

Premier, Inc.  
Form 10-Q  
November 08, 2016

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, 2016

OR

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

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

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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 (I.R.S. Employer  
incorporation or organization) Identification No.)

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

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

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

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

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

As of November 4, 2016, there were 50,085,904 shares of the registrant's Class A common stock, par value \$0.01 per share, and 89,761,541 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>5</u></b>
Item 1. <u>Financial Statements</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and June 30, 2016 (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Income for the three months ended September 30, 2016 and 2015 (Unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended September 30, 2016 and 2015 (Unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statement of Stockholders' Deficit for the three months ended September 30, 2016 (Unaudited)</u>	<u>9</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2016 and 2015 (Unaudited)</u>	<u>10</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>12</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 4. <u>Controls and Procedures</u>	<u>48</u>
<b><u>PART II. OTHER INFORMATION</u></b>	<b><u>49</u></b>
Item 1. <u>Legal Proceedings</u>	<u>49</u>
Item	
1A. <u>Risk Factors</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>49</u>
<u>Signatures</u>	<u>50</u>

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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;
- the rate at which the markets for our non-GPO services and products develop;
- the dependency of our members on payments from third-party payers;
- our reliance on administrative fees which we receive from GPO suppliers;
- our ability to maintain third-party provider and strategic alliances or enter into new alliances;
- our ability to timely offer new and innovative products and services;
- the portion of revenues we receive from our largest members;
- risks and expenses related to future acquisition opportunities and integration of acquisitions;
- financial and operational risks associated with investments in, or partnerships or joint ventures with, other businesses, particularly those that we do not control;
- potential litigation;
- our reliance on Internet infrastructure, bandwidth providers, data center providers and other third parties and our own systems for providing services to our users;
- data loss or corruption due to failures or errors in our systems and service disruptions at our data centers, or breaches or failures of our security measures;
- the financial and reputational consequences of cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our members or other third parties;
- our ability to use, disclose, de-identify or license data and to integrate third-party technologies;
- our use of "open source" software;
- changes in industry pricing benchmarks;
- any increase in the safety risk profiles of prescription drugs or the withdrawal of prescription drugs from the market;
- our ability to maintain and expand our existing base of drugs in our specialty pharmacy;
- our dependency on contract manufacturing facilities located in various parts of the world;
- our ability to attract, hire, integrate and retain key personnel;

adequate protection of our intellectual property and potential claims against our use of the intellectual property of third parties;

potential sales and use tax liability in certain jurisdictions;

our indebtedness and our ability to obtain additional financing on favorable terms;

fluctuation of our cash flows, quarterly revenues and results of operations;

changes in the political, economic or regulatory healthcare environment;

our compliance with complex federal and state laws governing financial relationships among healthcare providers and the submission of false or fraudulent healthcare claims;

interpretation and enforcement of current or future antitrust laws and regulations;

compliance with complex federal and state privacy, security and breach notification laws;

compliance with, and potential changes to, extensive federal, state and local laws, regulations and procedures governing our specialty 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 tax receivable agreements to Premier LP's limited partners and our ability to realize the expected tax benefits related to the acquisition of Class B common units;

changes to Premier LP's allocation methods that may increase a tax-exempt limited partner's risk that some allocated income is unrelated business taxable income;

provisions in our certificate of incorporation and bylaws and the Amended and Restated Limited Partnership Agreement of Premier LP (as amended, the "LP Agreement") and provisions of Delaware law that discourage or prevent strategic transactions, including a takeover of us;

failure to maintain an effective system of internal controls;

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

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

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 herein and under Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the "2016 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

5

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## PREMIER, INC.

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share data)

	September 30, 2016	June 30, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 156,012	\$248,817
Marketable securities	—	17,759
Accounts receivable (net of \$2,355 and \$1,981 allowance for doubtful accounts, respectively)	144,464	144,424
Inventory	34,685	29,121
Prepaid expenses and other current assets	45,007	19,646
Due from related parties	3,862	3,123
Total current assets	384,030	462,890
Marketable securities	—	30,130
Property and equipment (net of \$272,527 and \$265,751 accumulated depreciation, respectively)	175,221	174,080
Intangible assets (net of \$60,079 and \$50,870 accumulated amortization, respectively)	175,588	158,217
Goodwill	577,812	537,962
Deferred income tax assets	422,410	422,849
Deferred compensation plan assets	40,142	39,965
Investments	95,706	16,800
Other assets	18,755	12,490
Total assets	\$ 1,889,664	\$ 1,855,383
<b>Liabilities, redeemable limited partners' capital and stockholders' deficit</b>		
Accounts payable	\$ 43,933	\$46,003
Accrued expenses	63,447	56,774
Revenue share obligations	62,356	63,603
Limited partners' distribution payable	22,137	22,493
Accrued compensation and benefits	28,968	60,425
Deferred revenue	49,813	54,498
Current portion of tax receivable agreements	13,912	13,912
Current portion of long-term debt	10,243	5,484
Other liabilities	6,313	2,871
Total current liabilities	301,122	326,063
Long-term debt, less current portion	8,881	13,858
Tax receivable agreements, less current portion	270,314	265,750
Deferred compensation plan obligations	40,142	39,965
Other liabilities	49,532	23,978
Total liabilities	669,991	669,614
Redeemable limited partners' capital	3,060,457	3,137,230
Stockholders' deficit:		
Class A common stock, \$0.01 par value, 500,000,000 shares authorized; 48,066,990 and 45,995,528 shares issued and outstanding at September 30, 2016 and June 30, 2016, respectively	481	460
	—	—

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Class B common stock, \$0.000001 par value, 600,000,000 shares authorized; 94,809,069 and 96,132,723 shares issued and outstanding at September 30, 2016 and June 30, 2016, respectively

Additional paid-in-capital	—	—
Accumulated deficit	(1,841,265 )	(1,951,878 )
Accumulated other comprehensive loss	—	(43 )
Total stockholders' deficit	(1,840,784 )	(1,951,461 )
Total liabilities, redeemable limited partners' capital and stockholders' deficit	\$ 1,889,664	\$ 1,855,383

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 September 30,	
	2016	2015
Net revenue:		
Net administrative fees	\$125,976	\$117,949
Other services and support	81,167	75,105
Services	207,143	193,054
Products	106,129	77,781
Net revenue	313,272	270,835
Cost of revenue:		
Services	42,690	38,124
Products	95,813	70,999
Cost of revenue	138,503	109,123
Gross profit	174,769	161,712
Operating expenses:		
Selling, general and administrative	92,238	86,938
Research and development	806	456
Amortization of purchased intangible assets	9,209	6,047
Operating expenses	102,253	93,441
Operating income	72,516	68,271
Equity in net income of unconsolidated affiliates	9,579	4,590
Interest and investment (loss) income, net	(152)	)241
Loss on disposal of long-lived assets	(1,518)	)—
Other income (expense), net	1,006	(1,809)
Other income, net	8,915	3,022
Income before income taxes	81,431	71,293
Income tax expense	23,336	19,040
Net income	58,095	52,253
Net income attributable to non-controlling interest in Premier LP	(49,601)	)(47,900)
Adjustment of redeemable limited partners' capital to redemption amount	61,808	466,801
Net income attributable to stockholders	\$70,302	\$471,154
Weighted average shares outstanding:		
Basic	47,214	37,735
Diluted	142,962	145,560
Earnings per share attributable to stockholders:		
Basic	\$1.49	\$12.49
Diluted	\$0.26	\$0.24

See accompanying notes to the unaudited condensed consolidated financial statements.

PREMIER, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2016	2015
Net income	\$58,095	\$52,253
Realized loss on marketable securities	128	—
Net unrealized loss on marketable securities	—	(652 )
Total comprehensive income	58,223	51,601
Less: comprehensive income attributable to non-controlling interest	(49,686 )	(47,416 )
Comprehensive income attributable to Premier, Inc.	\$8,537	\$4,185

See accompanying notes to the unaudited condensed consolidated financial statements.

## PREMIER, INC.

## Condensed Consolidated Statement of Stockholders' Deficit

Three months ended September 30, 2016

(Unaudited)

(In thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
Balance at June 30, 2016	45,996	\$ 460	96,133	\$ —	\$ —	\$(1,951,878)	\$ (43 )	\$(1,951,461 )
Exchange of Class B units for Class A common stock by member owners	1,324	13	(1,324 )	—	43,059	—	—	43,072
Increase in additional paid-in capital related to quarterly exchange by member owners	—	—	—	—	6,577	—	—	6,577
Issuance of Class A common stock under equity incentive plan	747	8	—	—	2,310	—	—	2,318
Stock-based compensation expense	—	—	—	—	5,800	—	—	5,800
Repurchase of vested restricted units for employee tax-withholding	—	—	—	—	(17,435)	—	—	(17,435 )
Net income	—	—	—	—	—	58,095	—	58,095
Net income attributable to non-controlling interest	—	—	—	—	—	(49,601 )	—	(49,601 )
Realized loss on sale of marketable securities	—	—	—	—	—	—	43	43
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	(40,311)	102,119	—	61,808
Balance at September 30, 2016	48,067	\$ 481	94,809	\$ —	\$ —	\$(1,841,265)	\$ —	\$(1,840,784 )

See accompanying notes to the unaudited condensed consolidated financial statements.

## PREMIER, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2016	2015
Operating activities		
Net income	\$58,095	\$52,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,227	17,912
Equity in net income of unconsolidated affiliates	(9,579)	(4,590 )
Deferred income taxes	17,074	13,197
Stock-based compensation	5,800	13,547
Adjustment to tax receivable agreement liability	(5,722)	(4,818 )
Loss on disposal of long-lived assets	1,518	—
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other current assets	(8,119)	(20,139 )
Other assets	(1,112)	(12,286 )
Inventories	(827)	1,169
Accounts payable, accrued expenses and other current liabilities	(38,463)	(32,710 )
Long-term liabilities	322	(281 )
Other operating activities	(387)	(535 )
Net cash provided by operating activities	41,827	22,719
Investing activities		
Purchase of marketable securities	—	(19,211 )
Proceeds from sale of marketable securities	48,013	307,734
Acquisition of Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC, net of cash acquired	(68,745)	—
Acquisition of CECity.com, Inc., net of cash acquired	—	(398,261 )
Acquisition of Healthcare Insights, LLC, net of cash acquired	—	(64,634 )
Investment in unconsolidated affiliates	(65,660)	(1,000 )
Distributions received on equity investment	6,550	5,450
Purchases of property and equipment	(16,966)	(17,141 )
Other investing activities	5	434
Net cash used in investing activities	(96,803)	(186,629 )
Financing activities		
Payments made on notes payable	(218)	(330 )
Proceeds from credit facility	—	150,000
Proceeds from exercise of stock options under equity incentive plan	2,317	197
Repurchase of vested restricted units for employee tax-withholding	(17,435)	(38 )
Distributions to limited partners of Premier LP	(22,493)	(22,432 )
Other financing activities	—	(174 )
Net cash (used in) provided by financing activities	(37,829)	127,223
Net decrease in cash and cash equivalents	(92,805)	(36,687 )
Cash and cash equivalents at beginning of year	248,817	146,522
Cash and cash equivalents at end of year	\$156,012	\$109,835



	Three months ended September 30,	
	2016	2015
Supplemental schedule of non cash investing and financing activities:		
Decrease in redeemable limited partners' capital for adjustment to fair value, with offsetting decrease in additional paid-in-capital and accumulated deficit	\$(61,808)	\$(466,801)
Reduction in redeemable limited partners' capital, with offsetting increase in common stock and additional paid-in capital related to quarterly exchange by member owners	\$(43,072)	\$(3,268 )
Reduction in redeemable limited partners' capital for limited partners' distribution payable	\$22,137	\$23,028
Distributions utilized to reduce subscriptions, notes, interest and accounts receivable from member owners	\$558	\$1,613
Increase in deferred tax assets related to quarterly exchange by member owners	\$16,863	\$1,415
Increase in tax receivable agreement liability related to quarterly exchange by member owners	\$10,286	\$1,013
Increase in additional paid-in capital related to quarterly exchange by member owners	\$6,577	\$879
Reduction in deferred tax assets related to departed member owners	\$—	\$312
Payable to member owners incurred upon repurchase of ownership interest	\$—	\$373
Reduction in tax receivable agreement liability related to departed member owners	\$—	\$789
See accompanying notes to the unaudited condensed consolidated financial statements.		

PREMIER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Premier, Inc. ("Premier" or the "Company") is a publicly-held, for-profit Delaware corporation primarily owned by hospitals, health systems and other healthcare organizations (such owners of Premier are referred to herein as "member owners") located in the United States and by public stockholders. The Company, together with its subsidiaries and affiliates, is a leading healthcare 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 that will help the Company's member organizations succeed in their transformation to higher quality and more cost-effective healthcare.

The Company, together with its subsidiaries and affiliates, delivers its integrated platform of solutions through two business segments: supply chain services and performance services. See Note 17 - 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 organizations ("GPOs") in the United States and specialty pharmacy and direct sourcing activities. The performance services segment includes one of the largest informatics and advisory services businesses in the United States focused on healthcare providers. The Company's software as a service ("SaaS") informatics products utilize its comprehensive data set to provide actionable intelligence to its members, enabling them to benchmark, analyze and identify areas of improvement across the three main categories of cost management, quality and safety, and population health management. The performance services segment also includes the Company's technology-enabled performance improvement collaboratives, advisory services, government services and insurance management services.

Basis of Presentation and Consolidation

Basis of Presentation

The Company, through its wholly-owned subsidiary, Premier Services, LLC ("Premier GP"), holds an approximate 34% general partner interest in Premier Healthcare Alliance, L.P. ("Premier LP"), a variable interest entity ("VIE") in which the limited partners do not have the ability to exercise a substantive removal right with respect to the general partner. The Company, through Premier GP, has the exclusive power and authority to manage the business and affairs of Premier LP and 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. Therefore, under the Variable Interest Model, the Company consolidates the operations of Premier LP. The limited partners' approximate 66% ownership of Premier LP is reflected as redeemable limited partners' capital in the Company's accompanying condensed consolidated balance sheets, and the limited partners' proportionate share of income in Premier LP is reflected within net income attributable to non-controlling interest in Premier LP in the Company's accompanying condensed consolidated statements of income and within comprehensive income attributable to non-controlling interest in the accompanying condensed consolidated statements of comprehensive income.

The member owners owned approximately 66% and 68% of the Company's combined Class A and Class B common stock (the "common stock") through their ownership of Class B common stock, and the public investors, which may include member owners that have received shares of Class A common stock in connection with previous exchanges, owned approximately 34% and 32% of the Company's outstanding common stock through their ownership of Class A common stock at September 30, 2016 and June 30, 2016, respectively. During the three months ended September 30, 2016, the member owners exchanged 1,323,654 of their Class B common units and associated Class B common stock for an equal number of Class A common stock as part of their quarterly exchange rights under an exchange agreement (the "Exchange Agreement") entered into by the member owners in connection with the completion of a series of transactions (the "Reorganization") concurrent with the consummation of the Company's initial public offering (the

"IPO," and collectively with the Reorganization, the "Reorganization and IPO") on October 1, 2013 (see Note 12 - Earnings Per Share).

The accompanying condensed consolidated balance sheets primarily consist of the assets and liabilities of Premier LP, which were \$1,696.4 million and \$379.3 million, respectively, at September 30, 2016, and \$1,694.0 million and \$386.8 million, respectively, at June 30, 2016. Assets and liabilities held by Premier, Inc. at September 30, 2016 primarily included \$52.1 million



in cash and cash equivalents, \$422.4 million in deferred tax assets, \$284.2 million in tax receivable agreement ("TRA") liabilities and \$3.5 million in long term other liabilities. Assets and liabilities held by Premier, Inc. at June 30, 2016 primarily included \$38.8 million in cash and cash equivalents, \$418.8 million in deferred tax assets, \$279.7 million in TRA liabilities and \$3.1 million in long term other liabilities. In addition, Premier, Inc. had \$254.0 million and \$267.7 million in payables to Premier LP at September 30, 2016 and June 30, 2016, respectively that are eliminated upon consolidation.

Of the Company's total net income attributable to stockholders for the three months ended September 30, 2016 and 2015, \$73.9 million and \$65.0 million, respectively, was attributable to Premier LP.

Premier LP's net decrease in cash for the three months ended September 30, 2016 was \$106.1 million, including cash inflows from operating activities of \$12.9 million, cash outflows from investing activities of \$96.8 million and cash outflows from financing activities of \$22.2 million. Premier LP's net decrease in cash for the three months ended September 30, 2015 was \$44.7 million, including cash inflows from operating activities of \$14.4 million, cash outflows from investing activities of \$186.6 million and cash inflows from financing activities of \$127.6 million.

#### Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and disclosures normally included in annual financial statements have been condensed or omitted. The accompanying condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring adjustments. The Company believes that the disclosures are adequate to make the information presented not misleading and should be read in conjunction with the audited consolidated financial statements and related footnotes contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the "2016 Annual Report") filed with the SEC on August 25, 2016.

#### 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 including estimates for allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under tax receivable agreements, values of investments not publicly traded, the valuation allowance on deferred tax assets, uncertain income taxes, deferred revenue, future cash flows associated with asset impairments, and the allocation of purchase price are evaluated on an ongoing basis. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### (2) SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company's significant accounting policies as described in the 2016 Annual Report.

#### Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting, which is intended to simplify the accounting for employee share-based payments. The amendments in this updated guidance include changes to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of such share-based awards as either equity or liabilities and classification in the statement of cash flows. The Company early-adopted the standard effective July 1, 2016, using the prospective approach. Pursuant to the guidance, the Company recognized gross excess tax benefits of approximately \$9.1 million (\$3.6 million tax effected) for the three months ended September 30, 2016, which are fully offset by a valuation allowance at Premier Healthcare Solutions, Inc. ("PHSI"), the Company's consolidated subsidiary. No adjustments were made to prior periods, and the impact on prior periods would have been immaterial. All excess tax benefits

related to share-based awards are reported as operating activities within the accompanying condensed consolidated statement of cash flows. In addition, the Company calculated diluted earnings per share without consideration of any tax benefits in determining dilutive shares.

In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the SEC staff's position in ASU 2015-03 on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03,

Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. ASU 2015-15 states that the SEC staff would "not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement." The Company adopted the standard effective July 1, 2016 using the retrospective approach. The guidance has no impact on the Company's accounting for debt issuance costs associated with its line of credit.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which effectively eliminates the presumption that a general partner should consolidate a limited partnership, modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, and affects the consolidation analysis of reporting entities that are involved with VIEs (particularly those that have fee arrangements and related party relationships).

The Company adopted the standard effective July 1, 2016 using the modified retrospective approach. The adoption of ASU 2015-02 did not impact the Company's conclusions regarding consolidation or the consolidated financial statements other than providing additional disclosures around Premier's consolidation of Premier LP. As a result of ASU 2015-02, the Company no longer consolidates Premier LP under the presumption that the general partner controls a limited partnership but rather consolidates Premier LP under the Variable Interest Model as Premier LP meets the definition of a variable interest entity as the limited partners do not have the ability to exercise a substantive removal right with respect to the general partner, Premier GP, and the Company, through Premier GP, has the exclusive power and authority to manage the business and affairs of Premier LP, to make all decisions with respect thereto driving the economic performance of Premier LP and both an obligation to absorb losses and a right to receive benefits.

#### Recently Issued Accounting Standards Not Yet Adopted

In October 2016, the FASB issued ASU 2016-16, 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 U.S. GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU amendments add or clarify guidance on eight cash flow issues. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

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

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which is intended to provide users of financial statements with more useful information on the recognition,

measurement, presentation, and disclosure of financial instruments. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted for certain amendments. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. This guidance will not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The new standard will be effective prospectively for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new standard will be effective for the Company

for the fiscal year beginning July 1, 2017. Early adoption is permitted. Upon transition, entities must disclose the nature of and reason for the accounting change. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

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

The FASB subsequently issued an amendment in ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, in August 2015 to defer the effective date of the new standard for all entities by one year. The new standard, as amended, will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption as of the original effective date for public entities will be permitted.

The FASB issued another amendment in ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, in March 2016 related to a third party providing goods or services to a customer. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself or to arrange for the good or service to be provided by a third party. If the entity provides the specific good or service itself, the entity acts as a principal. If an entity arranges for the good or service to be provided by a third party, the entity acts as an agent. The standard requires the principal to recognize revenue for the gross amount and the agent to recognize revenue for the amount of any fee or commission for which it expects to be entitled in exchange for arranging for the specified good or service to be provided. The new standard will be effective with ASU 2014-09.

In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which amends specific aspects of ASU 2014-09, Revenue from Contracts with Customers, including how to identify performance obligations and guidance related to licensing implementation. This amendment provides guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property or a right to access the entity's intellectual property. The amendment will be effective with ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which clarifies specific aspects of ASU 2014-09, Revenue from Contracts with Customers, clarifying how to identify performance obligations and guidance related to its promise in granting a license of intellectual property. This new standard provides guidance to allow entities to disregard items that are immaterial in the context of the contract, clarify when a promised good or service is separately identifiable and allow an entity to elect to account for the cost of shipping and handling performed after control of a good has been transferred to the customer as a fulfillment cost. The new standard also clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property to help determine whether it recognizes revenue over time or at a point in time and addresses how entities should consider license renewals and restrictions. The new standard will be effective with ASU 2014-09.

The new revenue recognition standards, as amended, will be effective for the Company for the fiscal year beginning July 1, 2018. The Company is currently evaluating the transition method that will be elected as well as the impact of the adoption of the new standards on its consolidated financial statements and related disclosures. The Company is also evaluating the impact of the deferral of the effective date on its plans for adopting the new standard.

### (3) BUSINESS ACQUISITIONS

Acquisition of Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC

On August 23, 2016, the Company, through its consolidated subsidiary, NS3 Health, LLC, acquired 100% of the membership interests of Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC (collectively, "Acro Pharmaceuticals") for \$68.7 million in cash, subject to adjustment based on Acro Pharmaceuticals' (i) cash on hand, (ii) outstanding indebtedness and (iii) net working capital at closing. Acro Pharmaceuticals is a specialty pharmacy business that provides customized healthcare management solutions to clients. The acquisition was funded

with available cash on hand.

The Company has accounted for the Acro Pharmaceuticals acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 6 - Intangible Assets, Net) acquired and liabilities assumed based on their preliminary fair values. The Acro Pharmaceuticals acquisition resulted in the recognition of approximately \$39.9 million of goodwill (see Note 7 - Goodwill) attributable to the anticipated profitability of Acro Pharmaceuticals. The Acro Pharmaceuticals acquisition is considered an asset acquisition for tax purposes. Accordingly, the Company expects the goodwill to be deductible for tax purposes.

Acro Pharmaceuticals generated \$23.4 million of product revenue during the three months ended September 30, 2016. The net income generated by Acro Pharmaceuticals was not material to the accompanying condensed consolidated statements of income for the three months ended September 30, 2016. The Company reports Acro Pharmaceuticals as part of its supply chain services segment.

The purchase price allocation for the Acro Pharmaceuticals acquisition is preliminary and subject to changes in fair value of working capital, valuation of the assets acquired and the liabilities assumed.

#### (4) MARKETABLE SECURITIES

The Company invests its excess cash in commercial paper, U.S. government debt securities, corporate debt securities and other securities with maturities generally ranging from three months to five years from the date of purchase. The Company uses the specific-identification method to determine the cost of securities sold. At September 30, 2016, the Company had no marketable securities. At June 30, 2016, marketable securities, classified as available-for-sale, consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
June 30, 2016				
Corporate debt securities	\$ 33,267	\$ —	\$ (135)	) \$33,132
Asset-backed securities	14,755	3	(1)	) 14,757
	\$ 48,022	\$ 3	\$ (136)	) \$47,889

At June 30, 2016, corporate debt securities and asset-backed securities were classified as current and long-term marketable securities in the accompanying condensed consolidated balance sheets. See Note 5 - Fair Value Measurements for further discussion related to the Company's measurement of fair market value for its marketable securities.

## (5) FAIR VALUE MEASUREMENTS

## Recurring Fair Value Measurements

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

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Cash equivalents	\$ 128	\$ 128	\$ —	\$ —
FFF call right	16,523	—	—	16,523
Deferred compensation plan assets	42,830	42,830	—	—
Total assets	\$59,481	\$42,958	\$ —	\$ 16,523
Earn-out liabilities	\$2,359	\$—	\$ —	\$ 2,359
FFF put right	23,947	—	—	23,947
Total liabilities	\$26,306	\$—	\$ —	\$ 26,306

## June 30, 2016

Cash equivalents	\$83,846	\$83,846	\$ —	\$ —
Corporate debt securities	33,132	—	33,132	—
Asset-backed securities	14,757	—	14,757	—
Deferred compensation plan assets	41,917	41,917	—	—
Total assets	\$173,652	\$125,763	\$ 47,889	\$ —
Earn-out liabilities	\$4,128	\$—	\$ —	\$ 4,128
Total liabilities	\$4,128	\$—	\$ —	\$ 4,128

Cash equivalents are included in cash and cash equivalents. Corporate debt securities and asset-backed securities were included in current and long-term marketable securities at June 30, 2016 (see Note 4 - Marketable Securities). The fair value of the Company's corporate debt securities and asset-backed securities, classified as Level 2, were valued using quoted prices for similar securities in active markets or quoted prices for identical or similar securities in markets that are not active.

Deferred compensation plan assets consist of highly liquid mutual fund investments, which we have classified as Level 1. The current portion of deferred compensation plan assets was included in prepaid expenses and other current assets (\$2.7 million and \$2.0 million at September 30, 2016 and June 30, 2016, respectively) in the accompanying condensed consolidated balance sheets.

Earn-out liabilities were incurred in connection with acquisitions of InflowHealth, LLC ("Inflow") on October 1, 2015 and Healthcare Insights, LLC ("HCI") on July 31, 2015. At September 30, 2016 and June 30, 2016, the Company's earn-out liabilities are classified as Level 3. The fair value of the earn-out liabilities was determined using the Monte Carlo simulation method and are based on future earnings. For the three months ended September 30, 2016, the Company recognized a gain of \$1.8 million related to the decrease in the value of InFlow and HCI earn-out liabilities within selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) Pursuant to a shareholders' agreement entered into in connection with the Company's equity investment in FFF Enterprises, Inc. ("FFF") on July 26, 2016 (see Note 8 - Investments), the majority shareholder of FFF obtained a put right ("FFF put right") that provides such shareholder the right to sell all or any portion of its interest in FFF to the Company, which is exercisable beginning on the fourth anniversary of the investment closing date 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 shareholders' agreement provides the Company with a call right ("FFF call right") to purchase the remaining interest in FFF from the majority shareholder, which is exercisable at any time within 180 calendar days after the date of a Key Man Event

(generally defined in the shareholders' agreement as the resignation, termination for cause, death or disability of the majority shareholder). In the event that the FFF put or call rights are exercised, the purchase price for the additional interest in FFF will be at a per share price equal to the Equity Value per Share.

The fair value of the FFF put and call rights at September 30, 2016 were determined using a Longstaff-Schwartz model based on the Equity Value per Share calculation with unobservable inputs, which include 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 Equity Value per Share could have a significant impact on the fair values of the FFF put and call rights depending on changes in key assumptions, which include the estimated put and call rights' expiration dates, forecasted movements in the overall market, and the likelihood of a Key Man Event.

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 sheet. The net change in the fair value of the FFF put and call rights is recorded within other expense, net, in the accompanying condensed consolidated statements of income, and was zero for the three months ended September 30, 2016.

#### Non-Recurring Fair Value Measurements

During the three months ended September 30, 2016, no non-recurring fair value measurements were required related to the testing of goodwill and intangible assets for impairment. However, purchase price allocations required significant non-recurring Level 3 inputs (see Note 3 - Business Acquisitions). The preliminary fair values of the acquired intangible assets resulting from the acquisition of Acro Pharmaceuticals were determined using the income approach.

#### Financial Instruments For Which Fair Value Only is Disclosed

The fair value of non-interest bearing notes payable, classified as Level 2, is less than their carrying value by approximately \$0.7 million at both September 30, 2016 and June 30, 2016, respectively, based on an assumed market interest rate of 2.4% and 2.1% at September 30, 2016 and June 30, 2016, respectively.

#### Other Financial Instruments

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximates carrying value because of the short-term nature of these financial instruments.

#### (6) INTANGIBLE ASSETS, NET

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

	Useful Life	September 30, 2016	June 30, 2016
Technology	5.0 years	\$143,727	\$143,727
Customer relationships	8.3 years	48,120	48,120
Distribution network	10.0 years	22,400	—
Trade names	8.2 years	17,110	13,160
Non-compete agreements	4.9 years	4,310	4,080
Total intangible assets		235,667	209,087
Accumulated amortization		(60,079 )	(50,870 )
Intangible assets, net		\$175,588	\$158,217

The increase in intangible assets, net was due to the acquisition of Acro Pharmaceuticals completed during the three months ended September 30, 2016. Amortization expense of intangible assets totaled \$9.2 million and \$6.0 million for the three months ended September 30, 2016 and 2015, respectively.

## (7) GOODWILL

Goodwill consists of the following (in thousands):

	Supply Chain Services	Performance Services	Total
Balance at June 30, 2016	\$ 31,765	\$ 506,197	\$ 537,962
Acro Pharmaceuticals Acquisition <sup>(a)</sup>	39,850	—	39,850
Balance at September 30, 2016	\$ 71,615	\$ 506,197	\$ 577,812

(a) See Note 3 - Business Acquisitions.

## (8) INVESTMENTS

On July 26, 2016, the Company, through its consolidated subsidiary, Premier Supply Chain Improvement, ("PSCI"), acquired 49% of the issued and outstanding stock of 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 \$75.9 million, of which \$65.7 million was in cash, \$7.4 million was consideration in the form of the net fair value of the FFF put and call rights and \$2.8 million related to deferred taxes attributed to the fair value of the FFF put and call rights (see Note 5 - Fair Value Measurements for additional disclosures related to the fair value of the FFF put and call rights). The Company accounts for its investment in FFF using the equity method of accounting. The carrying value of the Company's investment in FFF was \$78.9 million at September 30, 2016 and is classified as long-term and included in investments in the accompanying condensed consolidated balance sheets. The Company's 49% ownership share of FFF's net income included in equity in net income of unconsolidated affiliates in the accompanying condensed consolidated statements of income was \$3.0 million for the three months ended September 30, 2016, all of which is included in the supply chain services segment.

On January 28, 2016, the Company, through its consolidated subsidiary, PSCI, purchased 5,250,000 Class B Membership Units in BloodSolutions, LLC ("Bloodbuy") for approximately \$2.3 million, which represented a 15% ownership interest in Bloodbuy. The Company accounts for its investment in Bloodbuy using the equity method of accounting as the Company has rights to appoint a board member. The carrying value of the Company's investment in Bloodbuy was approximately \$2.2 million at both September 30, 2016 and June 30, 2016 and is classified as long-term and is included in investments in the accompanying condensed consolidated balance sheets. The Company's share of Bloodbuy's net loss was zero for the three months ended September 30, 2016. The Company reports the investment in Bloodbuy 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 5,000,000 units of Class B Membership Interests at September 30, 2016 and June 30, 2016. The remaining 72% ownership interest is held by Nations Pharmaceuticals, LLC through its 13,000,000 units of Class A Membership Interests. The Company accounts for its investment in PharmaPoint using the equity method of accounting. The carrying value of the Company's investment in PharmaPoint was \$4.5 million and \$4.6 million at September 30, 2016 and June 30, 2016, respectively, and is classified as long-term and included in investments in the accompanying condensed consolidated balance sheets. The Company's share of PharmaPoint's net loss was \$0.1 million for both the three months ended September 30, 2016 and 2015. The PharmaPoint net loss is included in equity in net income from unconsolidated affiliates in the accompanying condensed consolidated statements of income, all of which is included in the supply chain services segment.

Innovatix, LLC ("Innovatix") is a privately held limited liability company that provides group purchasing services to alternate site providers in specific classes of trade. The Company, through its consolidated subsidiary, PSCI, held 50% of the membership units in Innovatix at September 30, 2016 and June 30, 2016. The Company accounts for its investment in Innovatix using the equity method of accounting. The carrying value of the Company's investment in Innovatix was \$9.1 million and \$9.0 million at September 30, 2016 and June 30, 2016, respectively, and is classified as long-term and included in investments in the accompanying condensed consolidated balance sheets. The Company's 50% ownership share of Innovatix's net income included in equity in net income of unconsolidated affiliates in the accompanying condensed consolidated statements of income was \$6.5 million and \$4.4 million for the three months ended September 30, 2016 and 2015, respectively, all of which is included in the supply chain services

segment.

19

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## (9) DEBT

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

	Commitment Amount	Due Date	September 30, June 30,	
			2016 Balance Outstanding	2016 Balance Outstanding
Credit Facility	\$ 750,000	June 24, 2019	\$ —	\$ —
Notes Payable	—	Various	19,124	19,342
			19,124	19,342
Less: current portion			(10,243	) (5,484 )
Total long-term debt			\$ 8,881	\$ 13,858

## Credit Facility

On June 24, 2014, 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"). The Credit Facility has a maturity date of June 24, 2019. The Credit Facility provides for borrowings of up to \$750.0 million with (i) a \$25.0 million sub-facility for standby letters of credit and (ii) a \$75.0 million sub-facility for swingline loans. The Credit Facility may be increased from time to time at the Company's request up to an aggregate additional amount of \$250.0 million, subject to lender approval. The Credit Facility includes an unconditional and irrevocable guaranty of all obligations under the Credit Facility by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier, Inc. is not a guarantor under the Credit Facility.

At the Company's option, committed loans may be in the form of eurodollar rate loans ("Eurodollar Loans") or base rate loans ("Base Rate Loans"). Eurodollar Loans bear interest at the eurodollar rate (defined as the London Interbank Offered Rate, or LIBOR, plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility))). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.75% for Eurodollar Rate Loans and 0.125% to 0.75% for Base Rate Loans. At September 30, 2016, the interest rate for three-month Eurodollar Loans was 1.979% and the interest rate for the Base Rate Loans was 3.625%. 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, 2016, 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 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. The Company was in compliance with all such covenants at September 30, 2016.

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, settlements of Class B unit exchanges under the Exchange Agreement

and other general corporate purposes. As of September 30, 2016 and June 30, 2016, there were no outstanding borrowings under the Credit Facility. As of September 30, 2016, the Company had approximately \$25.0 million available for credit commitments.

Notes Payable

At September 30, 2016 and June 30, 2016, the Company had \$19.1 million and \$19.3 million, respectively, in notes payable consisting primarily of non-interest bearing notes payable outstanding to departed member owners, of which \$10.2 million and

\$5.5 million, respectively, were included in current portion of long-term debt and \$8.9 million and \$13.9 million, respectively, are included in long-term debt, less current portion, in the accompanying consolidated balance sheets. Notes payable generally have stated maturities of five years from their date of issuance.

#### (10) REDEEMABLE LIMITED PARTNERS' CAPITAL

Pursuant to the terms of the historical limited partnership agreement, Premier LP was required to repurchase a limited partner's interest in Premier LP upon the sale of such limited partner's shares of PHSI common stock, such limited partner's withdrawal from Premier LP or such limited partner's failure to comply with the applicable purchase commitments under the existing limited partnership agreement of Premier LP. As a result, the redeemable limited partners' capital is classified as temporary equity in the mezzanine section of the accompanying condensed consolidated balance sheets since (i) the withdrawal is at the option of each limited partner and (ii) the conditions of the repurchase are not solely within the Company's control.

Upon the consummation of the Reorganization and IPO, each limited partner's shares of PHSI were contributed for Class B common units of Premier LP. Commencing on October 31, 2014, and during each year thereafter, each limited partner has the cumulative right to exchange up to one-seventh of its initial allocation of Class B common units for shares of Class A common stock, cash or a combination of both, the form of consideration to be at the discretion of the Company's independent audit committee of the board of directors.

Redeemable limited partners' capital represents the member owners' 66% ownership of Premier LP at September 30, 2016. The limited partners 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. As such, classification outside of permanent equity is required and the redeemable limited partners' capital is recorded at the redemption amount, which represents 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") in the mezzanine section of the accompanying condensed consolidated balance sheet at September 30, 2016. As previously discussed, the Company records redeemable limited partners' capital at the greater of the book value or redemption amount per the LP Agreement that the Company calculates 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, 2016 and 2015 the Company recorded decreases to fair value for the redemption amount to redeemable limited partners' capital of \$61.8 million and \$466.8 million, respectively.

During the three months ended September 30, 2016, the Company recorded a reduction of \$43.1 million to redeemable limited partners' capital to reflect the exchange of Class B common units and associated shares of Class B common stock by the member owners for a like number of shares of the Company's Class A common stock pursuant to the terms of the Exchange Agreement (see Note 12 - Earnings Per Share). The table below shows the changes in the redeemable limited partners' capital classified as temporary equity from June 30, 2016 to September 30, 2016 (in thousands):

	Receivables From Limited Partners	Redeemable Limited Partners' Capital	Accumulated Other Comprehensive Loss	Total Redeemable Limited Partners' Capital
June 30, 2016	\$ (6,226 )	\$3,143,541	\$ (85 )	\$3,137,230
Distributions applied to receivables from limited partners	558	—	—	558
Net income attributable to Premier LP	—	49,601	—	49,601
Distributions to limited partners	—	(22,137 )	—	(22,137 )
Realized loss on sale of marketable securities	—	—	85	85
Exchange of Class B common units for Class A common stock by member owners	—	(43,072 )	—	(43,072 )
Adjustment to redemption amount	—	(61,808 )	—	(61,808 )
September 30, 2016	\$ (5,668 )	\$3,066,125	\$ —	\$3,060,457

Receivables from limited partners represent amounts due from limited partners for their required capital in Premier LP. These receivables are either interest bearing notes issued to new limited partners or non-interest bearing loans (contribution loans) provided to existing limited partners and are reflected as a reduction in 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, 2016.



During the three months ended September 30, 2016, no limited partners withdrew from Premier LP. Since the Reorganization and IPO, Premier LP's distribution policy has required 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, it is not based directly on revenue generated from an individual partner's participation as the distributions are based on the net income or loss of the partnership which encompass 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 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. Premier LP made a quarterly distribution on August 25, 2016 to its limited partners of \$22.5 million, which is equal to Premier LP's total taxable income for the three months ended June 30, 2016 multiplied by the Company's standalone effective combined federal, state and local income tax rate.

Premier LP expects to make a quarterly distribution on or before November 28, 2016 to its limited partners of \$22.1 million, which is equal to Premier LP's total taxable income for the three months ended September 30, 2016 multiplied by the Company's standalone effective combined federal, state and local income tax rate. The distribution is reflected in limited partners' distribution payable in the accompanying condensed consolidated balance sheet at September 30, 2016.

#### (11) STOCKHOLDERS' DEFICIT

As of September 30, 2016, there were 48,066,990 shares of the Company's Class A common stock, par value \$0.01 per share, and 94,809,069 shares of the Company's Class B common stock, par value \$0.000001 per share, outstanding.

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 therefore, subject to any statutory or contractual restrictions on the payment of dividends and 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 (i) entitled to one vote for each share held of record on all matters submitted to a vote of stockholders and (ii) not entitled to receive dividends or to receive a distribution upon the dissolution or a liquidation of Premier, other than dividends payable in shares of Premier's common stock. Pursuant to the Voting Trust Agreement, 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.

#### (12) EARNINGS PER SHARE

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

the assumed redemption of Class B common shares through the issuance of Class A common shares.

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

	Three months ended September 30,	
	2016	2015
Numerator for basic earnings per share:		
Net income attributable to stockholders	\$70,302	\$471,154
Numerator for diluted earnings per share:		
Net income attributable to stockholders	\$70,302	\$471,154
Adjustment of redeemable limited partners' capital to redemption amount	(61,808)	(466,801)
Net income attributable to non-controlling interest in Premier LP	49,601	47,900
Net income	58,095	52,253
Tax effect on Premier Inc. net income <sup>(a)</sup>	(20,951)	(16,658)
Adjusted net income	\$37,144	\$35,595
Denominator for basic earnings per share: weighted average shares <sup>(b)</sup>	47,214	37,735
Denominator for diluted earnings per share:		
Effect of dilutive securities: <sup>(c)</sup>		
Stock options	302	311
Restricted stock	171	508
Performance share awards	466	928
Class B shares outstanding	94,809	106,078
Denominator for diluted earnings per share-adjusted:		
Weighted average shares and assumed conversions	142,962	145,560
Basic earnings per share	\$1.49	\$12.49
Diluted earnings per share	\$0.26	\$0.24

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

Weighted average number of common shares used for basic earnings per share excludes weighted average shares <sup>(b)</sup> 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, 2016 and 2015.

For the three months ended September 30, 2016 and 2015, the effect of 1,576 and 767 stock options, respectively, <sup>(c)</sup> were excluded from the diluted weighted average shares outstanding as they have an anti-dilutive effect on the weighted average shares outstanding.

Pursuant to the terms of the Exchange Agreement, on a quarterly basis, Premier has historically settled the exchange of Class B common units of Premier LP by member owners for an equal number of Class A common units. In connection with the exchange of Class B common units by member owners, shares of Premier's Class B common stock are surrendered by member owners and retired (see Note 10 - Redeemable Limited Partners' Capital), and Premier has the option to settle the exchanged Class B common units for cash or shares of Class A common stock. 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 in connection with the quarterly exchanges pursuant to the terms of the Exchange Agreement, including activity related to the Class A and Class B common units and Class A and Class B common stock through the date of the applicable quarterly exchange:

Quarterly Exchange by Member Owners	Number of Class B Common Units Exchanged	Number of Class B Common Shares Retired Upon Exchange	Number of Class B Common Units Outstanding After Exchange	Number of Class B Common Shares Outstanding After Exchange	Number of Class A Common Shares Outstanding After Exchange	Percentage of Combined Voting Power Class B/Class A Common Stock
August 1, 2016	1,323,654	1,323,654	94,809,069	94,809,069	47,365,528	67%/33%
October 31, 2016 <sup>(a)(b)</sup>	5,047,528	5,047,528	89,761,541	89,761,541	50,085,904	64%/36%

(a) As the quarterly exchange occurred on October 31, 2016, the impact of the exchange is not reflected in the condensed consolidated financial statements for the quarter ended September 30, 2016.

(b) In connection with the October 31, 2016 exchange, 3,033,041 Class B common units were exchanged for cash and 2,014,487 Class B common units were exchanged for Class A common stock.

### (13) 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 \$5.8 million and \$13.5 million, for the three months ended September 30, 2016 and 2015, respectively, with a resulting deferred tax benefit of \$2.2 million and \$5.1 million, respectively, calculated at a rate of 38%, 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.

At September 30, 2016, there was \$50.9 million of unrecognized stock-based compensation expense related to non-vested awards that will be amortized over 2.20 years.

#### Premier 2013 Equity Incentive Plan

The Premier 2013 Equity Incentive Plan, as amended (the "2013 Equity Incentive Plan"), provides for grants of up to 11,260,783 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 awards. As of September 30, 2016, there were 4,601,849 shares available for grant under the 2013 Equity Incentive Plan.

Restricted Stock. Restricted stock units ("RSU") and restricted stock awards ("RSA") issued and outstanding generally vest over a three-year period for employees and a one-year period for directors. The following table includes information related to restricted stock awards for the three months ended September 30, 2016:

	Number of Awards	Weighted Average Fair Value at Grant Date
Outstanding at June 30, 2016	403,117	\$ 33.86
Granted	194,744	\$ 31.66
Vested	(12,191)	\$ 32.72
Forfeited	(18,241)	\$ 33.83

Outstanding at September 30, 2016 567,429 \$ 33.14

24

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At September 30, 2016, there was \$12.3 million of unrecognized stock-based compensation expense related to non-vested awards that will be amortized over 2.20 years.

Performance Share Awards. Performance share awards issued and outstanding generally vest over three years if performance targets are met. The following table includes information related to performance share awards for the three months ended September 30, 2016:

	Number of Awards	Weighted Average Fair Value at Grant Date
Outstanding at June 30, 2016	1,443,708	\$ 30.02
Granted	853,395	\$ 29.69
Vested	(1,181,820)	\$ 27.00
Forfeited	(34,255)	\$ 33.81
Outstanding at September 30, 2016	1,081,028	\$ 32.94

At September 30, 2016, there was \$25.2 million of unrecognized stock-based compensation expense related to non-vested awards that will be amortized over 2.26 years.

Stock Options. Stock options have a term of 10 years from the date of grant. Vested stock options will expire either after 12 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. The following table includes information related to stock options for the three months ended September 30, 2016:

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2016	3,314,661	\$ 30.04
Granted	477,848	\$ 31.66
Exercised	(83,880)	\$ 27.71
Forfeited	(45,175)	\$ 34.00
Outstanding at September 30, 2016	3,663,454	\$ 30.26

Outstanding and exercisable at September 30, 2016 2,466,974 \$ 28.74

The aggregate intrinsic value of stock options outstanding at September 30, 2016 was \$10.3 million. The aggregate intrinsic value of stock options outstanding and exercisable at September 30, 2016 was \$9.9 million. The aggregate intrinsic value of stock options expected to vest at September 30, 2016 was \$0.5 million. The intrinsic value of stock options exercised during the three months ended September 30, 2016 was \$0.4 million.

At September 30, 2016, there was \$13.4 million of unrecognized stock-based compensation expense related to stock options that will be amortized over 2.07 years.

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

	September 30, 2016	September 30, 2015
Expected life <sup>(a)</sup>	6 years	6 years
Expected dividend <sup>(b)</sup>	—	—
Expected volatility <sup>(c)</sup>	33.0%	32.7%
Risk-free interest rate <sup>(d)</sup>	1.31%	1.74%

Weighted average option grant date fair value \$10.80 \$12.40

25

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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 United States Treasury constant maturity market yield as of the date of the grant.

#### (14) 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 subject to U.S. federal and state income taxes. Under the provisions of federal and state statutes, Premier LP is not subject to federal and state income taxes. For federal and state income tax purposes, income realized by Premier LP is taxable to its partners.

For the three months ended September 30, 2016 and 2015, the Company recorded tax expense of \$23.3 million and \$19.0 million, respectively, which equates to an effective tax rate of 28.7% and 26.7%, respectively. The effective tax rate has increased from the prior year primarily attributable to the increase in the Company's ownership of Premier LP's taxable income. The Company's effective tax rate differs from income taxes recorded at the statutory rate primarily due to partnership income not subject to federal income taxes, state and local taxes and valuation allowances against deferred tax assets at PHSI.

The Company had net deferred tax assets of \$419.8 million and \$422.8 million as of September 30, 2016 and June 30, 2016, respectively. The current period balance is comprised of \$422.4 million in deferred tax assets at Premier, Inc. offset by \$2.6 million in deferred tax liabilities at PHSI and PSCI that is included in long term other liabilities in the accompanying condensed consolidated balance sheet. The decrease of \$3.0 million from June 30, 2016 is primarily attributable to the reductions in deferred tax assets of \$9.3 million recorded in connection with adjusting the basis in assets related to the North Carolina state income tax rate reduction of 1%, effective for tax years 2017 and beyond, a valuation allowance recorded against deferred tax assets of \$5.1 million at PHSI, \$2.8 million attributable to deferred tax assets recorded in connection with the fair value of the FFF put and call rights, and \$2.6 million recorded in the ordinary course of business. The decrease is offset by increases of \$16.8 million in connection with the exchange of member owner Class B common units pursuant to the Exchange Agreement that occurred during the three months ended September 30, 2016.

The Company has TRA liabilities of \$284.2 million as of September 30, 2016, representing 85% of the tax savings payable to limited partners that the Company expects to receive in connection with the Section 754 election which 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. TRA liabilities increased by \$4.5 million when compared to the \$279.7 million recorded at June 30, 2016. The increase is attributable to a \$10.2 million increase in connection with quarterly member owner exchanges on August 1, 2016, partially offset by a \$5.7 million decrease in connection with revaluing the deferred tax assets and associated TRA liabilities associated as a result of the North Carolina state income tax rate reduction.

#### (15) RELATED PARTY TRANSACTIONS

GNVHA Services, Inc. ("GNVHA") and its member organizations owned approximately 11% of the outstanding partnership interests in Premier LP as of September 30, 2016. Net administrative fees revenue based on purchases by GNVHA and its member organizations was \$17.7 million and \$15.6 million for the three months ended September 30, 2016 and 2015, respectively. The Company has a contractual requirement under the GPO participation agreement to pay each member owner revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's facilities through Premier LP's GPO supplier contracts. As GNVHA also remits to Premier LP all gross administrative fees collected by GNVHA based on purchases by its member organizations through GNVHA's own GPO supplier contracts, it also receives revenue share from Premier LP equal to 30% of such gross administrative fees remitted to the Company. Approximately \$7.6 million of revenue share obligations in the accompanying condensed consolidated balance sheets relate to revenue share obligations to



GNYHA and its member organizations at both September 30, 2016 and June 30, 2016. The Company also maintains a group purchasing agreement with GNYHA Alternate Care Purchasing Corporation, d/b/a Essensa, under which Essensa utilizes the Company's GPO supplier contracts. Net administrative fees revenue recorded with Essensa was \$0.7 million for both the three months ended September 30, 2016 and 2015. At September 30, 2016 and June 30, 2016, the Company had revenue share obligations to Essensa of zero and \$0.2 million, respectively.

In addition, of the \$22.1 million and \$22.5 million limited partners' distribution payable in the accompanying condensed consolidated balance sheets at September 30, 2016 and June 30, 2016, respectively, \$2.9 million are payable to GNYHA and its

member organizations at both September 30, 2016 and June 30, 2016. Services and support revenue earned from GNYHA and its member organizations was \$3.6 million and \$3.2 million during the three months ended September 30, 2016 and 2015, respectively. Product revenue earned from, or attributable to services provided to, GNYHA and its member organizations was \$3.8 million and \$5.0 million during the three months ended September 30, 2016 and 2015, respectively. Receivables from GNYHA and its member organizations, included in due from related parties in the accompanying condensed consolidated balance sheets, were \$3.6 million and \$2.6 million at September 30, 2016 and June 30, 2016, respectively.

The Company's 50% ownership share of Innovatix's net income included in equity in net income of unconsolidated affiliates in the accompanying condensed consolidated statements of income was \$6.5 million and \$4.4 million for the three months ended September 30, 2016 and 2015, respectively. The Company maintains a group purchasing agreement with Innovatix under which Innovatix members are permitted to utilize Premier LP's GPO supplier contracts. Gross administrative fees revenue and a corresponding revenue share recorded under the arrangement were \$11.4 million and \$9.4 million for the three months ended September 30, 2016 and 2015, respectively. At September 30, 2016 and June 30, 2016, the Company had revenue share obligations to Innovatix of \$3.4 million and \$4.2 million, respectively, in the accompanying condensed consolidated balance sheets.

The Company's 49% ownership share of FFF's net income included in equity in net income of unconsolidated affiliates in the accompanying condensed consolidated statements of income was \$3.0 million for the three months ended September 30, 2016. 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 since July 26, 2016, the date of investment in FFF, was \$0.1 million. Administrative fees from FFF are typically received during the first month of the quarter.

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 \$1.1 million and \$1.0 million for the three months ended September 30, 2016 and 2015, respectively. The Company did not receive annual incentive management fees for the three months ended September 30, 2016 or 2015. As of September 30, 2016 and June 30, 2016, \$0.4 million and \$0.5 million in amounts receivable from AEIX are included in due from related parties in the accompanying condensed consolidated balance sheets, respectively.

#### (16) 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, 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.

#### (17) SEGMENTS

The Company delivers its solutions and manages its business through two reportable business segments, the supply chain services segment and the performance services segment. The supply chain services segment includes the Company's GPO, integrated pharmacy offerings and direct sourcing activities. The performance services segment includes the Company's informatics, collaborative, advisory services and insurance services businesses.

The Company uses Segment Adjusted EBITDA (a Non-GAAP measure) 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. Non-recurring items are expenses that have not been incurred within the prior two years and are not expected to recur within the next two years. 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.

For more information on Segment Adjusted EBITDA and the use of Non-GAAP measures, see "Other Key Business Metrics" under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. All reportable segment revenues are presented net of inter-segment eliminations and represent revenues from external customers.

The following tables present selected net revenue and Segment Adjusted EBITDA (in thousands):

	Three months ended September 30,	
	2016	2015
Net Revenue		
Supply Chain Services		
Net administrative fees	\$125,976	\$117,949
Other services and support	1,645	819
Services	127,621	118,768
Products	106,129	77,781
Total Supply Chain Services	\$233,750	\$196,549
Performance Services	79,522	74,286
Total	\$313,272	\$270,835
	Three months ended September 30,	
	2016	2015
Segment Adjusted EBITDA		
Supply Chain Services	\$117,304	\$102,949
Performance Services	22,311	24,925
Corporate	(28,842 )	(22,877 )
Total	\$110,773	\$104,997

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

	Three months ended September 30,	
	2016	2015
Segment Adjusted EBITDA	\$110,773	\$104,997
Depreciation and amortization	(14,018 )	(11,865 )
Amortization of purchased intangible assets	(9,209 )	(6,047 )
Stock-based compensation expense <sup>(a)</sup>	(5,896 )	(13,700 )
Acquisition related expenses <sup>(b)</sup>	(2,937 )	(3,472 )
Strategic and financial restructuring expenses <sup>(c)</sup>	—	(27 )
Adjustment to tax receivable agreement liability <sup>(d)</sup>	5,722	4,818
ERP implementation expenses <sup>(e)</sup>	(1,094 )	(560 )
Acquisition related adjustment - deferred revenue <sup>(f)</sup>	(151 )	(3,092 )
Equity in net income of unconsolidated affiliates <sup>(g)</sup>	(9,579 )	(4,590 )
Deferred compensation plan expense	(1,095 )	1,809
Operating income	\$72,516	\$68,271
Equity in net income of unconsolidated affiliates <sup>(g)</sup>	9,579	4,590
Interest and investment income, net	(152 )	241
Loss on disposal of long-lived assets	(1,518 )	—
Other expense, net <sup>(h)</sup>	1,006	(1,809 )
Income before income taxes	\$81,431	\$71,293

<sup>(a)</sup> Represents non-cash employee stock-based compensation expense and \$0.1 million and \$0.2 million stock purchase plan expense in the three months ended September 30, 2016 and 2015, respectively.



- (b) Represents legal, accounting and other expenses related to acquisition activities.
- (c) Represents legal, accounting and other expenses directly related to strategic and financial restructuring expenses.
- (d) Represents adjustment to tax receivable agreement liability for a 1% decrease in the North Carolina state income tax rate during the three months ended September 30, 2016 and 2015.
- (e) Represents implementation and other costs associated with the implementation of a new enterprise resource planning ("ERP") system.
- Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to the acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The Non-GAAP adjustment to software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.
- (f) Represents equity in net income of unconsolidated affiliates primarily generated by the Company's 50% ownership interest in Innovatix and 49% ownership interest in FFF, all of which is included in the supply chain services segment.
- (g) Represents unrealized gain on deferred compensation plan assets and losses on investments and other assets. The following tables present capital expenditures, total assets and depreciation and amortization expense (in thousands):

	Three months ended September 30,	
Capital Expenditures	2016	2015
Supply Chain Services	\$—	\$764
Performance Services	16,851	15,263
Corporate	115	1,114
Total	\$16,966	\$17,141
Total Assets	September June 30, 30, 2016 2016	
Supply Chain Services	\$411,810	\$345,219
Performance Services	971,834	934,588
Corporate	506,020	575,576
Total	\$1,889,664	\$1,855,383

	Three months ended September 30,	
Depreciation and Amortization Expense <sup>(a)</sup>	2016	2015
Supply Chain Services	\$466	\$517
Performance Services	20,875	15,924
Corporate	1,886	1,471
Total	\$23,227	\$17,912

(a) Includes amortization of purchased intangible assets.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report. This discussion is designed to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain

key items in those financial statements from quarter to quarter and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. In addition, the following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see "Risk Factors" in the Company's Form 10-K for the fiscal year ended June 30, 2016 (the "2016 Annual Report"), filed with the Securities and Exchange Commission ("SEC") on August 25, 2016 and "Cautionary Note Regarding Forward-Looking Statements" contained in this Quarterly Report.

## Business Overview

### Our Business

Premier, Inc. ("Premier", the "Company", "We", or "Our") is a leading healthcare performance improvement company, uniting an alliance of approximately 3,750 U.S. hospitals and more than 130,000 other provider organizations to transform healthcare. We unite 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 business to meet the demands of a rapidly evolving healthcare industry. We deliver value through a comprehensive technology-enabled platform that offers critical supply chain services, clinical, financial, operational and population health software-as-a-service ("SaaS") informatics products, advisory services and performance improvement collaborative programs.

As of September 30, 2016, we were controlled by 171 U.S. hospitals, health systems and other healthcare organizations, that represented approximately 1,400 owned, leased and managed acute care facilities and other non-acute care organizations, through the ownership of Class B common stock, which they received upon the completion of a series of transactions (the "Reorganization") concurrent with the consummation of our Initial Public Offering ("IPO", and collectively with the Reorganization, the "Reorganization and IPO") on October 1, 2013. As of September 30, 2016, the Class A common stock and Class B common stock represented approximately 34% and 66% of our combined Class A and Class B common stock, collectively (the "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 the Exchange Agreement.

We generated net revenue of \$313.3 million and \$270.8 million, net income of \$58.1 million and \$52.3 million, and Adjusted EBITDA of \$110.8 million and \$105.0 million for the three months ended September 30, 2016 and 2015, respectively. Adjusted EBITDA is a Non-GAAP measure - see "Other Key Business Metrics" below.

### Our Business Segments

Our business model and solutions are designed to provide our members access to scale efficiencies, spread the cost of their development, provide actionable intelligence derived from anonymized data in our data warehouse provided by our members, mitigate the risk of innovation and disseminate best practices that will help our member organizations succeed in their transformation to higher quality and more cost-effective healthcare. We deliver our integrated platform of solutions that address the areas of total cost management, quality and safety improvement and population health management through two business segments: supply chain services and performance services.

Our supply chain services segment includes one of the largest healthcare group purchasing organizations ("GPO") in the United States, serving acute and alternate sites, and specialty pharmacy and our direct sourcing activities. Supply chain services net revenue grew from \$196.5 million for the three months ended September 30, 2015 to \$233.8 million for the three months ended September 30, 2016, representing net revenue growth of 19%, and accounted for 75% of our overall net revenue. 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 specialty pharmacy and direct sourcing activities.

Our performance services segment includes one of the largest informatics and advisory services businesses in the United States focused on healthcare providers. Performance services net revenue grew from \$74.3 million for the three months ended September 30, 2015 to \$79.5 million for the three months ended September 30, 2016, representing net revenue growth of 7%, and accounted for 25% of our overall net revenue. Our SaaS informatics products utilize our comprehensive data set to provide actionable intelligence to our members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety and population health management. The performance services segment also includes our technology-enabled performance improvement collaboratives, advisory services, government services and insurance management services.

### Acquisitions

Acquisition of Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC

On August 23, 2016, the Company, through its consolidated subsidiary, NS3 Health, LLC, acquired 100% of the membership interests of Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC (collectively,



"Acro Pharmaceuticals") for \$68.7 million in cash, subject to adjustment based on Acro Pharmaceuticals' (i) cash on hand, (ii) outstanding indebtedness and (iii) net working capital at closing. The acquisition was funded with available cash on hand. Assets acquired and liabilities assumed were recorded at their estimated fair values as of August 23, 2016 with the remaining unallocated purchase price recorded

as goodwill. Management's estimates and assumptions are subject to change within the measurement period (not to exceed one year) (see Note 3 - Business Acquisitions).

#### 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. See "Cautionary Note Regarding Forward-Looking Statements."

Trends in the U.S. healthcare market affect our revenues in the supply chain services and performance services segments. The trends we see affecting our current healthcare business include the implementation of healthcare reform legislation, enactment of new regulatory and reporting requirements, expansion of insurance coverage, intense cost pressure, payment reform, provider consolidation, shift in care to the alternate site market and increased data availability and transparency. To meet the demands of this environment, there will be increased focus on scale and cost containment and healthcare providers will need to measure and report on and bear financial risk for outcomes. We believe these trends will result in increased demand for our supply chain services and performance services solutions in the areas of cost management, quality and safety, and population health management.

#### Key Components of Our Results of Operations

##### Net Revenue

Net revenue consists of (i) service revenue, which includes net administrative fees revenue and other services and support revenue and (ii) 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, advisory services and performance improvement collaborative subscriptions. Product revenue consists of specialty 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 the number of members that utilize our GPO supplier contracts and the volume of their purchases, the number of members that utilize our specialty 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 advisory and government 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 advisory services to new and existing members, impact of applied research initiatives, renewal of existing subscriptions to our SaaS informatics products and expansion into new markets with potential future acquisitions.

##### Cost of Revenue

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



Cost of product revenue consists of purchase and shipment costs for specialty pharmaceuticals and direct sourced medical products. Our cost of product revenue will be 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 consist of expenses 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. In general, selling, general and administrative expenses are comprised of compensation and benefits related costs, travel-related expenses, business development expenses including costs for business acquisition opportunities and indirect costs such as insurance, professional fees and other general overhead expenses. General and administrative expenses have increased as a result of being a public company, including stock-based compensation expense related to the equity incentive plan established in connection with the Reorganization and IPO.

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, consists primarily of equity in net income of our unconsolidated affiliates that is primarily generated from our 50% ownership interest in Innovatix, LLC ("Innovatix") and 49% ownership in FFF Enterprises, Inc. ("FFF"). A change in the number of, and use by, members that participate in our GPO programs through Innovatix as well as a change in the number of, and use by, customers of FFF could have a significant effect on the amounts earned from these investments. Other income, net, also includes interest income, net, and realized gains and losses on our marketable securities as well as gains or losses on the disposal of assets.

#### Income Tax Expense

Income tax expense includes the income tax expense attributable to Premier, Premier Healthcare Solutions, Inc. ("PHSI") and Premier Supply Chain Improvement ("PSCI"). For federal and state income tax purposes, income realized by Premier LP is taxable to its partners. As such, the low effective tax rate is attributable to the flow through of Premier LP income, which is not subject to federal and state income tax at Premier.

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

As of September 30, 2016, we owned an approximate 34% controlling general partner interest in Premier LP through Premier GP. Net income attributable to non-controlling interest represents the portion of net income attributable to the limited partners of Premier LP (approximately 66%). Our non-controlling interest attributable to limited partners of Premier LP was reduced from approximately 68% as of June 30, 2016 to approximately 66% as of September 30, 2016 as a result of the completion of a quarterly exchange pursuant to the Exchange Agreement (see Note 10 - Redeemable Limited Partners' Capital).

#### Other Key Business Metrics

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 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 financial measures not determined in accordance with generally accepted accounting principles ("Non-GAAP"), we consider non-recurring items to be expenses and other items that have not been incurred within the prior two years and are not expected to recur within the next two years. Such expenses include certain strategic and financial restructuring expenses. Non-operating items include gain or loss on the disposal of assets.

We define Segment Adjusted EBITDA as the segment's net revenue 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 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 into 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. Adjusted Fully Distributed Net Income is a Non-GAAP financial measure because it represents net income attributable to Premier before merger and acquisition related expenses and non-recurring or non-cash items, the effects of non-controlling interests in Premier LP and the impact of the adjustment of redeemable limited partners' capital to redemption amount.

We define Adjusted Fully Distributed Earnings per Share as earnings per share attributable to Premier (i) excluding income tax expense, (ii) excluding 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 into 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. Adjusted Fully Distributed Earnings per Share is a Non-GAAP financial measure because it represents earnings per share attributable to Premier before merger and acquisition related expenses and non-recurring or non-cash items, the effects of non-controlling interests in Premier LP, and the impact of the adjustment of redeemable limited partners' capital to redemption amount.

We define Free Cash Flow as net cash provided by operating activities less distributions and tax receivable agreement payments to limited partners and purchases of property and equipment. Free Cash Flow is a Non-GAAP financial measure because it does not represent net cash provided by operating activities alone but takes into consideration the ongoing distributions to limited partners and purchase of property and equipment that are necessary for ongoing business operations and long-term value creation. 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 as well as development of new and upgraded products and services to support future growth. Free Cash Flow is important because it allows us to enhance stockholder value through acquisitions, partnerships, joint ventures, investments in related business and/or debt reduction. Also, Free Cash Flow does not represent discretionary cash available for spending as it excludes certain contractual obligations such as debt repayment.

Adjusted EBITDA and Free Cash Flow are supplemental financial measures used by us and by external users of our financial statements. We consider Adjusted EBITDA and Free Cash Flow 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. 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 generally accepted accounting principles ("GAAP"), provides a more complete understanding of factors and trends affecting our business than GAAP measures alone. 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 our asset base (primarily depreciation and amortization) and 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 operations. 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 it removes 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 eliminates the variability of non-controlling interest as a result of member owner exchanges of Class B common units into shares of Class A common stock (which exchanges are a member owner's cumulative right, but not obligation, which began on October 31, 2014, and occur each year thereafter, and are limited to one-seventh of the member owner's initial allocation of Class B common units).

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 EBITDA, Adjusted EBITDA and Segment Adjusted EBITDA 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 continuing operating activities.

Some of the limitations of Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share 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 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 EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow are susceptible to varying calculations, the EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow measures, as presented in this Quarterly Report, may differ from, and may therefore not be comparable to, similarly titled measures used by other companies.



## Results of Operations

Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

The following table summarizes our results of operations for the three months ended September 30, 2016 and 2015 (in thousands, except per share data):

	Three months ended September 30, 2016		September 30, 2015	
	Amount	% of Net Revenue	Amount	% of Net Revenue
Net revenue:				
Net administrative fees	\$125,976	40 %	\$117,949	43 %
Other services and support	81,167	26 %	75,105	28 %
Services	207,143	66 %	193,054	71 %
Products	106,129	34 %	77,781	29 %
Net revenue	313,272	100 %	270,835	100 %
Cost of revenue:				
Services	42,690	14 %	38,124	14 %
Products	95,813	31 %	70,999	26 %
Cost of revenue	138,503	44 %	109,123	40 %
Gross profit	174,769	56 %	161,712	60 %
Operating expenses:				
Selling, general and administrative	92,238	30 %	86,938	33 %
Research and development	806	— %	456	— %
Amortization of purchased intangible assets	9,209	3 %	6,047	2 %
Operating expenses	102,253	33 %	93,441	35 %
Operating income	72,516	23 %	68,271	25 %
Other income, net	8,915	3 %	3,022	1 %
Income before income taxes	81,431	26 %	71,293	26 %
Income tax expense	23,336	7 %	19,040	7 %
Net income	58,095	19 %	52,253	19 %
Net income attributable to non-controlling interest in Premier LP	(49,601)	(16) %	(47,900)	(18) %
Adjustment of redeemable limited partners' capital to redemption amount	61,808	nm	466,801	nm
Net income attributable to stockholders	\$70,302	nm	\$471,154	nm
Weighted average shares outstanding:				
Basic	47,214		37,735	
Diluted	142,962		145,560	
Earnings per share attributable to stockholders				
Basic	\$1.49		\$12.49	
Diluted	\$0.26		\$0.24	
Certain Non-GAAP Financial Data:				
Adjusted EBITDA <sup>(1)</sup>	\$110,773	35 %	\$104,997	39 %
Adjusted Fully Distributed Net Income <sup>(2)</sup>	\$58,928	19 %	\$56,024	21 %
Adjusted Fully Distributed Earnings Per Share <sup>(3)</sup>	\$0.41		\$0.38	

nm = Not meaningful

(1) The following table shows the reconciliation of net income to Adjusted EBITDA and the reconciliation of Segment Adjusted EBITDA to income before income taxes for the periods presented (in thousands):

	Three months ended	
	September 30,	
	2016	2015
Net income	\$58,095	\$52,253
Interest and investment loss (income), net <sup>(a)</sup>	152	(241 )
Income tax expense	23,336	19,040
Depreciation and amortization	14,018	11,865
Amortization of purchased intangible assets	9,209	6,047
EBITDA	104,810	88,964
Stock-based compensation <sup>(b)</sup>	5,896	13,700
Acquisition related expenses <sup>(c)</sup>	2,937	3,472
Strategic and financial restructuring expenses <sup>(d)</sup>	—	27
Adjustment to tax receivable agreement liability <sup>(e)</sup>	(5,722	)(4,818 )
ERP implementation expenses <sup>(f)</sup>	1,094	560
Acquisition related adjustment - deferred revenue <sup>(g)</sup>	151	3,092
Loss on disposal of long-lived assets	1,518	—
Other expense	89	—
Adjusted EBITDA	\$110,773	\$104,997

Segment Adjusted EBITDA:

Supply Chain Services	\$117,304	\$102,949
Performance Services	22,311	24,925
Corporate <sup>(h)</sup>	(28,842	)(22,877 )
Adjusted EBITDA	110,773	104,997
Depreciation and amortization	(14,018	)(11,865 )
Amortization of purchased intangible assets	(9,209	)(6,047 )
Stock-based compensation <sup>(b)</sup>	(5,896	)(13,700 )
Acquisition related expenses <sup>(c)</sup>	(2,937	)(3,472 )
Strategic and financial restructuring expenses <sup>(d)</sup>	—	(27 )
Adjustment to tax receivable agreement liability <sup>(e)</sup>	5,722	4,818
ERP implementation expenses <sup>(f)</sup>	(1,094	)(560 )
Acquisition related adjustment - deferred revenue <sup>(g)</sup>	(151	)(3,092 )
Equity in net income of unconsolidated affiliates <sup>(i)</sup>	(9,579	)(4,590 )
Deferred compensation plan (income) expense	(1,095	)1,809
Operating income	72,516	68,271
Equity in net income of unconsolidated affiliates	9,579	4,590
Interest and investment (loss) income, net <sup>(a)</sup>	(152	)241
Loss on disposal of long-lived assets	(1,518	)—
Other income (expense), net <sup>(j)</sup>	1,006	(1,809 )
Income before income taxes	\$81,431	\$71,293

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

(b) Represents non-cash employee stock-based compensation expense and \$0.1 million and \$0.2 million stock purchase plan expense in the three months ended September 30, 2016 and 2015, respectively.

(c) Represents legal, accounting and other expenses related to acquisition activities.

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



- (e) Represents adjustment to tax receivable agreement liability for a 1% decrease in the North Carolina state income tax rate during the three months ended September 30, 2016 and 2015.
- (f) Represents implementation and other costs of new enterprise resource planning ("ERP") system.  
Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with acquisitions. Because these support contracts are typically one-year in duration, our GAAP revenues for the one-year period subsequent to our acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The Non-GAAP adjustment to our software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.
- (g) Corporate consists of general and administrative corporate expenses that are not specific to either of our reporting segments.  
Represents equity in net income of unconsolidated affiliates primarily generated by the Company's 50% ownership interest in Innovatix and 49% ownership interest in FFF, all of which is included in the supply chain services segment.
- (h) Represents unrealized gain on deferred compensation plan assets and losses on investments and other assets.
- (i) The following table shows the reconciliation of net income attributable to stockholders to Non-GAAP Adjusted Fully Distributed Net Income for the periods presented (in thousands):

	Three months ended	
	September 30,	
	2016	2015
Net income attributable to stockholders	\$70,302	\$471,154
Adjustment of redeemable limited partners' capital to redemption amount	(61,808)	(466,801)
Net income attributable to non-controlling interest in Premier LP <sup>(a)</sup>	49,601	47,900
Income tax expense	23,336	19,040
Amortization of purchased intangible assets	9,209	6,047
Stock-based compensation <sup>(b)</sup>	5,896	13,700
Acquisition related expenses <sup>(c)</sup>	2,937	3,472
Strategic and financial restructuring expenses <sup>(d)</sup>	—	27
Adjustment to tax receivable agreement liability <sup>(e)</sup>	(5,722)	(4,818)
ERP implementation expenses <sup>(f)</sup>	1,094	560
Acquisition related adjustment - deferred revenue <sup>(g)</sup>	151	3,092
Loss on disposal of long-lived assets	1,518	—
Other expense	89	—
Non-GAAP adjusted fully distributed income before income taxes	96,603	93,373
Income tax expense on fully distributed income before income taxes <sup>(h)</sup>	37,675	37,349
Non-GAAP Adjusted Fully Distributed Net Income	\$58,928	\$56,024

- (a) Reflects the elimination of the non-controlling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.
- (b) Represents non-cash employee stock-based compensation expense and \$0.1 million and \$0.2 million stock purchase plan expense in the three months ended September 30, 2016 and 2015, respectively.
- (c) Represents legal, accounting and other expenses related to acquisition activities.
- (d) Represents legal, accounting and other expenses directly related to strategic and financial restructuring activities.
- (e) Represents adjustment to tax receivable agreement liability for a 1% decrease in the North Carolina state income tax rate during the three months ended September 30, 2016 and 2015.
- (f) Represents implementation and other costs of new ERP system.

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

Reflects income tax expense at an estimated effective income tax rate of 39% and 40% of Non-GAAP adjusted fully distributed income before income taxes for the three months ended September 30, 2016 and 2015, respectively. The decrease in the estimated effective income tax rate is primarily attributed to a 1% decrease in the North Carolina state income tax rate that occurred in the three months ended September 30, 2016.

The following table shows the reconciliation of the numerator and denominator for earnings per share attributable (3) to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share for the periods presented (in thousands):

	Three months ended September 30,	
	2016	2015
Net income attributable to stockholders	\$70,302	\$471,154
Adjustment of redeemable limited partners' capital to redemption amount	(61,808)	(466,801)
Net income attributable to non-controlling interest in Premier LP <sup>(a)</sup>	49,601	47,900
Income tax expense	23,336	19,040
Amortization of purchased intangible assets	9,209	6,047
Stock-based compensation <sup>(b)</sup>	5,896	13,700
Acquisition related expenses <sup>(c)</sup>	2,937	3,472
Strategic and financial restructuring expenses <sup>(d)</sup>	—	27
Adjustment to tax receivable agreement liability <sup>(e)</sup>	(5,722)	(4,818)
ERP implementation expenses <sup>(f)</sup>	1,094	560
Acquisition related adjustment - deferred revenue <sup>(g)</sup>	151	3,092
Loss on disposal of long-lived assets	1,518	—
Other expense	89	—
Non-GAAP adjusted fully distributed income before income taxes	96,603	93,373
Income tax expense on fully distributed income before income taxes <sup>(h)</sup>	37,675	37,349
Non-GAAP Adjusted Fully Distributed Net Income	\$58,928	\$56,024

Reconciliation of denominator for earnings per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share

Weighted Average:

Common shares used for basic and diluted earnings per share	47,214	37,735
Potentially dilutive shares	939	1,747
Conversion of class B common units	94,809	106,078
Weighted average fully distributed shares outstanding - diluted	142,962	145,560

(a) Reflects the elimination of the non-controlling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(b) Represents non-cash employee stock-based compensation expense and \$0.1 million and \$0.2 million stock purchase plan expense in the three months ended September 30, 2016 and 2015, respectively.

(c) Represents legal, accounting and other expenses related to acquisition activities.

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

(e) Represents adjustment to tax receivable agreement liability for a 1% decrease in the North Carolina state income tax rate during the three months ended September 30, 2016 and 2015.

(f) Represents implementation and other costs of new ERP system.

(g) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with acquisitions. Because these support contracts are typically one-year in duration, our GAAP revenues for the one-year period subsequent to our acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The Non-GAAP adjustment to our software license updates and product support

revenues is intended to include, and thus reflect, the full amount of such revenues.

(h) Reflects income tax expense at an estimated effective income tax rate of 39% and 40% of Non-GAAP adjusted fully distributed income before income taxes for the three months ended September 30, 2016 and 2015, respectively. The decrease in the estimated effective income tax rate is primarily attributed to a 1% decrease in the North Carolina state income tax rate that occurred in the three months ended September 30, 2016.

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The following table shows the reconciliation of earnings per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share for the periods presented:

	Three months ended September 30, 2016 2015	
Earnings per share attributable to stockholders	\$1.49	\$12.49
Adjustment of redeemable limited partners' capital to redemption amount	(1.31 )	(12.37 )
Impact of additions:		
Net income attributable to non-controlling interest in Premier LP <sup>(a)</sup>	1.05	1.27
Income tax expense	0.49	0.50
Amortization of purchased intangible assets	0.20	0.16
Stock-based compensation <sup>(b)</sup>	0.13	0.36
Acquisition related expenses <sup>(c)</sup>	0.06	0.09
Adjustment to tax receivable agreement liability <sup>(d)</sup>	(0.12 )	(0.13 )
ERP implementation expenses <sup>(e)</sup>	0.02	0.02
Acquisition related adjustment - deferred revenue <sup>(f)</sup>	—	0.08
Loss on disposal of long-lived assets	0.03	—
Impact of corporation taxes <sup>(g)</sup>	(0.80 )	(0.99 )
Impact of increased share count <sup>(h)</sup>	(0.83 )	(1.10 )
Non-GAAP Adjusted Fully Distributed Earnings Per Share	\$0.41	\$0.38

(a) Reflects the elimination of the non-controlling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(b) Represents non-cash employee stock-based compensation expense and \$0.1 million and \$0.2 million stock purchase plan expense in the three months ended September 30, 2016 and 2015, respectively.

(c) Represents legal, accounting and other expenses related to acquisition activities.

(d) Represents adjustment to tax receivable agreement liability for a 1% decrease in the North Carolina state income tax rate during the three months ended September 30, 2016 and 2015.

(e) Represents implementation and other costs of new ERP system.

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

(g) Reflects income tax expense at an estimated effective income tax rate of 39% and 40% of Non-GAAP adjusted fully distributed income before income taxes for the three months ended September 30, 2016 and 2015, respectively. The decrease in the estimated effective income tax rate is primarily attributed to a 1% decrease in the North Carolina state income tax rate that occurred in the three months ended September 30, 2016.

(h) Reflects impact of increased share counts assuming the conversion of all Class B common units into shares of Class A common stock.



## Net Revenue

The following table summarizes our net revenue for the three months ended September 30, 2016 and 2015, respectively, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Three months ended September 30,		2015	
	2016	% of Net Revenue	Amount	% of Net Revenue
Net Revenue:	Amount	% of Net Revenue	Amount	% of Net Revenue
Supply Chain Services				
Net administrative fees	\$125,97640	%	\$117,94944	%
Other services and support	1,645	1 %	819	— %
Services	127,621	41 %	118,768	44 %
Products	106,129	34 %	77,781	29 %
Total Supply Chain Services	233,750	75 %	196,549	73 %
Performance Services	79,522	25 %	74,286	27 %
Total	\$313,272100	%	\$270,835100	%

Total net revenue for the three months ended September 30, 2016 was \$313.3 million, an increase of \$42.5 million, or 16% from \$270.8 million for the three months ended September 30, 2015. Our supply chain services net revenue was 75% and 73% of total net revenue for the three months ended September 30, 2016 and 2015, respectively.

## Supply Chain Services

Our supply chain services segment net revenue for the three months ended September 30, 2016 was \$233.8 million, an increase of \$37.3 million, or 19%, from \$196.5 million for the three months ended September 30, 2015.

Net administrative fees revenue in our supply chain services segment for the three months ended September 30, 2016 was \$126.0 million, an increase of \$8.1 million, or 7%, from \$117.9 million for the three months ended September 30, 2015. The increase in net administrative fees revenue was primarily attributable to further contract penetration of existing members and, to a lesser degree, the ongoing positive impact of conversion of new members to our contract portfolio. We may experience quarterly fluctuations in net administrative fees revenue due to periodic variability associated with the receipt of supplier member purchasing reports and administrative fee payments at quarter-end; however, we expect our net administrative fees revenue to continue to grow to the extent our existing members increase the utilization of our contracts and additional members convert to our contract portfolio.

Product revenue in our supply chain services segment for the three months ended September 30, 2016 was \$106.1 million, an increase of \$28.3 million, or 36%, from \$77.8 million for the three months ended September 30, 2015. The increase was primarily driven by revenues from the Company's Acro Pharmaceuticals acquisition of \$23.4 million as well as a continued increase in direct sourcing revenue as a result of increased member participation in our direct sourcing and specialty pharmacy businesses, offset by a decrease in Hepatitis C pharmaceutical sales. We expect our direct sourcing and specialty pharmacy 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.

## Performance Services

Our performance services segment net revenue for the three months ended September 30, 2016 was \$79.5 million, an increase of \$5.2 million, or 7%, from \$74.3 million for the three months ended September 30, 2015. The increase was primarily attributable to \$4.5 million in incremental revenue from CECity.com, Inc. ("CECity") and Healthcare Insights, LLC ("HCI") during the quarter which includes the impact of a full quarter of revenue, compared to a partial quarter in the prior year, as the acquisitions closed on August 20, 2015 and July 30, 2015, respectively.

We continue to be impacted by the competitive environment as well as the impact of lengthier implementations for some of our more complex technology-enabled solutions. Similarly, growth in our advisory services was limited due to some larger engagement opportunities that result in more complex and lengthy sales processes, require longer to implement once secured and result in longer term revenue recognition due to performance-based fees for certain of these engagements.

We expect to experience quarterly variability in revenues generated from our performance services segment due to the timing of revenue recognition from certain advisory services and performance-based engagements in which our revenue is based on a

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percentage of identified member savings and recognition occurs upon approval and documentation of the savings. We expect our performance services net revenue to continue to grow to the extent we are able to expand our sales to existing members and additional members begin to utilize our products and services.

#### Cost of Revenue

The following table summarizes our cost of revenue for the periods, respectively, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Three months ended September 30, 2016		2015	
	Amount	% of Net Revenue	Amount	% of Net Revenue
Cost of revenue:				
Services	\$42,690	14 %	\$38,124	14 %
Products	95,813	31 %	70,999	26 %
Total cost of revenue	\$138,503	44 %	\$109,123	40 %
Cost of revenue by segment:				
Supply Chain Services	\$97,063	31 %	\$71,617	26 %
Performance Services	41,440	13 %	37,506	14 %
Total cost of revenue	\$138,503	44 %	\$109,123	40 %

Cost of revenue for the three months ended September 30, 2016 was \$138.5 million, an increase of \$29.4 million, or 27%, from \$109.1 million for the three months ended September 30, 2015. Cost of product revenue increased by \$24.8 million, which was primarily attributable to an increase of \$22.0 million due to the Company's acquisition of Acro Pharmaceuticals and increases in direct sourcing and specialty pharmacy revenue. We expect our cost of product revenue to increase as we sell additional direct-sourced medical products to new and existing members and enroll additional members into our specialty pharmacy program. Cost of service revenue increased by \$4.6 million primarily due to an increase in personnel to support growth in SaaS-based implementations. We expect cost of service revenue to increase to the extent we expand our performance improvement collaboratives and advisory services to members, continue to develop new and existing internally-developed software applications, and expand into new product offerings.

Cost of revenue for the supply chain services segment for the three months ended September 30, 2016 was \$97.1 million, an increase of \$25.4 million, or 36%, from \$71.6 million for the three months ended September 30, 2015. The increase is primarily attributable to an increase of \$22.0 million due to the Company's acquisition of Acro Pharmaceuticals and growth in the direct sourcing and specialty pharmacy businesses, which have higher associated cost of revenue as compared to group purchasing.

Cost of revenue for the performance services segment for the three months ended September 30, 2016 was \$41.4 million, an increase of \$3.9 million, or 10%, from \$37.5 million for the three months ended September 30, 2015. The increase is primarily attributable to an increase in personnel and temporary labor to support growth due to prior year acquisitions and increased depreciation and amortization of internally developed software due to expansion of the capabilities and functionality of existing software platforms. We expect cost of service revenue to increase to the extent we expand our performance improvement collaboratives and advisory services to members, continue to develop new and existing internally-developed software applications, and expand into new product offerings.

## Operating Expenses

The following table summarizes our operating expenses for the periods, respectively, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Three months ended September 30,			
	2016		2015	
Operating expenses:	Amount	%of Net Revenue	Amount	%of Net Revenue
Selling, general and administrative	\$92,238	30 %	\$86,938	33 %
Research and development	806	— %	456	— %
Amortization of purchased intangible assets	9,209	3 %	6,047	2 %
Total operating expenses	\$102,253	33 %	\$93,441	35 %
Operating expenses by segment:				
Supply Chain Services	\$32,715	10 %	\$27,288	10 %
Performance Services	36,491	12 %	33,853	13 %
Total segment operating expenses	69,206	22 %	61,141	23 %
Corporate	33,047	11 %	32,300	12 %
Total operating expenses	\$102,253	33 %	\$93,441	35 %

### Selling, General and Administrative

Selling, general and administrative expenses for the three months ended September 30, 2016 were \$92.2 million, an increase of \$5.3 million, or 6%, from \$86.9 million for the three months ended September 30, 2015. The increase is primarily attributable to increased salaries and benefits of \$11.7 million due to increased staffing to support growth, which was partially offset by a decrease in stock-based compensation of \$7.8 million primarily related to vesting of certain IPO-related performance based awards.

We expect our selling, general and administrative expenses to decline year over year as a result of a reduction in anticipated stock compensation expense. On a longer term basis, we would expect selling, general and administrative expenses to increase as we grow our business.

### Research and Development

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.

Research and development expenses for the three months ended September 30, 2016 were \$0.8 million, an increase of \$0.3 million, from \$0.5 million for the three months ended September 30, 2015. Including capitalized labor, total research and development expenditures were \$17.4 million for the three months ended September 30, 2016, an increase of \$2.6 million from \$14.8 million for the three months ended September 30, 2015. We experience fluctuations in our research and development expenditures across reportable periods due to the timing of our software development lifecycles, with new product features and functionality, new technologies and upgrades to our service offerings.

### Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets for the three months ended September 30, 2016 was \$9.2 million, an increase of \$3.2 million, from \$6.0 million for the three months ended September 30, 2015. The increase was primarily as a result of the additional amortization of purchased intangible assets related to our acquisitions. As we execute on our growth strategy and further deploy capital, we expect further increases in amortization of purchased intangible assets in connection with recent and future potential acquisitions.

### Supply Chain Services

Operating expenses in the supply chain services segment were \$32.7 million for the three months ended September 30, 2016, an increase of \$5.4 million, or 20%, from \$27.3 million for the three months ended September 30, 2015. The increase was primarily attributable to an increase in selling, general and administrative expenses, driven by higher acquisition expenses in the current period and higher salaries and benefits expenses due to increased staffing to support growth and acquisitions.



### Performance Services

Operating expenses in the performance services segment were \$36.5 million for the three months ended September 30, 2016, an increase of \$2.6 million, or 8%, from \$33.9 million for the three months ended September 30, 2015. The increase was primarily attributable to an increase in amortization of purchased intangible assets of \$3.2 million driven by the addition of intangible assets from the acquisitions of CECity and HCI in the first quarter of fiscal year 2016, as the current period includes the impact of a full quarter of amortization, and the acquisition of InflowHealth, LLC in October 2015. Selling, general and administrative expenses also increased due to increased staffing to support growth and acquisitions. These increases were offset by lower acquisition costs in the current period as compared to the first quarter of fiscal year 2016.

### Corporate

Corporate expenses remained relatively flat year over year, with higher incremental corporate infrastructure costs, primarily in technology services, finance and legal due to growth and acquisitions offset by lower stock-based compensation.

### Other Non-Operating Income and Expense

#### Other Income, Net

Other income, net, for the three months ended September 30, 2016 was \$8.9 million, an increase of \$5.9 million, or 197%, from \$3.0 million for the three months ended September 30, 2015, due primarily to a \$5.0 million increase in equity income from unconsolidated affiliates offset by a \$1.5 million loss on disposal of long-lived assets.

#### Income Tax Expense

For the three months ended September 30, 2016 and 2015 the Company recorded tax expense of \$23.3 million and \$19.0 million, respectively, which equates to an effective tax rate of 28.7% and 26.7%, respectively. The effective tax rate has increased from the prior year primarily attributable to the increase in the Company's ownership of Premier LP's taxable income. The Company's effective tax rate differs from income taxes recorded at the statutory rate primarily due to partnership income not subject to federal income taxes, state and local taxes and valuation allowances against deferred tax assets at PHSI.

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

Net income attributable to non-controlling interest for the three months ended September 30, 2016 was \$49.6 million, an increase of \$1.7 million, or 3.5%, from \$47.9 million for the three months ended September 30, 2015.

Non-controlling interest in Premier LP was approximately 74% at June 30, 2015 and September 30, 2015, and decreased from approximately 68% at June 30, 2016 to approximately 66% at September 30, 2016 after the August 1, 2016 quarterly exchange. However, net income increased \$5.8 million from \$52.3 million for the three months ended September 30, 2015 to \$58.1 million for the three months ended September 30, 2016, driven primarily by the growth in net revenue.

#### Non-GAAP Adjusted EBITDA

The following table summarizes our Non-GAAP Adjusted EBITDA for the three months ended September 30, 2016 and 2015 indicated both in dollars (in thousands) and as a percentage of net revenue:

	Three months ended September 30,			
	2016		2015	
Non-GAAP Adjusted EBITDA by segment:	Amount	% of Net Revenue	Amount	% of Net Revenue
Supply Chain Services	\$ 117,304	37 %	\$ 102,949	38 %
Performance Services	22,311	7 %	24,925	9 %
Total Segment Adjusted EBITDA	139,615	44 %	127,874	47 %
Corporate	(28,842 )	(9 )%	(22,877 )	(8 )%
Total Adjusted EBITDA	\$ 110,773	35 %	\$ 104,997	39 %

Adjusted EBITDA for the three months ended September 30, 2016 was \$110.8 million, an increase of \$5.8 million, or 6%, from \$105.0 million for the three months ended September 30, 2015. The increase in Adjusted EBITDA is primarily driven by revenue growth in the supply chain segment, including contributions from the acquisition of Acro Pharmaceuticals.



Segment Adjusted EBITDA for the supply chain services segment of \$117.3 million for the three months ended September 30, 2016 reflects an increase of \$14.4 million, or 14%, compared to \$102.9 million for the three months ended September 30, 2015, primarily as a result of growth in net administrative fees revenue and the existing product businesses, in addition to contributions from our recent FFF equity investment and purchase of Acro Pharmaceuticals. Segment Adjusted EBITDA for the performance services segment of \$22.3 million for the three months ended September 30, 2016 reflects a decrease of approximately \$2.6 million, or 10%, compared to \$24.9 million for the three months ended September 30, 2015, primarily driven by increased revenue offset by higher cost of sales and operating expenses primarily from increased staffing costs to support future growth in advisory services.

Adjusted EBITDA at the corporate level of \$(28.8) million reflects a decrease of \$5.9 million, or 26%, compared to \$(22.9) million for the three months ended September 30, 2015, reflecting increased selling, general and administrative expenses primarily driven by higher incremental corporate infrastructure costs, primarily in finance, legal and technology services due to growth and the current year acquisitions.

#### Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities.

Estimates are evaluated on an ongoing basis, including those related to reserves for bad debts, useful lives of property and equipment, stock-based compensation, payables under tax receivable agreements, value of investments not publicly traded, the valuation allowance on deferred tax assets and the fair value of purchased intangible assets and goodwill. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

There have been no material changes to the Company's significant accounting policies as described in the Company's 2016 Annual Report.

#### New Accounting Standards

New accounting standards that we have recently adopted as well as those that have been recently issued but not yet adopted by us are included in Note 2 - Significant Accounting Policies to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

#### 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, settlement of Class B common unit exchanges under the Exchange Agreement, acquisitions and related business investments. Our capital expenditures typically consist of internally-developed software costs, software purchases and computer hardware purchases. Prior to the Reorganization and IPO, the vast majority of our excess cash had been distributed to our member owners.

As of September 30, 2016 and June 30, 2016, we had cash and cash equivalents totaling \$156.0 million and \$248.8 million respectively. As of September 30, 2016, there were no marketable securities outstanding, and as of June 30, 2016, marketable securities with maturities ranging from three months to five years totaled \$47.9 million. The decrease in marketable securities of \$47.9 million is primarily attributable to funding the acquisition of Acro Pharmaceuticals and the equity investment in FFF.

As of September 30, 2016, there were no outstanding borrowings under the Credit Facility. See Note 9 - Debt to the accompanying condensed consolidated financial statements for more information. On November 1, 2016, we borrowed \$50.0 million under our Credit Facility to fund a portion of the October 31, 2016 Class B common unit exchange under the Exchange Agreement.





We expect cash generated from operations and borrowings under our Credit Facility to provide us with liquidity to fund our anticipated working capital requirements, revenue share obligations, tax payments, capital expenditures, settlement of Class B common unit exchanges under the Exchange Agreement 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 and 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; strategic growth initiatives, however, 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, 2016 and 2015

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

	Three months ended	
	September 30,	
	2016	2015
Net cash provided by (used in):		
Operating activities	\$41,827	\$22,719
Investing activities	(96,803)	(186,629)
Financing activities	(37,829)	127,223
Net decrease in cash	\$(92,805)	\$(36,687)

Net cash provided by operating activities was \$41.8 million for the three months ended September 30, 2016 compared to \$22.7 million for the three months ended September 30, 2015, with the increase of \$19.1 million primarily attributable to a \$15.0 million prepayment to a distributor in order to receive additional discounts on product purchases in the first quarter of fiscal year 2016. In the three months ended September 30, 2016, we made an additional \$4.0 million distributor prepayment.

Net cash used in investing activities was \$96.8 million for the three months ended September 30, 2016, a decrease of \$89.8 million from cash outflows of \$186.6 million for the three months ended September 30, 2015. Our investing activities for the three months ended September 30, 2016 primarily consisted of the acquisition of Acro Pharmaceuticals, net of cash acquired, for \$68.7 million, the equity investment in FFF for \$65.7 million and capital expenditures of \$17.0 million for property and equipment, offset by net proceeds from the sale of marketable securities of \$48.0 million and distributions from equity investments of \$6.6 million.

Our investing activities for the three months ended September 30, 2015 consisted primarily of the acquisitions of CECity and HCI of \$462.9 million, capital expenditures of \$17.1 million for property and equipment, and purchases of marketable securities of \$19.2 million partially offset by net proceeds from the sale of marketable securities of \$307.7 million and distributions from equity investments of \$5.5 million.

Net cash used in financing activities was \$37.8 million for the three months ended September 30, 2016 compared to net cash provided of \$127.2 million for the three months ended September 30, 2015. Our financing activities for the three months ended September 30, 2016 primarily consisted of distributions to limited partners of Premier LP of \$22.5 million and repurchase of vested restricted units for employee tax-withholding for \$17.4 million, partially offset by proceeds from exercise of stock options of \$2.3 million.

Our financing activities for the three months ended September 30, 2015 primarily included proceeds from the Credit Facility of \$150.0 million partially offset by distributions to limited partners of Premier LP of \$22.4 million.

## Discussion of Non-GAAP Free Cash Flow

We define Non-GAAP Free Cash Flow as net cash provided by operating activities less distributions and tax receivable payments to limited partners and purchases of property and equipment. 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 ended September 30,	
	2016	2015
Net cash provided by operating activities	\$41,827	\$22,719
Purchases of property and equipment	(16,966)	(17,141)
Distributions to limited partners of Premier LP	(22,493)	(22,432)
Non-GAAP Free Cash Flow	\$2,368	\$(16,854)

Non-GAAP Free Cash Flow for the three months ended September 30, 2016 was \$2.4 million, compared with \$(16.9) million for the three months ended September 30, 2015. Non-GAAP Free Cash Flow increased primarily due to a \$15.0 million prepayment to a distributor in order to receive additional discounts on product purchases in the first quarter of fiscal year 2016. In the three months ended September 30, 2016, we made an additional \$4.0 million distributor prepayment.

## Contractual Obligations

## Notes Payable

At September 30, 2016, we had material commitments of \$19.1 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. See Note 9 - Debt to the accompanying condensed consolidated financial statements.

## 2014 Credit Facility

On June 24, 2014, 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"). The Credit Facility has a maturity date of June 24, 2019. The Credit Facility provides for borrowings of up to \$750.0 million with (i) a \$25.0 million sub-facility for standby letters of credit and (ii) a \$75.0 million sub-facility for swingline loans. The Credit Facility may be increased from time to time at the Company's request up to an aggregate additional amount of \$250.0 million, subject to lender approval. The Credit Facility includes an unconditional and irrevocable guaranty of all obligations under the Credit Facility by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier, Inc. is not a guarantor under the Credit Facility.

At the Company's option, committed loans may be in the form of eurodollar rate loans ("Eurodollar Loans") or base rate loans ("Base Rate Loans"). Eurodollar Loans bear interest at the eurodollar rate (defined as the London Interbank Offered Rate, or LIBOR, plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility))). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.75% for Eurodollar Rate Loans and 0.125% to 0.75% for Base Rate Loans. At September 30, 2016, the interest rate for three-month Eurodollar Loans was 1.979% and the interest rate for the Base Rate Loans was 3.625%. 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, 2016, 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 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 fiscal 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. The Company was in compliance with all such covenants at September 30, 2016. 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, settlements of Class B unit exchanges under the Exchange Agreement and other general corporate purposes. As of September 30, 2016, we had no outstanding borrowings under the Credit Facility. On November 1, 2016, we borrowed \$50.0 million under our Credit Facility to fund a portion of the October 31, 2016 Class B common unit exchange under the Exchange Agreement. 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 2015 Annual Report. See also, Note 9 - Debt to our accompanying condensed consolidated financial statements contained in this Quarterly Report.

#### Member-Owner Tax Receivable Agreement

In connection with the Reorganization and IPO, the Company entered into a tax receivable agreement ("TRA") with each of our member owners. Pursuant to the agreement, we will pay member owners 85% of the cash 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 Tax Receivable Agreements). Tax savings are generated as a result of the increases in tax basis resulting from the initial sale of Class B common units, subsequent exchanges (pursuant to the Exchange Agreement) and payments under the TRA.

The Company had TRA liabilities of \$284.2 million at September 30, 2016, representing 85% of the tax savings payable to limited partners that the Company expects to receive in connection with the Section 754 election which 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. The TRA liabilities increased by \$4.5 million compared to the \$279.7 million liability recorded at June 30, 2016. The increase is attributable to a \$10.2 million increase in connection with quarterly member owner exchanges on August 1, 2016, partially offset by a \$5.7 million decrease in connection with revaluing the deferred tax assets and TRA liabilities associated with the North Carolina state income tax rate reduction.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio and on the increase or decrease in the amount of any interest expense we must pay with respect to outstanding debt instruments. We invest our excess cash in a portfolio of individual cash equivalents and marketable securities. We do not currently hold, and we have never held, any derivative financial instruments. As a result, we do not expect changes in interest rates to have a material impact on our results of operations or financial position. We plan to ensure the safety and preservation of our invested principal funds by limiting default, market and investment risks. We plan to mitigate default risk by investing in low-risk securities. Substantially all of our financial transactions are conducted in U.S. dollars.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this Quarterly Report, we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon our evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2016.

Management's quarterly evaluation of disclosure controls and procedures did not include an assessment of and conclusion on the effectiveness of disclosure controls and procedures of Acro Pharmaceuticals which was acquired during the three months ended September 30, 2016 and is included in our condensed consolidated financial statements as of September 30, 2016 and for the period from the acquisition date through September 30, 2016. The assets of Acro Pharmaceuticals represented approximately 1.1% of our total assets as of September 30, 2016. Acro Pharmaceuticals represented approximately 7.5% of our net revenue for the three months ended September 30, 2016.

#### Changes in Internal Control Over Financial Reporting

We have substantially completed the implementation of core general ledger, related financial reporting and other components to our comprehensive enterprise resource planning ("ERP") system. In connection with the implementation of these components of the overall ERP system, we updated the processes that constitute our internal control over financial reporting, as necessary, to accommodate related changes to our accounting procedures and business processes.

Although the processes that constitute our internal control over financial reporting have been materially affected by the implementation of certain ERP modules and will require testing for effectiveness, we do not believe that the implementation of the ERP system has had or will have a material adverse effect on our internal control over financial reporting.

Except as otherwise described above, there have been no other 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, 2016, that have materially affected, or are reasonably likely to materially affect 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, 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.

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 16 - 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, 2016, there were no material changes to the risk factors disclosed in "Risk Factors" in the 2016 Annual Report.

### Item 6. Exhibits

The exhibits filed as part of this Quarterly Report are listed in the exhibit index immediately preceding such exhibits, which exhibit index is incorporated herein by reference.

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 7,  
2016

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



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Exhibit Index

Exhibit No.	Description
10.1	Executive Employment Agreement dated as of July 1, 2016, by and between Leigh Anderson and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.2	Executive Employment Agreement effective as of July 1, 2016, by and between David Klatsky and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.3	First Amendment to the Premier, Inc. 2013 Equity Incentive Plan, as amended and restated (effective August 11, 2016) (Incorporated by reference to Exhibit 10.6.1 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.4	Form of Stock Option Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.9 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.5	Premier, Inc. Annual Incentive Compensation Plan, amended and restated effective August 11, 2016 (Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.6	Premier, Inc. Directors' Compensation Policy, adopted 2016 (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 11, 2016)+
10.7	Premier, Inc. Form of Director Cash Award Agreement under the Premier, Inc. Directors' Compensation Policy (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on August 11, 2016)+
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡
101	Sections of the Premier, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, 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.*

+Indicates a management contract or compensatory plan or arrangement  
\*Filed herewith.  
‡Furnished herewith.

(1) Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 001-36092.