PREMIER

Investment Pitch – Premier (NasdaqGS:PINC)

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Western Investment Club

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Investment Overview

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PINC has a broad array of services intended to help healthcare providers across all aspects of their business

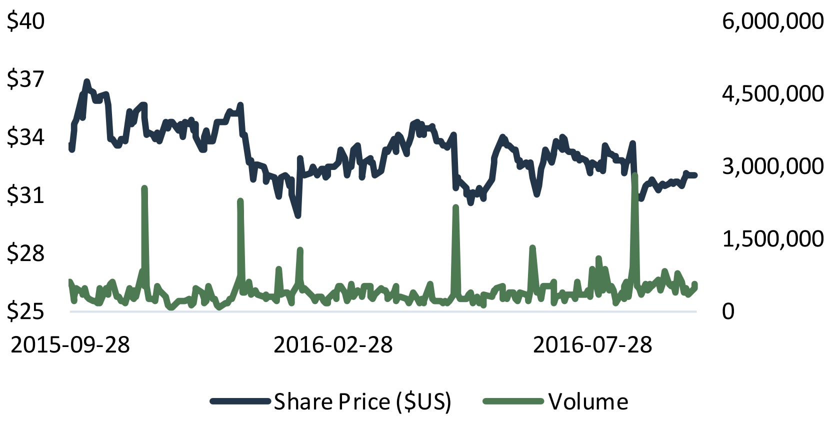
Company Overview

- Premier ("PINC") offers a broad array of services and solutions that help healthcare providers improve operational and financial performance
- Originally created as a GPO for hospitals, PINC has since extended its value proposition to include offerings that help providers understand, manage, and improve performance across diverse clinical care and cost-related areas
- Today the company manages over $44B of supply chain spend via its GPO contracts and has assembled a broad array of performance and cost-cutting services

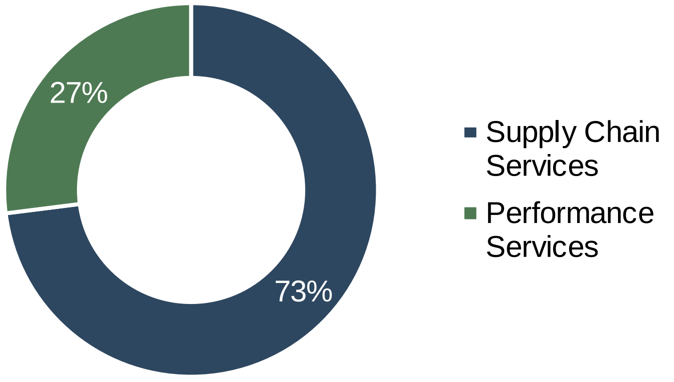
Key Financials

Ticker	NasdaqGS:PINC
Share Price	$32.1
52 Week Low – High	$29.7 - $37.2
Enterprise Value	$4,287M
Market Cap	$4,564M
FDSO	145M
LTM EV / EBITDA	11.6x
LTM EBITDA Margin	25.1%

Share Price Performance



Revenue Segments



Source: Company Reports, Capital IQ.

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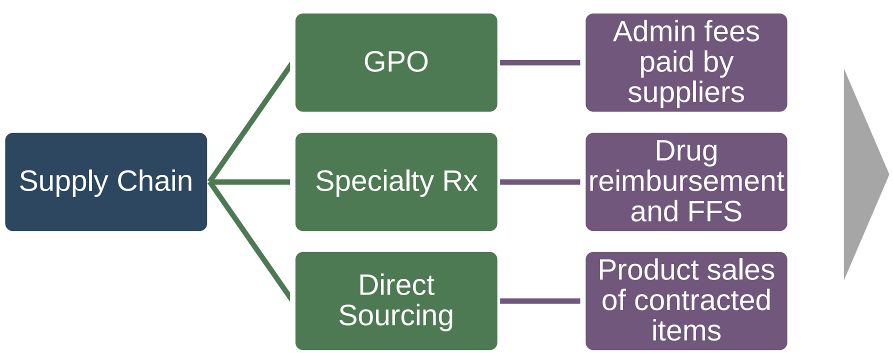
Summary of Operations

PINC handles over $4.4B in supply chain spend, making it one of the largest GPO's in the world

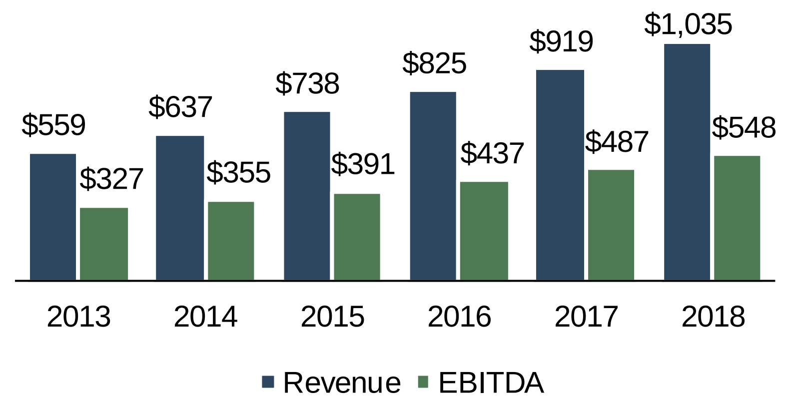
Supply Chain Services

- Premier is one of the largest healthcare supply chain management companies in the US, and offers its Supply Chain Services to both the acute and non-acute markets
- Through a combination of its group purchasing organization ("GPO"), Specialty Rx, and Direct Sourcing solutions, Premier helps its customers manage non-labor expenses in addition to providing SaaS analytics tools
- PINC's GPO aggregates customer purchases to receive negotiated discounted pricing on goods and services from leading manufacturers and distributors
- The Specialty Rx and Direct Sourcing services offer customers access to medication and management of patient medication/therapy, and diverse portfolio of products directly from manufactures, respectively
  - PINC has approximately 2,100 hospitals that are utilizing various products and services through this segment

Revenue Drivers



Financial Performance



Source: Company Fillings.

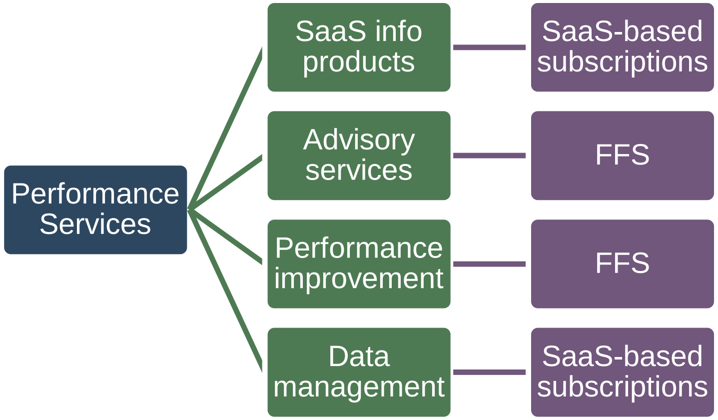
Summary of Operations

PINC uses data-driven performance services that are critical in helping trim costs and improve efficiency for leading healthcare providers

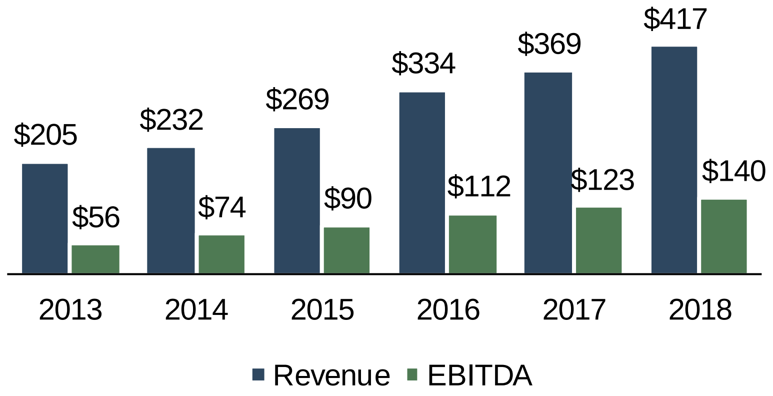
Performance Services

- PINC's Performance Services segment offers solutions to help healthcare providers improve operations and performance, via numerous IT analytics solutions, data management services, workflow automation tools, and advisory services
- Using its large, comprehensive dataset of information and SaaS products, PINC enables its customers to benchmark, analyze and identify areas of clinical, financial and operational improvement across three main categories: (1) cost management; (2) quality and safety; and (3) population health management
- Through PremierConnect, PINC's integrated technology platform developed in partnership with IBM, the company offers various performance solutions
  - PINC has approximately 2,400 hospitals utilizing one or more of its Performance Services offerings

Revenue Drivers



Financial Performance



Source: Company Fillings.

Investment Thesis

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PINC offers a unique opportunity to invest in a company that has tremendous attributes and industry tailwinds but has been unjustifiably mistreated by public markets

Investment Thesis Overview

1 Unique Ownership Structure	▪ Premier's large and diversified customer base owns 55% of PINC (via class B shares), positioning the company with strong customer alignment for R&D and M&A success
2 Healthcare Industry Reform	▪ With the rapid increase in healthcare spending over the past decade, the industry is undergoing reform as it becomes critical that healthcare providers cut costs in the midst of government regulations, declining reimbursement rates, and advancements in technology
3 Misunderstood Non-Acute Exposure	▪ Investors irrational concerns of PINC's (as well as the broader industry) exposure to acute healthcare providers has overshadowed the fact that PINC's rapid non-acute exposure and recent acquisitions into the space
4 Competitive Developments in GPO Industry	▪ New competitive developments in the GPO industry have led to a sizeable amount of potential customer wins that haven't been fully appreciated by investors

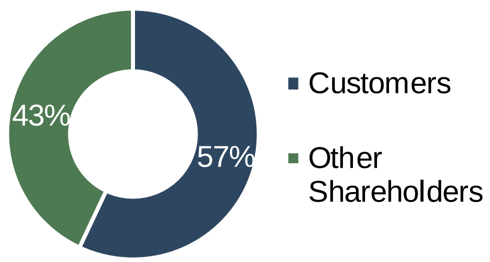
Investment Thesis

With 55% of PINC owned by its customers, the company has unique customer alignment which enables it to have industry-leading retention rates and lengthy contracts; generating strong recurring revenues

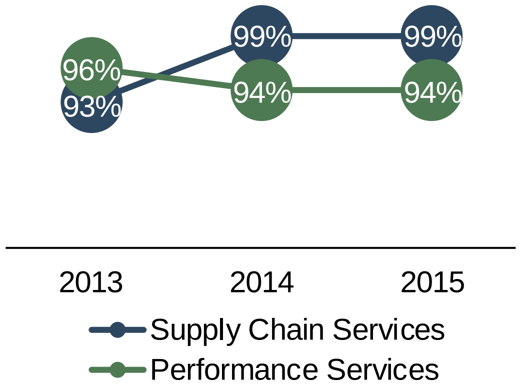
Unique Customer Ownership

- PINC has a large and diverse customer base, comprised of ~3,400 hospitals (68% of all US hospitals) and 11,000+ other healthcare providers, that own over 55% of PINC via class B shares
- As such, customers' and the company's interests are aligned, creating a "stickiness" not typically present in the traditional client-vendor relationship
  - Historical retention rates for Supply Chain and Performance services have been in the mid-high 90's, a level unmatched in the industry
- On average, member owners have tenure of 15 years with PINC, with 76% of member owners at 10+ years
- In addition to the "stickiness" of customers, the unique vested interest customers have in the company act as idea generators when it comes to R&D and successful acquisition integration (as illustrated by the Commcare and S2S Global acquisitions)

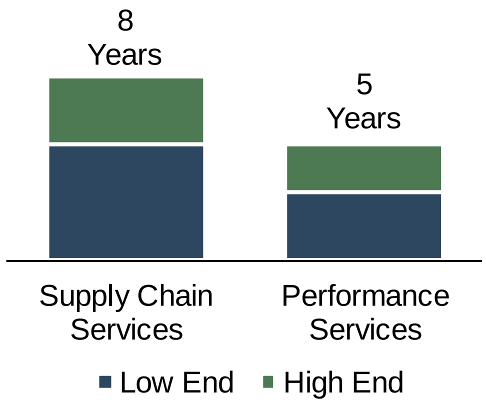
Ownership Split



Customer Retention Rate



Length of Contracts



Source: Company Reports.

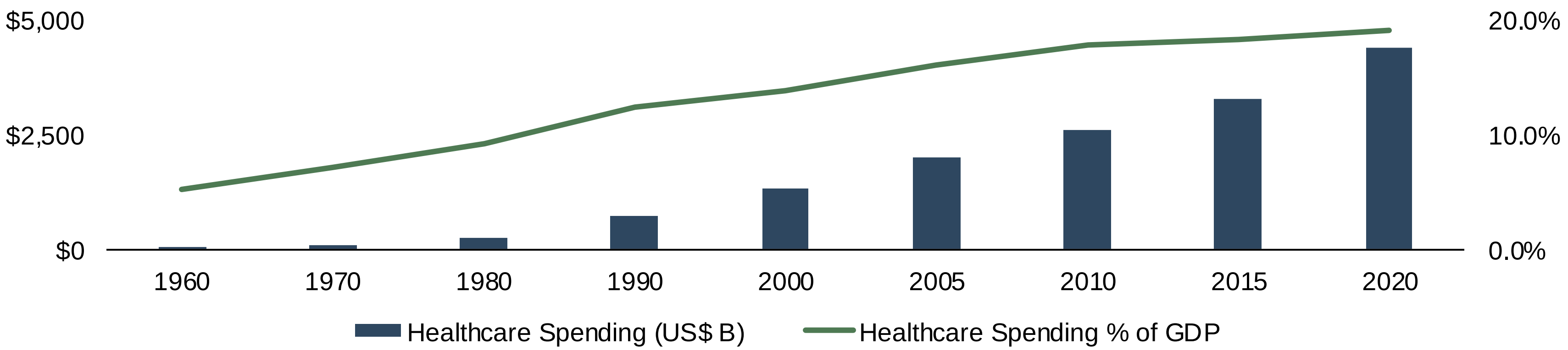
Investment Thesis

Healthcare reform is forcing providers to find innovative ways to streamline costs, contributing to PINC's strong demand growth

Healthcare Industry Reform

- Healthcare is a large and growing component of the US economy, macro themes are to a large extent driven by ballooning healthcare costs (annual US healthcare spend per capita approaching $10,000 versus OECD average of ~$5,000)
- Left unchecked, costs will continue to rise well above GDP growth (6% CAGR since 2000, 5.7% projected CAGR through 2023) as the US population ages (expected to reach ~20% of GDP by 2020)
- This has motivated regulators and payors to develop creative solutions to control costs
- Premier is uniquely positioned to benefit in this large and growing industry that is challenged by a changing landscape of government regulations, declining reimbursement rates, and advancements in technology
  - Much of future top-line growth is attributed to new client wins as more healthcare providers look for ways to cut costs

US Healthcare Spending

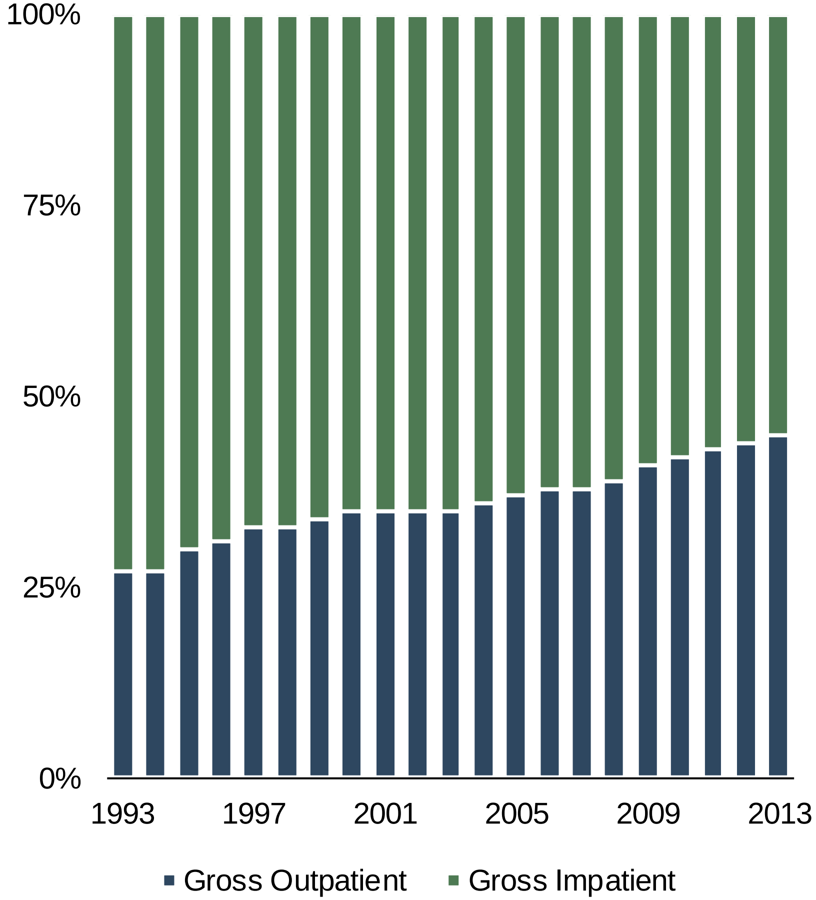


Source: Industry Research.

Investment Thesis

Investors have discounted PINC due to concerns about its high acute-care exposure, even as its gained a strong foothold into the non-acute care industry and is growing at ~2x its acute-care business

Distribution of Impatient vs. Outpatient Revenues (US)



Exposure to Non-Acute Healthcare Providers

- Over the recent decades, and particularly in recent years, the preferred setting of care in the US healthcare system has shifted from acute care to non-acute care, with the cost of non-acute care generally lower than acute-care
- As a result, utilization of alternative sites has increased much more significantly than acute-care utilization
- While PINC's GPO offering was historically leveraged to serve the acute-care market, PINC has gained exposure to non-acute providers through its 50% ownership of Innovatix (largest US GPO serving the non-acute care market) and its ProviderSelectMD offering (GPO for independent physician practices)
- PINC currently serves ~110,000 non-acute providers, which represents just 23% of the overall market, providing plenty of runway especially considering PINC's high growth in the area (company has noted that non-acute business, which represents ~10% of the total business, is growing at ~2x its acute care business)

Source: Industry Research.

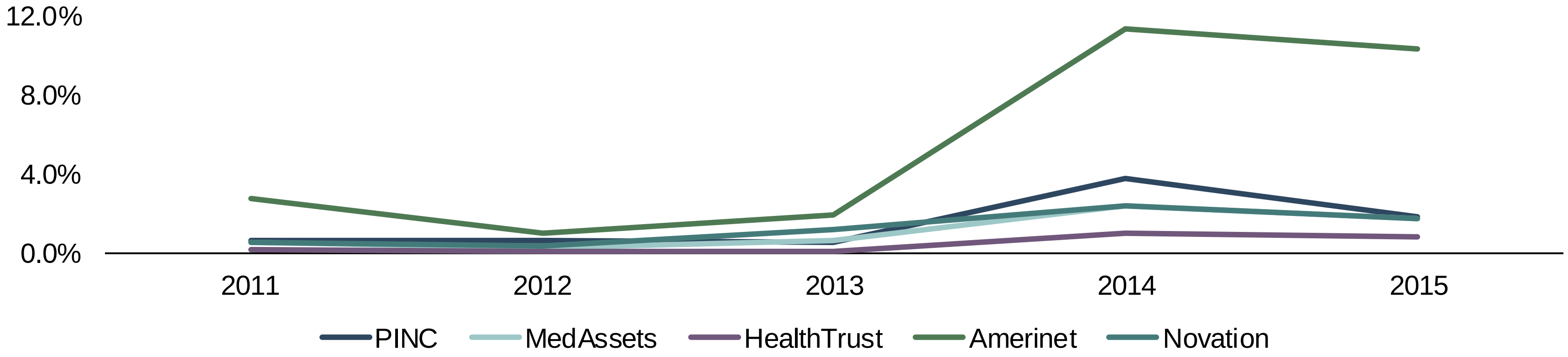
Investment Thesis

Recent competitive developments in the GPO market will drive an ongoing tailwind of new customer wins over the next 3-5 years

Recent Developments in Group Purchasing Organization (GPO) Industry

- Vizient's acquisition of MedAssets and continued client losses at Amerinet could provide PINC with a steady flow of new clients and drive GPO revenue above management's guidance of mid single-digit growth
- Vizient: large M&A within the industry has not typically disrupted existing customer relationships, however
  - Vizient may struggle to cater to its customers divergent needs (Vizient is a mix of academic and not-for-profit entities with conflicting priorities)
  - Vizient is highly levered (~5-6x debt to EBITDA) and may not have adequate FCF to invest in new offerings and remain competitive with peers
- Amerinet: has been losing a materially higher level of customers in the past 2 years as the company (which was acquired by Intermountain Healthcare) has been replacing key members of its senior management and currently under a reorganization

Hospital GPO Client Turnover 2011-2015



Source: Analyst Reports.

Investment Thesis

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Quantifying impact of incremental customer wins

Customer Win Model

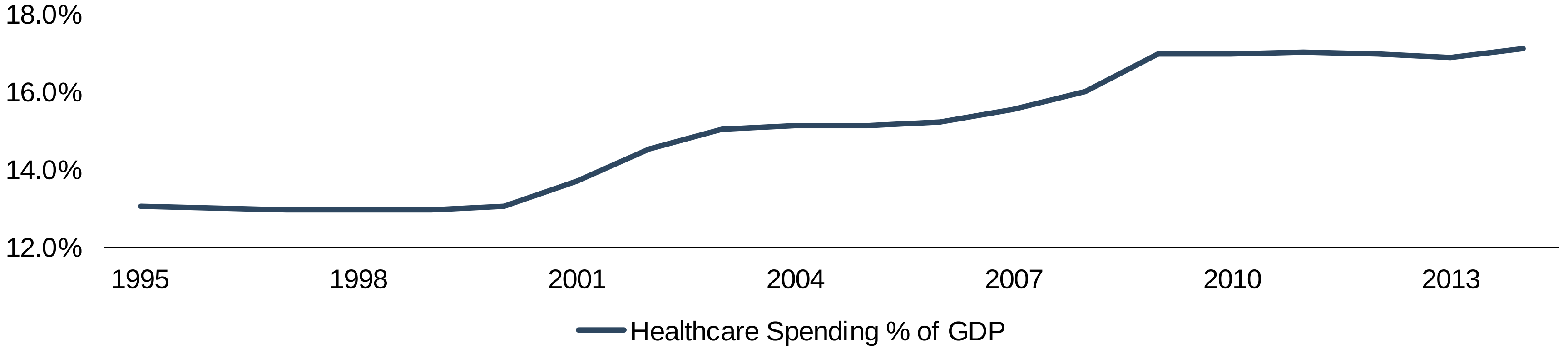
(in millions $USD except for per share data)

	<50 Beds	50-100 Beds	100-300 Beds	300-500 Beds	500+ Beds	Total
Annual PINC Benefit from Customer Turnover						
Average Contract Length	5	5	5	5	5	
% Hospitals Renewing in Year	20.0%	20.0%	20.0%	20.0%	20.0%	
# of Hospitals Renewing in Year						
MedAssets	208	109	192	87	45	
Novation	100	44	94	41	31	
Amerinet	98	23	46	17	8	
% Retention Rate						
MedAssets	90.0%	90.0%	90.0%	90.0%	90.0%	
Novation	90.0%	90.0%	90.0%	90.0%	90.0%	
Amerinet	88.0%	88.0%	88.0%	88.0%	88.0%	
# of Hospitals Leaving Incumbent						
MedAssets	21	11	19	9	4	
Novation	10	4	9	4	3	
Amerinet	12	3	6	2	1	
Total # of Hospitals Leaving Incumbent	43	18	34	15	9	
PINC Win Rate	85.0%	85.0%	85.0%	85.0%	85.0%	
PINC Additional Supply Chain Spend ($M)	$105.9	$134.4	$469.4	$396.4	$443.5	$1,549.7
Admin Fee (%)	2.0%	2.0%	2.0%	2.0%	2.0%	
Total Admin Fee ($M)	$2.1	$2.7	$9.4	$7.9	$8.9	$31.0
Incremental Implied Upside						**6.6%**

Industry Overview

The shift to value-based care will drive demand for PINC's innovative and performance enhancing solutions

Healthcare Spending



Alternative Payment Methods

Fee-for-Service

- Healthcare providers are paid by Medicare and Medicaid on a per service basis
- Incentivizes healthcare providers to provider more, often time costlier care to patients

Fee-for-Value

- FFV incentivizes providers to reduce unnecessary care and lower overall healthcare spending
- Increased care coordination and improved quality of care provided

Source: Industry Research.

Industry Overview

PINC competes in high-growth industries which are poised to benefit from healthcare reform

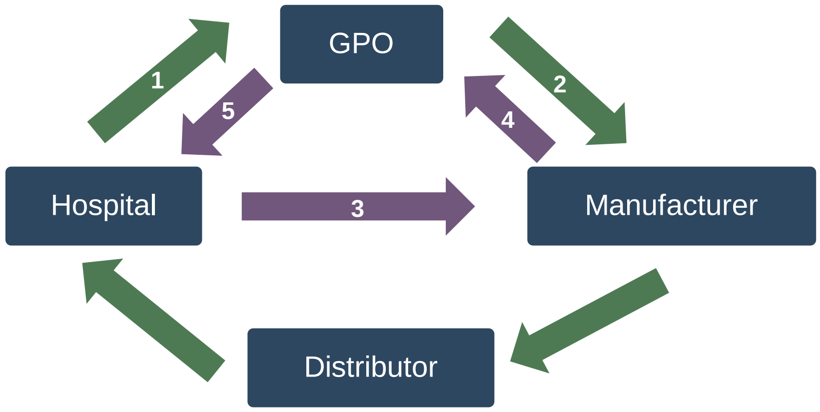
Group Purchasing Organization (GPO) Industry

- GPOs conduct purchasing negotiations on behalf of healthcare providers by aggregating the purchasing scale of thousands of hospitals
- GPOs are typically able to access lower pricing from drug and medical supply manufacturers compared to an individual integrated delivery network
- The GPO industry is substantially concentrated, with the largest 4 players managing an estimated 50-70% of total hospital supply chain spend

Healthcare Performance Industry

- The performance improvement market encompasses a large range of software tools and tech-enabled services that help healthcare providers drive operational performance
- Unlike the GPO industry, the performance improvement space is highly fragmented
- PINC is strategically positioned in the space as it offers a broad suite of offerings, making it a one-stop shop

How GPO's Work



1. Hospital joins PINC's GPO
2. PINC negotiates manufacturer contracts on behalf of hospital
3. Hospital purchases supply under PINC-negotiated contract: receives product via distributor or direct
4. Manufacturer pays PINC admin fee
5. PINC returns portion of fee (revenue share) to hospital

Comparable Companies Analysis

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PINC trades at a significant discount to its peers even though it has much higher profitability and growth

Comparable Companies

Company	Share Price	Market Cap ($US M)	Enterprise Value ($US M)	EV / EBITDA LTM	EV / EBITDA 2016E	EV / EBITDA 2017E	LTM EBITDA Margin	Total Debt / LTM EBITDA	LTM Growth Revenue	LTM Growth EBITDA
Healthcare IT										
Cerner	$61.0	$20,583	$20,538	13.8x	12.6x	11.2x	30.1%	0.4x	8.0%	28.6%
IMS Health Holdings	$31.3	$10,330	$14,461	14.1x	15.0x	13.9x	20.8%	6.4x	8.1%	(5.6%)
Athenahealth	$123.4	$4,856	$5,016	nmf	21.3x	17.5x	12.3%	2.1x	16.6%	23.7%
Cotiviti	$33.7	$3,034	$3,792	12.4x	16.2x	14.5x	37.2%	4.3x	18.7%	13.5%
Allscripts Healthcare Solutions	$13.0	$2,433	$3,691	15.1x	12.8x	11.0x	15.7%	5.3x	9.9%	28.0%
Advisory Board	$43.5	$1,750	$2,286	12.9x	11.9x	10.8x	18.7%	11.9x	8.1%	20.1%
HMS Holdings	$21.0	$1,773	$1,783	14.2x	14.4x	12.9x	22.3%	2.0x	5.7%	11.9%
Inovalon Holdings	$13.8	$2,096	$1,626	19.4x	12.2x	10.3x	28.5%	2.6x	5.3%	(30.5%)
Quality Systems	$11.5	$706	$768	9.9x	8.2x	7.6x	8.8%	2.7x	0.0%	(30.7%)
Mean				**14.0x**	**13.8x**	**12.2x**	**21.6%**	**4.2x**	**8.9%**	**6.6%**
Median				**13.9x**	**12.8x**	**11.2x**	**20.8%**	**2.7x**	**8.1%**	**13.5%**
Premier	**$32.1**	**$4,562**	**$4,285**	**11.6x**	**8.8x**	**7.9x**	**25.1%**	**0.1x**	**13.1%**	**11.1%**

Source: Bloomberg.

Revenue Drivers

Key Model Drivers

	FY June 30								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Supply Chain Segment Growth									
Base Case	NA	8.9%	12.3%	12.0%	11.0%	10.0%	9.0%	8.0%	7.0%
Bull Case				17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Bear Case				7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Base Case				12.0%	11.0%	10.0%	9.0%	8.0%	7.0%
Performance Segment Growth									
Base Case	NA	15.6%	24.0%	22.0%	21.0%	20.0%	19.0%	18.0%	17.0%
Bull Case				27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Bear Case				17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Base Case				22.0%	21.0%	20.0%	19.0%	18.0%	17.0%

Operational Drivers

Key Model Drivers

	FY June 30								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Cost of Services (% of revenue)									
Base Case	12.7%	14.2%	14.0%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%
Bull Case				11.7%	11.7%	11.7%	11.7%	11.7%	11.7%
Bear Case				15.7%	15.7%	15.7%	15.7%	15.7%	15.7%
Base Case				13.7%	13.7%	13.7%	13.7%	13.7%	13.7%
Cost of Products (% of revenue)									
Base Case	21.1%	25.2%	25.3%	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%
Bull Case				21.8%	21.8%	21.8%	21.8%	21.8%	21.8%
Bear Case				25.8%	25.8%	25.8%	25.8%	25.8%	25.8%
Base Case				23.8%	23.8%	23.8%	23.8%	23.8%	23.8%
SG&A (% of revenue)									
Base Case	32.3%	33.0%	34.7%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Bull Case				31.3%	31.3%	31.3%	31.3%	31.3%	31.3%
Bear Case				35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Base Case				33.3%	33.3%	33.3%	33.3%	33.3%	33.3%

Discounted Cash Flow Analysis

Discounted Cash Flow Analysis

Cash Flow Projection

(in thousands $USD except for per share data)

	2017E	2018E	2019E	2020E	2021E	2022E
Unlevered Free Cash Flow	$232,000	$235,778	$267,770	$301,938	$338,046	$375,786
Discount Factor	0.97	0.90	0.84	0.79	0.74	0.69
Present Value of Free Cash Flow	$224,267	$212,980	$226,023	$238,158	$249,161	$258,822

Enterprise Value

Terminal Year EBITDA	$793,265
Exit Multiple	9.0x
Terminal Value	$7,139,387
Implied Perpetuity Growth Rate	*1.7%*
WACC	7.0%
PV of Terminal Value	$4,753,348
PV of Projection Period	$1,409,411
Enterprise Value	$6,162,759
Terminal Value (% of EV)	*77.1%*
Add: Cash & Cash Equivalents	$265,554
Less: Debt	($68,974)
Less: Preferred Equity	-
Less: Minority Interest	-
Market Capitalization	$6,359,339
Fully Diluted Shares Outstanding	$145,018
Current Share Price	$32.10
Implied Share Price	**$43.85**
Implied Upside	**36.6%**

WACC

Target Capital Structure	
% Equity	96.8%
% Debt	3.2%
Cost of Equity	
Risk-Free Rate	1.5%
Market Risk Premium	7.0%
Unlevered Beta	0.8
Cost of Equity	7.2%
Cost of Debt	
Interest Rate on Debt	4.0%
Tax Rate	35.0%
After-Tax Cost of Debt	2.6%
WACC	**7.0%**

Sensitivity

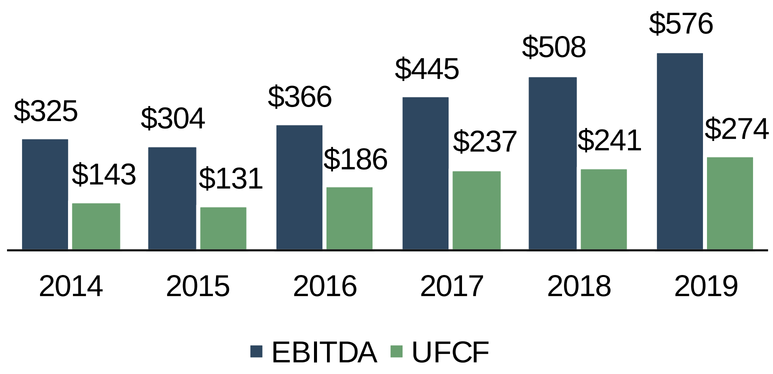
Exit Multiple	**WACC** 5.8%	6.8%	7.8%	8.8%	9.8%
7.0x	19.5%	14.9%	10.5%	6.4%	2.6%
8.0x	31.7%	26.4%	21.4%	16.7%	12.3%
9.0x	43.9%	37.8%	32.2%	27.0%	22.0%
10.0x	56.0%	49.3%	43.1%	37.2%	31.7%
11.0x	68.2%	60.8%	53.9%	47.5%	41.5%

Source: Company Filings, Capital IQ, Bloomberg.

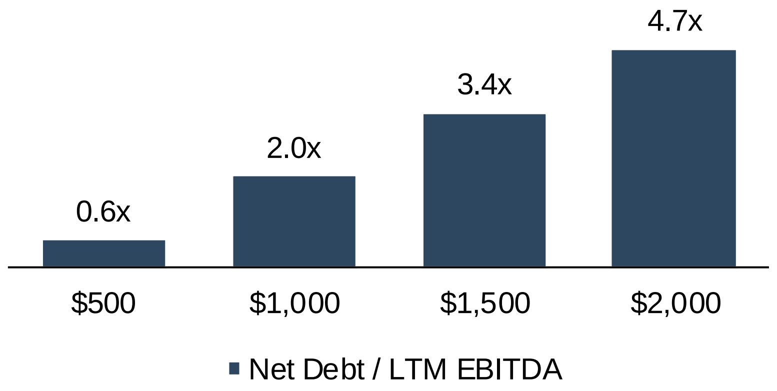
Catalysts

Model does not reflect M&A opportunities which could drive additional upside over the medium to long-term

Free Cash Flow Generation



Debt Capacity



Opportunity for Accretive M&A

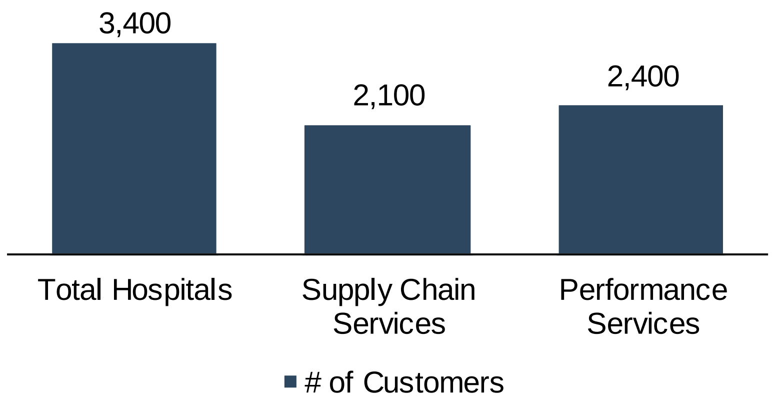
- PINC will look to utilize a substantial amount of FCF (projected at 40%-50% of EBITDA) for M&A
- Management has also expressed a willingness to increase leverage to 3-4x EBITDA (the company currently has $69M of debt but up to $2B of debt capacity) which could provide additional leverage for M&A
- PINC has a successful track record of piloting potential acquisitions (mostly small tuck-in deals) that are subsequently rolled out to the broader customer base
- Acquisitions conducted since the IPO have achieved a blended ROIC in excess of 10% (after tax)
- Strong FCF and ample opportunity to take on increased leverage, combined with a successful track record provides confidence in the company being able to execute meaningful and accretive M&A

Source: Company Reports.

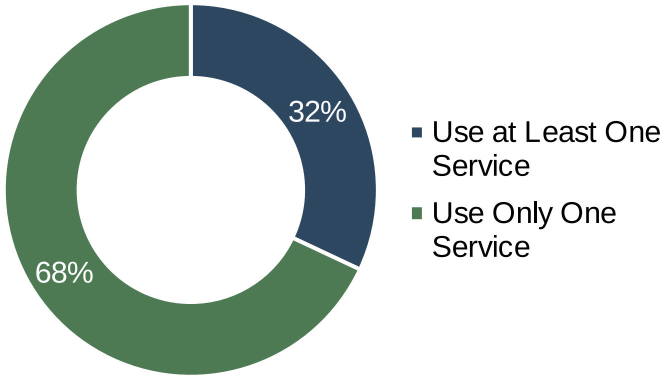
Catalysts

PINC has significant room for organic growth via cross and upselling, with a TAM of ~$5B

Breakdown of Customers



Customers that Use Multiple Services



Opportunity to Cross-Sell

- Given PINC's large and diversified customer base, the opportunity to cross and upsell its solutions could generate steady long-term organic revenue growth
- The company serves ~3,400 US hospitals, with ~2,100 customers using Supply Chain Services and ~2,400 using Performance Services
- Approximately 1,100 customers (32%) use at least one Supply Chain and one Performance Services
- As PINC sells existing products across its base, the opportunity for long-term growth is significant
- As the company continues making acquisitions, new customers could be added to PINC's base and provide additional hospitals to cross-sell to
- Ultimately, PINC's TAM is a sizable ~$5B if assuming full penetration of all customers; this compares to FY15 revenue of ~$1B

Source: Company Reports.

Risks & Mitigations

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Meaningful mitigations will help offset near-term investment risks to PINC

Risks

1. Sales cycles and implementation schedules are longer than expected in Performance Services. This is leading to lower forecasts in the near-term as revenue is lumpier and being recognized at a later stage.

2. Renewed government scrutiny and/or pressure on the GPO Model. The Anti-Kickback Statue allows manufacturers to pay admin fees to GPOs, a portion which is returned to hospital customers via revenue share. The overall industry has been under governmental review on multiple occasions over the past 15 years and GPO model continues to face ongoing evaluation.

3. Large Individual Distribution Networks (IDN) customers' in-source a higher level of purchasing activity. These large IDN's, given their scale and ability to drive higher contract compliance than PINC, can take away from PINC's purchasing activity.

Mitigations

1. In the long-term, this dynamic should ultimately benefit performance improvement vendors who are able to offer broad solutions sets (such as PINC) as providers realize the value of integrating data to generate stronger insights and drive higher performance.

2. Analysts channel checks with political consultants suggest that any new audit activity is unlikely to be disruptive (asking old questions that have never been materially detrimental) and that risk to the overall GPO business model at this point in time are limited.

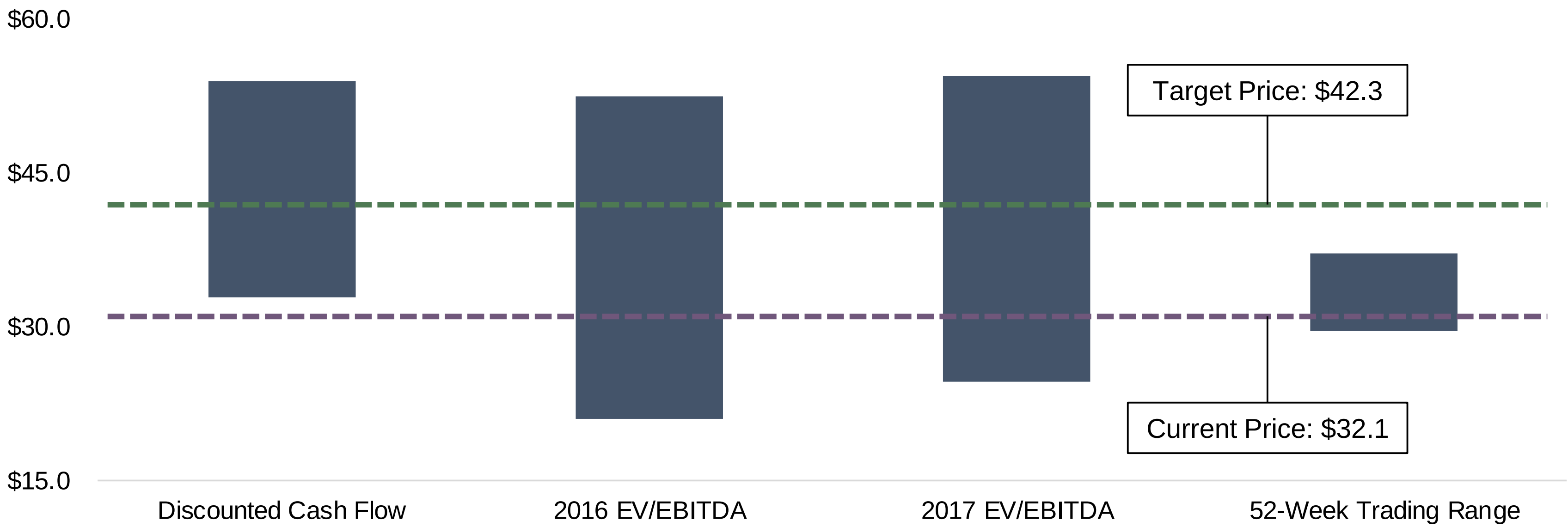
3. These customers are likely to continue finding value in PINC's supply chain analytics and benchmarking tools. Any potential loss of purchasing activity from very large IDN's will be more than offset from increasing compliance across the majority of the customer base.

Investment Summary

PREMIER

PINC is trading at the low end of all valuation ranges, providing significant runway for capital appreciation

Football Field



Summary

- PINC is poised to continue experiencing tremendous growth, fueled by significant debt capacity and strong FCF generation
- The overall macro backdrop, alongside the competitive developments in the GPO industry will also help PINC attain new customers
- A misunderstood business model provides PINC at a cheap valuation, with significant upside potential

PREMIER

Investment Pitch – Premier (NasdaqGS:PINC)

Harsh Naik

October 26th, 2016

Western Investment Club