

Premier, Inc.
Form 10-Q/A
August 22, 2017

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

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

As of May 5, 2017, there were 51,755,880 shares of the registrant's Class A common stock, par value \$0.01 per share, and 87,298,888 shares of the registrant's Class B common stock, par value \$0.000001 per share, outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A ("Amendment No. 1") is being filed in order to reflect the adjustments set forth below to adjust Premier, Inc.'s ("Premier" or the "Company") income tax accounting for the December 2, 2016 acquisition of the remaining 50% ownership interest of Innovatix, LLC not previously owned by the Company. This Amendment No. 1 amends and restates in their entirety the following items of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, originally filed with the Securities and Exchange Commission ("SEC") on May 10, 2017 (the "Original Form 10-Q"):

Part I. Financial Information:

Item 1. Financial Statements;

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

Item 4. Controls and Procedures.

Part II. Other Information - Item 6. Exhibits.

The Company has also updated the signature page, the certifications of its Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and the financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101.

No other sections were changed, but for the convenience of the reader, this Amendment No. 1 restates in its entirety, as amended, the Company's Original Form 10-Q. This Amendment No. 1 is presented as of the filing date of the Original Form 10-Q and does not modify or update disclosures in any way other than as required to reflect the restatement described below. Readers should refer to the documents the Company has filed with or furnished to the SEC subsequent to the date of the Company's Original Form 10-Q for updated information.

Prior to December 2, 2016, the Company, through its consolidated subsidiary, Premier Supply Chain Improvement, Inc., held a 50% ownership interest in Innovatix, LLC, which was accounted for under the equity method and classified as a partnership for tax purposes. On December 2, 2016, the Company acquired the remaining 50% ownership interest of Innovatix, LLC. In connection with the acquisition, the Company's historical 50% investment was remeasured under business combination accounting rules to fair value, resulting in a one-time gain of \$204.8 million. At the time of the acquisition, a deferred tax liability of \$95.8 million and a corresponding net deferred income tax expense of \$95.8 million associated with the one-time gain were recorded by the Company. The Company has determined that a portion of the deferred tax liability and a portion of the deferred tax expense associated with the \$204.8 million gain should not have been recorded.

Accordingly, the Company determined it necessary to adjust the Original Form 10-Q to remove the incorrectly recorded deferred tax liability and instead record deferred tax liabilities associated with the book and tax bases differences of the individual assets acquired and liabilities assumed. Based on the Company's determination, the net effect of this adjustment increased goodwill by \$42.9 million, decreased deferred tax liabilities by \$34.3 million, decreased deferred tax assets by \$10.5 million and increased income tax expense by \$0.8 million and decreased income tax expense by \$66.7 million as of and for the three and nine months ended March 31, 2017, respectively. Correspondingly, net income has been adjusted lower by \$0.8 million and has been adjusted higher by \$66.7 million for the three and nine months ended March 31, 2017, respectively.

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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 pharmacies;
- our dependency on contract manufacturing facilities located in various parts of the world;
- our ability to attract, hire, integrate and retain key personnel;
- adequate protection of our intellectual property and potential claims against our use of the intellectual property of third parties;
- potential sales and use tax liability in certain jurisdictions;

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") and our Quarterly Report on Form 10-Q for the quarter ended December 31, 2016, each filed with the Securities and Exchange Commission ("SEC").

More information on potential factors that could affect our financial results is included from time to time in the "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" or similarly captioned sections of this Quarterly Report and our other periodic and current filings made from time to time with the SEC, which are available on our website at <http://investors.premierinc.com>. You should not place undue reliance on any of our forward-looking statements which speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PREMIER, INC.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share data)

	March 31, 2017	June 30, 2016 (Restated)
Assets		
Cash and cash equivalents	\$236,218	\$248,817
Marketable securities	—	17,759
Accounts receivable (net of \$2,908 and \$1,981 allowance for doubtful accounts, respectively)	162,178	144,424
Inventory	48,770	29,121
Prepaid expenses and other current assets	41,702	19,646
Due from related parties	5,388	3,123
Total current assets	494,256	462,890
Marketable securities	—	30,130
Property and equipment (net of \$303,052 and \$265,751 accumulated depreciation, respectively)	182,093	174,080
Intangible assets (net of \$85,498 and \$50,870 accumulated amortization, respectively)	393,075	158,217
Goodwill	908,349	537,962
Deferred income tax assets	468,760	422,849
Deferred compensation plan assets	39,875	39,965
Investments in unconsolidated affiliates	98,878	16,800
Other assets	13,398	12,490
Total assets	\$2,598,684	\$1,855,383
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Accounts payable	\$30,974	\$46,003
Accrued expenses	78,988	56,774
Revenue share obligations	70,396	63,603
Limited partners' distribution payable	23,071	22,493
Accrued compensation and benefits	51,701	60,425
Deferred revenue	49,723	54,498
Current portion of tax receivable agreements	14,009	13,912
Current portion of long-term debt	376,710	5,484
Other liabilities	30,335	2,871
Total current liabilities	725,907	326,063
Long-term debt, less current portion	6,928	13,858
Tax receivable agreements, less current portion	333,407	265,750
Deferred compensation plan obligations	39,875	39,965
Deferred tax liabilities	46,137	—
Other liabilities	44,847	23,978
Total liabilities	1,197,101	669,614

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	March 31, 2017 (Restated)	June 30, 2016
Redeemable limited partners' capital	2,809,333	3,137,230
Stockholders' deficit:		
Class A common stock, \$0.01 par value, 500,000,000 shares authorized; 50,706,518 and 45,995,528 shares issued and outstanding at March 31, 2017 and June 30, 2016, respectively	507	460
Class B common stock, \$0.000001 par value, 600,000,000 shares authorized; 88,		