

Premier, Inc.  
Form 10-Q  
November 07, 2018

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

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

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Premier, Inc.

(Exact name of registrant as specified in its charter)

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

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

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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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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 ☒ Accelerated filer ☐ Non-accelerated filer ☐  
(Do not check if a

Smaller reporting company ☐ Emerging growth company ☐ smaller reporting  
company)

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

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Exchange Act. ☐

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

As of November 2, 2018, there were 63,734,752 shares of the registrant's Class A common stock, par value \$0.01 per share, and 69,601,752 shares of the registrant's Class B common stock, par value \$0.000001 per share, outstanding.

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TABLE OF CONTENTS

|                                                                                                                              | Page             |
|------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>                                                                                  | <b><u>6</u></b>  |
| Item 1. <b><u>Financial Statements</u></b>                                                                                   | <b><u>6</u></b>  |
| Condensed Consolidated Balance Sheets as of September 30, 2018 and June 30, 2018 (Unaudited)                                 | <b><u>6</u></b>  |
| Condensed Consolidated Statements of Income for the three months ended September 30, 2018 and 2017 (Unaudited)               | <b><u>8</u></b>  |
| Condensed Consolidated Statements of Comprehensive Income for the three months ended September 30, 2018 and 2017 (Unaudited) | <b><u>9</u></b>  |
| Condensed Consolidated Statement of Stockholders' Deficit for the three months ended September 30, 2018 and 2017 (Unaudited) | <b><u>10</u></b> |
| Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2018 and 2017 (Unaudited)           | <b><u>12</u></b> |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>                                                      | <b><u>14</u></b> |
| Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>                  | <b><u>41</u></b> |
| Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>                                             | <b><u>60</u></b> |
| Item 4. <b><u>Controls and Procedures</u></b>                                                                                | <b><u>61</u></b> |
| <b><u>PART II. OTHER INFORMATION</u></b>                                                                                     | <b><u>62</u></b> |
| Item 1. <b><u>Legal Proceedings</u></b>                                                                                      | <b><u>62</u></b> |
| Item 1A. <b><u>Risk Factors</u></b>                                                                                          | <b><u>62</u></b> |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                                                          | <b><u>62</u></b> |
| Item 5. Other Information                                                                                                    | <b><u>63</u></b> |
| Item 6. <b><u>Exhibits</u></b>                                                                                               | <b><u>64</u></b> |
| <b><u>Signatures</u></b>                                                                                                     | <b><u>65</u></b> |

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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 SaaS informatics products and services 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 loans to businesses that we do not control, particularly early stage companies;
- 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 pharmaceutical 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 pharmacy operations;
- 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, including our ability to renew or replace our existing long-term credit facility at maturity;

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 international, 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 current or acquired 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 over financial reporting or an inability to remediate any weaknesses identified and the related costs of remediation;

the number of shares of Class A common stock that will be eligible for sale upon exchange of Class B common units of Premier LP in the near future and the dilutive effect of such issuances;

our lack of current plans to pay cash dividends on our Class A common stock;

the timing and number of shares of Class A common stock repurchased by the Company, if any, pursuant to our current or any future Class A common stock repurchase 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, 2018 (the "2018 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)

|                                                                                                | September 30,<br>2018 | June 30,<br>2018 |
|------------------------------------------------------------------------------------------------|-----------------------|------------------|
| Assets                                                                                         |                       |                  |
| Cash and cash equivalents                                                                      | \$ 142,422            | \$ 152,386       |
| Accounts receivable (net of \$4,867 and \$1,841 allowance for doubtful accounts, respectively) | 182,254               | 185,874          |
| Contract assets                                                                                | 202,961               | —                |
| Inventory                                                                                      | 68,236                | 66,139           |
| Prepaid expenses and other current assets                                                      | 29,675                | 23,325           |
| Due from related parties                                                                       | 654                   | 894              |
| Total current assets                                                                           | 626,202               | 428,618          |
| Property and equipment (net of \$318,098 and \$297,591 accumulated depreciation, respectively) | 211,248               | 206,693          |
| Intangible assets (net of \$167,273 and \$153,635 accumulated amortization, respectively)      | 308,477               | 322,115          |
| Goodwill                                                                                       | 906,545               | 906,545          |
| Deferred income tax assets                                                                     | 301,267               | 305,624          |
| Deferred compensation plan assets                                                              | 43,343                | 44,577           |
| Investments in unconsolidated affiliates                                                       | 96,743                | 94,053           |
| Other assets                                                                                   | 22,727                | 3,991            |
| Total assets                                                                                   | \$ 2,516,552          | \$ 2,312,216     |
| Liabilities, redeemable limited partners' capital and stockholders' deficit                    |                       |                  |
| Accounts payable                                                                               | \$ 53,452             | \$ 60,130        |
| Accrued expenses                                                                               | 87,366                | 64,257           |
| Revenue share obligations                                                                      | 119,578               | 78,999           |
| Limited partners' distribution payable                                                         | 14,993                | 15,465           |
| Accrued compensation and benefits                                                              | 33,146                | 64,112           |
| Deferred revenue                                                                               | 34,259                | 39,785           |
| Current portion of tax receivable agreements                                                   | 18,217                | 17,925           |
| Current portion of long-term debt                                                              | 101,771               | 100,250          |
| Other liabilities                                                                              | 7,050                 | 7,959            |
| Total current liabilities                                                                      | 469,832               | 448,882          |
| Long-term debt, less current portion                                                           | 5,447                 | 6,962            |
| Tax receivable agreements, less current portion                                                | 225,090               | 237,176          |
| Deferred compensation plan obligations                                                         | 43,343                | 44,577           |
| Deferred tax liabilities                                                                       | 21,950                | 17,569           |
| Other liabilities                                                                              | 68,083                | 63,704           |
| Total liabilities                                                                              | 833,745               | 818,870          |

|                                                                                                                                                                                                                                         | September 30,<br>2018 | June 30,<br>2018 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------|
| Redeemable limited partners' capital                                                                                                                                                                                                    | 3,638,624             | 2,920,410        |
| Stockholders' deficit:                                                                                                                                                                                                                  |                       |                  |
| Class A common stock, \$0.01 par value, 500,000,000 shares authorized; 58,077,840 shares issued and 53,790,369 shares outstanding at September 30, 2018 and 57,530,733 shares issued and 52,761,177 shares outstanding at June 30, 2018 | 580                   | 575              |
| Class B common stock, \$0.000001 par value, 600,000,000 shares authorized; 79,519,233 and 80,335,701 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively                                                | —                     | —                |
| Treasury stock, at cost; 4,287,471 and 4,769,556 shares, respectively                                                                                                                                                                   | (136,397 )            | (150,058 )       |
| Additional paid-in-capital                                                                                                                                                                                                              | —                     | —                |
| Accumulated deficit                                                                                                                                                                                                                     | (1,820,000 )          | (1,277,581 )     |
| Total stockholders' deficit                                                                                                                                                                                                             | (1,955,817 )          | (1,427,064 )     |
| Total liabilities, redeemable limited partners' capital and stockholders' deficit                                                                                                                                                       | \$ 2,516,552          | \$ 2,312,216     |
| 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<br>September 30, |            |
|-------------------------------------------------------------------------|-------------------------------------|------------|
|                                                                         | 2018                                | 2017       |
| Net revenue:                                                            |                                     |            |
| Net administrative fees                                                 | \$ 162,000                          | \$ 150,991 |
| Other services and support                                              | 88,076                              | 86,911     |
| Services                                                                | 250,076                             | 237,902    |
| Products                                                                | 151,470                             | 152,662    |
| Net revenue                                                             | 401,546                             | 390,564    |
| Cost of revenue:                                                        |                                     |            |
| Services                                                                | 43,372                              | 46,936     |
| Products                                                                | 145,621                             | 144,440    |
| Cost of revenue                                                         | 188,993                             | 191,376    |
| Gross profit                                                            | 212,553                             | 199,188    |
| Operating expenses:                                                     |                                     |            |
| Selling, general and administrative                                     | 105,870                             | 114,321    |
| Research and development                                                | 340                                 | 489        |
| Amortization of purchased intangible assets                             | 13,638                              | 13,898     |
| Operating expenses                                                      | 119,848                             | 128,708    |
| Operating income                                                        | 92,705                              | 70,480     |
| Equity in net income of unconsolidated affiliates                       | 2,690                               | 4,252      |
| Interest and investment loss, net                                       | (688)                               | (1,495)    |
| Loss on disposal of long-lived assets                                   | —                                   | (1,320)    |
| Other income (expense)                                                  | (1,941)                             | 1,463      |
| Other income, net                                                       | 61                                  | 2,900      |
| Income before income taxes                                              | 92,766                              | 73,380     |
| Income tax expense                                                      | 10,793                              | 12,764     |
| Net income                                                              | 81,973                              | 60,616     |
| Net income attributable to non-controlling interest in Premier LP       | (55,113)                            | (44,610)   |
| Adjustment of redeemable limited partners' capital to redemption amount | (708,193)                           | 320,424    |
| Net income (loss) attributable to stockholders                          | \$(681,333)                         | \$336,430  |
| Weighted average shares outstanding:                                    |                                     |            |
| Basic                                                                   | 53,221                              | 52,909     |
| Diluted                                                                 | 53,221                              | 140,046    |
| Earnings (loss) per share attributable to stockholders:                 |                                     |            |
| Basic                                                                   | \$(12.80)                           | \$6.36     |
| Diluted                                                                 | \$(12.80)                           | \$0.30     |

See accompanying notes to the unaudited condensed consolidated financial statements.

PREMIER, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

|                                                                                      | Three Months<br>Ended September<br>30, |           |
|--------------------------------------------------------------------------------------|----------------------------------------|-----------|
|                                                                                      | 2018                                   | 2017      |
| Net income                                                                           | \$81,973                               | \$60,616  |
| Less: comprehensive income attributable to non-controlling interest                  | (55,113 )                              | (44,610 ) |
| Comprehensive income attributable to stockholders                                    | \$26,860                               | \$16,006  |
| See accompanying notes to the unaudited condensed consolidated financial statements. |                                        |           |

## PREMIER, INC.

## Condensed Consolidated Statement of Stockholders' Deficit

Three Months Ended September 30, 2018

(Unaudited)

(In thousands)

|                                                                                                                                         | Class A<br>Common<br>Stock |        | Class B<br>Common<br>Stock |        | Treasury Stock |             | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Deficit |
|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------|----------------------------|--------|----------------|-------------|----------------------------------|------------------------|-----------------------------------|
|                                                                                                                                         | Shares                     | Amount | Shares                     | Amount | Shares         | Amount      |                                  |                        |                                   |
| Balance at June 30, 2018                                                                                                                | 52,761                     | \$ 575 | 80,336                     | \$ —   | 4,769          | \$(150,058) | \$ —                             | \$(1,277,581)          | \$(1,427,064)                     |
| Balance at July 1, 2018, as<br>previously reported                                                                                      | 52,761                     | 575    | 80,336                     | —      | 4,769          | (150,058)   | —                                | (1,277,581)            | (1,427,064)                       |
| Impact of change in accounting<br>principle                                                                                             | —                          | —      | —                          | —      | —              | —           | —                                | 127,265                | 127,265                           |
| Adjusted balance at July 1, 2018                                                                                                        | 52,761                     | 575    | 80,336                     | —      | 4,769          | (150,058)   | —                                | (1,150,316)            | (1,299,799)                       |
| Exchange of Class B units for<br>Class A common stock by member<br>owners                                                               | 817                        | —      | (817)                      | —      | (817)          | 25,974      | 4,562                            | —                      | 30,536                            |
| Increase in additional paid-in<br>capital related to quarterly<br>exchange by member owners,<br>including associated TRA<br>revaluation | —                          | —      | —                          | —      | —              | —           | 373                              | —                      | 373                               |
| Issuance of Class A common stock<br>under equity incentive plan                                                                         | 547                        | 5      | —                          | —      | —              | —           | 7,467                            | —                      | 7,472                             |
| Treasury stock                                                                                                                          | (335)                      | —      | —                          | —      | 335            | (12,313)    | —                                | —                      | (12,313)                          |
| Stock-based compensation<br>expense                                                                                                     | —                          | —      | —                          | —      | —              | —           | 6,195                            | —                      | 6,195                             |
| Repurchase of vested restricted<br>units for employee tax-withholding                                                                   | —                          | —      | —                          | —      | —              | —           | (6,948)                          | —                      | (6,948)                           |
| Net income                                                                                                                              | —                          | —      | —                          | —      | —              | —           | —                                | 81,973                 | 81,973                            |
| Net income attributable to<br>non-controlling interest in Premier<br>LP                                                                 | —                          | —      | —                          | —      | —              | —           | —                                | (55,113)               | (55,113)                          |
| Adjustment of redeemable limited<br>partners' capital to redemption<br>amount                                                           | —                          | —      | —                          | —      | —              | —           | (11,649)                         | (696,544)              | (708,193)                         |
| Balance at September 30, 2018                                                                                                           | 53,790                     | \$ 580 | 79,519                     | \$ —   | 4,287          | \$(136,397) | \$ —                             | \$(1,820,000)          | \$(1,955,817)                     |

See accompanying notes to the unaudited condensed consolidated financial statements.

## PREMIER, INC.

## Condensed Consolidated Statement of Stockholders' Deficit

Three Months Ended September 30, 2017

(Unaudited)

(In thousands)

|                                                                                                                             | Class A<br>Common<br>Stock<br>Shares Amount |        | Class B<br>Common<br>Stock<br>Shares Amount |      | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Deficit |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------|---------------------------------------------|------|----------------------------------|------------------------|-----------------------------------|
| 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                                                         | 1,232                                       | 13     | (1,232 )                                    | —    | 42,963                           | —                      | 42,976                            |
| Decrease in additional paid-in capital related to quarterly exchange by member owners, including associated TRA revaluation | —                                           | —      | —                                           | —    | (11,452 )                        | —                      | (11,452 )                         |
| Issuance of Class A common stock under equity incentive plan                                                                | 383                                         | 4      | —                                           | —    | 2,648                            | —                      | 2,652                             |
| Stock-based compensation expense                                                                                            | —                                           | —      | —                                           | —    | 8,815                            | —                      | 8,815                             |
| Repurchase of vested restricted units for employee tax-withholding                                                          | —                                           | —      | —                                           | —    | (5,729 )                         | —                      | (5,729 )                          |
| Net income                                                                                                                  | —                                           | —      | —                                           | —    | —                                | 60,616                 | 60,616                            |
| Net income attributable to non-controlling interest in Premier LP                                                           | —                                           | —      | —                                           | —    | —                                | (44,610 )              | (44,610 )                         |
| Adjustment of redeemable limited partners' capital to redemption amount                                                     | —                                           | —      | —                                           | —    | (37,245 )                        | 357,669                | 320,424                           |
| Balance at September 30, 2017                                                                                               | 53,558                                      | \$ 536 | 86,067                                      | \$ — | —                                | \$(1,289,097)          | \$(1,288,561 )                    |

See accompanying notes to the unaudited condensed consolidated financial statements.

## PREMIER, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

|                                                                                    | Three Months Ended<br>September 30, |           |
|------------------------------------------------------------------------------------|-------------------------------------|-----------|
|                                                                                    | 2018                                | 2017      |
| Operating activities                                                               |                                     |           |
| Net income                                                                         | \$81,973                            | \$60,616  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                     |           |
| Depreciation and amortization                                                      | 34,145                              | 30,405    |
| Equity in net income of unconsolidated affiliates                                  | (2,690)                             | (4,252)   |
| Deferred income taxes                                                              | 4,588                               | 8,298     |
| Stock-based compensation                                                           | 6,195                               | 8,815     |
| Loss on disposal of long-lived assets                                              | —                                   | 1,320     |
| Changes in operating assets and liabilities:                                       |                                     |           |
| Accounts receivable, contract assets, prepaid expenses and other current assets    | (41,427)                            | (8,748)   |
| Other assets                                                                       | (2,235)                             | 1,379     |
| Inventories                                                                        | (2,097)                             | (7,178)   |
| Accounts payable, accrued expenses, deferred revenue and other current liabilities | (21,776)                            | (21,933)  |
| Long-term liabilities                                                              | (14)                                | (111)     |
| Loss on FFF put and call rights                                                    | 3,283                               | 20        |
| Other operating activities                                                         | 382                                 | 6,402     |
| Net cash provided by operating activities                                          | 60,327                              | 75,033    |
| Investing activities                                                               |                                     |           |
| Purchases of property and equipment                                                | (25,062)                            | (16,646)  |
| Net cash used in investing activities                                              | (25,062)                            | (16,646)  |
| Financing activities                                                               |                                     |           |
| Payments made on notes payable                                                     | —                                   | (4,974)   |
| Payments on credit facility                                                        | —                                   | (50,000)  |
| Proceeds from exercise of stock options under equity incentive plan                | 7,472                               | 2,652     |
| Repurchase of vested restricted units for employee tax-withholding                 | (6,948)                             | (5,729)   |
| Distributions to limited partners of Premier LP                                    | (15,465)                            | (24,951)  |
| Payments to limited partners of Premier LP related to tax receivable agreements    | (17,975)                            | —         |
| Repurchase of Class A common stock (held as treasury stock)                        | (12,313)                            | —         |
| Net cash used in financing activities                                              | (45,229)                            | (83,002)  |
| Net decrease in cash and cash equivalents                                          | (9,964)                             | (24,615)  |
| Cash and cash equivalents at beginning of year                                     | 152,386                             | 156,735   |
| Cash and cash equivalents at end of period                                         | \$142,422                           | \$132,120 |

Three Months Ended  
September 30,  
2018      2017

## Supplemental schedule of non-cash investing and financing activities:

|                                                                                                                                                                             |            |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------|
| Increase (decrease) in redeemable limited partners' capital for adjustment to fair value, with offsetting increases in additional paid-in-capital and accumulated deficit   | \$ 708,193 | \$(320,424) |
| Reduction in redeemable limited partners' capital, with offsetting increases in common stock and additional paid-in capital related to quarterly exchanges by member owners | \$ 30,536  | \$ 42,976   |
| Reduction in redeemable limited partners' capital for limited partners' distribution payable                                                                                | \$ 14,993  | \$ 20,752   |
| Distributions utilized to reduce subscriptions, notes, interest and accounts receivable from member owners                                                                  | \$ 437     | \$ 492      |
| Net increase in deferred tax assets related to quarterly exchanges by member owners and other adjustments                                                                   | \$ 6,554   | \$ 28,844   |
| Net increase in tax receivable agreement liabilities related to quarterly exchanges by member owners and other adjustments                                                  | \$ 6,181   | \$ 40,296   |
| Net increase (decrease) in additional paid-in capital related to quarterly exchanges by member owners and other adjustments                                                 | \$ 373     | \$(11,452 ) |
| 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 is a holding company with no material business operations of its own. The Company's primary asset is its equity interest in its wholly-owned subsidiary Premier Services, LLC, a Delaware limited liability company ("Premier GP"). Premier GP is the sole general partner of Premier Healthcare Alliance, L.P. ("Premier LP"), a California limited partnership. The Company conducts substantially all of its business operations through Premier LP and its other consolidated subsidiaries. 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, through its development, integration and delivery of technology with wrap-around service offerings, includes one of the largest informatics and consulting businesses in the United States focused on healthcare providers. More specifically, 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 value-based care. While leveraging these tools, the Company also combines its consulting services and technology-enabled performance improvement collaboratives to provide a more comprehensive and holistic customer value proposition and overall experience. The Performance Services segment also includes the Company's government services and insurance management services.

The Company, through Premier GP, held an approximate 40% sole general partner interest in Premier LP at both September 30, 2018 and June 30, 2018. In addition to their equity ownership interest in the Company, our member owners held an approximate 60% limited partner interest in Premier LP at both September 30, 2018 and June 30, 2018.

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 both September 30, 2018 and June 30, 2018, the member owners owned approximately 60% of the Company's combined Class A and Class B common stock through their ownership of Class B common stock. During the three months ended September 30, 2018, the member owners exchanged 0.8 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 three months ended September 30, 2018, approximately 0.8 million Class B common units were contributed to Premier LP, converted

to Class A common units and remain outstanding. Correspondingly, approximately 0.8 million Class B common shares were retired during the same period.

Refer to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (the "2018 Annual Report") filed with the Securities and Exchange Commission ("SEC") on August 23, 2018 for further discussion of the Exchange Agreement. At both September 30, 2018 and June 30, 2018, 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 40% of the Company's outstanding common stock through their ownership of Class A common stock. The Company has corrected prior period information within the current period financial statements related to a specific component used in calculating the tax effect on Premier, Inc. net income for purposes of diluted earnings (loss) per share. Diluted earnings (loss) per share for the first quarter of fiscal 2018 was previously stated at \$0.36 per share and has been corrected to \$0.30 per share. The Company believes the correction is immaterial and the amount had no impact on the Company's overall financial condition, results of operations or cash flows.

#### Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC and in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercised control and when applicable, entities for which the Company had a controlling financial interest or was the primary beneficiary. All intercompany transactions have been eliminated upon consolidation. 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 2018 Annual Report.

#### 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 September 30, 2018 and June 30, 2018 consisted of the following (in thousands):

|                                 | September 30,<br>2018                  | June 30,<br>2018                |
|---------------------------------|----------------------------------------|---------------------------------|
|                                 | New revenue<br>standard <sup>(a)</sup> | Previous<br>revenue<br>standard |
| Assets                          |                                        |                                 |
| Current                         | \$ 608,308                             | \$ 393,863                      |
| Noncurrent                      | 1,589,083                              | 1,577,974                       |
| Total assets of Premier LP      | \$ 2,197,391                           | \$ 1,971,837                    |
| Liabilities                     |                                        |                                 |
| Current                         | \$ 488,904                             | \$ 457,172                      |
| Noncurrent                      | 134,089                                | 128,793                         |
| Total liabilities of Premier LP | \$ 622,993                             | \$ 585,965                      |
| (a)                             |                                        |                                 |

The Company adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605. Refer to Note 2 - Significant Accounting Policies for more information.

Net income attributable to Premier LP during the three months ended September 30, 2018 and 2017 was as follows (in thousands):

| Three Months<br>Ended September<br>30, |                                 |
|----------------------------------------|---------------------------------|
| 2018                                   | 2017                            |
| New<br>revenue<br>standard<br>(a)      | Previous<br>revenue<br>standard |

Premier LP net income \$92,262 \$72,291

(a) The Company adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605. Refer to Note 2 - Significant Accounting Policies for more information.

Premier LP's cash flows for the three months ended September 30, 2018 and 2017 consisted of the following (in thousands):

| Three Months Ended<br>September 30, |                                 |
|-------------------------------------|---------------------------------|
| 2018                                | 2017                            |
| New<br>revenue<br>standard<br>(a)   | Previous<br>revenue<br>standard |

Net cash provided by (used in):

|                                                      |           |            |
|------------------------------------------------------|-----------|------------|
| Operating activities                                 | \$68,926  | \$88,407   |
| Investing activities                                 | (25,062 ) | (16,613 )  |
| Financing activities                                 | (34,726 ) | (100,476 ) |
| Net increase (decrease) in cash and cash equivalents | 9,138     | (28,682 )  |
| Cash and cash equivalents at beginning of year       | 117,741   | 133,451    |
| Cash and cash equivalents at end of period           | \$126,879 | \$104,769  |

(a) The Company adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605. Refer to Note 2 - Significant Accounting Policies for more information.

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 net administrative fees revenue, other services and support revenue, contract assets, deferred revenue, contract costs, 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, projected future cash flows used in the evaluation of asset impairment, 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 will continue to prescribe provisional relief under SAB 118 through the one year measurement period to calculate 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 Internal Revenue Service 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 included within the 2018 Annual Report, except as described below.

### Recently Adopted Accounting Standards

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 Company adopted this standard effective July 1, 2018. The implementation of this ASU did not have a material effect on the Company's condensed consolidated financial statements.

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 Company adopted this standard effective July 1, 2018. The implementation of this ASU did not have a material effect on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes 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 allowed 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, is 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 is 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 is 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 is 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 is 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 is effective with ASU 2014-09.

The Company adopted this standard effective July 1, 2018 using the modified retrospective approach. Refer to the "Effects of Topic 606" below for more information related to the impact of this standard on the Company's significant accounting policies and condensed consolidated financial statements.

#### Recently Issued Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, Intangibles- Goodwill and Other- Internal Use Software (Topic 350): Customer Account for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, which requires customers in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. More specifically, capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. 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 including adoption in any interim periods. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework- Changes to Disclosure Requirements for Fair Value Measurement, which improves the effectiveness of fair value measurement disclosures by eliminating, adding and modifying certain disclosure requirements for fair value measurements as part of its disclosure framework project. More specifically, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. 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. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

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 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 12 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.

#### Effects of Topic 606

As a result of adopting Topic 606, the Company's accounting policies and condensed consolidated financial statements were updated as follows:

##### Contract Assets

Supply Chain Services contract assets represent estimated customer purchases on supplier contracts for which administrative fees have been earned, but not collected. Performance Services contract assets represent revenue earned for services provided but which the Company is not contractually able to bill as of the end of the respective reporting period.

##### Contract Costs

Contract costs represent amounts the Company has capitalized and reflect the incremental costs of obtaining and fulfilling a contract, which include sales commissions and costs related to implementing SaaS informatics tools. For commissions on new contracts, these costs are amortized over the life of the expected relationship with the customer for the respective performance obligation. For renewals, commissions are amortized over the contract life with the customer. Implementation costs are amortized straight-line, once the tool is implemented, over the life of the expected relationship with the customer for the respective performance obligation, which is consistent with the transfer of services to the customer to which the implementation relates. The Company's contract costs are included in other assets on the Condensed Consolidated Balance Sheets, while the associated amortization related to sales commissions is included in selling, general and administrative expenses and the associated amortization related to implementation costs is included in cost of revenue in the Condensed Consolidated Statements of Income.

##### Deferred Revenue

Deferred revenue consists of unrecognized revenue related to advanced customer invoicing or member payments received prior to fulfillment of the Company's revenue recognition criteria. Substantially all deferred revenue consists of deferred subscription fees and deferred consulting fees. Subscription fees for Company-hosted SaaS applications are deferred until the customer's unique data records have been incorporated into the underlying software database, or until customer site-specific software has been implemented and the customer has access to the software. Deferred consulting fees arise upon invoicing to customers prior to services being performed.

##### Performance Obligations

A performance obligation is a promise to transfer a distinct good or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Contracts may have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other promises and, therefore, not distinct; while other contracts may have multiple performance obligations, most commonly due to the contract covering multiple deliverable arrangements (licensing fees, implementation fees, subscription fees, professional fees for consulting services, etc.).

##### Revenue Recognition

The Company accounts for a contract with a customer when the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection.

Revenue is recognized when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. If the consideration promised in a contract includes a variable amount, the Company estimates the amount to which it expects to be entitled using either the expected value or most likely amount method. The Company's contracts may include terms that could cause variability in the transaction price, including, for example, revenue share, rebates, discounts, and variable fees based on performance.

The Company only includes estimated amounts of consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. These estimates require management to make complex, difficult or subjective judgments, and to make estimates about the effect of matters inherently uncertain. As such, the Company may not be able to reliably estimate variable fees based on performance in certain long-term arrangements due to uncertainties that are not expected to be resolved for a long period of time or when the Company's experience with similar types of

contracts is limited. Estimates of variable consideration and the determination of whether to include estimated amounts of consideration in the transaction price are based on information (historical, current and forecasted) that is reasonably available to the Company, taking into consideration the type of customer, the type of transaction and

the specific facts and circumstances of each arrangement. Additionally, management performs periodic analyses to verify the accuracy of estimates for variable consideration.

Although the Company believes that its approach in developing estimates and reliance on certain judgments and underlying inputs is reasonable, actual results could differ which may result in exposure of increases or decreases in revenue that could be material.

#### Net Administrative Fees Revenue

Net administrative fees revenue is a single performance obligation earned through a series of distinct daily services and includes maintaining a network of members to participate in the group purchasing program and providing suppliers access to the Company's members. Revenue is generated through administrative fees received from suppliers, which are estimated based on the total dollar volume of goods and services purchased by the Company's members in connection with its GPO programs and is included in service revenue in the accompanying Condensed Consolidated Statements of Income.

The Company, through its GPO programs, aggregates member purchasing power to negotiate pricing discounts and improve contract terms with suppliers. Contracted suppliers pay the Company administrative fees which generally represent 1% to 3% of the gross purchase price of goods and services sold to members under the contracts the Company has negotiated. Administrative fees are variable consideration and are recognized as earned based upon estimated purchases by the Company's members utilizing the Company's GPO supplier contracts. The Company estimates revenue using an estimated value approach using predictive analytics based on historical member spend and updates for current trends and expectations. Member and supplier contracts substantiate persuasive evidence of an arrangement. The Company does not take title to the underlying equipment or products purchased by members through its GPO supplier contracts. Administrative fee revenue receivable is included in contract assets in the accompanying Condensed Consolidated Balance Sheet.

The Company pays revenue share equal to a percentage of gross administrative fees, which is estimated according to the members' contractual agreements with the Company using a portfolio approach based on historical revenue fee share percentages and adjusted for current or anticipated trends. Revenue share is recognized as a reduction to gross administrative fees revenue to arrive at a net administrative fees revenue, and the corresponding revenue share liability is included in revenue share obligations in the accompanying Condensed Consolidated Balance Sheets.

#### Product Revenue

Specialty pharmacy revenue is generated through a single performance obligation through dispensing prescription medication to customers. Revenue is recognized at a point in time as the prescription medication is dispensed to the customers and is recorded net of the estimated contractual adjustments under agreements with Medicare, Medicaid and other managed care plans. Consideration from specialty pharmacy is variable as payments for the products provided under such agreements vary from period to period and are based on defined allowable reimbursements rather than on the basis of standard billing rates. The difference between the standard billing rate and allowable reimbursement rate results in contractual adjustments which are recorded as deductions from the transaction price. Direct sourcing generates revenue through products sold to distributors and to hospitals. Revenue is recognized once control of medical products has been transferred to members and is recorded net of discounts and rebates offered to customers. Discounts and rebates are estimated based on contractual terms and historical trends.

#### Other Services and Support Revenue

Within Performance Services, which provides technology with wrap-around service offerings, revenue consists of SaaS informatics products subscriptions, certain perpetual and term licenses, performance improvement collaborative and other service subscriptions, professional fees for consulting services, and insurance services management fees and commissions from group-sponsored insurance programs.

SaaS informatics subscriptions include the right to use the Company's proprietary hosted technology on a SaaS basis, training and member support to deliver improvements in cost management, quality and safety, value-based care and provider analytics. SaaS arrangements create a single performance obligation for each subscription within the contract in which the nature of the obligation is a stand-ready obligation, and each day of service meets the criteria for over time recognition. Pricing varies by application and size of healthcare system. Informatics subscriptions are generally three to five year agreements with automatic renewal clauses and annual price escalators that typically do not allow

for early termination. These agreements do not allow for physical possession of the software. Subscription fees are typically billed on a monthly basis and revenue is recognized as a single deliverable on a straight-line basis over the remaining contractual period following implementation. Implementation involves the completion of

data preparation services that are unique to each member's data set and, in certain cases, the installation of member site-specific software, in order to access and transfer member data into the Company's hosted SaaS informatics products. Implementation is generally 60 to 240 days following contract execution before the SaaS informatics products can be fully utilized by the member.

The Company sells certain perpetual and term licenses that include professional services and post-contract customer support in the form of maintenance and support services. The license, professional services and maintenance services each represent a distinct promise and are identified as separate performance obligations. Pricing varies by application and size of healthcare system. Fees under these contracts include the license fees, professional services fees and the maintenance and support services fees. The Company recognizes the license fees upon delivery of the licenses, the professional services fees over the implementation period, and the maintenance and support services fees straight-line over the remaining contract term following implementation. Generally, implementation is approximately 240 days following contract execution before the products can be fully utilized by the member.

Revenue from performance improvement collaboratives and other service subscriptions that support the Company's offerings in cost management, quality and safety and value-based care is recognized over the service period as the services are provided, which is generally one year. Performance improvement collaboratives and other service subscriptions revenue is considered one performance obligation and is generated by providing customers access to online communities whereby data is housed and available for analytics and benchmarking.

Professional fees for consulting services are sold under contracts, the terms of which vary based on the nature of the engagement. These services typically include general consulting, report based consulting and cost savings initiatives. Promised services under such consulting engagements are typically not considered distinct and are regularly combined and accounted for as one performance obligation. Fees are billed as stipulated in the contract, and revenue is recognized on a proportional performance method as services are performed or when deliverables are provided. In situations where the contracts have significant contract performance guarantees, the performance guarantees are estimated and accounted for as a form of variable consideration when determining the transaction price. In the event that guaranteed savings levels are not achieved, the Company may have to perform additional services at no additional charge in order to achieve the guaranteed savings or pay the difference between the savings that were guaranteed and the actual achieved savings. Occasionally, our entitlement to consideration is predicated on the occurrence of an event such as the delivery of a report for which client acceptance is required. However, except for event-driven point-in-time transactions, the majority of services provided within this service line are delivered over time due to the continuous benefit provided to our customers.

Consulting arrangements can require significant estimates for the transaction price and estimated number of hours within an engagement. These estimates are based on the expected value which is derived from outcomes from historical contracts that are similar in nature and forecasted amounts based on anticipated savings for the new agreements. The transaction price is generally constrained until the target transaction price becomes more certain. Insurance services management fees are recognized in the period in which such services are provided. Commissions from group sponsored insurance programs is earned by acting as an intermediary in the placement of effective insurance policies. Under this arrangement, revenue is recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the customer and is constrained for estimated early terminations.

Certain administrative and/or patient management integrated pharmacy services are provided in situations where prescriptions are sent back to member health systems for dispensing. Additionally, the Company derives revenue from pharmaceutical manufacturers for providing patient education and utilization data. Revenue is recognized as these services are provided.

#### Multiple Deliverable Arrangements

The Company enters into agreements where the individual deliverables discussed above, such as SaaS subscriptions and consulting services, are bundled into a single service arrangement. These agreements are generally provided over a time period ranging from approximately three months to five years after the applicable contract execution date. Revenue, including both fixed and variable consideration, is allocated to the individual performance obligations within the arrangement based on the standalone selling price when it is sold separately in a stand-alone arrangement.

Condensed Consolidated Financial Statements

The Company applied Topic 606 ("New Revenue Standard") using the modified retrospective method, which resulted in recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at July 1, 2018 for contracts that were not complete at that date. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605 ("Previous Revenue Standard"). The following tables summarize the impacts of adopting Topic 606 on the Company's condensed consolidated financial statements for the quarter ended September 30, 2018 (in thousands, except per share data). See Note 5 - Contract Balances and Note 16 - Segments for more information.

## Cumulative Effect - Adoption of New Revenue Standard

|                                                                                   | Impact of change in accounting principle |                                |                                      |
|-----------------------------------------------------------------------------------|------------------------------------------|--------------------------------|--------------------------------------|
|                                                                                   | June 30, 2018<br>As presented            | Impact of new revenue standard | July 1, 2018<br>New revenue standard |
| Assets                                                                            |                                          |                                |                                      |
| Accounts receivable (net of \$1,841 allowance for doubtful accounts)              | \$185,874                                | \$(5,421 )                     | \$180,453                            |
| Contract assets                                                                   | \$—                                      | \$169,684                      | \$169,684                            |
| Total current assets                                                              | \$428,618                                | \$164,263                      | \$592,881                            |
| Deferred income tax assets                                                        | \$305,624                                | \$(7,106 )                     | \$298,518                            |
| Other assets                                                                      | \$3,991                                  | \$15,390                       | \$19,381                             |
| Total assets                                                                      | \$2,312,216                              | \$172,547                      | \$2,484,763                          |
| Liabilities, redeemable limited partners' capital and stockholders' deficit       |                                          |                                |                                      |
| Revenue share obligations                                                         | \$78,999                                 | \$43,880                       | \$122,879                            |
| Deferred revenue                                                                  | \$39,785                                 | \$(2,195 )                     | \$37,590                             |
| Total current liabilities                                                         | \$448,882                                | \$41,685                       | \$490,567                            |
| Deferred tax liabilities                                                          | \$17,569                                 | \$3,597                        | \$21,166                             |
| Total liabilities                                                                 | \$818,870                                | \$45,282                       | \$864,152                            |
| Accumulated deficit                                                               | \$(1,277,581)                            | \$127,265                      | \$(1,150,316)                        |
| Total stockholders' deficit                                                       | \$(1,427,064)                            | \$127,265                      | \$(1,299,799)                        |
| Total liabilities, redeemable limited partners' capital and stockholders' deficit | \$2,312,216                              | \$172,547                      | \$2,484,763                          |

## Condensed Consolidated Balance Sheet - Selected Financial Data

| September 30, 2018                                                                 | Impact of change in accounting principle |                                |                           |
|------------------------------------------------------------------------------------|------------------------------------------|--------------------------------|---------------------------|
|                                                                                    | As presented                             | Impact of new revenue standard | Previous revenue standard |
| <b>Assets</b>                                                                      |                                          |                                |                           |
| Accounts receivable (net of \$4,867 allowance for doubtful accounts)               | \$182,254                                | \$(8,381 )                     | \$190,635                 |
| Contract assets                                                                    | \$202,961                                | \$202,961                      | \$—                       |
| Prepaid expenses and other current assets                                          | \$29,675                                 | \$(813 )                       | \$30,488                  |
| Total current assets                                                               | \$626,202                                | \$193,767                      | \$432,435                 |
| Deferred income tax assets                                                         | \$301,267                                | \$(6,177 )                     | \$307,444                 |
| Other assets                                                                       | \$22,727                                 | \$15,248                       | \$7,479                   |
| Total assets                                                                       | \$2,516,552                              | \$202,838                      | \$2,313,714               |
| <b>Liabilities, redeemable limited partners' capital and stockholders' deficit</b> |                                          |                                |                           |
| Revenue share obligations                                                          | \$119,578                                | \$50,448                       | \$69,130                  |
| Limited partners' distribution payable                                             | \$14,993                                 | \$2,801                        | \$12,192                  |
| Deferred revenue                                                                   | \$34,259                                 | \$(1,604 )                     | \$35,863                  |
| Other liabilities                                                                  | \$7,050                                  | \$1,233                        | \$5,817                   |
| Total current liabilities                                                          | \$469,832                                | \$52,878                       | \$416,954                 |
| Deferred tax liabilities                                                           | \$21,950                                 | \$4,240                        | \$17,710                  |
| Total liabilities                                                                  | \$833,745                                | \$57,118                       | \$776,627                 |
| Accumulated deficit                                                                | \$(1,820,000)                            | \$145,720                      | \$(1,965,720)             |
| Total stockholders' deficit                                                        | \$(1,955,817)                            | \$145,720                      | \$(2,101,537)             |
| Total liabilities, redeemable limited partners' capital and stockholders' deficit  | \$2,516,552                              | \$202,838                      | \$2,313,714               |

## Condensed Consolidated Statement of Income

| Three months ended September 30, 2018                                   | Impact of change in accounting principle |                                |                           |
|-------------------------------------------------------------------------|------------------------------------------|--------------------------------|---------------------------|
|                                                                         | As presented                             | Impact of new revenue standard | Previous revenue standard |
| Net revenue:                                                            |                                          |                                |                           |
| Net administrative fees                                                 | \$ 162,000                               | \$ 15,184                      | \$ 146,816                |
| Other services and support                                              | 88,076                                   | 5,379                          | 82,697                    |
| Services                                                                | 250,076                                  | 20,563                         | 229,513                   |
| Products                                                                | 151,470                                  | (11,962 )                      | 163,432                   |
| Net revenue                                                             | 401,546                                  | 8,601                          | 392,945                   |
| Cost of revenue:                                                        |                                          |                                |                           |
| Services                                                                | 43,372                                   | (1,933 )                       | 45,305                    |
| Products                                                                | 145,621                                  | (11,371 )                      | 156,992                   |
| Cost of revenue                                                         | 188,993                                  | (13,304 )                      | 202,297                   |
| Gross profit                                                            | 212,553                                  | 21,905                         | 190,648                   |
| Operating expenses:                                                     |                                          |                                |                           |
| Selling, general and administrative                                     | 105,870                                  | (1,111 )                       | 106,981                   |
| Research and development                                                | 340                                      | —                              | 340                       |
| Amortization of purchased intangible assets                             | 13,638                                   | —                              | 13,638                    |
| Operating expenses                                                      | 119,848                                  | (1,111 )                       | 120,959                   |
| Operating income                                                        | 92,705                                   | 23,016                         | 69,689                    |
| Equity in net income of unconsolidated affiliates                       | 2,690                                    | —                              | 2,690                     |
| Interest and investment loss, net                                       | (688 )                                   | —                              | (688 )                    |
| Loss on disposal of long-lived assets                                   | —                                        | —                              | —                         |
| Other income (expense)                                                  | (1,941 )                                 | —                              | (1,941 )                  |
| Other income, net                                                       | 61                                       | —                              | 61                        |
| Income before income taxes                                              | 92,766                                   | 23,016                         | 69,750                    |
| Income tax expense                                                      | 10,793                                   | 1,759                          | 9,034                     |
| Net income                                                              | 81,973                                   | 21,257                         | 60,716                    |
| Net income attributable to non-controlling interest in Premier LP       | (55,113 )                                | (13,373 )                      | (41,740 )                 |
| Adjustment of redeemable limited partners' capital to redemption amount | (708,193 )                               | 10,572                         | (718,765 )                |
| Net income (loss) attributable to stockholders                          | \$(681,333)                              | \$18,456                       | \$(699,789)               |
| Weighted average shares outstanding:                                    |                                          |                                |                           |
| Basic                                                                   | 53,221                                   | —                              | 53,221                    |
| Diluted                                                                 | 53,221                                   | —                              | 53,221                    |
| Earnings (loss) per share attributable to stockholders:                 |                                          |                                |                           |
| Basic                                                                   | \$(12.80 )                               | \$0.35                         | \$(13.15 )                |
| Diluted                                                                 | \$(12.80 )                               | \$0.35                         | \$(13.15 )                |

## Condensed Consolidated Statement of Comprehensive Income

|                                                                     | Impact of change in<br>accounting principle |                                         |                                 |
|---------------------------------------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------|
| Three months ended September 30, 2018                               | As<br>presented                             | Impact<br>of new<br>revenue<br>standard | Previous<br>revenue<br>standard |
| Net income                                                          | \$81,973                                    | \$21,257                                | \$60,716                        |
| Less: Comprehensive income attributable to non-controlling interest | (55,113 )                                   | (13,373 )                               | (41,740 )                       |
| Comprehensive income attributable to Premier, Inc.                  | \$26,860                                    | \$7,884                                 | \$18,976                        |

## Condensed Consolidated Statement of Cash Flows

|                                                                                    | Impact of change in<br>accounting principle |                                         |                                 |
|------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------|
| Three months ended September 30, 2018                                              | As<br>presented                             | Impact<br>of new<br>revenue<br>standard | Previous<br>revenue<br>standard |
| Operating activities                                                               |                                             |                                         |                                 |
| Net income                                                                         | \$81,973                                    | \$21,257                                | \$60,716                        |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                             |                                         |                                 |
| Depreciation and amortization                                                      | 34,145                                      | —                                       | 34,145                          |
| Equity in net income of unconsolidated affiliates                                  | (2,690 )                                    | —                                       | (2,690 )                        |
| Deferred income taxes                                                              | 4,588                                       | (290 )                                  | 4,878                           |
| Stock-based compensation                                                           | 6,195                                       | —                                       | 6,195                           |
| Changes in operating assets and liabilities:                                       |                                             |                                         |                                 |
| Accounts receivable, contract assets, prepaid expenses and other current assets    | (41,427 )                                   | (29,503 )                               | (11,924 )                       |
| Other assets                                                                       | (2,235 )                                    | 144                                     | (2,379 )                        |
| Inventories                                                                        | (2,097 )                                    | —                                       | (2,097 )                        |
| Accounts payable, accrued expenses, deferred revenue and other current liabilities | (21,776 )                                   | 8,392                                   | (30,168 )                       |
| Long-term liabilities                                                              | (14 )                                       | —                                       | (14 )                           |
| Loss on FFF put and call rights                                                    | 3,283                                       | —                                       | 3,283                           |
| Other operating activities                                                         | 382                                         | —                                       | 382                             |
| Net cash provided by operating activities                                          | 60,327                                      | —                                       | 60,327                          |
| Net cash used in investing activities                                              | (25,062 )                                   | —                                       | (25,062 )                       |
| Net cash used in financing activities                                              | (45,229 )                                   | —                                       | (45,229 )                       |
| Net decrease in cash and cash equivalents                                          | (9,964 )                                    | —                                       | (9,964 )                        |
| Cash and cash equivalents at beginning of year                                     | 152,386                                     | —                                       | 152,386                         |
| Cash and cash equivalents at end of period                                         | \$142,422                                   | \$—                                     | \$142,422                       |

## (3) INVESTMENTS

## Investments in Unconsolidated Affiliates

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

|                   | Carrying Value        |                  | Equity in Net<br>Income (Loss)<br>Three Months<br>Ended<br>September 30, |         |
|-------------------|-----------------------|------------------|--------------------------------------------------------------------------|---------|
|                   | September 30,<br>2018 | June 30,<br>2018 | 2018                                                                     | 2017    |
| FFF               | \$94,425              | \$91,804         | \$2,621                                                                  | \$4,337 |
| Bloodbuy          | 1,893                 | 1,918            | (25)                                                                     | (33)    |
| PharmaPoint       | —                     | —                | —                                                                        | (52)    |
| Other investments | 425                   | 331              | 94                                                                       | —       |
| Total investments | \$96,743              | \$94,053         | \$2,690                                                                  | \$4,252 |

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 4 - 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 September 30, 2018 and June 30, 2018. 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 September 30, 2018 and June 30, 2018. During the year ended June 30, 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. 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.

## (4) 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<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-----------------------------------|-----------|-------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| September 30, 2018                |           |                                                                                     |                                                           |                                                    |
| Cash equivalents                  | \$62,038  | \$62,038                                                                            | \$                                                        | —\$ —                                              |
| FFF call right                    | 488       | —                                                                                   | —                                                         | 488                                                |
| Deferred compensation plan assets | 47,523    | 47,523                                                                              | —                                                         | —                                                  |
| Total assets                      | \$110,049 | \$109,561                                                                           | \$                                                        | —\$ 488                                            |
| FFF put right                     | 45,200    | —                                                                                   | —                                                         | 45,200                                             |
| Total liabilities                 | \$45,200  | \$—                                                                                 | \$                                                        | —\$ 45,200                                         |

## June 30, 2018

|                                   |           |           |    |            |
|-----------------------------------|-----------|-----------|----|------------|
| Cash equivalents                  | \$62,684  | \$62,684  | \$ | —\$ —      |
| FFF call right                    | 610       | —         | —  | 610        |
| Deferred compensation plan assets | 48,215    | 48,215    | —  | —          |
| Total assets                      | \$111,509 | \$110,899 | \$ | —\$ 610    |
| FFF put right                     | 42,041    | —         | —  | 42,041     |
| Total liabilities                 | \$42,041  | \$—       | \$ | —\$ 42,041 |

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 (\$4.1 million and \$3.6 million at September 30, 2018 and June 30, 2018, respectively) in the accompanying Condensed Consolidated Balance Sheets.

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

## FFF put and call rights

Pursuant to a shareholders' agreement entered into in connection with the Company's equity investment in FFF on July 26, 2016 (see Note 3 - Investments), which shareholders' agreement was amended and restated November 22, 2017, the majority shareholder of FFF holds a put right that provides such shareholder the right to require the Company to purchase (i) up to 50% of its interest in FFF, which is exercisable beginning on July 26, 2020, the fourth anniversary of the investment closing date, and (ii) 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 values 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, within the accompanying Condensed Consolidated Balance Sheets. Net changes in the fair values of the FFF put and call rights were recorded within other income (expense) in the accompanying Condensed Consolidated Statements of Income.

#### Earn-out liabilities

Earn-out liabilities were established in connection with acquisitions of Healthcare Insights, LLC on July 31, 2015, Inflow Health, LLC on October 1, 2015 and Innovatix, LLC and Essensa Ventures, LLC, each on December 2, 2016. The earn-out liabilities were classified as Level 3 of the fair value hierarchy and their values were determined based on estimated future earnings and the probability of achieving them. 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.

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

|                                       | Beginning<br>Balance | Gain<br>(Loss) | Ending<br>Balance |
|---------------------------------------|----------------------|----------------|-------------------|
| Three Months Ended September 30, 2018 |                      |                |                   |
| FFF call right                        | \$ 610               | \$(122 )       | \$488             |
| Total Level 3 assets                  | \$ 610               | \$(122 )       | \$488             |
| FFF put right                         | 42,041               | (3,159 )       | 45,200            |
| Total Level 3 liabilities             | \$ 42,041            | \$(3,159 )     | \$45,200          |

#### Three Months Ended September 30, 2017

|                           |           |          |          |
|---------------------------|-----------|----------|----------|
| FFF call right            | \$ 4,655  | \$(62 )  | \$4,593  |
| Total Level 3 assets      | \$ 4,655  | \$(62 )  | \$4,593  |
| Earn-out liabilities      | \$ 21,310 | \$(365 ) | \$21,675 |
| FFF put right             | 24,050    | 42       | 24,008   |
| Total Level 3 liabilities | \$ 45,360 | \$(323 ) | \$45,683 |

#### Non-Recurring Fair Value Measurements

During the three months ended September 30, 2018, no non-recurring fair value measurements were required relating 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 \$0.5 million and \$0.6 million at September 30, 2018 and June 30, 2018, respectively, based on assumed market interest rates of 3.7% and 3.6%, 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.

**(5) CONTRACT BALANCES****Contract Assets, Deferred Revenue and Revenue Share Obligations**

The timing of revenue recognition, billings and cash collections results in accounts receivables, contract assets (unbilled receivables) and deferred revenue (customer advances) on the Condensed Consolidated Balance Sheets. The \$203.0 million increase in contract assets from June 30, 2018 to September 30, 2018 was largely attributable to the establishment of \$169.7 million in contract assets upon adoption of the New Revenue Standard of which \$141.5 million was for Supply Chain Services and \$28.2 million was for Performance Services. Subsequent to adoption of the New Revenue Standard, Supply Chain Services contract assets increased an additional \$24.4 million, which represents changes in the Company's estimated revenue for which cash has not yet been collected associated with net administrative fees for the current period. Performance Services contract assets increased \$8.9 million primarily due to the acceleration of revenue recognition from licensing and certain consulting services contracts which represents performance obligations that have been satisfied prior to customer invoicing. Performance Services contract assets also increased due to the timing of payments related to certain cost management consulting services and performance-based engagements where revenue is recognized as work is performed.

The \$40.6 million increase in revenue share obligation from June 30, 2018 to September 30, 2018 is largely a function of the aforementioned increases in contract assets and the underlying revenue share arrangements associated with the Company's GPO participation agreements. Revenue recognized during the three months ended September 30, 2018 that was previously included in deferred revenue during the period was approximately \$50.0 million, which is a result of satisfying performance obligations within the Performance Services segment.

**Performance Obligations**

A performance obligation is a promise to transfer a distinct good or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Contracts may have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other promises and, therefore, not distinct; while other contracts may have multiple performance obligations, most commonly due to the contract covering multiple phases or deliverable arrangements (licensing fees, implementation fees, maintenance and support fees, professional fees for consulting services), including certain performance guarantees.

Net revenue recognized from performance obligations that were satisfied or partially satisfied in previous periods was \$5.5 million in the three months ended September 30, 2018. This was driven primarily by \$3.6 million associated with revised forecasts underlying contracts that include variable consideration components and net administrative fees revenue related to unforecasted cash receipts received in the current period of \$1.9 million. Remaining performance obligations represent the portion of the transaction price that has not yet been satisfied or achieved. As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$480.0 million. The Company expects to recognize approximately 50% and 25% of the remaining performance obligations over the next 12 and 24 months, respectively, with the remainder recognized thereafter.

**Contract Costs**

The Company is required to capitalize the incremental costs of obtaining and fulfilling a contract, which include sales commissions and costs associated with implementing SaaS informatics tools. At September 30, 2018, the Company had \$15.2 million in capitalized contract costs, including \$9.8 million related to implementation costs and \$5.4 million related to sales commissions. The Company had \$1.8 million of related amortization expense for the three months ended September 30, 2018.

**(6) INTANGIBLE ASSETS, NET**

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

|                             | Useful Life | September 30, 2018 | June 30, 2018 |
|-----------------------------|-------------|--------------------|---------------|
| Member relationships        | 14.7 years  | \$220,100          | \$220,100     |
| Technology                  | 5.0 years   | 142,317            | 142,317       |
| 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            | 475,750       |
| Accumulated amortization    |             | (167,273 )         | (153,635 )    |
| Intangible assets, net      |             | \$308,477          | \$322,115     |

Intangible asset amortization totaled \$13.6 million and \$13.9 million for the three months ended September 30, 2018 and 2017, respectively.

**(7) GOODWILL**

Goodwill consisted of the following (in thousands):

|                       | September 30, 2018 | June 30, 2018 |
|-----------------------|--------------------|---------------|
| 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      | September 30, 2018 | June 30, 2018 |
|-----------------------|-------------------|---------------|--------------------|---------------|
| Credit Facility       | \$ 750,000        | June 24, 2019 | \$100,000          | \$100,000     |
| Notes payable         | —                 | Various       | 7,218              | 7,212         |
| Total debt            |                   |               | 107,218            | 107,212       |
| Less: current portion |                   |               | (101,771 )         | (100,250 )    |
| Total long-term debt  |                   |               | \$5,447            | \$6,962       |

**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 Company has commenced negotiations to refinance or replace the Credit Facility during fiscal 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 September 30, 2018, the interest rate for three-month Eurodollar Loans was 3.523% and the interest rate for Base Rate Loans was 5.375%. 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 September 30, 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 September 30, 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 stock repurchase programs, and other general corporate activities. The Company had outstanding borrowings under the Credit Facility of \$100.0 million at September 30, 2018.

#### Notes Payable

At September 30, 2018 and June 30, 2018, the Company had \$7.2 million in notes payable consisting primarily of non-interest bearing notes payable outstanding to departed member owners, of which \$1.8 million and \$0.2 million, respectively, were included in current portion of long-term debt and \$5.4 million and \$7.0 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' 60% ownership of Premier LP through their ownership of Class B common units at September 30, 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 three months ended September 30, 2018 and 2017, the Company recorded adjustments 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 amounts of \$(708.2) million and \$320.4 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, 2018 to September 30, 2018 (in thousands):

|                                                                            | Receivables<br>From<br>Limited<br>Partners | Redeemable<br>Limited<br>Partners'<br>Capital | Total<br>Redeemable<br>Limited<br>Partners'<br>Capital |
|----------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------|--------------------------------------------------------|
| June 30, 2018                                                              | \$ (2,205 )                                | \$ 2,922,615                                  | \$ 2,920,410                                           |
| Distributions applied to receivables from limited partners                 | 437                                        | —                                             | 437                                                    |
| Net income attributable to non-controlling interest in Premier LP          | —                                          | 55,113                                        | 55,113                                                 |
| Distributions to limited partners                                          | —                                          | (14,993 )                                     | (14,993 )                                              |
| Exchange of Class B common units for Class A common stock by member owners | —                                          | (30,536 )                                     | (30,536 )                                              |
| Adjustment of redeemable limited partners' capital to redemption amount    | —                                          | 708,193                                       | 708,193                                                |
| September 30, 2018                                                         | \$ (1,768 )                                | \$ 3,640,392                                  | \$ 3,638,624                                           |

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 three months ended September 30, 2018.

During the three months ended September 30, 2018, no 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 60<sup>th</sup> 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 23, 2018 \$ 15,465

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 (a) local income tax rate for each respective distribution date. Premier LP expects to make a \$15.0 million quarterly distribution on or before November 21, 2018. The distribution is reflected in limited partners' distribution payable in the accompanying Condensed Consolidated Balance Sheets at September 30, 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 Audit and Compliance Committee. During the three months ended September 30, 2018, the Company recorded total reductions of \$30.5 million to redeemable limited partners' capital to reflect the exchange of approximately 0.8 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 (Loss) 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 Reduction in |            |
|----------------------------|------------------------|------------|
|                            | Class B                | Redeemable |
|                            | Common                 | Limited    |
|                            | Units                  | Partners'  |
|                            | Exchanged              | Capital    |
| July 31, 2018              | 816,468                | \$ 30,536  |

#### (10) STOCKHOLDERS' DEFICIT

As of September 30, 2018, there were 53,790,369 shares of the Company's Class A common stock, par value \$0.01 per share, and 79,519,233 shares of the Company's Class B common stock, par value \$0.000001 per share, outstanding.

On May 7, 2018, the Company's Board of Directors approved the repurchase of up to \$250.0 million of our Class A common stock as a continuation of our balanced capital deployment strategy. Subject to certain terms and conditions, repurchases may be made from time to time through open market purchases or privately negotiated transactions at our discretion, and in accordance with applicable federal securities laws. As of September 30, 2018, the Company had purchased approximately 0.3 million shares of Class A common stock at an average price of \$36.80 per share for a total purchase price of approximately \$12.3 million. The repurchase authorization may be suspended, delayed or discontinued at any time at the discretion of the Company's Board of Directors.

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 (LOSS) 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 (loss) 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.



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

|                                                                         | Three Months Ended September 30, |                                          |                           |
|-------------------------------------------------------------------------|----------------------------------|------------------------------------------|---------------------------|
|                                                                         | 2018                             | 2018                                     | 2017                      |
|                                                                         | As presented                     | Previous revenue standard <sup>(a)</sup> | Previous revenue standard |
| Numerator for basic earnings (loss) per share:                          |                                  |                                          |                           |
| Net income (loss) attributable to stockholders                          | \$(681,333)                      | \$(699,789)                              | \$336,430                 |
| Numerator for diluted earnings (loss) per share:                        |                                  |                                          |                           |
| Net income (loss) attributable to stockholders                          | \$(681,333)                      | \$(699,789)                              | \$336,430                 |
| Adjustment of redeemable limited partners' capital to redemption amount | —                                | —                                        | (320,424 )                |
| Net income attributable to non-controlling interest in Premier LP       | —                                | —                                        | 44,610                    |
| Net income (loss)                                                       | (681,333 )                       | (699,789 )                               | 60,616                    |
| Tax effect on Premier, Inc. net income <sup>(b)</sup>                   | —                                | —                                        | (18,156 )                 |
| Adjusted net income (loss)                                              | \$(681,333)                      | \$(699,789)                              | \$42,460                  |
| Denominator for basic earnings (loss) per share:                        |                                  |                                          |                           |
| Weighted average shares <sup>(c)</sup>                                  | 53,221                           | 53,221                                   | 52,909                    |
| Denominator for diluted earnings (loss) per share:                      |                                  |                                          |                           |
| Weighted average shares <sup>(c)</sup>                                  | 53,221                           | 53,221                                   | 52,909                    |
| Effect of dilutive securities: <sup>(d)</sup>                           |                                  |                                          |                           |
| Stock options                                                           | —                                | —                                        | 351                       |
| Restricted stock                                                        | —                                | —                                        | 304                       |
| Class B shares outstanding                                              | —                                | —                                        | 86,482                    |
| Weighted average shares and assumed conversions                         | 53,221                           | 53,221                                   | 140,046                   |
| Basic earnings (loss) per share                                         | \$(12.80 )                       | \$(13.15 )                               | \$6.36                    |
| Diluted earnings (loss) per share                                       | \$(12.80 )                       | \$(13.15 )                               | \$0.30                    |

(a) The Company adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605. Refer to Note 2 - Significant Accounting Policies for more information.

(b) 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 (loss) per share.

(c) Weighted average number of common shares used for basic earnings (loss) 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 months ended September 30, 2018 and 2017.

(d) For the three months ended September 30, 2018, the effect of 0.6 million stock options and restricted stock units was excluded from diluted weighted average shares outstanding as they had an anti-dilutive effect, and the effect of 1.0 million stock options and restricted stock units and 79.8 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 an anti-dilutive effect for the period. Additionally, the effect of 0.7 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 September 30, 2017, the effect of 1.4 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.

Pursuant to the terms of the Exchange Agreement, on a quarterly basis, the Company has the option, as determined by the 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<br>Member Owners | Class B                                    | Class B                                         | Class A                                         | Percentage of Combined Voting Power Class<br>B/Class A Common Stock |
|----------------------------------------|--------------------------------------------|-------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------------|
|                                        | Common                                     | Common                                          | Common                                          |                                                                     |
|                                        | Shares                                     | Shares                                          | Shares                                          |                                                                     |
|                                        | Retired<br>Upon<br>Exchange <sup>(a)</sup> | Outstanding<br>After<br>Exchange <sup>(a)</sup> | Outstanding<br>After<br>Exchange <sup>(b)</sup> |                                                                     |
| July 31, 2018                          | 816,468                                    | 79,519,233                                      | 53,256,897                                      | 60%/40%                                                             |
| October 31, 2018 <sup>(c)</sup>        | 9,807,651                                  | 69,601,752                                      | 63,734,585                                      | 52%/48%                                                             |

(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.

The number of Class A common shares outstanding after exchange also includes activity related to the Company's (b) 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).

As the quarterly exchange occurred on October 31, 2018, the impact of the exchange is not reflected in the condensed consolidated financial statements for the quarter ended September 30, 2018. The Company utilized (c) 4,287,471 treasury shares to facilitate a portion of this exchange, and as a result had zero Class A common shares held in treasury as of October 31, 2018, after the exchange.

#### (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 \$6.2 million and \$8.8 million for the three months ended September 30, 2018 and 2017, respectively, with a resulting deferred tax benefit of \$1.5 million and \$3.3 million, respectively. The deferred tax benefit was calculated at a rate of 25% and 38%, respectively, 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 September 30, 2018, there were 3.0 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 three months ended September 30, 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, 2018 | 605,873          | \$ 33.25                                  | 1,318,047                | \$ 33.00                                  | 3,499,251         | \$ 30.53                        |
| Granted                      | 225,233          | \$ 44.23                                  | 575,957                  | \$ 43.43                                  | —                 | \$ —                            |
| Vested/exercised             | (119,426)        | \$ 35.57                                  | (359,751)                | \$ 35.43                                  | (230,367)         | \$ 32.57                        |
| Forfeited                    | (15,417)         | \$ 32.71                                  | (40,877)                 | \$ 32.67                                  | (34,179)          | \$ 32.55                        |

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|                                                                 |         |          |           |          |           |          |
|-----------------------------------------------------------------|---------|----------|-----------|----------|-----------|----------|
| Outstanding at September 30, 2018                               | 696,263 | \$ 36.42 | 1,493,376 | \$ 36.45 | 3,234,705 | \$ 30.37 |
| Stock options outstanding and exercisable at September 30, 2018 |         |          |           |          | 2,737,472 | \$ 30.00 |

35

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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 September 30, 2018 was as follows (in thousands):

|                                                     | Unrecognized<br>Stock-Based<br>Compensation<br>Expense | Weighted Average Amortization Period |
|-----------------------------------------------------|--------------------------------------------------------|--------------------------------------|
| Restricted stock                                    | \$ 15,830                                              | 2.38 years                           |
| Performance share awards                            | 36,826                                                 | 2.26 years                           |
| Stock options                                       | 4,987                                                  | 1.65 years                           |
| Total unrecognized stock-based compensation expense | \$ 57,643                                              | 2.24 years                           |

The aggregate intrinsic value of stock options at September 30, 2018 was as follows (in thousands):

|                             | Intrinsic<br>Value of<br>Stock<br>Options |
|-----------------------------|-------------------------------------------|
| Outstanding and exercisable | \$43,186                                  |
| Expected to vest            | 6,667                                     |
| Total outstanding           | \$49,853                                  |

Exercised during the three months ended September 30, 2018 \$2,403

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:

|                                               |                                                   |
|-----------------------------------------------|---------------------------------------------------|
|                                               | Three<br>Months<br>Ended<br>September<br>30, 2017 |
| Expected life <sup>(a)</sup>                  | 6 years                                           |
| Expected dividend <sup>(b)</sup>              | —                                                 |
| Expected volatility <sup>(c)</sup>            | 32.26%                                            |
| Risk-free interest rate <sup>(d)</sup>        | 1.89%                                             |
| Weighted average option grant date fair value | \$ 11.42                                          |

The six-year expected life (estimated period of time outstanding) of stock options granted was estimated using the (a) "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. The Company has remeasured its deferred tax balances as of the enactment date and recorded net provisional tax expense of \$210.4 million in fiscal year 2018. During the first quarter of fiscal year 2019, the Company evaluated the impact of the TCJA with respect to the amendments to Section 162(m) based on the issuance of additional guidance by the Internal Revenue Service. The Company concluded no adjustment to its deferred tax balances is required. The Company will continue to prescribe provisional relief pursuant to SAB 118 to certain components of its deferred tax balances. While the Company has provided 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 Internal Revenue Service and other actions that we may take that are yet to be determined.

Income tax expense for the three months ended September 30, 2018 and 2017 was \$10.8 million and \$12.8 million, respectively, which reflects effective tax rates of 12% and 17%, respectively. The decrease in effective tax rates is primarily attributable to the aforementioned decrease in the U.S. federal corporate income tax rate from 35% to 21%. The Company's effective tax rates differ from income taxes recorded using a statutory 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.

Net deferred tax assets decreased \$8.8 million to \$279.3 million at September 30, 2018 from \$288.1 million at June 30, 2018. The current period balance was comprised of \$301.3 million in deferred tax assets at Premier, Inc. offset by \$22.0 million in deferred tax liabilities at PHSI and PSCI. The decrease in net deferred tax assets from the prior period was largely driven by \$10.7 million in net reductions to deferred tax assets and liabilities in connection with the adoption and transition to the New Revenue Standard.

The Company's 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 \$11.8 million to \$243.3 million at September 30, 2018 from \$255.1 million at June 30, 2018. The change in TRA liabilities was driven primarily by the \$18.0 million TRA payment to member owners during the three months ended September 30, 2018, partially offset by a \$6.2 million increase in TRA liabilities in connection with the quarterly member owner exchanges that occurred during the three months ended September 30, 2018.

#### (14) RELATED PARTY TRANSACTIONS

##### 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 of unconsolidated affiliates in the accompanying Condensed Consolidated Statements of Income was \$2.6 million and \$4.3 million for the three months ended September 30, 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 \$2.3 million as presented and \$1.6 million under the Previous Revenue Standard during the three months ended September 30, 2018, and \$1.7 million during the three months ended September 30, 2017, under the Previous Revenue Standard.

##### 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 \$1.2 million and \$1.5 million during the three months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and June 30, 2018, \$0.7 million and \$0.9 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 provides technology with wrap-around service offerings and includes the Company's informatics, collaborative, consulting services, government services and insurance services offerings. The Company disaggregates revenue into categories that best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following table presents disaggregated revenue by business segment and underlying source (in thousands):

| Three Months Ended          |              |                                  |                           |
|-----------------------------|--------------|----------------------------------|---------------------------|
| September 30,               |              |                                  |                           |
|                             | 2018         | 2018                             | 2017                      |
|                             | As presented | Previous revenue standard<br>(a) | Previous revenue standard |
| Net revenue:                |              |                                  |                           |
| Supply Chain Services       |              |                                  |                           |
| Net administrative fees     | \$ 162,000   | \$ 146,816                       | \$ 150,991                |
| Other services and support  | 2,344        | 3,624                            | 2,149                     |
| Services                    | 164,344      | 150,440                          | 153,140                   |
| Products                    | 151,470      | 163,432                          | 152,662                   |
| Total Supply Chain Services | 315,814      | 313,872                          | 305,802                   |
| Performance Services        | 85,732       | 79,073                           | 84,762                    |
| Net revenue                 | \$ 401,546   | \$ 392,945                       | \$ 390,564                |

(a) The Company adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605.

Refer to Note 2 - Significant Accounting Policies for more information.

Additional segment information related to depreciation and amortization expense, capital expenditures and total assets was as follows (in thousands):

|                                                        | Three Months<br>Ended<br>September 30,<br>2018 2017 |          |
|--------------------------------------------------------|-----------------------------------------------------|----------|
| Depreciation and amortization expense <sup>(a)</sup> : |                                                     |          |
| Supply Chain Services                                  | \$5,619                                             | \$5,495  |
| Performance Services                                   | 25,913                                              | 22,918   |
| Corporate                                              | 2,613                                               | 1,992    |
| Total depreciation and amortization expense            | \$34,145                                            | \$30,405 |
| Capital expenditures:                                  |                                                     |          |
| Supply Chain Services                                  | \$495                                               | \$307    |
| Performance Services                                   | 19,374                                              | 13,549   |
| Corporate                                              | 5,193                                               | 2,791    |
| Total capital expenditures                             | \$25,062                                            | \$16,647 |

|                       | September<br>30, 2018 | September 30,<br>2018                          | September 30,<br>June 30,<br>2018 |
|-----------------------|-----------------------|------------------------------------------------|-----------------------------------|
| Total assets:         | As<br>presented       | Previous<br>revenue<br>standard <sup>(b)</sup> | Previous<br>revenue<br>standard   |
| Supply Chain Services | \$1,210,363           | \$1,051,206                                    | \$991,837                         |
| Performance Services  | 902,446               | 850,990                                        | 860,409                           |
| Corporate             | 403,743               | 411,518                                        | 459,970                           |
| Total assets          | \$2,516,552           | \$2,313,714                                    | \$2,312,216                       |

(a) Includes amortization of purchased intangible assets.

(b) The Company adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605.

Refer to Note 2 - Significant Accounting Policies for more information.

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 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 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 September 30, |                               |                           |
|------------------------------------------------------------------|----------------------------------|-------------------------------|---------------------------|
|                                                                  | 2018                             | 2018                          | 2017                      |
|                                                                  | As presented                     | Previous revenue standard (a) | Previous revenue standard |
| Income before income taxes                                       | \$92,766                         | \$69,750                      | \$73,380                  |
| Equity in net income of unconsolidated affiliates <sup>(b)</sup> | (2,690)                          | (2,690)                       | (4,252)                   |
| Interest and investment loss, net <sup>(c)</sup>                 | 688                              | 688                           | 1,495                     |
| Loss on disposal of long-lived assets                            | —                                | —                             | 1,320                     |
| Other expense (income)                                           | 1,941                            | 1,941                         | (1,463)                   |
| Operating income                                                 | 92,705                           | 69,689                        | 70,480                    |
| Depreciation and amortization                                    | 20,507                           | 20,507                        | 16,507                    |
| Amortization of purchased intangible assets                      | 13,638                           | 13,638                        | 13,898                    |
| Stock-based compensation <sup>(d)</sup>                          | 6,337                            | 6,337                         | 8,957                     |
| Acquisition related expenses                                     | 409                              | 409                           | 3,099                     |
| ERP implementation expenses <sup>(e)</sup>                       | 326                              | 326                           | 335                       |
| Equity in net income of unconsolidated affiliates <sup>(b)</sup> | 2,690                            | 2,690                         | 4,252                     |
| Deferred compensation plan income <sup>(f)</sup>                 | 1,336                            | 1,336                         | 1,539                     |
| Other expense                                                    | 673                              | 673                           | 104                       |
| Adjusted EBITDA                                                  | \$138,621                        | \$115,605                     | \$119,171                 |

Segment Adjusted EBITDA:

|                       |           |           |           |
|-----------------------|-----------|-----------|-----------|
| Supply Chain Services | \$135,403 | \$119,804 | \$125,620 |
| Performance Services  | 30,575    | 23,158    | 21,221    |
| Corporate             | (27,357)  | (27,357)  | (27,670)  |
| Adjusted EBITDA       | \$138,621 | \$115,605 | \$119,171 |

(a) Refer to Note 2 - Significant Accounting Policies for more information related to the impact of the New Revenue Standard.

(b) Refer to Note 3 - Investments for further information.

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

(d) Represents non-cash employee stock-based compensation expense and stock purchase plan expense of \$0.1 million during both of the three months ended September 30, 2018 and 2017.

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

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

(17) SUBSEQUENT EVENTS

On November 6, 2018, the Company announced that its subsidiary, Premier Healthcare Solutions, Inc., entered into a definitive agreement and plan of merger ("Merger Agreement") to acquire Stanson Health, Inc. ("Stanson") for \$51.5 million in cash, subject to potential purchase price adjustments for working capital at the time of closing. In addition, the Merger Agreement provides for an earn-out opportunity of up to \$15.0 million based on certain product delivery and revenue targets. The acquisition is anticipated to close during the Company's 2019 second fiscal quarter ended December 31, 2018. The acquisition is subject to customary closing conditions, and there can be no assurances regarding whether or when the acquisition will ultimately be completed.

Stanson is a leading clinical decision support company that provides SaaS to healthcare facilities. Stanson's SaaS products deliver healthcare providers real-time alerts and relevant analytics native to their electronic health record to

guide and influence physician's decisions resulting in the reduction of low-value and unnecessary care.

40

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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

41

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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 our Form 10-K for the fiscal year ended June 30, 2018 (the "2018 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 more than 4,000 U.S. hospitals and health systems and approximately 165,000 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 value-based care software as a service ("SaaS") informatics products, consulting services and performance improvement collaborative programs.

As of September 30, 2018, we were controlled by 162 U.S. hospitals, health systems and other healthcare organizations, which represented approximately 1,400 owned, leased and managed acute care facilities and other non-acute care organizations, through their ownership of Class B common stock. As of September 30, 2018, the outstanding Class A common stock and Class B common stock represented approximately 40% and 60%, respectively, of our combined outstanding 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 |           |           |
|--------------------------|--------------------|-----------|-----------|
|                          | September 30,      |           |           |
|                          | 2018               | 2018      | 2017      |
|                          | New                | Previous  | Previous  |
|                          | Revenue            | Revenue   | Revenue   |
|                          | Standard           | Standard  | Standard  |
|                          | (a)                |           |           |
| Net revenue              | \$401,546          | \$392,945 | \$390,564 |
| Net income               | \$81,973           | \$60,716  | \$60,616  |
| Non-GAAP Adjusted EBITDA | \$138,621          | \$115,605 | \$119,171 |

We adopted Topic 606 effective July 1, 2018, while comparative results are presented under Topic 605. Refer to (a)Note 2 - Significant Accounting Policies and Critical Accounting Policies and Estimates below for more information.

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 while focusing on optimization of information resources and cost containment, 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 value-based care through two business segments: Supply Chain Services and Performance Services.

Our Supply Chain Services segment includes one of the largest healthcare group purchasing organization programs ("GPO") 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 \$305.8 million for the three months ended September 30, 2017 to \$315.8 million for the three months ended September 30, 2018, and accounted for 79% of our overall net revenue for the three months ended September 30, 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.

The Performance Services segment, through its development, integration and delivery of technology with wrap-around service offerings, includes one of the largest informatics and consulting businesses in the United States focused on healthcare providers. More specifically, our software as a service ("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 the three main categories of cost management, quality and safety, and value-based care. While leveraging these tools, we also combine our consulting services and technology-enabled performance improvement collaboratives to provide a more comprehensive and holistic customer value proposition and overall experience. The Performance Services segment also includes our government services and insurance management services. Performance Services net revenue grew from \$84.8 million for the three months ended September 30, 2017 to \$85.7 million for the three months ended September 30, 2018, and accounted for 21% of our overall net revenue for the three months ended September 30, 2018.

#### 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 and costs 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 the number of uninsured or level of bad debt for providers, 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. Moreover, 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 comprehensive and integrated Supply Chain Services and Performance Services solutions in the areas of cost management, quality and safety and value-based care. There are, however, 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**

Refer to Note 1 - Organization and Basis of Presentation and Note 2 - Significant Accounting Policies for more information related to our use of estimates in the preparation of financial statements as well as information related to material changes in our significant accounting policies that were included within our 2018 Annual Report.

#### New Accounting Standards

For the ensuing discussion, it is important to note that we adopted Topic 606 ("New Revenue Standard") effective for the fiscal year beginning July 1, 2018. The prior year information has not been adjusted and continues to be reported under Topic 605 ("Previous Revenue Standard"). However, for informational purposes, we have also included current period results under the Previous Revenue Standard. Refer to Note 2 - Significant Accounting Policies for further information on the impact of the New Revenue Standard on our condensed consolidated financial statements, which is incorporated herein by reference, as well as for additional information on other new accounting standards that we have recently adopted as well as those that have been recently issued but not yet adopted.

#### 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, renewal of existing subscriptions to our SaaS and licensed informatics products, along with our ability to generate additional applied sciences engagements and expand into new markets.

##### 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 along with associated amortization of capitalized contract costs. 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.

##### 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

44

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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. Amortization of contract costs represent amounts that have been capitalized and reflect the incremental costs of obtaining and fulfilling a contract. Such amounts include sales commissions and costs related to implementing SaaS informatics tools, which are components of selling, general and administrative expenses and cost of revenue, respectively.

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 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"). 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

Our income tax expense is attributable to the activities of Premier, Inc., 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. Our 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 our 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. Our 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 Premier, Inc., PHSI and PSCI, divided by consolidated pre-tax income.

Non-GAAP Adjusted Fully Distributed Net Income is calculated net of taxes based on our fully distributed tax rate for federal and state income tax for us as a whole as if we were one taxable entity with all of our subsidiaries' activities included. Prior to the enactment of the Tax Cuts and Jobs Act ("TCJA"), the rate used to compute the Non-GAAP Adjusted Fully Distributed Net Income was 39%. Effective as of January 1, 2018, we adjusted our fully distributed tax rate to 26% to determine our Non-GAAP Adjusted Fully Distributed Net Income and expect to continue to use that rate for fiscal year 2019.

#### Net Income Attributable to Non-Controlling Interest

As of September 30, 2018, we owned an approximate 40% 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 approximately 60% as of both September 30, 2018 and June 30, 2018 (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 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 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 (Loss) 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 both of the three months ended September 30, 2018 and 2017 (see Note 12 - Stock-Based Compensation).

Loss on FFF put and call rights

See Note 4 - Fair Value Measurements.

## Results of Operations

We adopted the New Revenue Standard effective for the fiscal year beginning July 1, 2018. The prior year information has not been adjusted and continues to be reported under the Previous Revenue Standard. As result, our results of operations under the New Revenue Standard are not indicative of what our results or operations were under the Previous Revenue Standard. However, for informational purposes, we have also included current period results under the Previous Revenue Standard. Refer to Note 2 - Significant Accounting Policies for further information on the impact of the New Revenue Standard on our condensed consolidated financial statements, which is incorporated herein by reference. The following table summarizes our results of operations for the periods presented (in thousands, except per share data):

|                                                                         | Three Months Ended September 30,<br>2018 |                  | 2018                      |                  | 2017                      |                  |
|-------------------------------------------------------------------------|------------------------------------------|------------------|---------------------------|------------------|---------------------------|------------------|
|                                                                         | As presented                             |                  | Previous revenue standard |                  | Previous revenue standard |                  |
|                                                                         | Amount                                   | % of Net Revenue | Amount                    | % of Net Revenue | Amount                    | % of Net Revenue |
| Net revenue:                                                            |                                          |                  |                           |                  |                           |                  |
| Net administrative fees                                                 | \$ 162,000                               | 40%              | \$ 146,816                | 37%              | \$ 150,991                | 39%              |
| Other services and support                                              | 88,076                                   | 22%              | 82,697                    | 21%              | 86,911                    | 22%              |
| Services                                                                | 250,076                                  | 62%              | 229,513                   | 58%              | 237,902                   | 61%              |
| Products                                                                | 151,470                                  | 38%              | 163,432                   | 42%              | 152,662                   | 39%              |
| Net revenue                                                             | 401,546                                  | 100%             | 392,945                   | 100%             | 390,564                   | 100%             |
| Cost of revenue:                                                        |                                          |                  |                           |                  |                           |                  |
| Services                                                                | 43,372                                   | 12%              | 45,305                    | 11%              | 46,936                    | 12%              |
| Products                                                                | 145,621                                  | 36%              | 156,992                   | 40%              | 144,440                   | 37%              |
| Cost of revenue                                                         | 188,993                                  | 48%              | 202,297                   | 51%              | 191,376                   | 49%              |
| Gross profit                                                            | 212,553                                  | 52%              | 190,648                   | 49%              | 199,188                   | 51%              |
| Operating expenses:                                                     |                                          |                  |                           |                  |                           |                  |
| Selling, general and administrative                                     | 105,870                                  | 25%              | 106,981                   | 27%              | 114,321                   | 28%              |
| Research and development                                                | 340                                      | —%               | 340                       | —%               | 489                       | —%               |
| Amortization of purchased intangible assets                             | 13,638                                   | 3%               | 13,638                    | 3%               | 13,898                    | 4%               |
| Operating expenses                                                      | 119,848                                  | 29%              | 120,959                   | 30%              | 128,708                   | 32%              |
| Operating income                                                        | 92,705                                   | 23%              | 69,689                    | 18%              | 70,480                    | 18%              |
| Other income, net                                                       | 61                                       | —%               | 61                        | —%               | 2,900                     | 1%               |
| Income before income taxes                                              | 92,766                                   | 22%              | 69,750                    | 18%              | 73,380                    | 19%              |
| Income tax expense                                                      | 10,793                                   | 3%               | 9,034                     | 2%               | 12,764                    | 3%               |
| Net income                                                              | 81,973                                   | 20%              | 60,716                    | 15%              | 60,616                    | 16%              |
| Net income attributable to non-controlling interest in Premier LP       | (55,113 )                                | (14)%            | (41,740 )                 | (11)%            | (44,610 )                 | (11)%            |
| Adjustment of redeemable limited partners' capital to redemption amount | (708,193 )                               | nm               | (718,765 )                | nm               | 320,424                   | nm               |
| Net income (loss) attributable to stockholders                          | \$ (681,333 )                            | nm               | \$ (699,789 )             | nm               | \$ 336,430                | nm               |
| Weighted average shares outstanding:                                    |                                          |                  |                           |                  |                           |                  |
| Basic                                                                   | 53,221                                   |                  | 53,221                    |                  | 52,909                    |                  |
| Diluted                                                                 | 53,221                                   |                  | 53,221                    |                  | 140,046                   |                  |

Earnings (loss) per share attributable to stockholders:

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|                        |             |             |         |
|------------------------|-------------|-------------|---------|
| Basic                  | \$ (12.80 ) | \$ (13.15 ) | \$ 6.36 |
| Diluted <sup>(a)</sup> | \$ (12.80 ) | \$ (13.15 ) | \$ 0.30 |

48

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nm = Not meaningful

We have corrected prior period information within the current period financial statements related to a specific component used in calculating the tax effect on Premier, Inc. net income for purposes of diluted earnings per share. (a) Diluted earnings per share for the three months ended September 30, 2017 was previously stated at \$0.36 per share and has been corrected to \$0.30 per share. We believe the correction is immaterial and the corrected amount had no impact on our overall financial condition, results of operations or cash flows.

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 September 30, 2018 |                  | 2018                      |                  | 2017                      |                  |
|--------------------------------------------------------|---------------------------------------|------------------|---------------------------|------------------|---------------------------|------------------|
|                                                        | As presented                          |                  | Previous revenue standard |                  | Previous revenue standard |                  |
|                                                        | Amount                                | % of Net Revenue | Amount                    | % of Net Revenue | Amount                    | % of Net Revenue |
| Certain Non-GAAP Financial Data:                       |                                       |                  |                           |                  |                           |                  |
| Adjusted EBITDA                                        | \$ 138,621                            | 35%              | \$ 115,605                | 29%              | \$ 119,171                | 31%              |
| Non-GAAP Adjusted Fully Distributed Net Income         | \$ 86,895                             | 22%              | \$ 69,863                 | 18%              | \$ 61,713                 | 16%              |
| Non-GAAP Adjusted Fully Distributed Earnings Per Share | \$ 0.65                               |                  | \$ 0.52                   |                  | \$ 0.44                   |                  |

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 September 30, |                           |                           |
|---------------------------------------------------|----------------------------------|---------------------------|---------------------------|
|                                                   | 2018                             | 2018                      | 2017                      |
|                                                   | As presented                     | Previous revenue standard | Previous revenue standard |
| Net income                                        | \$ 81,973                        | \$ 60,716                 | \$ 60,616                 |
| Interest and investment loss, net                 | 688                              | 688                       | 1,495                     |
| Income tax expense                                | 10,793                           | 9,034                     | 12,764                    |
| Depreciation and amortization                     | 20,507                           | 20,507                    | 16,507                    |
| Amortization of purchased intangible assets       | 13,638                           | 13,638                    | 13,898                    |
| EBITDA                                            | 127,599                          | 104,583                   | 105,280                   |
| Stock-based compensation                          | 6,337                            | 6,337                     | 8,957                     |
| Acquisition related expenses                      | 409                              | 409                       | 3,099                     |
| ERP implementation expenses                       | 326                              | 326                       | 335                       |
| Loss on disposal of long-lived assets             | —                                | —                         | 1,320                     |
| Loss on FFF put and call rights                   | 3,283                            | 3,283                     | 20                        |
| Other expense                                     | 667                              | 667                       | 160                       |
| Adjusted EBITDA                                   | \$ 138,621                       | \$ 115,605                | \$ 119,171                |
| Income before income taxes                        | \$ 92,766                        | \$ 69,750                 | \$ 73,380                 |
| Equity in net income of unconsolidated affiliates | (2,690)                          | (2,690)                   | (4,252)                   |
| Interest and investment loss, net                 | 688                              | 688                       | 1,495                     |
| Loss on disposal of long-lived assets             | —                                | —                         | 1,320                     |

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|                               |        |        |          |
|-------------------------------|--------|--------|----------|
| Other expense (income)        | 1,941  | 1,941  | (1,463 ) |
| Operating income              | 92,705 | 69,689 | 70,480   |
| Depreciation and amortization | 20,507 | 20,507 | 16,507   |

49

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|                                                   | Three Months Ended September |           |           |
|---------------------------------------------------|------------------------------|-----------|-----------|
|                                                   | 30,                          |           |           |
|                                                   | 2018                         | 2018      | 2017      |
|                                                   | As                           | Previous  | Previous  |
|                                                   | presented                    | revenue   | revenue   |
|                                                   |                              | standard  | standard  |
| Amortization of purchased intangible assets       | 13,638                       | 13,638    | 13,898    |
| Stock-based compensation                          | 6,337                        | 6,337     | 8,957     |
| Acquisition related expenses                      | 409                          | 409       | 3,099     |
| ERP implementation expenses                       | 326                          | 326       | 335       |
| Equity in net income of unconsolidated affiliates | 2,690                        | 2,690     | 4,252     |
| Deferred compensation plan income                 | 1,336                        | 1,336     | 1,539     |
| Other expense, net                                | 673                          | 673       | 104       |
| Adjusted EBITDA                                   | \$138,621                    | \$115,605 | \$119,171 |
| Segment Adjusted EBITDA:                          |                              |           |           |
| Supply Chain Services                             | \$135,403                    | \$119,804 | \$125,620 |
| Performance Services                              | 30,575                       | 23,158    | 21,221    |
| Corporate                                         | (27,357 )                    | (27,357 ) | (27,670 ) |
| Adjusted EBITDA                                   | \$138,621                    | \$115,605 | \$119,171 |

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 September 30, |                           |                           |
|-----------------------------------------------------------------------------------|----------------------------------|---------------------------|---------------------------|
|                                                                                   | 2018                             | 2018                      | 2017                      |
|                                                                                   | As presented                     | Previous revenue standard | Previous revenue standard |
| Net income (loss) attributable to stockholders                                    | \$(681,333)                      | \$(699,789)               | \$336,430                 |
| Adjustment of redeemable limited partners' capital to redemption amount           | 708,193                          | 718,765                   | (320,424 )                |
| Net income attributable to non-controlling interest in Premier LP                 | 55,113                           | 41,740                    | 44,610                    |
| Income tax expense                                                                | 10,793                           | 9,034                     | 12,764                    |
| Amortization of purchased intangible assets                                       | 13,638                           | 13,638                    | 13,898                    |
| Stock-based compensation                                                          | 6,337                            | 6,337                     | 8,957                     |
| Acquisition related expenses                                                      | 409                              | 409                       | 3,099                     |
| ERP implementation expenses                                                       | 326                              | 326                       | 335                       |
| Loss on disposal of long-lived assets                                             | —                                | —                         | 1,320                     |
| Loss on FFF put and call rights                                                   | 3,283                            | 3,283                     | 20                        |
| Other expense                                                                     | 667                              | 667                       | 160                       |
| Non-GAAP adjusted fully distributed income before income taxes                    | 117,426                          | 94,410                    | 101,169                   |
| Income tax expense on fully distributed income before income taxes <sup>(a)</sup> | 30,531                           | 24,547                    | 39,456                    |
| Non-GAAP Adjusted Fully Distributed Net Income                                    | \$86,895                         | \$69,863                  | \$61,713                  |

#### 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 | 53,221  | 53,221  | 52,909  |
| Potentially dilutive shares                                        | 1,067   | 1,067   | 655     |
| Conversion of Class B common units                                 | 79,794  | 79,794  | 86,482  |
| Weighted average fully distributed shares outstanding - diluted    | 134,082 | 134,082 | 140,046 |

Reflects income tax expense at an estimated effective income tax rate of 26% and 39% of Non-GAAP adjusted (a) fully distributed income before income taxes for the three months ended September 30, 2018 and 2017, respectively.

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<br>September 30, |                                 |                                 |
|-------------------------------------------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
|                                                                         | 2018                                | 2018                            | 2017                            |
|                                                                         | As<br>presented                     | Previous<br>revenue<br>standard | Previous<br>revenue<br>standard |
| Earnings (loss) per share attributable to stockholders                  | \$(12.80)                           | \$(13.15)                       | \$ 6.36                         |
| Adjustment of redeemable limited partners' capital to redemption amount | 13.31                               | 13.51                           | (6.05 )                         |
| Net income attributable to non-controlling interest in Premier LP       | 1.04                                | 0.78                            | 0.84                            |
| Income tax expense                                                      | 0.20                                | 0.17                            | 0.24                            |
| Amortization of purchased intangible assets                             | 0.26                                | 0.26                            | 0.26                            |
| Stock-based compensation                                                | 0.12                                | 0.12                            | 0.17                            |
| Acquisition related expenses                                            | 0.01                                | 0.01                            | 0.06                            |
| ERP implementation expenses                                             | 0.01                                | 0.01                            | 0.01                            |
| Loss on disposal of long-lived assets                                   | —                                   | —                               | 0.02                            |
| Loss on FFF put and call rights                                         | 0.06                                | 0.06                            | —                               |
| Other expense                                                           | 0.01                                | 0.01                            | —                               |
| Impact of corporation taxes <sup>(a)</sup>                              | (0.57 )                             | (0.46 )                         | (0.74 )                         |
| Impact of dilutive shares <sup>(b)</sup>                                | (1.00 )                             | (0.80 )                         | (0.73 )                         |
| Non-GAAP Adjusted Fully Distributed Earnings Per Share                  | \$0.65                              | \$0.52                          | \$ 0.44                         |

Reflects income tax expense at an estimated effective income tax rate of 26% and 39% of Non-GAAP adjusted (a) fully distributed income before income taxes for the three months ended September 30, 2018 and 2017, respectively.

(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 Months Ended September 30, 2018 to 2017

##### Net Revenue

Net revenue increased \$10.9 million to \$401.5 million for the three months ended September 30, 2018 from \$390.6 million for the three months ended September 30, 2017.

Net administrative fees revenue increased \$11.0 million, from the three months ended September 30, 2017 to 2018 primarily driven by further contract penetration of existing members and, to a lesser degree, the impact of conversion of new members to our portfolio. Net administrative fees recognized in the three months ended September 30, 2018 under the Previous Revenue Standard totaled \$146.8 million, largely attributable the impact of higher cash collections and revenue recoveries during the three months ended June 30, 2018 as a result of an increased focus on the specific timing of cash collections under the Previous Revenue Standard. We expect our net administrative fees revenue to grow to the extent our existing members increase the utilization of our contracts, additional members convert to our contract portfolio and we increase the number of contracts included in our overall portfolio.

Product revenue for the three months ended September 30, 2018 totaled \$151.5 million, compared with \$152.7 million for the three months ended September 30, 2017. Growth in oncology and respiratory-related drug revenue, as well as sales growth in the direct sourcing business, was offset by the \$12.0 million impact of revenue recognition under the New Revenue Standard related primarily to our 340B federal discount prescription drug program, and to a lesser extent to the direct sourcing business. More specifically, 340B revenue, as well as direct sourcing revenue associated with distributor fees, were historically recognized on a gross basis under the Previous Revenue Standard, but are now recognized on a net basis under the New Revenue Standard. 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.

Other services and support revenue for the three months ended September 30, 2018 totaled \$88.1 million, compared with \$86.9 million for the three months ended September 30, 2017. Revenue growth was primarily driven by cost management consulting services and applied sciences, as under the New Revenue Standard revenue is now recognized proportionally to when services are provided. The growth was partially offset by a decrease in license revenue for our safety related technology solutions under

the New Revenue Standard, which shifted recognition of some licensing revenue to a point-in-time versus ratably over the subscription period under the Previous Revenue Standard. This resulted in some licensing revenue attributed to prior periods, which is reflected in accumulated deficit upon adoption of the New Revenue Standard. 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 integrated platform of products and services.

#### Cost of Revenue

Cost of revenue decreased \$2.4 million, or 1%, to \$189.0 million for the three months ended September 30, 2018 from \$191.4 million for the three months ended September 30, 2017.

Cost of services revenue decreased \$3.5 million, or 7%, from the three months ended September 30, 2017 to 2018, primarily driven by a decrease in consulting costs related to outside resources to support certain projects as well as an increase in capitalized contract costs associated with the implementation of the New Revenue Standard. 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 \$1.2 million, or 1%, from the three months ended September 30, 2017 to 2018, primarily driven by the higher growth in revenues associated with our integrated pharmacy business and direct sourcing sales. This increase was partially offset by the aforementioned impact of the New Revenue Standard on our 340B federal discount prescription drug program. 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 could reduce our gross profit as a percentage of our net revenues depending on the underlying product sales mix.

#### Operating Expenses

Operating expenses decreased \$8.9 million, or 7%, to \$119.8 million for the three months ended September 30, 2018 from \$128.7 million for the three months ended September 30, 2017.

#### Selling, General and Administrative

Selling, general and administrative expenses decreased \$8.4 million, or 7%, from the three months ended September 30, 2017 to 2018, primarily driven by a decrease in salaries and benefits expenses resulting from a reduction in current year annual incentive plan expense and increased capitalized labor costs, a decrease in stock-based compensation expense associated with a reduction in anticipated achievement of certain performance targets, the continued impact and realization of expense savings initiatives that were implemented in the prior year along with the impact of costs incurred in the prior year associated with the acquisition of Innovatix, LLC, which occurred on December 2, 2016.

#### Research and Development

Research and development expenses decreased by \$0.2 million from the three months ended September 30, 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 \$0.3 million, or 2%, from the three months ended September 30, 2017 to 2018. 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, Net

Other income, net decreased \$2.8 million to \$0.1 million for the three months ended September 30, 2018 from \$2.9 million for the three months ended September 30, 2017, primarily driven by the loss on FFF put and call rights in the current period (see Note 4 - Fair Value Measurements).

#### Income Tax Expense

For the three months ended September 30, 2018 and 2017, we recorded tax expense of \$10.8 million and \$12.8 million, respectively, which equates to effective tax rates of 12% and 17%, respectively. The decrease in effective tax

rate is primarily attributable to

53

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the aforementioned decrease in the U.S. federal corporate income tax rate from 35% to 21%. Our effective tax rate differs from income taxes recorded at the 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 \$10.5 million, or 24%, to \$55.1 million for the three months ended September 30, 2018 from \$44.6 million for the three months ended September 30, 2017, primarily attributable to an increase in income of Premier LP offset by a decrease in non-controlling ownership percentage in Premier LP to 60% from 62%, respectively.

#### Non-GAAP Adjusted EBITDA

Non-GAAP Adjusted EBITDA increased \$19.4 million, or 16%, to \$138.6 million for the three months ended September 30, 2018 from \$119.2 million for the three months ended September 30, 2017, primarily as a result of growth in net administrative fees revenue and the aforementioned decrease in cost of services revenue and selling, general and administrative expenses.

#### Supply Chain Services - Comparison of the Three Months Ended September 30, 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<br>September 30, |                                 |                                 |
|---------------------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
|                                                   | 2018                                | 2018                            | 2017                            |
|                                                   | As<br>presented                     | Previous<br>revenue<br>standard | Previous<br>revenue<br>standard |
| Supply Chain Services                             |                                     |                                 |                                 |
| Net revenue:                                      |                                     |                                 |                                 |
| Net administrative fees                           | \$ 162,000                          | \$ 146,816                      | \$ 150,991                      |
| Other services and support                        | 2,344                               | 3,624                           | 2,149                           |
| Services                                          | 164,344                             | 150,440                         | 153,140                         |
| Products                                          | 151,470                             | 163,432                         | 152,662                         |
| Net revenue                                       | 315,814                             | 313,872                         | 305,802                         |
| Cost of revenue:                                  |                                     |                                 |                                 |
| Services                                          | 23                                  | 1,340                           | 1,063                           |
| Products                                          | 145,621                             | 156,992                         | 144,440                         |
| Cost of revenue                                   | 145,644                             | 158,332                         | 145,503                         |
| Gross profit                                      | 170,170                             | 155,540                         | 160,299                         |
| Operating expenses:                               |                                     |                                 |                                 |
| Selling, general and administrative               | 38,799                              | 39,769                          | 41,935                          |
| Amortization of purchased intangible assets       | 5,040                               | 5,040                           | 5,040                           |
| Operating expenses                                | 43,840                              | 44,809                          | 46,975                          |
| Operating income                                  | \$ 126,330                          | \$ 110,731                      | \$ 113,324                      |
| Depreciation and amortization                     | 579                                 | 579                             | 454                             |
| Amortization of purchased intangible assets       | 5,040                               | 5,040                           | 5,040                           |
| Acquisition related expenses                      | 225                                 | 225                             | 2,550                           |
| Equity in net income of unconsolidated affiliates | 2,596                               | 2,596                           | 4,252                           |
| Other expense                                     | 633                                 | 633                             | —                               |
| Non-GAAP Segment Adjusted EBITDA                  | \$ 135,403                          | \$ 119,804                      | \$ 125,620                      |
| Net Revenue                                       |                                     |                                 |                                 |

Supply Chain Services segment net revenue increased \$10.0 million to \$315.8 million for the three months ended September 30, 2018 from \$305.8 million for the three months ended September 30, 2017.



Net administrative fees revenue increased \$11.0 million, from the three months ended September 30, 2017 to 2018 primarily driven by further contract penetration of existing members and, to a lesser degree, the impact of conversion of new members to our portfolio. Net administrative fees recognized in the three months ended September 30, 2018 under the Previous Revenue Standard totaled \$146.8 million, largely attributable the impact of higher cash collections and revenue recoveries during the three months ended June 30, 2018 as a result of an increased focus on the specific timing of cash collections under the Previous Revenue Standard. We expect our net administrative fees revenue to grow to the extent our existing members increase the utilization of our contracts, additional members convert to our contract portfolio and we increase the number of contracts included in our overall portfolio.

Product revenue for the three months ended September 30, 2018 totaled \$151.5 million, compared with \$152.7 million for the three months ended September 30, 2017. Growth in oncology and respiratory-related drug revenue, as well as sales growth in the direct sourcing business, was offset by the \$12.0 million impact of revenue recognition under the New Revenue Standard related primarily to our 340B federal discount prescription drug program, and to a lesser extent to the direct sourcing business. More specifically, 340B revenue, as well as direct sourcing revenue associated with distributor fees, were historically recognized on a gross basis under the Previous Revenue Standard, but are now recognized on a net basis under the New Revenue Standard. 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

Supply Chain Services segment cost of revenue increased \$0.1 million, to \$145.6 million for the three months ended September 30, 2018 from \$145.5 million for the three months ended September 30, 2017.

Cost of product revenue increased \$1.2 million, or 1%, from the three months ended September 30, 2017 to 2018, primarily driven by the higher growth in revenues associated with our integrated pharmacy business and direct sourcing sales. This increase was partially offset by the aforementioned impact of the New Revenue Standard on our 340B federal discount prescription drug program. 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 could reduce our gross profit as a percentage of our net revenues depending on the underlying product sales mix.

#### Operating Expenses

Supply Chain Services segment operating expenses decreased \$3.2 million, or 7%, to \$43.8 million for the three months ended September 30, 2018 from \$47.0 million for the three months ended September 30, 2017.

Selling, general and administrative expenses decreased \$3.1 million, or 7%, from the three months ended September 30, 2017 to 2018 primarily driven by the impact of costs incurred in the prior year associated with the acquisition of Innovatix, LLC, which occurred on December 2, 2016, along with decreased general overhead expenses in the current year.

Amortization of purchased intangible assets remained flat at \$5.0 million for the three months ended September 30, 2018 and 2017.

#### Segment Adjusted EBITDA

Segment Adjusted EBITDA increased \$9.8 million, or 8%, to \$135.4 million for the three months ended September 30, 2018 from \$125.6 million for the three months ended September 30, 2017. This increase was primarily a result of growth in net administrative fees revenue and lower selling, general and administrative expenses. These increases were partially offset by a decrease in equity in net income of unconsolidated affiliates, an increase in direct and indirect remuneration fees, and increased product costs.

## Performance Services - Comparison of the Three Months Ended September 30, 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<br>September 30, |                                 |                                 |
|---------------------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
|                                                   | 2018                                | 2018                            | 2017                            |
| Performance Services                              | As<br>presented                     | Previous<br>revenue<br>standard | Previous<br>revenue<br>standard |
| Net revenue:                                      |                                     |                                 |                                 |
| Other services and support                        | 85,732                              | 79,073                          | 84,762                          |
| Net revenue                                       | 85,732                              | 79,073                          | 84,762                          |
| Cost of revenue:                                  |                                     |                                 |                                 |
| Services                                          | 43,349                              | 43,965                          | 45,872                          |
| Cost of revenue                                   | 43,349                              | 43,965                          | 45,872                          |
| Gross profit                                      | 42,383                              | 35,108                          | 38,890                          |
| Operating expenses:                               |                                     |                                 |                                 |
| Selling, general and administrative               | 29,100                              | 29,242                          | 31,911                          |
| Research and development                          | 340                                 | 340                             | 472                             |
| Amortization of purchased intangible assets       | 8,598                               | 8,598                           | 8,858                           |
| Operating expenses                                | 38,038                              | 38,180                          | 41,241                          |
| Operating income                                  | \$4,345                             | \$(3,072)                       | \$(2,351)                       |
| Depreciation and amortization                     | 17,315                              | 17,315                          | 14,060                          |
| Amortization of purchased intangible assets       | 8,598                               | 8,598                           | 8,858                           |
| Acquisition related expenses                      | 184                                 | 184                             | 549                             |
| Equity in net income of unconsolidated affiliates | 94                                  | 94                              | —                               |
| Other expense                                     | 39                                  | 39                              | 105                             |
| Non-GAAP Segment Adjusted EBITDA                  | \$30,575                            | \$23,158                        | \$21,221                        |
| Net Revenue                                       |                                     |                                 |                                 |

Other services and support revenue for the three months ended September 30, 2018 totaled \$85.7 million, compared with \$84.8 million for the three months ended September 30, 2017. Revenue growth was primarily driven by cost management consulting services and applied sciences, as under the New Revenue Standard revenue is now recognized proportionally to when services are provided. The growth was partially offset by a decrease in license revenue for our safety related technology solutions under the New Revenue Standard, which shifted recognition of some licensing revenue to a point-in-time versus ratably over the subscription period under the Previous Revenue Standard. This resulted in some licensing revenue attributed to prior periods, which is reflected in accumulated deficit upon adoption of the New Revenue Standard. 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 integrated platform of products and services. 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 integrated platform of products and services.

## Cost of Revenue

Cost of revenue decreased \$2.6 million, or 6%, to \$43.3 million for the three months ended September 30, 2018 from \$45.9 million for the three months ended September 30, 2017, primarily driven by a decrease in consulting costs related to outside resources to support certain projects as well as an increase in capitalized contract costs associated with the implementation of the New Revenue Standard. 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.



### Operating Expenses

Operating expenses decreased \$3.2 million, or 8%, to \$38.0 million for the three months ended September 30, 2018 from \$41.2 million for the three months ended September 30, 2017.

Selling, general and administrative expenses decreased \$2.8 million, or 9%, from the three months ended September 30, 2017 to 2018, primarily driven by a decrease in general overhead expenses along with the continued impact and realization of expense savings initiatives that were implemented in the prior year.

Amortization of purchased intangible assets decreased \$0.3 million, or 3%, from the three months ended September 30, 2017 to 2018.

### Segment Adjusted EBITDA

Segment Adjusted EBITDA increased \$9.4 million to \$30.6 million for the three months ended September 30, 2018 from \$21.2 million for the three months ended September 30, 2017. This increase is primarily a result of the aforementioned decrease in cost of services revenue and selling, general and administrative expenses and the impact of the New Revenue Standard.

### Corporate - Comparison of the Three Months Ended September 30, 2018 to 2017

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

|                                     | Three Months<br>Ended September<br>30, |            |
|-------------------------------------|----------------------------------------|------------|
| Corporate                           | 2018                                   | 2017       |
| Operating expenses:                 |                                        |            |
| Selling, general and administrative | \$37,971                               | \$40,492   |
| Operating expenses                  | 37,971                                 | 40,492     |
| Operating loss                      | \$(37,971)                             | \$(40,492) |
| Depreciation and amortization       | 2,613                                  | 1,992      |
| Stock-based compensation            | 6,337                                  | 8,957      |
| ERP implementation expenses         | 326                                    | 334        |
| Deferred compensation plan income   | 1,336                                  | 1,539      |
| Other income                        | 2                                      | —          |
| Non-GAAP Adjusted EBITDA            | \$(27,357)                             | \$(27,670) |

### Operating Expenses

Operating expenses decreased \$2.5 million, or 6%, to \$38.0 million for the three months ended September 30, 2018 from \$40.5 million for the three months ended September 30, 2017.

Selling, general and administrative expenses decreased \$2.5 million, or 6%, from the three months ended September 30, 2017 to 2018, primarily driven by a decrease in stock-based compensation expense associated with anticipated achievement of certain performance targets.

### Non-GAAP Adjusted EBITDA

Non-GAAP Adjusted EBITDA remained flat, decreasing \$0.3 million, or 1%, from the three months ended September 30, 2017 to 2018.

### Off-Balance Sheet Arrangements

As of September 30, 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 stock repurchase programs in place from time to time, 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 September 30, 2018 and June 30, 2018, we had cash and cash equivalents totaling \$142.4 million and \$152.4 million, respectively, and there were \$100.0 million in outstanding borrowings 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 stock repurchase programs in place from time to time, 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 Three Months Ended September 30, 2018 and 2017

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

|                                           | Three Months<br>Ended September<br>30, |             |
|-------------------------------------------|----------------------------------------|-------------|
|                                           | 2018                                   | 2017        |
| Net cash provided by (used in):           |                                        |             |
| Operating activities                      | \$60,327                               | \$75,033    |
| Investing activities                      | (25,062 )                              | (16,646 )   |
| Financing activities                      | (45,229 )                              | (83,002 )   |
| Net decrease in cash and cash equivalents | \$(9,964 )                             | \$(24,615 ) |

Net cash provided by operating activities decreased \$14.7 million from the three months ended September 30, 2017 to 2018 primarily driven by increased working capital needs related to the impact of higher annual incentive payments, partially offset by decreased cost of services revenue and selling, general and administrative expenses in the current period.

Net cash used in investing activities increased \$8.4 million from the three months ended September 30, 2017 to 2018 driven by growth in our internally developed software initiatives in the current period.

Net cash used in financing activities decreased \$37.8 million from the three months ended September 30, 2017 to 2018 largely driven by a \$50.0 million repayment under the Credit Facility in the prior period and a \$9.5 million decrease in distributions to limited partners of Premier LP, offset by the \$18.0 million TRA payment and the \$12.3 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 Three Months Ended September 30, 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):

|  | Three Months<br>Ended September<br>30, |      |
|--|----------------------------------------|------|
|  | 2018                                   | 2017 |

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|                                                                                                 |           |           |
|-------------------------------------------------------------------------------------------------|-----------|-----------|
| Net cash provided by operating activities                                                       | \$60,327  | \$75,033  |
| Purchases of property and equipment                                                             | (25,062 ) | (16,646 ) |
| Distributions to limited partners of Premier LP                                                 | (15,465 ) | (24,951 ) |
| Payments to limited partners of Premier, LP related to tax receivable agreements <sup>(a)</sup> | (17,975 ) | —         |
| Non-GAAP Free Cash Flow                                                                         | \$1,825   | \$33,436  |

58

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The timing of tax receivable agreement ("TRA") payments shifted to July from June due to the change in our (a) federal tax filing deadline, which was extended one month to April from March. As a result, we did not make a TRA payment in fiscal 2018.

Non-GAAP Free Cash Flow decreased \$31.6 million from the three months ended September 30, 2017 to 2018 primarily driven by increased working capital needs related to the impact of higher annual incentive payments, the \$18.0 million TRA payment made to member owners during the current period and growth in our internally developed software initiatives. These decreases were partially offset by decreased cost of services revenue and selling, general and administrative expenses and decreased distributions to limited partners of Premier LP 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.

#### Contractual Obligations

##### Notes Payable

At September 30, 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. We commenced negotiations to refinance or replace the Credit Facility during fiscal 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 our 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 our 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 September 30, 2018, the interest rate for three-month Eurodollar Loans was 3.523% and the interest rate for Base Rate Loans was 5.375%. 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 September 30, 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 September 30, 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. We 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. We had outstanding borrowings under the Credit Facility of \$100.0 million at September 30, 2018. Borrowings due within one year of the

balance sheet date are classified as current liabilities in the Condensed Consolidated Balance Sheets. Borrowings may be renewed or extended at our option 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 2018 Annual Report. See also Note 8 - Debt in our accompanying condensed consolidated financial statements in Part I of this Quarterly Report.

#### Member-Owner TRA

We 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.

We had TRA liabilities of \$243.3 million and \$255.1 million at September 30, 2018 and June 30, 2018, respectively. The \$11.8 million decrease was primarily attributable to the \$18.0 million TRA payment to member owners during the three months ended September 30, 2018 partially offset by a \$6.2 million increase in TRA liabilities in connection with the quarterly member owner exchanges that occurred during the three months ended September 30, 2018.

#### Stock Repurchase Program

On May 7, 2018, our Board of Directors approved the repurchase of up to \$250.0 million of our Class A common stock as a continuation of our balanced capital deployment strategy. Subject to certain terms and conditions, repurchases may be made from time to time through open market purchases or privately negotiated transactions at our discretion, and in accordance with applicable federal securities laws. As of September 30, 2018, we had purchased approximately 0.3 million shares of Class A common stock at an average price of \$36.80 per share for a total purchase price of approximately \$12.3 million. The repurchase authorization may be suspended, delayed or discontinued at any time at the discretion of our Board of Directors.

#### 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 September 30, 2018, we had \$100.0 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 September 30, 2018, the interest rate for three-month Eurodollar Rate Loans was 3.523% and the interest rate for Base Rate Loans was 5.375%.

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 concluded that our disclosure controls and procedures were effective as of September 30, 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 September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as described below under "New Revenue Standard".

##### New Revenue Standard

In connection with the adoption of the New Revenue Standard, we have completed the implementation of certain new accounting, data and information related systems in both our Supply Chain Services segment and Performance Services segment. As a result, we have updated the processes that constitute our internal control over financial reporting, as necessary, to accommodate related changes to our accounting procedures and business processes. We will continue to evaluate the implementation of these additional systems and related financial reporting components. Although the processes that constitute our internal control over financial reporting have been materially affected by the implementation of these new systems, effectiveness testing is ongoing and future changes will require additional testing. We do not believe that the implementation of these systems has had or will have a material adverse effect on our internal control over financial reporting.

## 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 September 30, 2018, there were no material changes to the risk factors disclosed in "Risk Factors" in the 2018 Annual Report.

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

## Purchases of Equity Securities

On May 7, 2018, we announced that our board of directors authorized the repurchase of up to \$250.0 million of our outstanding Class A common stock 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 of our Class A common stock through the quarter ended September 30, 2018.

| Period                                 | Total Number of Shares Purchased | Average Price Paid per Share (\$) <sup>(1)</sup> | 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) <sup>(2)</sup> |
|----------------------------------------|----------------------------------|--------------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| July 1 through July 31, 2018           | 334,280                          | 36.80                                            | 334,280                                                                | 238                                                                                                         |
| August 1 through August 31, 2018       | 103                              | 36.27                                            | 103                                                                    | 238                                                                                                         |
| September 1 through September 30, 2018 | —                                | —                                                | —                                                                      | —                                                                                                           |
| Total                                  | 334,383                          | \$ 36.80                                         | 334,383                                                                | \$ 238                                                                                                      |

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

From the stock repurchase program's inception through September 30, 2018, we purchased 0.3 million shares of (2) Class A common stock at an average price of \$36.80 per share for a total of \$12.3 million since the program's inception.



Item 5. Other Information

On November 6, 2018, we announced that our subsidiary, Premier Healthcare Solutions, Inc., entered into a definitive agreement and plan of merger ("Merger Agreement") to acquire Stanson Health, Inc. ("Stanson") for \$51.5 million in cash, subject to potential purchase price adjustments for working capital at the time of closing. In addition, the Merger Agreement provides for an earn-out opportunity of up to \$15.0 million based on certain product delivery and revenue targets. The acquisition is anticipated to close during our 2019 second fiscal quarter ended December 31, 2018. The acquisition is subject to customary closing conditions, and there can be no assurances regarding whether or when the acquisition will ultimately be completed.

Stanson is a leading clinical decision support company that provides SaaS to healthcare facilities. Stanson's SaaS products deliver healthcare providers real-time alerts and relevant analytics native to their electronic health record to guide and influence physician's decisions resulting in the reduction of low-value and unnecessary care.

Item 6. Exhibits

| Exhibit No. | Description                                                                                                                                                                                         |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1        | <u>Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>                                                                                                         |
| 31.2        | <u>Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>                                                                                                         |
| 32.1        | <u>Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†</u>                                                         |
| 32.2        | <u>Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†</u>                                                         |
| 101         | Sections of the Premier, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 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: November 6,  
2018

By: /s/ Craig S. McKasson

Name: Craig S. McKasson

Title: Chief Financial Officer and Senior Vice President

Signing on behalf of the registrant and as principal financial officer and principal accounting officer