity in the mezzanine section of the accompanying Condensed Consolidated Balance Sheets as, pursuant to the LP Agreement, withdrawal is at the option of each member owner and the conditions of the repurchase are not solely within the Company's control.

The table below provides a summary of the changes in the redeemable limited partners' capital from June 30, 2017 to March 31, 2018 (in thousands):

| | Receivables From Limited Partners | Redeemable Limited Partners' Capital | Total Redeemable Limited Partners' Capital |
|---|---|---|---|
| June 30, 2017 | $ (4,177) | $3,142,760 | $3,138,583 |
| Distributions applied to receivables from limited partners | 1,478 | — | 1,478 |
| Redemption of limited partners | — | (942) | (942) |
| Net income attributable to non-controlling interest in Premier LP | — | 154,142 | 154,142 |
| Distributions to limited partners | — | (54,305) | (54,305) |
| Exchange of Class B common units for Class A common stock by member owners | — | (194,924) | (194,924) |
| Adjustment of redeemable limited partners' capital to redemption amount | — | (511,301) | (511,301) |
| March 31, 2018 | $ (2,699) | $2,535,430 | $2,532,731 |

Receivables from limited partners represent amounts due from limited partners for their required capital in Premier LP. These receivables are either interest bearing notes that were issued to new limited partners or non-interest bearing loans (contribution loans) provided to existing limited partners. These receivables are reflected as a reduction to redeemable limited partners' capital so that amounts due from limited partners for capital are not reflected as redeemable limited partnership capital until paid. No interest bearing notes receivable were executed by limited partners of Premier LP during the nine months ended March 31, 2018.

During the nine months ended March 31, 2018, four limited partners withdrew from Premier LP. The limited partnership agreement provides for the redemption of former limited partners' Class B common units that are not eligible for exchange in the form of a five-year, unsecured, non-interest bearing term promissory note, a cash payment equal to the present value of the redemption amount, or other mutually agreed upon terms. Partnership interest obligations to former limited partners are reflected in notes payable in the accompanying Condensed Consolidated Balance Sheets. Under the Exchange Agreement, Class B common units that are eligible for exchange by withdrawing limited partners must be exchanged in the subsequent quarter's exchange process.

Premier LP's distribution policy requires cash distributions as long as taxable income is generated and cash is available to distribute, on a quarterly basis prior to the 60th day after the end of each calendar quarter. The Company makes quarterly distributions to its limited partners in the form of a legal partnership income distribution governed by the terms of the LP Agreement. These partner distributions are based on the limited partner's ownership in Premier LP and relative participation across Premier service offerings. While these distributions are based on relative participation across Premier service offerings, they are not based directly on revenue generated from an individual partner's participation as the distributions are based on the net income (loss) of the partnership which encompasses the operating expenses of the partnership as well as participation by non-owner members in Premier's service offerings. To the extent Premier LP incurred a net loss, the limited partners would not receive a quarterly distribution. As provided in the LP Agreement, the amount of actual cash distributed may be reduced by the amount of such distributions used by limited partners to offset contribution loans or other amounts payable to the Company.

Quarterly distributions made to limited partners during the current fiscal year are as follows (in thousands):

| Date | Distribution (a) |
|---|---|
| August 24, 2017 | $ 24,951 |
| November 22, 2017 | $ 20,752 |
| February 22, 2018 | $ 20,396 |

(a) Distributions are equal to Premier LP’s total taxable income from the preceding fiscal quarter-to-date period for each respective distribution date multiplied by the Company's standalone effective combined federal, state and local income tax rate for each respective distribution date. Premier LP expects to make a $13.2 million quarterly distribution on or before May 24, 2018. The distribution is reflected in limited partners' distribution payable in the accompanying Condensed Consolidated Balance Sheets at March 31, 2018.

Pursuant to the Exchange Agreement (see Note 1 - Organization and Basis of Presentation for more information), each limited partner has the cumulative right to exchange up to one-seventh of its initial allocation of Class B common units for shares of Class A common stock, cash or a combination of both, the form of consideration to be at the discretion of the Company's independent Audit and Compliance Committee. During the nine months ended March 31, 2018, the Company recorded total reductions of

$194.9 million to redeemable limited partners' capital to reflect the exchange of approximately 5.9 million Class B common units and surrender of associated shares of Class B common stock by member owners for a like number of shares of the Company's Class A common stock (see Note 11 - Earnings Per Share for more information). Quarterly exchanges during the current fiscal year were as follows (in thousands, except Class B common units).

| Date of Quarterly Exchange | Number of Class B Common Units Exchanged | Reduction in Redeemable Limited Partners' Capital |
|---|---|---|
| July 31, 2017 | 1,231,410 | $ 42,976 |
| October 31, 2017 | 3,651,294 | 119,289 |
| January 31, 2018 | 1,006,435 | 32,659 |
| Total | 5,889,139 | $ 194,924 |

(10) STOCKHOLDERS' DEFICIT

As of March 31, 2018, there were 51,940,576 shares of the Company's Class A common stock, par value $0.01 per share, and 80,978,267 shares of the Company's Class B common stock, par value $0.000001 per share, outstanding.

On October 31, 2017, the Company's Board of Directors authorized the repurchase of up to $200.0 million of our outstanding Class A common stock as part of a balanced capital deployment strategy, such repurchases to be made from time to time in private or open market transactions at the Company's discretion in accordance with applicable federal securities laws. As of March 31, 2018, the Company completed its stock repurchase program and purchased approximately 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total purchase price of $200.0 million.

Holders of Class A common stock are entitled to (i) one vote for each share held of record on all matters submitted to a vote of stockholders, (ii) receive dividends, when and if declared by the Board of Directors out of funds legally available, subject to any statutory or contractual restrictions on the payment of dividends and subject to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock or any class of series of stock having a preference over or the right to participate with the Class A common stock with respect to the payment of dividends or other distributions and (iii) receive pro rata, based on the number of shares of Class A common stock held, the remaining assets available for distribution upon the dissolution or liquidation of Premier, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any.

Holders of Class B common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders, but are not entitled to receive dividends, other than dividends payable in shares of Premier's common stock, or to receive a distribution upon the dissolution or a liquidation of Premier. Pursuant to the terms of a voting trust agreement by and among the Company, Premier LP, the holders of Class B common stock and Wells Fargo Delaware Trust Company, N.A., as the trustee, the trustee will vote all of the 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 the Board of Directors, and by a majority of the votes received by the trustee from the member owners for all other matters. Class B common stock will not be listed on any stock exchange and, except in connection with any permitted sale or transfer of Class B common units, cannot be sold or transferred.

(11) EARNINGS PER SHARE

Basic earnings per share of Premier is computed by dividing net income attributable to stockholders by the weighted average number of shares of common stock outstanding for the period. Net income attributable to stockholders includes the adjustment recorded in the period to reflect redeemable limited partners' capital at the redemption amount, as a result of the exchange benefit obtained by limited partners through the ownership of Class B common units. Except when the effect would be anti-dilutive, the diluted earnings per share calculation, which is calculated using the treasury stock method, includes the impact of shares that could be issued under the outstanding stock options, non-vested restricted stock units and awards, shares of non-vested performance share awards and the effect of the assumed redemption of Class B common units through the issuance of Class A common shares.

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The following table provides a reconciliation of the numerator and denominator used for basic and diluted earnings per share (in thousands, except per share amounts):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator for basic earnings (loss) per share: | | | | |
| Net income (loss) attributable to stockholders | $(103,537) | $(80,601) | $514,093 | $389,976 |
| Numerator for diluted earnings (loss) per share: | | | | |
| Net income (loss) attributable to stockholders | $(103,537) | $(80,601) | $514,093 | $389,976 |
| Adjustment of redeemable limited partners' capital to redemption amount | — | — | (511,301) | (296,566) |
| Net income attributable to non-controlling interest in Premier LP | — | — | 154,142 | 282,207 |
| Net income (loss) | (103,537) | (80,601) | 156,934 | 375,617 |
| Tax effect on Premier, Inc. net income [(a)] | — | — | (272,822) | (61,303) |
| Adjusted net income (loss) | $(103,537) | $(80,601) | $(115,888) | $314,314 |
| Denominator for basic earnings (loss) per share: | | | | |
| Weighted average shares [(b)] | 53,529 | 50,525 | 53,885 | 49,051 |
| Denominator for diluted earnings (loss) per share: | | | | |
| Weighted average shares [(b)] | 53,529 | 50,525 | 53,885 | 49,051 |
| Effect of dilutive securities: [(c)] | | | | |
| Stock options | — | — | 266 | 256 |
| Restricted stock | — | — | 285 | 190 |
| Performance share awards | — | — | — | — |
| Class B shares outstanding | — | — | 83,818 | 91,875 |
| Weighted average shares and assumed conversions | 53,529 | 50,525 | 138,254 | 141,372 |
| Basic earnings (loss) per share | $(1.93) | $(1.60) | $9.54 | $7.95 |
| Diluted earnings (loss) per share | $(1.93) | $(1.60) | $(0.84) | $2.22 |

(a) Represents income tax expense related to Premier, Inc. retaining the portion of net income attributable to income from non-controlling interest in Premier, LP for the purpose of diluted earnings per share.

(b) Weighted average number of common shares used for basic earnings per share excludes weighted average shares of non-vested stock options, non-vested restricted stock, non-vested performance share awards and Class B shares outstanding for the three and nine months ended March 31, 2018 and 2017.

(c) For the three months ended March 31, 2018, the effect of 2.9 million stock options, restricted stock units and performance share awards and 81.4 million Class B common units exchangeable for Class A common shares were excluded from diluted weighted average shares outstanding due to the net loss attributable to stockholders sustained for the quarter and as including them would have been anti-dilutive for the period. For the nine months ended March 31, 2018, the effect of 1.7 million stock options was excluded from diluted weighted average shares outstanding as they had an anti-dilutive effect, and the effect of 0.6 million performance share awards was excluded from diluted weighted average shares outstanding as they had not satisfied the applicable performance criteria at the end of the period.

For the three months ended March 31, 2017, the effect of 2.8 million stock options, restricted stock units and performance share awards and 88.9 million Class B common units exchangeable for Class A common shares were excluded from diluted weighted average shares outstanding due to the net loss attributable to shareholders sustained for the quarter and as including them would have been anti-dilutive for the period. For the nine months ended March 31, 2017, the effect of 1.8 million stock options were excluded from diluted weighted average shares outstanding as they had an anti-dilutive effect, and the effect of 0.5 million performance shares were excluded from diluted weighted average shares outstanding as they had not satisfied the applicable performance criteria at the end of the period.

Pursuant to the terms of the Exchange Agreement, on a quarterly basis, the Company has the option, as determined by the independent Audit and Compliance Committee, to settle the exchange of Class B common units of Premier LP by member owners for cash, an equal number of Class A common shares of Premier, Inc. or a combination of cash and shares of Class A common stock. In connection with the exchange of Class B common units by member owners, regardless of the consideration used to settle the exchange, an equal number of shares of Premier's Class B common stock are surrendered by member owners and retired (see Note 9 - Redeemable Limited Partners' Capital). The following table presents certain information regarding the exchange of Class B common units and associated Class B common stock for Premier's Class A common stock and/or cash in connection with the quarterly exchanges pursuant to the terms of the Exchange Agreement, including activity related to the Class A and Class B common units and Class A and Class B common stock through the date of the applicable quarterly exchange:

| Quarterly Exchange by Member Owners | Class B Common Shares Retired Upon Exchange [(a)] | Class B Common Shares Outstanding After Exchange [(a)] | Class A Common Shares Outstanding After Exchange [(b)] | Percentage of Combined Voting Power Class B/Class A Common Stock |
|---|---|---|---|---|
| July 31, 2017 | 1,231,410 | 86,067,478 | 53,212,057 | 62%/38% |
| October 31, 2017 | 3,651,294 | 82,416,184 | 57,215,143 | 59%/41% |
| January 31, 2018 | 1,006,435 | 81,169,319 | 54,829,086 | 60%/40% |
| April 30, 2018 [(c)] | 642,566 | 80,335,701 | 52,585,392 | 60%/40% |

(a) The number of Class B common shares retired or outstanding is equivalent to the number of Class B common units retired upon exchange or outstanding after the exchange, as applicable.

(b) The number of Class A common shares outstanding after exchange also includes activity related to the Company's share repurchase program (see Note 10 - Stockholders' Deficit), equity incentive plan (see Note 12 - Stock-Based Compensation) and departed member owners (see Note 9 - Redeemable Limited Partners' Capital).

(c) As the quarterly exchange occurred on April 30, 2018, the impact of the exchange is not reflected in the condensed consolidated financial statements for the quarter ended March 31, 2018.

## (12) STOCK-BASED COMPENSATION

Stock-based compensation expense is recognized over the requisite service period, which generally equals the stated vesting period. Pre-tax stock-based compensation expense was $7.2 million and $7.1 million for the three months ended March 31, 2018 and 2017, respectively, with a resulting deferred tax benefit of $1.8 million and $2.7 million, respectively. Pre-tax stock-based compensation expense was $24.9 million and $19.1 million for the nine months ended March 31, 2018 and 2017, respectively, with a resulting deferred tax benefit of $6.2 million and $7.3 million, respectively. The deferred tax benefit was calculated at a rate of 25% for the three and nine months ended March 31, 2018 and 38% for the three and nine months ended March 31, 2017, which represents the expected effective income tax rate at the time of the compensation expense deduction primarily at PHSI, and differs from the Company's current effective income tax rate which includes the impact of partnership income not subject to federal and state income taxes. The decrease in the deferred tax benefit is a result of the Tax Cuts and Jobs Act, which was enacted on December 22, 2017 (see Note 13 - Income Taxes).

### Premier 2013 Equity Incentive Plan

The Premier 2013 Equity Incentive Plan, as amended and restated (and including any further amendments thereto, the "2013 Equity Incentive Plan") provides for grants of up to 11.3 million shares of Class A common stock, all of which are eligible to be issued as non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units or performance share awards. As of March 31, 2018, there were 3.5 million shares available for grant under the 2013 Equity Incentive Plan.

The following table includes information related to restricted stock, performance share awards and stock options for the nine months ended March 31, 2018:

| | Restricted Stock | | Performance Share Awards | | Stock Options | |
|---|---|---|---|---|---|---|
| | Number of Awards | Weighted Average Fair Value at Grant Date | Number of Awards | Weighted Average Fair Value at Grant Date | Number of Options | Weighted Average Exercise Price |
| Outstanding at June 30, 2017 | 576,988 | $ 32.92 | 1,085,872 | $ 32.79 | 3,372,499 | $ 30.31 |
| Granted | 258,262 | $ 32.93 | 698,881 | $ 32.62 | 558,744 | $ 32.79 |
| Vested/exercised | (178,482) | $ 31.79 | (352,867) | $ 31.73 | (128,559) | $ 28.93 |
| Forfeited | (38,317) | $ 32.59 | (91,185) | $ 32.47 | (126,913) | $ 33.79 |
| Outstanding at March 31, 2018 | 618,451 | $ 33.27 | 1,340,701 | $ 33.00 | 3,675,771 | $ 30.62 |
| | | | | | | |
| Stock options outstanding and exercisable at March 31, 2018 | | | | | 2,642,538 | $ 29.68 |

Restricted stock units and restricted stock awards issued and outstanding generally vest over a three-year period for employees and a one-year period for directors. Performance share awards issued and outstanding generally vest over a three-year period if performance targets are met. Stock options have a term of ten years from the date of grant. Vested stock options will expire either after twelve months of an employee's termination with Premier or immediately upon an employee's termination with Premier, depending on the termination circumstances. Stock options generally vest in equal annual installments over three years.

Unrecognized stock-based compensation expense at March 31, 2018 was as follows (in thousands):

| | Unrecognized Stock-Based Compensation Expense | Weighted Average Amortization Period |
|---|---|---|
| Restricted stock | $ 10,315 | 1.77 years |
| Performance share awards | 22,476 | 1.83 years |
| Stock options | 8,258 | 1.88 years |
| Total unrecognized stock-based compensation expense | $ 41,049 | 1.82 years |

The aggregate intrinsic value of stock options at March 31, 2018 was as follows (in thousands):

| | Intrinsic Value of Stock Options |
|---|---|
| Outstanding and exercisable | $ 6,575 |
| Expected to vest | 47 |
| Total outstanding | $ 6,622 |
| | |
| Exercised during the nine months ended March 31, 2018 | $ 650 |

The Company estimated the fair value of each stock option on the date of grant using a Black-Scholes option-pricing model, applying the following assumptions, and amortized expense over each option's vesting period using the straight-line attribution approach:

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Expected life [(a)] | 6 years | 6 years |
| Expected dividend [(b)] | — | — |
| Expected volatility [(c)] | 29.44% - 32.26% | 32.01% - 33.00% |
| Risk-free interest rate [(d)] | 1.89% - 2.75% | 1.31% - 2.13% |
| Weighted average option grant date fair value | $9.48 - $11.42 | $10.48 - $11.28 |

(a) The six-year expected life (estimated period of time outstanding) of stock options granted was estimated using the "Simplified Method" which utilizes the midpoint between the vesting date and the end of the contractual term. This method was utilized for the stock options due to the lack of historical exercise behavior of Premier's employees.

(b) No dividends are expected to be paid over the contractual term of the stock options granted, resulting in the use of a zero expected dividend rate.

(c) The expected volatility rate is based on the observed historical volatilities of comparable companies.

(d) The risk-free interest rate was interpolated from the five-year and seven-year Constant Maturity Treasury rate published by the United States Treasury as of the date of the grant.

(13) INCOME TAXES

The Company's income tax expense is attributable to the activities of the Company, PHSI and PSCI, all of which are subchapter C corporations and are subject to U.S. federal and state income taxes. In contrast, under the provisions of federal and state laws, Premier LP is not subject to federal and state income taxes as the income realized by Premier LP is taxable to its partners.

As a result of the TCJA that was enacted on December 22, 2017, the U.S. federal corporate income tax rate was reduced from 35% to 21%. In accordance with U.S. GAAP, the impact of changes in tax rates and tax laws is recognized as a component of income tax expense from continuing operations in the period of enactment. For fiscal year-end companies, determination of temporary differences contemplates the use of a blended U.S. federal income tax rate (which blends the income tax rates that were in effect prior to and after enactment) depending on expected timing of recognition for such temporary differences. The Company has remeasured its deferred tax balances as of the enactment date, accordingly. Given the nature and relative timing of the TCJA enactment, the Company is continuing to evaluate the impact of the TCJA and has prescribed provisional relief pursuant to SAB 118 to certain components of its deferred tax balances. More specifically, the Company has incorporated various estimates regarding timing and determination of temporary difference recognition when calculating its net deferred tax expense. As a result, for the three months ended March 31, 2018, the Company continued to remeasure its deferred tax balances based on refinements to the various estimates regarding the timing and determination of temporary differences and recorded $3.5 million of income tax expense associated with the remeasurement of deferred tax balances. In addition, the estimates will be subject to further revision based on actual financial results for the fourth quarter of the current fiscal year. The Company expects to finalize the remeasurement of its deferred tax balances in the fourth quarter of the fiscal year ending June 30, 2018.

Income tax expense for the three months ended March 31, 2018 and 2017 was $13.3 million and $7.3 million, respectively, which reflects effective tax rates of 15% and 9%, respectively. Income tax expense for the nine months ended March 31, 2018 and 2017 was $257.6 million and $68.1 million, respectively, which reflects effective tax rates of 62% and 15%, respectively. The increase in effective tax rates is primarily attributable to the remeasurement of deferred tax balances, of which $224.7 million related to the aforementioned decrease in the U.S. federal corporate income tax rate. The Company's effective tax rates differ from income taxes recorded using a combined (or blended) rate largely due to Premier LP income, which is not subject to federal, state or local income taxes as well as valuation allowances associated with deferred tax assets at PHSI.

Deferred tax assets decreased $161.3 million to $273.0 million at March 31, 2018 from $434.3 million at June 30, 2017. The current period balance was comprised of $306.7 million in deferred tax assets at Premier, Inc. offset by

$33.8 million in deferred tax liabilities at PHSI and PSCI. The decrease in deferred tax assets from the prior period was largely driven by $224.7 million in net reductions to deferred tax assets and liabilities in connection with the underlying revaluation associated with the previously mentioned decrease in the U.S. federal corporate income tax rate. This decrease was partially offset by a $71.9 million increase in deferred tax assets in connection with the quarterly member owner exchanges that occurred during the nine months ended March 31, 2018.

The Company's tax receivable agreement ("TRA") liabilities represent a payable to the limited partners for 85% of the tax savings the Company expects to receive, if any, in U.S. federal, foreign, state and local income and franchise tax that may be realized (or deemed to realize, in the case of payments required to be made upon certain occurrences under such TRAs) in connection with the Section 754 election by Premier LP. Tax savings are generated as a result of the increase in tax basis resulting from the initial sale of Class B common units, subsequent exchanges (pursuant to the Exchange Agreement) and payments under the TRA. The election results in adjustments to the tax basis of the assets of Premier LP upon member owner exchanges of Class B common units of Premier LP for Class A common stock of Premier, Inc. or cash. TRA liabilities decreased $89.0 million to $250.7 million at March 31, 2018 from $339.7 million at June 30, 2017. The change in TRA liabilities was driven primarily by the $177.2 million decrease in valuation as a result of the TCJA's decrease in the U.S. federal corporate income tax rates, partially offset by $67.5 million in increases in TRA liabilities in connection with the quarterly member owner exchanges that occurred during the nine months ended March 31, 2018 and $20.9 million associated with the revaluation and remeasurement of the TRA liabilities due to the change in the allocation and realization of future anticipated payments.

## (14) RELATED PARTY TRANSACTIONS

### GNYHA

GNYHA Purchasing Alliance, LLC and its member organizations ("GNYHA PA") owned approximately 8% of the outstanding partnership interests in Premier LP as of March 31, 2018. Although we no longer consider GNYHA PA a related party under U.S. GAAP, prior period information is included below.

Net administrative fees revenue based on purchases by GNYHA Services, Inc. ("GNYHA") (an affiliate of GNYHA PA) and its member organizations was $16.9 million and $51.8 million for the three and nine months ended March 31, 2017, respectively. The Company has a contractual requirement under the GPO participation agreement to pay each member owner revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's facilities through Premier LP's GPO supplier contracts. As GNYHA also remits to Premier LP all gross administrative fees collected by GNYHA based on purchases by its member organizations through GNYHA's own GPO supplier contracts, it also receives revenue share from Premier LP equal to 30% of such gross administrative fees remitted to the Company. Approximately $7.8 million of revenue share obligations in the accompanying Condensed Consolidated Balance Sheets related to revenue share obligations to GNYHA and its member organizations at June 30, 2017.

In addition, of the $25.0 million limited partners' distribution payable in the accompanying Condensed Consolidated Balance Sheets at June 30, 2017, $2.7 million was payable to GNYHA and its member organizations. Services and support revenue earned from GNYHA and its member organizations was $3.9 million and $11.0 million during the three and nine months ended March 31, 2017, respectively. Product revenue earned from, or attributable to services provided to, GNYHA and its member organizations was $4.3 million and $12.3 million during the three and nine months ended March 31, 2017, respectively. Receivables from GNYHA and its member organizations, included in due from related parties in the accompanying Condensed Consolidated Balance Sheets, were $5.4 million at June 30, 2017.

### Innovatix and Essensa

The Company held 50% of the membership interests in Innovatix until December 2, 2016, at which time it acquired the remaining 50% of the membership interests from GNYHA Holdings (see Note 3 - Business Acquisitions). The Company's share of Innovatix's net income included in equity in net income (loss) of unconsolidated affiliates in the accompanying Condensed Consolidated Statements of Income prior to the acquisition was $10.7 million during the nine months ended March 31, 2017. The Company maintained a group purchasing agreement with Innovatix under which Innovatix members were permitted to utilize Premier LP's GPO supplier contracts. Gross administrative fees revenue and a corresponding revenue share recorded under the arrangement prior to the acquisition were $19.9 million for the nine months ended March 31, 2017.

The Company historically maintained a group purchasing agreement with Essensa, under which Essensa utilized the Company's GPO supplier contracts. On December 2, 2016, the Company acquired 100% of the membership interests in Essensa from GNYHA Holdings (see Note 3 - Business Acquisitions). Net administrative fees revenue recorded from Essensa prior to the acquisition was $1.2 million for the nine months ended March 31, 2017.

FFF

The Company's 49% ownership share of net income of FFF, which was acquired on July 26, 2016, included in equity in net income (loss) of unconsolidated affiliates in the accompanying Condensed Consolidated Statements of Income was $0.1 million and $0.2 million for the three months ended March 31, 2018 and 2017, respectively, and $5.7 million and $4.4 million for the nine months ended March 31, 2018 and 2017, respectively. The Company maintains group purchasing agreements with FFF and receives administrative fees for purchases made by the Company's members pursuant to those agreements. Net administrative fees revenue recorded from purchases under those agreements was $1.8 million and $1.4 million during the three months ended March 31, 2018 and 2017, respectively, and $5.8 million and $3.0 million during the nine months ended March 31, 2018 and 2017, respectively.

AEIX

The Company conducts all operational activities for American Excess Insurance Exchange Risk Retention Group ("AEIX"), a reciprocal risk retention group that provides excess and umbrella healthcare professional and general liability insurance to certain hospital and healthcare system members. The Company is reimbursed by AEIX for actual costs, plus an annual incentive management fee not to exceed $0.5 million per calendar year. The Company received cost reimbursement of $1.4 million and $1.3 million during the three months ended March 31, 2018 and 2017, respectively, and $4.2 million and $3.5 million during the nine months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and June 30, 2017, $0.5 million and $0.6 million, respectively, in amounts receivable from AEIX are included in due from related parties in the accompanying Condensed Consolidated Balance Sheets.

(15) COMMITMENTS AND CONTINGENCIES

The Company is not currently involved in any litigation it believes to be significant. The Company is periodically involved in litigation, arising in the ordinary course of business or otherwise, which from time to time may include claims relating to commercial, product liability, tort and personal injury, employment, antitrust, intellectual property, or other regulatory matters. If current or future government regulations, specifically, those with respect to antitrust or healthcare laws, are interpreted or enforced in a manner adverse to the Company or its business, the Company may be subject to enforcement actions, penalties and other material limitations which could have a material adverse effect on the Company's business, financial condition and results of operations.

(16) SEGMENTS

The Company delivers its solutions and manages its business through two reportable business segments, the Supply Chain Services segment and the Performance Services segment. The Supply Chain Services segment includes the Company's GPO, integrated pharmacy offerings and direct sourcing activities. The Performance Services segment includes the Company's informatics, collaborative, consulting services, government services and insurance services businesses.

Segment information was as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net revenue: | | | | |
| Supply Chain Services | | | | |
| Net administrative fees | $161,612 | $143,915 | $471,946 | $398,962 |
| Other services and support | 2,899 | 3,116 | 8,470 | 5,962 |
| Services | 164,511 | 147,031 | 480,416 | 404,924 |
| Products | 166,234 | 138,132 | 480,997 | 386,639 |
| Total Supply Chain Services | 330,745 | 285,163 | 961,413 | 791,563 |
| Performance Services | 94,593 | 94,640 | 265,887 | 260,012 |
| Net revenue | $425,338 | $379,803 | $1,227,300 | $1,051,575 |
| | | | | |
| Depreciation and amortization expense [(a)]: | | | | |
| Supply Chain Services | $5,500 | $5,717 | $16,166 | $8,637 |
| Performance Services | 24,541 | 21,491 | 71,093 | 63,350 |
| Corporate | 2,424 | 1,974 | 6,739 | 5,771 |
| Total depreciation and amortization expense | $32,465 | $29,182 | $93,998 | $77,758 |
| | | | | |
| Capital expenditures: | | | | |
| Supply Chain Services | $390 | $198 | $1,238 | $2,347 |
| Performance Services | 24,077 | 16,308 | 57,368 | 47,079 |
| Corporate | 2,171 | 1,061 | 6,654 | 2,466 |
| Total capital expenditures | $26,638 | $17,567 | $65,260 | $51,892 |

| Total assets: | March 31, 2018 | June 30, 2017 |
|---|---|---|
| Supply Chain Services | $971,628 | $1,017,023 |
| Performance Services | 862,704 | 888,862 |
| Corporate | 460,305 | 601,951 |
| Total assets | $2,294,637 | $2,507,836 |

(a) Includes amortization of purchased intangible assets.

The Company uses Segment Adjusted EBITDA (a financial measure not determined in accordance with generally accepted accounting principles ("Non-GAAP")) as its primary measure of profit or loss to assess segment performance and to determine the allocation of resources. The Company also uses Segment Adjusted EBITDA to facilitate the comparison of the segment operating performance on a consistent basis from period to period. The Company defines Segment Adjusted EBITDA as the segment's net revenue and equity in net income (loss) of unconsolidated affiliates less operating expenses directly attributable to the segment excluding depreciation and amortization, amortization of purchased intangible assets, merger and acquisition related expenses and non-recurring or non-cash items. Operating expenses directly attributable to the segment include expenses associated with sales and marketing, general and administrative and product development activities specific to the operation of each segment. Non-recurring items are income or expenses and other items that have not been earned or incurred within the prior two years and are

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not expected to recur within the next two years. General and administrative corporate expenses that are not specific to a particular segment are not included in the calculation of Segment Adjusted EBITDA.

For more information on Segment Adjusted EBITDA and the use of Non-GAAP financial measures, see "Our Use of Non-GAAP Financial Measures" within Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

A reconciliation of income before income taxes to Segment Adjusted EBITDA is as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Income before income taxes | $89,837 | $78,653 | $414,494 | $443,697 |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | — | — | (204,833) |
| Equity in net loss (income) of unconsolidated affiliates [(a)] | 4,939 | (83) | (570) | (14,789) |
| Interest and investment loss, net [(b)] | 1,236 | 2,017 | 4,239 | 3,026 |
| Loss on disposal of long-lived assets | 5 | 725 | 1,725 | 2,243 |
| Other expense (income) | 2,593 | (2,260) | 14,486 | (3,135) |
| Operating income | 98,610 | 79,052 | 434,374 | 226,209 |
| Depreciation and amortization | 18,584 | 15,102 | 52,401 | 43,318 |
| Amortization of purchased intangible assets | 13,881 | 14,080 | 41,597 | 34,440 |
| Stock-based compensation [(c)] | 7,333 | 7,157 | 25,241 | 19,476 |
| Acquisition related expenses | 1,540 | 4,330 | 6,312 | 11,483 |
| Strategic and financial restructuring expenses [(d)] | 1,648 | — | 1,652 | — |
| Remeasurement of tax receivable agreement liabilities [(e)] | — | 2,768 | (177,174) | (2,954) |
| ERP implementation expenses [(f)] | 40 | 215 | 531 | 1,741 |
| Acquisition related adjustment - revenue [(g)] | 65 | 11,765 | 257 | 17,729 |
| Equity in net income (loss) of unconsolidated affiliates [(a)] | (4,939) | 83 | 570 | 14,789 |
| Impairment on investments | 5,002 | — | 5,002 | — |
| Deferred compensation plan income (expense) [(h)] | (112) | 1,675 | 3,004 | 2,778 |
| Other income | 587 | 497 | 1,184 | 497 |
| Adjusted EBITDA | $142,239 | $136,724 | $394,951 | $369,506 |
| | | | | |
| Segment Adjusted EBITDA: | | | | |
| Supply Chain Services | $135,265 | $127,898 | $392,930 | $364,224 |
| Performance Services | 36,715 | 36,535 | 85,865 | 87,449 |
| Corporate | (29,741) | (27,709) | (83,844) | (82,167) |
| Adjusted EBITDA | $142,239 | $136,724 | $394,951 | $369,506 |

(a) Refer to Note 4 - Investments for further information regarding equity in net income (loss) of unconsolidated affiliates.

(b) Represents interest expense, net and realized gains and losses on our marketable securities.

(c) Represents non-cash employee stock-based compensation expense and stock purchase plan expense of $0.1 million during the three months ended March 31, 2018 and 2017, and $0.3 million and $0.4 million during the nine months ended March 31, 2018 and 2017, respectively.

(d) Represents legal, accounting and other expenses directly related to strategic and financial restructuring expenses.

(e) Represents adjustments to TRA liabilities for a 14% decrease in the U.S. federal corporate income tax rate that occurred during the nine months ended March 31, 2018, which is a result of the TCJA that was enacted on December 22, 2017, an increase in Premier LP income apportioned to California during the three months ended March 31, 2017 and a 1% decrease in the North Carolina state income tax rate that occurred during the nine months ended March 31, 2017.

(f) Represents implementation and other costs associated with the implementation of our enterprise resource planning ("ERP") system.

(g) Upon acquiring Innovatix and Essensa, we recorded a net $11.6 million and $17.2 million purchase accounting adjustment to Adjusted EBITDA during the three and nine months ended March 31, 2017, respectively, that reflects the fair value of administrative fees related to member purchases that occurred prior to December 2, 2016, but were reported to us subsequent to that date through March 31, 2017. Under our revenue recognition accounting policy, which is an accordance with GAAP, these administrative fees would be ordinarily recorded as revenue when reported to us; however, the acquisition method of accounting requires us to estimate the amount of purchases prior to the acquisition date and to record the fair value of the administrative fees to be received from those purchases as an account receivable (as opposed to recognizing revenue when these transactions are reported to us) and record any corresponding revenue share obligation as a liability. The purchase accounting adjustment amounted to an estimated $22.1 million of accounts receivable relating to these administrative fees and an estimated $4.0 million for the related revenue share obligation through March 31, 2017.

This item also includes non-cash adjustments to deferred revenue of acquired entities of $0.1 million and $0.5 million for the three and nine months ended March 31, 2017, respectively. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront software license update fees and product support contracts assumed in connection with acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to the acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The Non-GAAP adjustment to software license update fees and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

(h) Represents realized and unrealized gains and losses and dividend income on deferred compensation plan assets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report. This discussion is designed to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those financial statements from quarter to quarter and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. In addition, the following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see the discussions under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" herein and in the Company's Form 10-K for the fiscal year ended June 30, 2017 (the "2017 Annual Report"), filed with the Securities and Exchange Commission ("SEC").
Business Overview
Our Business
Premier, Inc. ("Premier", the "Company", "we", or "our") is a leading healthcare performance improvement company, uniting an alliance of approximately 3,900 U.S. hospitals and health systems and approximately 150,000 other providers and organizations to transform healthcare. We partner with hospitals, health systems, physicians and other healthcare providers with the common goal of improving and innovating in the clinical, financial and operational areas of their businesses to meet the demands of a rapidly evolving healthcare industry. We deliver value through a comprehensive technology-enabled platform that offers critical supply chain services, clinical, financial, operational and population health software as a service ("SaaS") informatics products, consulting services and performance improvement collaborative programs.
As of March 31, 2018, we were controlled by 163 U.S. hospitals, health systems and other healthcare organizations, which represented approximately 1,425 owned, leased and managed acute care facilities and other non-acute care organizations, through their ownership of Class B common stock. As of March 31, 2018, the Class A common stock and Class B common stock represented approximately 39% and 61%, respectively, of our combined Class A and Class B common stock. All of our Class B common stock was held beneficially by our member owners and all of our Class A common stock was held by public investors, which may include member owners that have received shares of our Class A common stock in connection with previous quarterly exchanges pursuant to an exchange agreement (the "Exchange Agreement") entered into by the member owners in connection with the completion of our initial public offering on October 1, 2013 (see Note 1 - Organization and Basis of Presentation to the accompanying condensed consolidated financial statements for more information).
We generated net revenue, net income and Adjusted EBITDA (a financial measure not determined in accordance with generally accepted accounting principles ("Non-GAAP")) for the periods presented as follows (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net revenue | $425,338 | $379,803 | $1,227,300 | $1,051,575 |
| Net income | $76,549 | $71,338 | $156,934 | $375,617 |
| Non-GAAP Adjusted EBITDA | $142,239 | $136,724 | $394,951 | $369,506 |

See “Our Use of Non-GAAP Financial Measures” and “Results of Operations” below for a discussion of our use of Non-GAAP Adjusted EBITDA and a reconciliation of net income to Non-GAAP Adjusted EBITDA.
Our Business Segments
Our business model and solutions are designed to provide our members access to scale efficiencies, spread the cost of their development, provide actionable intelligence derived from anonymized data in our data warehouse provided by our members, mitigate the risk of innovation and disseminate best practices that will help our member organizations succeed in their transformation to higher quality and more cost-effective healthcare. We deliver our integrated platform of solutions that address the areas of total cost management, quality and safety improvement and population health management through two business segments: Supply Chain Services and Performance Services.

Our Supply Chain Services segment includes one of the largest healthcare group purchasing organization ("GPO") programs in the United States, serving acute, non-acute, non-healthcare and alternate sites, and includes integrated pharmacy and direct sourcing activities. Supply Chain Services net revenue grew from $285.2 million for the three months ended March 31, 2017 to $330.7

million for the three months ended March 31, 2018, representing net revenue growth of 16%, and accounted for 78% of our overall net revenue for the three months ended March 31, 2018. Supply Chain Services net revenue grew from $791.6 million for the nine months ended March 31, 2017 to $961.4 million for the nine months ended March 31, 2018, representing net revenue growth of 21%, and accounted for 78% of our overall net revenue for the nine months ended March 31, 2018. We generate revenue in our Supply Chain Services segment from administrative fees received from suppliers based on the total dollar volume of supplies purchased by our members and through product sales in connection with our integrated pharmacy and direct sourcing activities.

Our Performance Services segment includes one of the largest informatics and consulting services businesses in the United States focused on healthcare providers. Performance Services net revenue remained flat at $94.6 million for the three months ended March 31, 2018 and 2017, and accounted for 22% of our overall net revenue for the three months ended March 31, 2018. Performance Services net revenue increased from $260.0 million for the nine months ended March 31, 2017 to $265.9 million for the nine months ended March 31, 2018, representing a 2% increase, and accounted for 22% of our overall net revenue for the nine months ended March 31, 2018. Our SaaS informatics products utilize our comprehensive data set to provide actionable intelligence to our members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety and population health management. The Performance Services segment also includes our technology-enabled performance improvement collaboratives, consulting services, government services and insurance management services.

Acquisitions

Acquisition of Innovatix and Essensa

Prior to December 2, 2016, the Company, through its consolidated subsidiary, Premier Supply Chain Improvement ("PSCI"), held 50% of the membership interests in Innovatix, LLC ("Innovatix"). On December 2, 2016, the Company, through PSCI, acquired the remaining 50% ownership interests of Innovatix and 100% of the ownership interest in Essensa Ventures, LLC ("Essensa") The purchase price, after adjustments pursuant to the purchase agreement, was $336.0 million. The acquisition was funded with borrowings under the Company's credit facility dated June 24, 2014, as amended on June 4, 2015 (the "Credit Facility"). Innovatix and Essensa are GPOs focused on serving alternate site healthcare providers and other non-healthcare organizations throughout the United States. The Company reports Innovatix and Essensa as part of its Supply Chain Services segment. See Note 3 - Business Acquisitions for more information.

Acquisition of Acro Pharmaceuticals

On August 23, 2016, the Company, through its consolidated subsidiary, NS3 Health, LLC, acquired 100% of the membership interests of Acro Pharmaceutical Services LLC ("Acro") and Community Pharmacy Services, LLC (collectively with Acro, "Acro Pharmaceuticals"). The aggregate purchase price, after adjustments pursuant to the purchase agreement, was $62.9 million. The acquisition was funded with available cash on hand. Acro Pharmaceuticals is a specialty pharmacy business that provides customized healthcare management solutions to members. The Company reports Acro Pharmaceuticals as part of its Supply Chain Services segment. See Note 3 - Business Acquisitions for more information.

Market and Industry Trends and Outlook

We expect that certain trends and economic or industry-wide factors will continue to affect our business, both in the short-term and long-term. We have based our expectations described below on assumptions made by us and on information currently available to us. To the extent our underlying assumptions about, or interpretation of, available information prove to be incorrect, our actual results may vary materially from our expected results.

Trends in the U.S. healthcare market affect our revenues in the Supply Chain Services and Performance Services segments. The trends we see affecting our current healthcare business include the impact of the implementation of current or future healthcare legislation, particularly the uncertainty regarding the status of the ACA, its repeal, replacement, or other modification, the enactment of new regulatory and reporting requirements, expansion and contraction of insurance coverage and associated costs that may impact subscriber elections, intense cost pressure, payment reform, provider consolidation, shift in care to the alternate site market and increased data availability and transparency. To meet the demands of this environment, there will be increased focus on scale and cost containment and healthcare providers will need to measure and report on and bear financial risk for outcomes. We believe these trends will result in increased demand for our Supply Chain Services and Performance Services solutions in the areas of cost management, quality and safety and population health management, however, there are uncertainties and risks that may affect the actual impact of these anticipated trends or related assumptions on our business. See "Cautionary Note Regarding Forward-Looking Statements" for more information.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is primarily based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles ("GAAP"). The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Significant estimates, including estimates for allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under tax receivable agreements ("TRA"), deferred tax balances including valuation allowances on deferred tax assets, uncertain tax positions, values of investments not publicly traded, deferred revenue, future cash flows associated with asset impairments, values of put and call rights and the allocation of purchase prices are evaluated on an ongoing basis. 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.

Given the Company's use of estimates referenced above, it is important to highlight that on December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA includes significant changes to the U.S. corporate income tax system, specifically reducing the U.S. federal corporate income tax rate from 35% to 21%. As changes under the TCJA are broad and complex, the Company continues to interpret the breadth of its immediate and long-term impacts. The Company notes that concurrent with the enactment of the TCJA, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA.

SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting required under the Financial Accounting Standards Board Accounting Standards Codification ("ASC") 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional amount on its financial statements. If a company cannot determine a provisional estimate to be included on its financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately prior to the enactment of the TCJA. With this in mind, the Company has prescribed such provisional relief via SAB 118 by incorporating various estimates regarding timing and determination of temporary difference recognition when calculating components of its deferred tax balances. While the Company is able to provide reasonable estimates of the impacts related to the TCJA, the final impact may differ from these estimates, due to, among other things, changes in interpretations, assumptions, additional guidance that may be released by the I.R.S. and other actions that we may take that are yet to be determined.

There have been no material changes to the Company's significant accounting policies as described in the Company's 2017 Annual Report.

New Accounting Standards

New accounting standards that we have recently adopted as well as those that have been recently issued but not yet adopted by the Company are included in Note 2 - Significant Accounting Policies to the accompanying condensed consolidated financial statements, which is incorporated herein by reference.

Key Components of Our Results of Operations

Net Revenue

Net revenue consists of service revenue, which includes net administrative fees revenue and other services and support revenue and product revenue. Net administrative fees revenue consists of GPO administrative fees in our Supply Chain Services segment. Other services and support revenue consists primarily of fees generated by our Performance Services segment in connection with our SaaS informatics products subscriptions, license fees, consulting services and performance improvement collaborative subscriptions. Product revenue consists of integrated pharmacy and direct sourcing product sales, which are included in the Supply Chain Services segment.

Supply Chain Services

Supply Chain Services revenue consists of GPO net administrative fees (gross administrative fees received from suppliers, reduced by the amount of any revenue share paid to members), specialty pharmacy revenue, direct sourcing revenue and managed service revenue.

The success of our Supply Chain Services revenue streams are influenced by our ability to negotiate favorable contracts with suppliers, the number of members that utilize our GPO supplier contracts and the volume of their purchases, the number of members that utilize our integrated pharmacy, as well as the impact of changes in the defined allowable reimbursement amounts determined by Medicare, Medicaid and other managed care plans and the number of members that purchase products through our direct sourcing activities and the impact of competitive pricing. Our managed services line of business is a fee for service model created to perform supply chain related services for members, including pharmacy benefit management ("PBM") services in partnership with a national PBM company.

Performance Services

Performance Services revenue consists of SaaS informatics products subscriptions, license fees, performance improvement collaborative and other service subscriptions, professional fees for consulting services, insurance services management fees and commissions from endorsed commercial insurance programs.

Our Performance Services growth will depend upon the expansion of our SaaS informatics products, performance improvement collaboratives and consulting services to new and existing members, impact of applied research initiatives, renewal of existing subscriptions to our SaaS informatics products and expansion into new markets with potential future acquisitions.

Cost of Revenue

Cost of service revenue includes expenses related to employees (including compensation and benefits) and outside consultants who directly provide services related to revenue-generating activities, including consulting services to members and implementation services related to SaaS informatics products. Cost of service revenue also includes expenses related to hosting services, related data center capacity costs, third-party product license expenses and amortization of the cost of internal use software.

Cost of product revenue consists of purchase and shipment costs for specialty pharmaceuticals and direct sourced medical products. Our cost of product revenue is influenced by the cost and availability of specialty pharmaceuticals and the manufacturing and transportation costs associated with direct sourced medical products.

Other Operating Income

Other operating income includes the adjustment to TRA liabilities. Changes in estimated TRA liabilities that are the result of a change in tax accounting method, including the impacts of the TCJA, are recorded as a component of other operating income in the Condensed Consolidated Statements of Income. Changes in estimated TRA liabilities that are related to new basis changes as a result of the exchange of Class B common units for a like number of shares of Class A common stock or as a result of departed member owners are recorded as an increase to additional paid-in capital in the Condensed Consolidated Statements of Stockholders' Deficit. See "Income Tax Expense" below for additional information.

Operating Expenses

Selling, general and administrative expenses are directly associated with selling and administrative functions and support of revenue-generating activities including expenses to support and maintain our software-related products and services. Selling, general and administrative expenses primarily consist of compensation and benefits related costs, travel-related expenses, business development expenses, including costs for business acquisition opportunities, indirect costs such as insurance, professional fees and other general overhead expenses, and adjustments to TRA liabilities.

Research and development expenses consist of employee-related compensation and benefit expenses and third-party consulting fees of technology professionals, net of capitalized labor, incurred to develop our software-related products and services.

Amortization of purchased intangible assets includes the amortization of all identified intangible assets resulting from acquisitions.

Other Income, Net

Other income, net, includes equity in net income (loss) of unconsolidated affiliates that is generated from our equity method investments. Our equity method investments primarily consist of our 49% ownership in FFF Enterprises, Inc. ("FFF"), and prior to the acquisition of Innovatix and Essensa on December 2, 2016, included our 50% ownership interest in Innovatix. In connection with the acquisition of Innovatix and Essensa, the Company recorded a one-time gain of $205.1 million related to the remeasurement of our historical 50% equity method investment in Innovatix to fair value. Other income, net, also includes interest income and expense, realized and unrealized gains or losses on deferred compensation plan assets and gains or losses on the disposal of assets.

Income Tax Expense

The Company's income tax expense is attributable to the activities of the Company, PHSI and PSCI, all of which are subchapter C corporations and are subject to U.S. federal and state income taxes. In contrast, under the provisions of federal and state laws, Premier LP is not subject to federal and state income taxes as the income realized by Premier LP is taxable to its partners. The Company’s overall effective tax rate differs from the U.S. statutory tax rate primarily due to the aforementioned ownership structure as well as other items noted in Note 13 - Income Taxes.

Given the Company’s ownership and capital structure, various effective tax rates are calculated for specific tax items. For example, the deferred tax benefit related to stock-based compensation expense (see Note 12 - Stock-Based Compensation) is calculated based on the effective tax rate of PHSI, the legal entity where the majority of stock-based compensation expense is recorded. The Company’s effective tax rate, as discussed in Note 13 - Income Taxes, represents the effective tax rate computed in accordance with GAAP based on total income tax expense (reflected in income tax expense in the Condensed Consolidated Statements of Income) of the Company, PHSI and PSCI, divided by consolidated pre-tax income.

Non-GAAP Adjusted Fully Distributed Net Income is calculated net of taxes based on the Company’s fully distributed tax rate for federal and state income tax for the Company as a whole as if it were one taxable entity with all of its subsidiaries' activities included. Prior to the enactment of the Act, the rate used to compute the Non-GAAP Adjusted Fully Distributed Net Income was 39%. Effective as of January 1, 2018, the Company adjusted its fully distributed tax rate to 26% to determine its Non-GAAP Adjusted Fully Distributed Net Income and will continue to use that rate for the remainder of fiscal year 2018.

Net Income Attributable to Non-Controlling Interest

As of March 31, 2018, we owned an approximate 39% controlling general partner interest in Premier LP through our wholly-owned subsidiary, Premier Services, LLC ("Premier GP"). Net income attributable to non-controlling interest represents the portion of net income attributable to the limited partners of Premier LP, which was reduced from approximately 63% as of June 30, 2017 to approximately 61% as of March 31, 2018, as a result of completed quarterly exchanges pursuant to the Exchange Agreement (see Note 9 - Redeemable Limited Partners' Capital).

Our Use of Non-GAAP Financial Measures

The other key business metrics we consider are EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow, which are Non-GAAP financial measures.

We define EBITDA as net income before interest and investment income, net, income tax expense, depreciation and amortization and amortization of purchased intangible assets. We define Adjusted EBITDA as EBITDA before merger and acquisition related expenses and non-recurring, non-cash or non-operating items and including equity in net income (loss) of unconsolidated affiliates. For all Non-GAAP financial measures, we consider non-recurring items to be income or expenses and other items that have not been earned or incurred within the prior two years and are not expected to recur within the next two years. Such items include certain strategic and financial restructuring expenses. Non-operating items include gains or losses on the disposal of assets and interest and investment income or expense.

We define Segment Adjusted EBITDA as the segment's net revenue less cost of revenue and operating expenses directly attributable to the segment excluding depreciation and amortization, amortization of purchased intangible assets, merger and acquisition related expenses and non-recurring or non-cash items and including equity in net income (loss) of unconsolidated affiliates. Operating expenses directly attributable to the segment include expenses associated with sales and marketing, general and administrative and product development activities specific to the operation of each segment. General and administrative corporate expenses that are not specific to a particular segment are not included in the calculation of Segment Adjusted EBITDA.

We define Adjusted Fully Distributed Net Income as net income attributable to Premier (i) excluding income tax expense, (ii) excluding the impact of adjustment of redeemable limited partners' capital to redemption amount (iii) excluding the effect of non-recurring and non-cash items, (iv) assuming the exchange of all the Class B common units for shares of Class A common stock, which results in the elimination of non-controlling interest in Premier LP and (v) reflecting an adjustment for income tax expense on Non-GAAP fully distributed net income before income taxes at our estimated effective income tax rate. We define Adjusted Fully Distributed Earnings per Share as Adjusted Fully

Distributed Net Income divided by diluted weighted average shares (see Note 11 - Earnings Per Share).
We define Free Cash Flow as net cash provided by operating activities less distributions and TRA payments to limited partners and purchases of property and equipment. Free Cash Flow does not represent discretionary cash available for spending as it excludes certain contractual obligations such as debt repayments.

Adjusted EBITDA and Free Cash Flow are supplemental financial measures used by us and by external users of our financial statements and are considered to be indicators of the operational strength and performance of our business. Adjusted EBITDA and Free Cash Flow measures allow us to assess our performance without regard to financing methods and capital structure and without the impact of other matters that we do not consider indicative of the operating performance of our business. More specifically, Segment Adjusted EBITDA is the primary earnings measure we use to evaluate the performance of our business segments.

We use Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share to facilitate a comparison of our operating performance on a consistent basis from period to period that, when viewed in combination with our results prepared in accordance with GAAP, provides a more complete understanding of factors and trends affecting our business. We believe Adjusted EBITDA and Segment Adjusted EBITDA assist our Board of Directors, management and investors in comparing our operating performance on a consistent basis from period to period because they remove the impact of earnings elements attributable to our asset base (primarily depreciation and amortization) and certain items outside the control of our management team, e.g. taxes, as well as other non-cash (such as impairment of intangible assets, purchase accounting adjustments and stock-based compensation) and non-recurring items (such as strategic and financial restructuring expenses) from our operating results. We believe Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share assist our Board of Directors, management and investors in comparing our net income and earnings per share on a consistent basis from period to period because these measures remove non-cash (such as impairment of intangible assets, purchase accounting adjustments and stock-based compensation) and non-recurring items (such as strategic and financial restructuring expenses), and eliminate the variability of non-controlling interest that results from member owner exchanges of Class B common units for shares of Class A common stock. We believe Free Cash Flow is an important measure because it represents the cash that we generate after payment of tax distributions to limited partners and capital investment to maintain existing products and services and ongoing business operations, as well as development of new and upgraded products and services to support future growth. Our Free Cash Flow allows us to enhance stockholder value through acquisitions, partnerships, joint ventures, investments in related businesses and debt reduction.

Despite the importance of these Non-GAAP financial measures in analyzing our business, determining compliance with certain financial covenants in our Credit Facility, measuring and determining incentive compensation and evaluating our operating performance relative to our competitors, EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow are not measurements of financial performance under GAAP, may have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, net income, net cash provided by operating activities or any other measure of our performance derived in accordance with GAAP.

Some of the limitations of the EBITDA, Adjusted EBITDA and Segment Adjusted EBITDA measures include that they do not reflect: our capital expenditures or our future requirements for capital expenditures or contractual commitments; changes in, or cash requirements for, our working capital needs; the interest expense or the cash requirements to service interest or principal payments under our Credit Facility; income tax payments we are required to make; and any cash requirements for replacements of assets being depreciated or amortized. In addition, EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA and Free Cash Flow are not measures of liquidity under GAAP, or otherwise, and are not alternatives to cash flows from operating activities.

Some of the limitations of the Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share measures are that they do not reflect income tax expense or income tax payments we are required to make. In addition, Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share are not measures of profitability under GAAP.

We also urge you to review the reconciliation of these Non-GAAP financial measures included elsewhere in this Quarterly Report. To properly and prudently evaluate our business, we encourage you to review the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report and to not rely on any single financial measure to evaluate our business. In addition, because the EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free

Cash Flow measures are susceptible to varying calculations, such Non-GAAP financial measures may differ from, and may therefore not be comparable to, similarly titled measures used by other companies.

Non-recurring and non-cash items excluded in our calculation of Adjusted EBITDA, Segment Adjusted EBITDA and Adjusted Fully Distributed Net Income consist of stock-based compensation, acquisition related expenses, remeasurement of TRA liabilities, enterprise resource planning ("ERP") implementation expenses, acquisition related adjustment - revenue, remeasurement gain attributable to acquisition of Innovatix, LLC, loss on disposal of long-lived assets, loss (gain) on FFF put and call rights, impairment on investments and other expense. More information about certain of the more significant items follows below.

Stock-based compensation

In addition to non-cash employee stock-based compensation expense, this item includes non-cash stock purchase plan expense of $0.1 million for the three months ended March 31, 2018 and 2017, and $0.3 million and $0.4 million for the nine months ended March 31, 2018 and 2017, respectively (see Note 12 - Stock-Based Compensation).

Remeasurement of TRA liabilities

The Company records TRA liabilities based on 85% of the estimated amount of tax savings the Company expects to receive, generally over a 15-year period, which are attributable to the initial purchase of Class B common units from the member owners made concurrently with the IPO and subsequent exchanges by member owners of Class B common units into Class A common stock or cash. Tax payments made under the TRA will be made to the member owners as the Company realizes tax benefits. Determining the estimated amount of tax savings the Company expects to receive requires judgment as deductibility of goodwill amortization expense is not assured and the estimate of tax savings is dependent upon the actual realization of the tax benefit and the tax rates in effect at that time.

Changes in estimated TRA liabilities that are the result of a change in tax accounting method, including the impacts of the TCJA, are recorded as a component of other operating income or selling, general and administrative expenses in the Condensed Consolidated Statements of Income. Changes in estimated TRA liabilities that are related to new basis changes as a result of the exchange of Class B common units for a like number of shares of Class A common stock or as a result of departed member owners are recorded as an increase to additional paid-in capital in the Condensed Consolidated Statements of Stockholders' Deficit.

The adjustment to TRA liabilities for the nine months ended March 31, 2018 is primarily attributable to the 14% decrease in the U.S. federal corporate income tax rate, which occurred as a result of the TCJA that was enacted on December 22, 2017 (see Note 13 - Income Taxes). The adjustment to TRA liabilities for the three months ended March 31, 2017 is primarily attributable to the increase in Premier LP income apportioned to California and for the nine months ended March 31, 2017 is primarily attributable to the combination of the increase in Premier LP income apportioned to California and a 1% decrease in the North Carolina state income tax rate (see Note 13 - Income Taxes).

Acquisition related adjustment - revenue

Upon acquiring Innovatix and Essensa, we recorded a net $11.6 million and $17.2 million purchase accounting adjustment to Adjusted EBITDA during the three and nine months ended March 31, 2017, respectively, that reflects the fair value of administrative fees related to member purchases that occurred prior to December 2, 2016, but were reported to us subsequent to that date through March 31, 2017. Under our revenue recognition accounting policy, which is an accordance with GAAP, these administrative fees would be ordinarily recorded as revenue when reported to us; however, the acquisition method of accounting requires us to estimate the amount of purchases prior to the acquisition date and to record the fair value of the administrative fees to be received from those purchases as an account receivable (as opposed to recognizing revenue when these transactions are reported to us) and record any corresponding revenue share obligation as a liability. The purchase accounting adjustment amounted to an estimated $22.1 million of accounts receivable relating to these administrative fees and an estimated $4.0 million for the related revenue share obligation through March 31, 2017.

This item also includes non-cash adjustments to deferred revenue of acquired entities of $0.1 million and $0.5 million for the three and nine months ended March 31, 2017, respectively. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront software license update fees and product support contracts assumed in connection with acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to the acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The Non-GAAP adjustment to software license update fees and product support revenues is intended to include, and thus reflect, the full amount of such revenues (see Note 16 - Segments).

Strategic and financial restructuring expenses

This item represents legal, accounting and other expenses directly related to strategic and financial restructuring activities.

Loss (gain) on FFF put and call rights

See Note 5 - Fair Value Measurements.



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Impairment on investments
See Note 4 - Investments.

Results of Operations

The following table summarizes our results of operations for the periods presented (in thousands, except per share data):

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Amount | % of Net Revenue | Amount | % of Net Revenue |
| Net revenue: | | | | | | | | |
| Net administrative fees | $161,612 | 38% | $143,915 | 38% | $471,946 | 38% | $398,962 | 38% |
| Other services and support | 97,492 | 23% | 97,756 | 26% | 274,357 | 22% | 265,974 | 25% |
| Services | 259,104 | 61% | 241,671 | 64% | 746,303 | 60% | 664,936 | 63% |
| Products | 166,234 | 39% | 138,132 | 36% | 480,997 | 39% | 386,639 | 37% |
| Net revenue | 425,338 | 100% | 379,803 | 100% | 1,227,300 | 100% | 1,051,575 | 100% |
| Cost of revenue: | | | | | | | | |
| Services | 47,037 | 12% | 47,319 | 12% | 141,228 | 13% | 134,865 | 13% |
| Products | 156,511 | 37% | 129,929 | 34% | 454,222 | 37% | 356,900 | 34% |
| Cost of revenue | 203,548 | 49% | 177,248 | 46% | 595,450 | 50% | 491,765 | 47% |
| Gross profit | 221,790 | 51% | 202,555 | 54% | 631,850 | 50% | 559,810 | 53% |
| Other operating income: | | | | | | | | |
| Remeasurement of tax receivable agreement liabilities | — | —% | — | —% | 177,174 | 14% | 5,722 | 1% |
| Other operating income | — | —% | — | —% | 177,174 | 14% | 5,722 | 1% |
| Operating expenses: | | | | | | | | |
| Selling, general and administrative | 109,007 | 26% | 108,668 | 29% | 331,948 | 27% | 302,555 | 29% |
| Research and development | 292 | —% | 755 | —% | 1,105 | —% | 2,328 | —% |
| Amortization of purchased intangible assets | 13,881 | 3% | 14,080 | 4% | 41,597 | 3% | 34,440 | 3% |
| Operating expenses | 123,180 | 29% | 123,503 | 33% | 374,650 | 30% | 339,323 | 32% |
| Operating income | 98,610 | 23% | 79,052 | 22% | 434,374 | 35% | 226,209 | 23% |
| Other income (expense), net | (8,773) | (2)% | (399) | —% | (19,880) | (2)% | 217,488 | 21% |
| Income before income taxes | 89,837 | 21% | 78,653 | 22% | 414,494 | 33% | 443,697 | 44% |
| Income tax expense | 13,288 | 3% | 7,315 | 2% | 257,560 | 21% | 68,080 | 6% |
| Net income | 76,549 | 18% | 71,338 | 20% | 156,934 | 12% | 375,617 | 38% |
| Net income attributable to non-controlling interest in Premier LP | (53,047) | (12)% | (51,433) | (14)% | (154,142) | (13)% | (282,207) | (27)% |
| Adjustment of redeemable limited partners' capital to redemption amount | (127,039) | nm | (100,506) | nm | 511,301 | nm | 296,566 | nm |
| Net income (loss) attributable to stockholders | $(103,537) | nm | $(80,601) | nm | $514,093 | nm | $389,976 | nm |
| | | | | | | | | |
| Weighted average shares outstanding: | | | | | | | | |
| Basic | 53,529 | | 50,525 | | 53,885 | | 49,051 | |

| | | | | |
|---|---|---|---|---|
| Diluted | 53,529 | 50,525 | 138,254 | 141,372 |
| Earnings (loss) per share attributable to stockholders: | | | | |
| Basic | $(1.93 ) | $(1.60 ) | $9.54 | $7.95 |
| Diluted | $(1.93 ) | $(1.60 ) | $(0.84 ) | $2.22 |

nm = Not meaningful

The following table provides certain Non-GAAP financial measures for the periods presented (in thousands, except per share data). Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Adjusted EBITDA and Segment Adjusted EBITDA.

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Amount | % of Net Revenue | Amount | % of Net Revenue |
| Certain Non-GAAP Financial Data: | | | | | | | | |
| Adjusted EBITDA | $ 142,239 | 33% | $ 136,724 | 36% | $ 394,951 | 32% | $ 369,506 | 35% |
| Non-GAAP Adjusted Fully Distributed Net Income | $ 90,590 | 21% | $ 72,959 | 19% | $ 222,284 | 18% | $ 197,129 | 19% |
| Non-GAAP Adjusted Fully Distributed Earnings Per Share | $ 0.67 | | $ 0.52 | | $ 1.61 | | $ 1.39 | |

The following table provides the reconciliation of net income to Adjusted EBITDA and the reconciliation of income before income taxes to Segment Adjusted EBITDA (in thousands). Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Adjusted EBITDA and Segment Adjusted EBITDA.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $76,549 | $71,338 | $156,934 | $375,617 |
| Interest and investment loss, net | 1,236 | 2,017 | 4,239 | 3,026 |
| Income tax expense | 13,288 | 7,315 | 257,560 | 68,080 |
| Depreciation and amortization | 18,584 | 15,102 | 52,401 | 43,318 |
| Amortization of purchased intangible assets | 13,881 | 14,080 | 41,597 | 34,440 |
| EBITDA | 123,538 | 109,852 | 512,731 | 524,481 |
| Stock-based compensation | 7,333 | 7,157 | 25,241 | 19,476 |
| Acquisition related expenses | 1,540 | 4,330 | 6,312 | 11,483 |
| Strategic and financial restructuring expenses | 1,648 | — | 1,652 | — |
| Remeasurement of tax receivable agreement liabilities | — | 2,768 | (177,174) | (2,954) |
| ERP implementation expenses | 40 | 215 | 531 | 1,741 |
| Acquisition related adjustment - revenue | 65 | 11,765 | 257 | 17,729 |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | — | — | (204,833) |
| Loss on disposal of long-lived assets | 5 | 725 | 1,725 | 2,243 |
| Loss (gain) on FFF put and call rights | 3,067 | (88) | 18,674 | 86 |
| Impairment on investments | 5,002 | — | 5,002 | — |
| Other expense | 1 | — | — | 54 |
| Adjusted EBITDA | $142,239 | $136,724 | $394,951 | $369,506 |
| | | | | |
| Income before income taxes | $89,837 | $78,653 | $414,494 | $443,697 |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | — | — | (204,833) |
| Equity in net loss (income) of unconsolidated affiliates | 4,939 | (83) | (570) | (14,789) |
| Interest and investment loss, net | 1,236 | 2,017 | 4,239 | 3,026 |
| Loss on disposal of long-lived assets | 5 | 725 | 1,725 | 2,243 |
| Other expense (income) | 2,593 | (2,260) | 14,486 | (3,135) |
| Operating income | 98,610 | 79,052 | 434,374 | 226,209 |
| Depreciation and amortization | 18,584 | 15,102 | 52,401 | 43,318 |
| Amortization of purchased intangible assets | 13,881 | 14,080 | 41,597 | 34,440 |
| Stock-based compensation | 7,333 | 7,157 | 25,241 | 19,476 |
| Acquisition related expenses | 1,540 | 4,330 | 6,312 | 11,483 |
| Strategic and financial restructuring expenses | 1,648 | — | 1,652 | — |
| Remeasurement of tax receivable agreement liabilities | — | 2,768 | (177,174) | (2,954) |
| ERP implementation expenses | 40 | 215 | 531 | 1,741 |
| Acquisition related adjustment - revenue | 65 | 11,765 | 257 | 17,729 |
| Equity in net income (loss) of unconsolidated affiliates | (4,939) | 83 | 570 | 14,789 |
| Impairment on investments | 5,002 | — | 5,002 | — |
| Deferred compensation plan income (expense) | (112) | 1,675 | 3,004 | 2,778 |
| Other income | 587 | 497 | 1,184 | 497 |
| Adjusted EBITDA | $142,239 | $136,724 | $394,951 | $369,506 |
| | | | | |
| Segment Adjusted EBITDA: | | | | |
| Supply Chain Services | $135,265 | $127,898 | $392,930 | $364,224 |

| | | | | |
|---|---|---|---|---|
| Performance Services | 36,715 | 36,535 | 85,865 | 87,449 |
| Corporate | (29,741) | (27,709) | (83,844) | (82,167) |
| Adjusted EBITDA | $142,239 | $136,724 | $394,951 | $369,506 |

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The following table provides the reconciliation of net income (loss) attributable to stockholders to Non-GAAP Adjusted Fully Distributed Net Income and the reconciliation of the numerator and denominator for earnings (loss) per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share for the periods presented (in thousands). Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Non-GAAP Adjusted Fully Distributed Net Income and Non-GAAP Adjusted Fully Distributed Earnings per Share.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) attributable to stockholders | $(103,537) | $(80,601) | $514,093 | $389,976 |
| Adjustment of redeemable limited partners' capital to redemption amount | 127,039 | 100,506 | (511,301) | (296,566) |
| Net income attributable to non-controlling interest in Premier LP | 53,047 | 51,433 | 154,142 | 282,207 |
| Income tax expense | 13,288 | 7,315 | 257,560 | 68,080 |
| Amortization of purchased intangible assets | 13,881 | 14,080 | 41,597 | 34,440 |
| Stock-based compensation | 7,333 | 7,157 | 25,241 | 19,476 |
| Acquisition related expenses | 1,540 | 4,330 | 6,312 | 11,483 |
| Strategic and financial restructuring expenses | 1,648 | — | 1,652 | — |
| Remeasurement of tax receivable agreement liabilities | — | 2,768 | (177,174) | (2,954) |
| ERP implementation expenses | 40 | 215 | 531 | 1,741 |
| Acquisition related adjustment - revenue | 65 | 11,765 | 257 | 17,729 |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | — | — | (204,833) |
| Loss on disposal of long-lived assets | 5 | 725 | 1,725 | 2,243 |
| Loss (gain) on FFF put and call rights | 3,067 | (88) | 18,674 | 86 |
| Impairment on investments | 5,002 | — | 5,002 | — |
| Other expense | 1 | — | — | 54 |
| Non-GAAP adjusted fully distributed income before income taxes | 122,419 | 119,605 | 338,311 | 323,162 |
| Income tax expense on fully distributed income before income taxes[(a)] | 31,829 | 46,646 | 116,027 | 126,033 |
| Non-GAAP Adjusted Fully Distributed Net Income | $90,590 | $72,959 | $222,284 | $197,129 |
| | | | | |
| Reconciliation of denominator for earnings (loss) per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share | | | | |
| Weighted Average: | | | | |
| Common shares used for basic and diluted earnings (loss) per share | 53,529 | 50,525 | 53,885 | 49,051 |
| Potentially dilutive shares | 547 | 465 | 551 | 446 |
| Conversion of Class B common units | 81,394 | 88,892 | 83,818 | 91,875 |
| Weighted average fully distributed shares outstanding - diluted | 135,470 | 139,882 | 138,254 | 141,372 |

(a) Reflects income tax expense at an estimated effective income tax rate of 26% and 34% of Non-GAAP adjusted fully distributed income before income taxes for the three and nine months ended March 31, 2018, respectively, and 39% for the three and nine months ended March 31, 2017.

The following table provides the reconciliation of earnings (loss) per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share for the periods presented. Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Non-GAAP Adjusted Fully Distributed Earnings per Share.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Earnings (loss) per share attributable to stockholders | $(1.93) | $(1.60) | $9.54 | $7.95 |
| Adjustment of redeemable limited partners' capital to redemption amount | 2.37 | 2.00 | (9.49) | (6.05) |
| Net income attributable to non-controlling interest in Premier LP | 0.99 | 1.02 | 2.86 | 5.75 |
| Income tax expense | 0.25 | 0.14 | 4.78 | 1.39 |
| Amortization of purchased intangible assets | 0.26 | 0.28 | 0.77 | 0.70 |
| Stock-based compensation | 0.14 | 0.14 | 0.47 | 0.40 |
| Acquisition related expenses | 0.03 | 0.09 | 0.12 | 0.23 |
| Strategic and financial restructuring expenses | 0.03 | — | 0.03 | — |
| Remeasurement of tax receivable agreement liabilities | — | 0.05 | (3.29) | (0.06) |
| ERP implementation expenses | — | — | 0.01 | 0.04 |
| Acquisition related adjustment - revenue | — | 0.23 | — | 0.36 |
| Remeasurement gain attributable to acquisition of Innovatix, LLC | — | — | — | (4.18) |
| Loss on disposal of long-lived assets | — | 0.01 | 0.03 | 0.05 |
| Loss (gain) on FFF put and call rights | 0.06 | — | 0.35 | — |
| Impairment on investments | 0.09 | — | 0.09 | — |
| Impact of corporation taxes [(a)] | (0.60) | (0.92) | (2.14) | (2.57) |
| Impact of dilutive shares [(b)] | (1.02) | (0.92) | (2.52) | (2.62) |
| Non-GAAP Adjusted Fully Distributed Earnings Per Share | $0.67 | $0.52 | $1.61 | $1.39 |

(a) Reflects income tax expense at an estimated effective income tax rate of 26% and 34% of Non-GAAP adjusted fully distributed income before income taxes for the three and nine months ended March 31, 2018, respectively, and 39% for the three and nine months ended March 31, 2017.

(b) Reflects impact of dilutive shares, primarily attributable to the assumed conversion of all Class B common units for Class A common stock.

Consolidated Results - Comparison of the Three and Nine Months ended March 31, 2018 to 2017

Net Revenue

Net revenue increased $45.5 million, or 12%, to $425.3 million for the three months ended March 31, 2018 from $379.8 million for the three months ended March 31, 2017. Net revenue increased $175.7 million, or 17%, to $1,227.3 million for the nine months ended March 31, 2018 from $1,051.6 million for the nine months ended March 31, 2017.

Net administrative fees revenue increased $17.7 million, or 12%, from the three months ended March 31, 2017 to 2018 and $72.9 million, or 18%, from the nine months ended March 31, 2017 to 2018, primarily driven by aggregate contributions from Innovatix and Essensa, which were acquired in full on December 2, 2016, and further contract penetration of our existing members.

Other services and support revenue decreased $0.3 million, from the three months ended March 31, 2017 to 2018, remaining relatively flat. Other services and support revenue increased $8.4 million, or 3% from the nine months ended March 31, 2017 to 2018, primarily due to growth in quality and cost management consulting services related to performance-based engagements. We also experienced increases in SaaS informatics products subscriptions, applied science services and government services related revenue, offset by a decrease in ambulatory reporting revenue. We expect to experience quarterly variability within other services and support revenue due to the timing of revenue recognition from certain consulting services and performance-based engagements in which our revenue is based on a percentage of identified member savings and recognition occurs upon approval and documentation of the savings. We expect our other services and support revenue to grow over the long-term to the extent we are able to expand our sales

to existing members and additional members begin to utilize our products and services.
Product revenue increased $28.1 million, or 20%, from the three months ended March 31, 2017 to 2018 and $94.4 million, or 24%, from the nine months ended March 31, 2017 to 2018, primarily driven by an increase in integrated pharmacy revenues mostly attributable to contributions from expansion and growth in therapy offerings largely associated with increased contributions from

Acro Pharmaceuticals, as well as an increase in sales of certain limited distribution drugs dispensed to treat Idiopathic Pulmonary Fibrosis, Oncology and Multiple Sclerosis, partially offset by a slight decrease in the sales of HIV pharmaceuticals. We also experienced increased sales of direct sourcing products. We expect our integrated pharmacy and direct sourcing product revenues to continue to grow to the extent we are able to increase our product offerings, expand our product sales to existing members and additional members begin to utilize our programs.

Cost of Revenue

Cost of revenue increased $26.3 million, or 15%, to $203.5 million for the three months ended March 31, 2018 from $177.2 million for the three months ended March 31, 2017. Cost of revenue increased $103.7 million, or 21%, to $595.5 million for the nine months ended March 31, 2018 from $491.8 million for the nine months ended March 31, 2017.

Cost of services revenue decreased $0.3 million, or 1%, from the three months ended March 31, 2017 to 2018, remaining relatively flat. Cost of services revenue increased $6.3 million, or 5% from the nine months ended March 31, 2017 to 2018, primarily driven by higher salaries and benefits expenses resulting from increased staffing to support growth and performance-based engagements as well as increased depreciation expense as a result of increased capitalization of internally developed software, offset by a decrease in consulting costs. We expect cost of service revenue to increase to the extent we expand our performance improvement collaboratives and consulting services to members, continue to develop new and existing internally-developed software applications and expand into new product offerings.

Cost of product revenue increased $26.6 million, or 20%, from the three months ended March 31, 2017 to 2018 and $97.3 million, or 27% from the nine months ended March 31, 2017 to 2018, primarily driven by higher product costs associated with the business operations of Acro Pharmaceuticals and due to higher costs driven by growth in direct sourcing sales and the impact of increases in raw materials pricing. We expect our cost of product revenue to increase to the extent we are able to sell additional integrated pharmacy and direct-sourced medical products to new and existing members and enroll additional members into our integrated pharmacy program. The increased cost of product revenues is expected to reduce our gross profit as a percentage of our net revenues.

Other Operating Income

Other operating income increased $171.5 million from the nine months ended March 31, 2017 to 2018 as a result of the remeasurement of TRA liabilities, which was primarily attributable to the 14% decrease in the U.S. federal corporate income tax rate associated with the TCJA.

Operating Expenses

Operating expenses decreased $0.3 million, to $123.2 million for the three months ended March 31, 2018 from $123.5 million for the three months ended March 31, 2017, remaining relatively flat. Operating expenses increased $35.4 million, or 10%, to $374.7 million for the nine months ended March 31, 2018 from $339.3 million for the nine months ended March 31, 2017.

Selling, General and Administrative

Selling, general and administrative expenses increased $0.3 million, from the three months ended March 31, 2017 to 2018, remaining relatively flat, and $29.3 million, or 10%, from the nine months ended March 31, 2017 to 2018, primarily driven by an increase in salaries and benefits expenses resulting from increased staffing mostly associated with acquisitions and to support growth in our Supply Chain Services segment, an increase in depreciation expense resulting from increased capitalization, an increase in stock-based compensation expense largely driven by an increase in equity award grants in addition to anticipated achievement of certain performance targets, along with an increase in severance expense related to the workforce reduction executed in the current period. These results were partially offset by a decrease in costs associated with the acquisitions of Innovatix and Acro Pharmaceuticals.

Research and Development

Research and development expenses decreased by $0.5 million from the three months ended March 31, 2017 to 2018 and $1.2 million from the nine months ended March 31, 2017 to 2018. Research and development expenses consist of employee-related compensation and benefit expenses and third-party consulting fees for technology professionals, net of capitalized labor, incurred to develop our software-related products and services. We experience fluctuations in our research and development expenditures across reportable periods due to the timing of our software development lifecycles, new product features and functionality, new technologies and upgrades to our service offerings.

Amortization of Purchased Intangible Assets
Amortization of purchased intangible assets decreased $0.2 million, or 1%, from the three months ended March 31, 2017 to 2018, remaining relatively flat. Amortization of purchased intangible assets increased $7.2 million, or 21%, from the nine months ended March 31, 2017 to 2018, primarily as a result of additional amortization of purchased intangible assets related to our acquisitions. As we execute on our growth strategy and further deploy capital, we expect further increases in amortization of intangible assets in connection with future potential acquisitions.
Other Income (Expense), Net
Other income (expense), net decreased $8.4 million to $(8.8) million for the three months ended March 31, 2018 from $(0.4) million for the three months ended March 31, 2017, primarily driven by the impairment of the Company's investment in PharmaPoint, LLC ("PharmaPoint") along with the loss on FFF put and call rights in the current period (see Note 4 - Investments and Note 5 - Fair Value Measurements). Other income (expense), net decreased $237.4 million to $(19.9) million for the nine months ended March 31, 2018 from $217.5 million for the nine months ended March 31, 2017, primarily due to the one-time $205.1 million gain recognized from the remeasurement of the 50% equity method investment in Innovatix to fair value upon acquisition of Innovatix on December 2, 2016 (see Note 3 - Business Acquisitions) along with a reduction in equity in net income (loss) of unconsolidated affiliates. As a result of acquiring the remaining 50% of Innovatix, we no longer account for our ownership using the equity method. Other income (expense), net was also impacted by the loss on FFF put and call rights in the current period and partially offset by a moderate increase in equity in net income of FFF, which experienced improved performance in the nine months ended March 31, 2018.
Income Tax Expense
For the three months ended March 31, 2018 and 2017, the Company recorded tax expense of $13.3 million and $7.3 million, respectively, which equates to effective tax rates of 15% and 9%, respectively. For the nine months ended March 31, 2018 and 2017, the Company recorded tax expense of $257.6 million and $68.1 million, respectively, which equates to effective tax rates of 62% and 15%, respectively. The increase in effective tax rates is primarily attributable to the remeasurement of deferred tax balances related to the decrease in the U.S. federal corporate income tax rate from 35% to 21%, pursuant to the TCJA enacted on December 22, 2017. The Company's effective tax rate differs from income taxes recorded at the combined (or blended) statutory income tax rate primarily due to partnership income not subject to federal, state and local income taxes and valuation allowances against deferred tax assets at PHSI. See Note 13 - Income Taxes for more information.
Net Income Attributable to Non-Controlling Interest
Net income attributable to non-controlling interest increased $1.6 million, or 3%, to $53.0 million for the three months ended March 31, 2018 from $51.4 million for the three months ended March 31, 2017, primarily attributable to an increase in income of Premier LP offset by a decrease in non-controlling ownership percentage in Premier LP to 61% from 64%, respectively. Net income attributable to non-controlling interest decreased $128.1 million, or 45%, to $154.1 million for the nine months ended March 31, 2018 from $282.2 million for the nine months ended March 31, 2017, primarily attributable to a decrease in income of Premier LP as well as a decrease in non-controlling ownership percentage in Premier LP to 61% from 64%, respectively.
Non-GAAP Adjusted EBITDA
Non-GAAP Adjusted EBITDA increased $5.5 million, or 4%, to $142.2 million for the three months ended March 31, 2018 from $136.7 million for the three months ended March 31, 2017, primarily as a result of growth in net administrative fees revenue including contributions related to Innovatix and Essensa, along with an increase in product revenue. These results were partially offset by increased product costs and selling, general and administrative expenses resulting from higher salaries and benefits expenses as a result of acquisitions and to support growth along with an increase in severance expense related to the workforce reduction executed in the current period. Additionally, Adjusted EBITDA for the prior period included an $11.6 million non-cash adjustment for cash collections not recognized as revenue on a GAAP basis due to a purchase accounting adjustment.
Non-GAAP Adjusted EBITDA increased $25.5 million, or 7%, to $395.0 million for the nine months ended March 31, 2018 from $369.5 million for the nine months ended March 31, 2017, primarily as a result of growth in net administrative fees revenue including contributions related to Innovatix and Essensa, net of a $10.7 million reduction

in equity in net income (loss) of unconsolidated affiliates due to acquiring the remaining 50% of Innovatix as it was historically accounted for as an unconsolidated affiliate through the date of acquisition, along with an increase in product revenue and, to a lesser extent, an increase in other services and support revenue driven by growth in quality and cost management consulting services related to performance based engagements, and an increase in SaaS informatics products subscriptions, applied sciences and government services related revenue. These increases were partially offset by increased service and product costs and selling, general and administrative expenses resulting from higher salaries and benefits expenses as a result of acquisitions and to support growth along with an increase in severance expense related to the workforce reduction executed in the current period. Additionally, Adjusted EBITDA for the prior period included a $17.2 million non-cash adjustment for cash collections not recognized as revenue on a GAAP basis due to a purchase accounting adjustment.

Supply Chain Services - Comparison of the Three and Nine Months ended March 31, 2018 to 2017

The following table summarizes our results of operations and Non-GAAP Segment Adjusted EBITDA in the Supply Chain Services segment for the periods presented (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| Supply Chain Services | 2018 | 2017 | 2018 | 2017 |
| Net revenue: | | | | |
| Net administrative fees | $161,612 | $143,915 | $471,946 | $398,962 |
| Other services and support | 2,899 | 3,116 | 8,470 | 5,962 |
| Services | 164,511 | 147,031 | 480,416 | 404,924 |
| Products | 166,234 | 138,132 | 480,997 | 386,639 |
| Net revenue | 330,745 | 285,163 | 961,413 | 791,563 |
| Cost of revenue: | | | | |
| Services | 1,437 | 1,486 | 3,524 | 3,967 |
| Products | 156,511 | 129,929 | 454,222 | 356,900 |
| Cost of revenue | 157,948 | 131,415 | 457,746 | 360,867 |
| Gross profit | 172,797 | 153,748 | 503,667 | 430,696 |
| Operating expenses: | | | | |
| Selling, general and administrative | 40,185 | 41,984 | 124,305 | 112,530 |
| Amortization of purchased intangible assets | 5,040 | 5,083 | 15,057 | 7,450 |
| Operating expenses | 45,225 | 47,067 | 139,362 | 119,980 |
| Operating income | $127,572 | $106,681 | $364,305 | $310,716 |
| Depreciation and amortization | 460 | 633 | 1,109 | 1,186 |
| Amortization of purchased intangible assets | 5,040 | 5,083 | 15,057 | 7,450 |
| Acquisition related expenses | 1,652 | 3,887 | 6,522 | 12,937 |
| Acquisition related adjustment - revenue | — | 11,617 | — | 17,249 |
| Equity in net income (loss) of unconsolidated affiliates | (4,047) | 83 | 1,334 | 14,789 |
| Impairment on investments | 4,002 | — | 4,002 | — |
| Other income (expense) | 586 | (86) | 601 | (103) |
| Non-GAAP Segment Adjusted EBITDA | $135,265 | $127,898 | $392,930 | $364,224 |

Net Revenue

Supply Chain Services segment net revenue increased $45.5 million, or 16%, to $330.7 million for the three months ended March 31, 2018 from $285.2 million for the three months ended March 31, 2017. Supply Chain Services segment net revenue increased $169.8 million, or 21%, to $961.4 million for the nine months ended March 31, 2018 from $791.6 million for the nine months ended March 31, 2017.

Net administrative fees revenue increased $17.7 million, or 12%, from the three months ended March 31, 2017 to 2018 and $72.9 million, or 18%, from the nine months ended March 31, 2017 to 2018, primarily driven by aggregate contributions from Innovatix and Essensa, which were acquired in full on December 2, 2016, and further contract penetration of our existing members.

Product revenue increased $28.1 million, or 20%, from the three months ended March 31, 2017 to 2018 and $94.4 million, or 24%, from the nine months ended March 31, 2017 to 2018, primarily driven by an increase in integrated pharmacy revenues mostly attributable to contributions from expansion and growth in therapy offerings largely associated with increased contributions from Acro Pharmaceuticals, as well as an increase in sales of certain limited distribution drugs dispensed to treat Idiopathic Pulmonary Fibrosis, Oncology and Multiple Sclerosis, partially offset by a slight decrease in the sales of HIV pharmaceuticals. We also

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experienced increased sales of direct sourcing products. We expect our integrated pharmacy and direct sourcing product revenues to continue to grow to the extent we are able to increase our product offerings, expand our product sales to existing members and as additional members begin to utilize our programs.

Cost of Revenue

Supply Chain Services segment cost of revenue increased $26.5 million, or 20%, to $157.9 million for the three months ended March 31, 2018 from $131.4 million for the three months ended March 31, 2017. Supply Chain Services segment cost of revenue increased $96.9 million, or 27%, to $457.7 million for the nine months ended March 31, 2018 from $360.9 million for the nine months ended March 31, 2017.

Cost of product revenue increased $26.6 million, or 20%, from the three months ended March 31, 2017 to 2018 and $97.3 million, or 27%, from the nine months ended March 31, 2017 to 2018, primarily driven by higher product costs associated with the business operations of Acro Pharmaceuticals and due to higher costs driven by growth in direct sourcing sales and the impact of increases in raw materials pricing.

Operating Expenses

Supply Chain Services segment operating expenses decreased $1.8 million, or 4%, to $45.2 million for the three months ended March 31, 2018 from $47.1 million for the three months ended March 31, 2017. Supply Chain Services segment operating expenses increased $19.4 million, or 16%, to $139.4 million for the nine months ended March 31, 2018 from $120.0 million for the nine months ended March 31, 2017.

Selling, general and administrative expenses decreased $1.8 million, or 4%, from the three months ended March 31, 2017 to 2018 primarily driven by a decrease in costs associated with the acquisitions of Innovatix and Essensa. Selling, general and administrative expenses increased $11.8 million, or 10%, from the nine months ended March 31, 2017 to 2018, due to higher salaries and benefits expense primarily associated with the acquisitions of Innovatix and Essensa and to a lesser extent, the acquisition of Acro Pharmaceuticals, partially offset by a decrease in costs associated with the acquisitions of Innovatix and Essensa.

Amortization of purchased intangible assets remained flat at $5.0 million for the three months ended March 31, 2017 and 2018, and increased $7.6 million from the nine months ended March 31, 2017 to 2018, primarily as a result of additional amortization of purchased intangible assets related to our acquisitions.

Segment Adjusted EBITDA

Segment Adjusted EBITDA increased $7.4 million, or 6%, to $135.3 million for the three months ended March 31, 2018 from $127.9 million for the three months ended March 31, 2017. This increase was primarily a result of growth in net administrative fees revenue including contributions related to Innovatix and Essensa, along with an increase in product revenue. These increases were partially offset by increased product costs and selling, general and administrative expenses resulting from higher salaries and benefit expenses as a result of acquisitions and to support growth. Additionally, Segment Adjusted EBITDA for the prior period included an $11.6 million non-cash adjustment for cash collections not recognized as revenue on a GAAP basis due to a purchase accounting adjustment.

Segment Adjusted EBITDA increased $28.7 million, or 8%, to $392.9 million for the nine months ended March 31, 2018 from $364.2 million for the nine months ended March 31, 2017. This increase was primarily a result of growth in net administrative fees revenue including contributions related to Innovatix and Essensa, net of the reduction in equity in net income (loss) of unconsolidated affiliates due to acquiring the remaining 50% of Innovatix as it was historically accounted for as an unconsolidated affiliate through the date of acquisition, along with an increase in product revenue. These increases were partially offset by increased product costs and selling, general and administrative expenses resulting from higher salaries and benefit expenses as a result of acquisitions and to support growth. Additionally, Segment Adjusted EBITDA for the prior period included a $17.2 million non-cash adjustment for cash collections not recognized as revenue on a GAAP basis due to a purchase accounting adjustment.

Performance Services - Comparison of the Three and Nine Months ended March 31, 2018 to 2017

The following table summarizes our results of operations and Non-GAAP Segment Adjusted EBITDA in the Performance Services segment for the periods presented (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| Performance Services | 2018 | 2017 | 2018 | 2017 |
| Net revenue: | | | | |
| Other services and support | $94,593 | $94,640 | $265,887 | $260,012 |
| Net revenue | 94,593 | 94,640 | 265,887 | 260,012 |
| Cost of revenue: | | | | |
| Services | 45,600 | 45,833 | 137,705 | 130,898 |
| Cost of revenue | 45,600 | 45,833 | 137,705 | 130,898 |
| Gross profit | 48,993 | 48,807 | 128,182 | 129,114 |
| Operating expenses: | | | | |
| Selling, general and administrative | 27,746 | 24,811 | 86,054 | 75,383 |
| Research and development | 292 | 547 | 1,099 | 1,706 |
| Amortization of purchased intangible assets | 8,841 | 8,996 | 26,540 | 26,989 |
| Operating expenses | 36,879 | 34,354 | 113,693 | 104,078 |
| Operating income | $12,114 | $14,453 | $14,489 | $25,036 |
| Depreciation and amortization | 15,701 | 12,494 | 44,553 | 36,360 |
| Amortization of purchased intangible assets | 8,841 | 8,996 | 26,540 | 26,989 |
| Acquisition related expenses | (112) | 443 | (209) | (1,454) |
| Acquisition related adjustment - revenue | 64 | 148 | 257 | 480 |
| Equity in net income (loss) of unconsolidated affiliates | (892) | — | (765) | — |
| Impairment on investments | 1,000 | — | 1,000 | — |
| Other income (expense) | (1) | 1 | — | 38 |
| Non-GAAP Segment Adjusted EBITDA | $36,715 | $36,535 | $85,865 | $87,449 |

Net Revenue

Other services and support revenue remained flat at $94.6 million for the three months ended March 31, 2017 and 2018. Other services and support revenue increased $5.9 million, or 2%, to $265.9 million for the nine months ended March 31, 2018 from $260.0 million for the nine months ended March 31, 2017 primarily due to growth in quality and cost management consulting services related to performance-based engagements. We also experienced increases in SaaS informatics products subscriptions, applied science services and government services related revenue, offset by a decrease in ambulatory reporting revenue.

We expect to experience quarterly variability in revenue generated from our Performance Services segment due to the timing of revenue recognition from certain consulting services and performance-based engagements in which our revenue is based on a percentage of identified member savings and recognition occurs upon approval and documentation of the savings. We expect our Performance Services revenue to grow over the long-term to the extent we are able to expand our sales to existing members and additional members begin to utilize our products and services.

Cost of Revenue

Cost of revenue decreased $0.2 million, or 1%, to $45.6 million for the three months ended March 31, 2018 from $45.8 million for the three months ended March 31, 2017, remaining relatively flat. Cost of revenue increased $6.8 million, or 5%, to $137.7 million for the nine months ended March 31, 2018 from $130.9 million for the nine months ended March 31, 2017, primarily driven by higher salaries and benefits expenses resulting from increased staffing to support growth and performance-based engagements as well as increased depreciation expense as a result of increased capitalization of internally developed software, offset by a decrease in consulting costs.

Operating Expenses

Operating expenses increased $2.5 million, or 7%, to $36.9 million for the three months ended March 31, 2018 from $34.4 million for the three months ended March 31, 2017. Operating expenses increased $9.6 million, or 9%, to $113.7 million for the nine months ended March 31, 2018 from $104.1 million for the nine months ended March 31, 2017.

Selling, general and administrative expenses increased $2.9 million, or 12%, from the three months ended March 31, 2017 to 2018 and $10.7 million, or 14%, from the nine months ended March 31, 2017 to 2018, primarily driven by depreciation expense resulting from increased capitalization of internally developed software, as well as an increase in severance expense related to the workforce reduction executed in the current period.

Amortization of purchased intangible assets decreased $0.2 million, or 2%, from the three months ended March 31, 2017 to 2018 and $0.4 million, or 2%, from the nine months ended March 31, 2017 to 2018, remaining relatively flat.

Segment Adjusted EBITDA

Segment Adjusted EBITDA increased $0.2 million to $36.7 million for the three months ended March 31, 2018 from $36.5 million for the three months ended March 31, 2017, remaining relatively flat. Segment Adjusted EBITDA decreased $1.6 million, or 2%, to $85.9 million for the nine months ended March 31, 2018 from $87.4 million for the nine months ended March 31, 2017. This decrease is primarily a result of an increase in severance expense related to the workforce reduction executed in the current period and was also impacted on a comparable basis due to higher revenue recognition from performance-based engagements in the prior year. Additionally, the Company made investments in staff and infrastructure to support growth involving primarily larger and more complex engagements that include significant performance-based consulting services initiatives, which also resulted in increased salaries and benefits expenses.

Corporate - Comparison of the Three and Nine Months ended March 31, 2018 to 2017

The following table summarizes corporate expenses and Non-GAAP Adjusted EBITDA for the periods presented (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| Corporate | 2018 | 2017 | 2018 | 2017 |
| Other operating income: | | | | |
| Remeasurement of tax receivable agreement liabilities | $— | $— | $177,174 | $5,722 |
| Other operating income | — | — | 177,174 | 5,722 |
| Operating expenses: | | | | |
| Selling, general and administrative | 41,075 | 41,874 | 121,588 | 114,643 |
| Research and development | — | 208 | 6 | 622 |
| Operating expenses | $41,075 | $42,082 | $121,594 | $115,265 |
| Operating income (loss) | $(41,075) | $(42,082) | $55,580 | $(109,543) |
| Depreciation and amortization | 2,424 | 1,974 | 6,739 | 5,772 |
| Stock-based compensation | 7,333 | 7,157 | 25,241 | 19,476 |
| Strategic and financial restructuring expenses | 1,648 | — | 1,652 | — |
| Remeasurement of tax receivable agreement liabilities | — | 2,768 | (177,174) | (2,954) |
| ERP implementation expenses | 40 | 215 | 531 | 1,741 |
| Deferred compensation plan income (expense) | (112) | 1,675 | 3,004 | 2,778 |
| Other income | 1 | 584 | 583 | 563 |
| Non-GAAP Adjusted EBITDA | $(29,741) | $(27,709) | $(83,844) | $(82,167) |

Other Operating Income

Other operating income increased $171.5 million from the nine months ended March 31, 2017 to 2018 as a result of the remeasurement of TRA liabilities, which was primarily attributable to the 14% decrease in the U.S. federal corporate income tax rate associated with the TCJA. See "Member-Owner TRA" below for additional information related to the Company's TRA liabilities.

Operating Expenses

Operating expenses decreased $1.0 million, or 2%, to $41.1 million for the three months ended March 31, 2018 from $42.1 million for the three months ended March 31, 2017, remaining relatively flat. Operating expenses increased $6.3 million, or 5%, to $121.6 million for the nine months ended March 31, 2018 from $115.3 million for the nine months ended March 31, 2017.

Selling, general and administrative expenses decreased $0.8 million, or 2%, from the three months ended March 31, 2017 to 2018, remaining relatively flat, and increased $6.9 million, or 6%, from the nine months ended March 31, 2017 to 2018, primarily driven by an increase in stock-based compensation expense largely associated with anticipated achievement of certain performance targets.

Non-GAAP Adjusted EBITDA

Non-GAAP Adjusted EBITDA decreased by $2.0 million, or 7%, from the three months ended March 31, 2017 to 2018 and decreased $1.7 million, or 2%, from the nine months ended March 31, 2017 to 2018, driven primarily by an increase in professional services costs associated with a certain strategic consulting engagement.

Off-Balance Sheet Arrangements

As of March 31, 2018, we did not have any off-balance sheet arrangements.

Liquidity and Capital Resources

Our principal source of cash has historically been cash provided by operating activities. From time to time we have used, and expect to use in the future, borrowings under our Credit Facility as a source of liquidity. Our primary cash requirements involve operating expenses, working capital fluctuations, capital expenditures, discretionary cash settlement of Class B common unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to a stock repurchase program, acquisitions and related business investments and other general corporate activities. Our capital expenditures typically consist of internally-developed software costs, software purchases and computer hardware purchases.

As of March 31, 2018 and June 30, 2017, we had cash and cash equivalents totaling $149.4 million and $156.7 million respectively, and there were $200.0 million and $220.0 million, respectively, in outstanding borrowings under the Credit Facility. During the nine months ended March 31, 2018 the Company repaid $50.0 million of borrowings and borrowed an additional $30.0 million under the Credit Facility.

We expect cash generated from operations and borrowings under our Credit Facility to provide us with adequate liquidity to fund our anticipated working capital requirements, revenue share obligations, tax payments, capital expenditures, discretionary cash settlement of Class B common unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to a stock repurchase program and growth for the foreseeable future. Our capital requirements depend on numerous factors, including funding requirements for our product and service development and commercialization efforts, our information technology requirements and the amount of cash generated by our operations. We currently believe that we have adequate capital resources at our disposal to fund currently anticipated capital expenditures, business growth and expansion and current and projected debt service requirements. However, strategic growth initiatives will likely require the use of available cash on hand, cash generated from operations, borrowings under our Credit Facility and other long-term debt and, potentially, proceeds from the issuance of additional equity or debt securities.

Discussion of Cash Flows for the Nine Months ended March 31, 2018 and 2017

A summary of net cash flows follows (in thousands):

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net cash provided by (used in): | | |
| Operating activities | $369,734 | $274,211 |
| Investing activities | (65,260) | (447,181) |
| Financing activities | (311,799) | 160,371 |
| Net decrease in cash and cash equivalents | $(7,325) | $(12,599) |

Net cash provided by operating activities increased $95.5 million from the nine months ended March 31, 2017 to 2018 primarily driven by an increase in net administrative fees as well as decreased working capital needs, partially offset by increased selling, general and administrative expenses in the current period.

Net cash used in investing activities decreased $381.9 million from the nine months ended March 31, 2017 to 2018 driven by our $319.7 million acquisition of Innovatix and Essensa, our $64.5 million acquisition of Acro Pharmaceuticals and our $65.7 million investment in FFF during the prior period, partially offset by $48.0 million in proceeds from the sale of marketable securities during the prior period and a $13.4 million increase in capitalization of internally developed software in the current period.

Net cash provided by financing activities was $160.4 million for the nine months ended March 31, 2017 while net cash used in financing activities was $311.8 million for the nine months ended March 31, 2018. The change in cash flows provided by and used in financing activities was largely driven by $367.5 million of net borrowings under the Credit Facility in the prior period, partially offset by the $100.0 million settlement of exchange of Class B common units by member owners in the prior period and the $200.1 million used to repurchase Class A common stock under our stock repurchase program in the current period.

Discussion of Non-GAAP Free Cash Flow for the Nine Months ended March 31, 2018 and 2017

We define Non-GAAP Free Cash Flow as net cash provided by operating activities less distributions and TRA payments to limited partners and purchases of property and equipment. Free cash flow does not represent discretionary cash available for spending as it excludes certain contractual obligations such as debt repayments. A summary of Non-GAAP Free Cash Flow and reconciliation to net cash provided by operating activities for the periods presented follows (in thousands):

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net cash provided by operating activities | $369,734 | $274,211 |
| Purchases of property and equipment | (65,260) | (51,892) |
| Distributions to limited partners of Premier LP | (66,098) | (67,363) |
| Non-GAAP Free Cash Flow | $238,376 | $154,956 |

Non-GAAP Free Cash Flow increased $83.4 million from the nine months ended March 31, 2017 to 2018 primarily driven by an increase in net administrative fees as well as decreased working capital needs, partially offset by increased selling, general and administrative expenses and increased capitalization of internally developed software in the current period. See “Our Use of Non-GAAP Financial Measures” above for additional information regarding our use of Non-GAAP Free Cash Flow.

The Company anticipates that its Non-GAAP Free Cash Flow will benefit as a result of the decrease in the U.S. federal corporate income tax rate associated with the TCJA as distributions to limited partners of Premier LP and payments to limited partners of Premier LP related to tax receivable agreements are expected to decrease in future periods as a result of the decreased federal corporate income tax rate.

Contractual Obligations

Notes Payable

At March 31, 2018, we had commitments of $7.2 million for obligations under notes payable which represented obligations to departed member owners. Notes payable to departed member owners generally have stated maturities of five years from the date of issuance and are non-interest bearing. See Note 8 - Debt in the accompanying condensed consolidated financial statements for more information.

2014 Credit Facility

Premier LP, along with its consolidated subsidiaries, PSCI and PHSI, as Co-Borrowers, Premier GP and certain domestic subsidiaries of Premier GP, as guarantors, entered into an unsecured Credit Facility, dated as of June 24, 2014 and amended on June 4, 2015. The Credit Facility has a maturity date of June 24, 2019. The Credit Facility provides for borrowings of up to $750.0 million with (i) a $25.0 million sub-facility for standby letters of credit and (ii) a $75.0 million sub-facility for swingline loans. The Credit Facility may be increased from time to time at the Company's request up to an aggregate additional amount of $250.0 million, subject to lender approval. The Credit Facility includes an unconditional and irrevocable guaranty of all obligations under the Credit Facility by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier, Inc. is not a guarantor under the Credit Facility.

At the Company's option, committed loans may be in the form of Eurodollar rate loans ("Eurodollar Loans") or base rate loans ("Base Rate Loans"). Eurodollar Loans bear interest at the Eurodollar rate (defined as the London Interbank Offered Rate, or LIBOR, plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility))). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.750% for Eurodollar Loans and 0.125% to 0.750% for Base Rate Loans. At March 31, 2018, the interest rate for three-month Eurodollar Loans was 3.435%, the interest rate for six-month Eurodollar Loans was 3.575% and the interest rate for Base Rate Loans was 4.875%. The Co-Borrowers are required to pay a commitment fee ranging from 0.125% to 0.250% per annum on the actual daily unused amount of commitments under the Credit Facility. At March 31, 2018, the commitment fee was 0.125%.

The Credit Facility contains customary representations and warranties as well as customary affirmative and negative covenants, including, among others, limitations on liens, indebtedness, fundamental changes, dispositions, restricted payments and investments, of which certain covenant calculations use EBITDA, a Non-GAAP financial measure. Under the terms of the Credit Facility, Premier GP is not permitted to allow its consolidated total leverage ratio (as defined in the Credit Facility) to exceed 3.00 to 1.00 for any period of four consecutive quarters. In addition, Premier GP must maintain a minimum consolidated interest coverage ratio (as defined in the Credit Facility) of 3.00 to 1.00 at the end of every fiscal quarter. Premier GP was in compliance with all such covenants at March 31, 2018.

The Credit Facility also contains customary events of default including, among others, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults of any indebtedness or guarantees in excess of $30.0 million, bankruptcy and other insolvency events, judgment defaults in excess of $30.0 million, and the occurrence of a change of control (as defined in the Credit Facility). If any event of default occurs and is continuing, the administrative agent under the Credit Facility may, with the consent, or shall, at the request of the required lenders, terminate the commitments and declare all of the amounts owed under the Credit Facility to be immediately due and payable. The Company may prepay amounts outstanding under the Credit Facility without premium or penalty provided that Co-Borrowers compensate the lenders for losses and expenses incurred as a result of the prepayment of any Eurodollar Loan, as defined in the Credit Facility.

Proceeds from borrowings under the Credit Facility may generally be used to finance ongoing working capital requirements, including permitted acquisitions, discretionary cash settlements of Class B unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to a stock repurchase program and other general corporate activities. During the nine months ended March 31, 2018, the Company repaid $50.0 million of borrowings and borrowed an additional $30.0 million under the Credit Facility. The Company had outstanding borrowings under the Credit Facility of $200.0 million at March 31, 2018. Borrowings due within one year of the balance sheet date are classified as current liabilities in the Condensed Consolidated Balance Sheets. They may be renewed or extended at the option of the Company through the maturity date of the Credit Facility. The above summary does not purport to be complete, and is subject to, and qualified in its entirety by reference to, the complete text of the Credit Facility, as amended, which is filed as an exhibit to the 2017 Annual Report. See also Note 8 - Debt

in our accompanying condensed consolidated financial statements in Part I of this Quarterly Report.
Member-Owner TRA
The Company entered into TRAs with each of our member owners. Pursuant to the TRAs, we will pay member owners 85% of the tax savings, if any, in U.S. federal, foreign, state and local income and franchise tax that we actually realize (or are deemed to realize, in the case of payments required to be made upon certain occurrences under such TRAs) in connection with the Section 754 election. The election results in adjustments to the tax basis of the assets of Premier LP upon member owner exchanges of Class B common units of Premier LP for Class A common stock of Premier, Inc., cash or a combination of both. Tax savings are

generated as a result of the increases in tax basis resulting from the initial sale of Class B common units, subsequent exchanges (pursuant to the Exchange Agreement) and payments under the TRA.

The Company had TRA liabilities of $250.7 million and $339.7 million at March 31, 2018 and June 30, 2017, respectively. The $89.0 million decrease was primarily attributable to the $177.2 million revaluation and remeasurement of TRA liabilities associated with the decrease in the U.S. federal corporate income tax rate as a result of the TCJA, partially offset by $67.5 million in increases in TRA liabilities in connection with the quarterly member owner exchanges that occurred during the period and $20.9 million associated with the revaluation and remeasurement of TRA liabilities due to a change in the allocation and realization of future anticipated payments.

Stock Repurchase Program

On October 31, 2017, we announced that our Board of Directors authorized the repurchase of up to $200.0 million of our outstanding Class A common stock as part of a balanced capital deployment strategy, such repurchases to be made from time to time in private or open market transactions at the Company's discretion, in accordance with applicable federal securities laws. As of March 31, 2018, the Company completed its stock repurchase program and purchased approximately 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total purchase price of $200.0 million.

Costs Associated with Exit or Disposal Activities

As part of our ongoing integration synergies and efforts to realign resources for future growth areas, we have implemented certain personnel adjustments, including a workforce reduction. More specifically, we finalized and committed to this course of action on February 2, 2018, and on February 5, 2018 we communicated to our employees that these personnel adjustments impacted approximately 75 positions (approximately 65 of which were related to the workforce reduction), or approximately 3% of total employees. The workforce reduction resulted in pre-tax cash restructuring charges, primarily relating to severance and transition assistance, of approximately $5.1 million in the third quarter ending March 31, 2018. The majority of employees impacted by these personnel adjustments were from our Performance Services segment.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our exposure to market risk related primarily to the increase or decrease in the amount of any interest expense we must pay with respect to outstanding debt instruments. At March 31, 2018, we had $200.0 million in outstanding borrowings under the Credit Facility. Committed loans may be in the form of Eurodollar Rate Loans or Base Rate Loans (as defined in the Credit Facility) at our option. Eurodollar Rate Loans bear interest at the Eurodollar Rate (defined as the London Interbank Offer Rate, or LIBOR) plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility)). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.750% for Eurodollar Rate Loans and 0.125% to 0.750% for Base Rate Loans. At March 31, 2018, the interest rate for three-month Eurodollar Rate Loans was 3.435%, the interest rate for six-month Eurodollar Loans was 3.575% and the interest rate for Base Rate Loans was 4.875%.

We invest our excess cash in a portfolio of individual cash equivalents. We do not currently hold, and we have never held, any derivative financial instruments. We do not expect changes in interest rates to have a material impact on our financial condition or results of operations. We plan to ensure the safety and preservation of our invested funds by limiting default, market and investment risks. We plan to mitigate default risk by investing in low-risk securities.

Foreign Currency Risk. Substantially all of our financial transactions are conducted in U.S. dollars. We do not have significant foreign operations and, accordingly, have only minimal market risk associated with foreign currencies.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon our evaluation, our chief executive officer and chief financial officer have concluded that, due solely to the identification of a material weakness in our internal control over financial reporting as described in Part II, Item 9A of our 2017 Form 10-K that has not yet been fully remediated, our disclosure controls and procedures were not effective as of March 31, 2018.

### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as described below under “Remediation Plan”.

### Remediation Plan

As disclosed in Part II, Item 9A of our 2017 Form 10-K, we identified a material weakness in our internal control over financial reporting related to the income tax accounting for complex, non-routine or infrequent transactions. Since that time, we have been implementing a remediation plan to address this material weakness. The remediation plan consists of augmenting the Company’s accounting resources, training, and implementing a more formal review and documentation process around the income tax accounting for complex, non-routine or infrequent transactions that may arise from time to time. Management believes that this remediation plan will strengthen our overall internal control over financial reporting and specifically with respect to complex, non-routine or infrequent transactions. Management is continuing to assess the sufficiency and expected effectiveness of our remediation efforts, and we may take additional measures or modify our internal control over financial reporting for these types of transactions.

This material weakness will not be considered fully remediated until newly implemented remediation controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect these remedial actions to be effectively implemented during fiscal year 2018 in order to successfully remediate this material weakness by June 30, 2018. If these remedial measures are insufficient or not implemented effectively, or additional deficiencies arise, material misstatements may occur in the future. Among other things, any unremediated or additional material weaknesses could have the effects described in our 2017 Form 10-K, specifically under “Item 1A. Risk Factors - If we fail to maintain an effective system of integrated internal controls, we may not be able to report our financial results accurately, or we may determine that our prior financial statements are not reliable, which could have a material adverse effect on our business, financial condition and results of operations.”

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We participate in businesses that are subject to substantial litigation. We are, from time to time, involved in litigation, arising in the ordinary course of business or otherwise, which may include claims relating to commercial, product liability, tort and personal injury, employment, antitrust, intellectual property, regulatory, or other matters. If current or future government regulations, specifically those with respect to antitrust or healthcare laws, are interpreted or enforced in a manner adverse to us or our business, we may be subject to enforcement actions, penalties and other material limitations on our business.

In the past, we have been named as a defendant in several lawsuits brought by suppliers of medical products. Typically, these lawsuits have alleged the existence of a conspiracy among manufacturers of competing products and operators of GPOs, including us, to deny the plaintiff access to a market for its products. We believe that we have at all times conducted our business affairs in an ethical and legally compliant manner and have successfully resolved all such actions. We may be subjected to similar actions in the future, and no assurance can be given that such matters will be resolved in a manner satisfactory to us or which will not harm our business, financial condition or results of operations.

Additional information relating to certain legal proceedings in which we are involved is included in Note 15 - Commitments and Contingencies to the accompanying condensed consolidated financial statements, which information is incorporated herein by reference.

Item 1A. Risk Factors

During the quarter ended March 31, 2018, there were no material changes to the risk factors disclosed in "Risk Factors" in the 2017 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities

On October 31, 2017, we announced that our board of directors authorized the repurchase of up to $200.0 million of our outstanding Class A common stock, prior to June 30, 2018, as part of a balanced capital deployment strategy. Subject to compliance with applicable federal securities laws, repurchases were authorized to be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. All repurchases of our Class A common stock were recorded as treasury shares. The following table summarizes information relating to repurchases made of our Class A common stock through the quarter ended March 31, 2018.

| Period | Total Number of Shares Purchased | Average Price Paid per Share ($) (1) | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)(2) |
|---|---|---|---|---|
| January 1 through January 31, 2018 | 923,949 | 31.56 | 923,949 | 96 |
| February 1 through February 28, 2018 | 1,634,520 | 32.27 | 1,634,520 | 43 |
| March 1 through March 31, 2018 | 1,282,129 | 33.88 | 1,282,129 | — |
| Total | 3,840,598 | $ 32.64 | 3,840,598 | $ — |

(1) Average price paid per share excludes fees and commissions.

(2) From the stock repurchase program's inception through March 31, 2018, we purchased 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total of $200.0 million since the program's inception.

Item 5. Other Information

Stock Repurchase Program Authorization

On May 7, 2018, the Company announced that its Board of Directors has approved the repurchase of up to $250 million of the Company's Class A common stock during fiscal 2019 through open market purchases or privately negotiated transactions. In order to initiate the repurchase program, the Company expects to execute the necessary agreements and documentation with one or more financial institutions during the next open trading window under the Company’s insider trading policy, scheduled to occur shortly after the May 7, 2018 fiscal 2018 third quarter earnings call. There can be no assurance, however, as to when or whether the repurchase program will be ultimately initiated or regarding number of shares of Class A common stock, if any, purchased under the program. The Company will provide additional details regarding the repurchase program, if adopted and initiated, in future filings with the SEC. See "Cautionary Note Regarding Forward-Looking Statements."

Item 6. Exhibits

| Exhibit No. | Description |
| --- | --- |
| 31.1 | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡ |
| 32.2 | Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡ |
| 101 | Sections of the Premier, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language), submitted in the following files: |
| 101.INS | XBRL Instance Document.* |
| 101.SCH | XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |

* Filed herewith.

‡ Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PREMIER, INC.

| | | | |
|---|---|---|---|
| Date: | May 7, 2018 | By: | /s/ Craig S. McKasson |
| | | Name: | Craig S. McKasson |
| | | Title: | Chief Financial Officer and Senior Vice President<br>Signing on behalf of the registrant and as principal financial officer and principal accounting officer |

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