FISCAL 2014 FIRST-QUARTER CONFERENCE CALL TRANSCRIPT

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On November 12, 2013, Premier, Inc. hosted a conference call to discuss financial results for the fiscal 2014 first quarter, ended September 30, 2013. The following transcript is an interpretation of the statements made on the call. The actual conference call may have differed slightly.

CORPORATE PARTICIPANTS

Jim Storey *Premier, Inc. - VP IR*
Susan DeVore *Premier, Inc. - President & CEO*
Craig McKasson *Premier, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Lisa Gill *JPMorgan - Analyst*
Jamie Stockton *Wells Fargo Securities - Analyst*
Robert Willoughby *BofA Merrill Lynch - Analyst*
Ryan Daniels *William Blair & Company - Analyst*
Michael Cherny *ISI - Analyst*
Leo Carpio *HM Global - Analyst*

PRESENTATION

Operator

On behalf of Premier Inc., hello and welcome to the company's fiscal 2014 first-quarter conference call. My name is Celso and I will be your operator for today. As a reminder this conference call is being recorded. This call will be archived and available via phone and on the company's website in the section entitled investors.

(Operator Instructions)

It is now my pleasure to turn the conference call over to Jim Storey, Vice President Investor Relations.

Jim Storey - *Premier, Inc. - VP IR*

Thank you, Celso, and good morning, everyone. And welcome to Premier Inc.'s inaugural fiscal 2014 first-quarter conference call. Our speakers this morning are Susan DeVore, President and Chief Executive Officer, and Craig McKasson, Chief Financial Officer. Also with us today is Mike Alkire, our Chief Operating Officer. Susan and Craig will discuss our company, review the F2014 first-quarter performance, and then provide an outlook for the full fiscal year ending June 30, 2014. Then we will open the call to questions.

Before we get started, I want to remind everyone that copies of our press release and the supplemental slides accompanying this conference call are available in the Investor Relations section of our website at www.PremierInc.com. I also want to remind everyone that management's remarks this morning contain certain forward-looking statements and that the actual results could differ materially from those projected today. These forward-looking statements speak as of today and we undertake no obligation to update them.

Factors that might affect future results are discussed in our filings with the SEC and we encourage you to review these detailed Safe Harbor and risk factor disclosures. Please also note that, where appropriate, we will refer to non-GAAP financial measures, such as adjusted EBITDA, segment adjusted EBITDA, and adjusted fully distributed net income to evaluate our business. Reconciliations of non-GAAP financial measures to GAAP financial measures are included in our earnings release. Now, let me turn the call over to Susan DeVore.

Susan DeVore - *Premier, Inc. - President & CEO*

Thank you, Jim. And thanks, everyone, for joining us this morning. I'm delighted to be speaking with you today and representing Premier as a newly public company. Before Craig and I review this past quarter's financial performance, I do want to spend a few minutes telling you how we got here. As you all probably know, we completed our initial public offering on October 1, raising net proceeds of nearly $822 million. Based on the IPO pricing at $27 a share, the market valued our company at $3.9 billion.

It may seem like the IPO happened quickly. We publicly filed our S-1 in late August and a month later we priced and began trading publicly. Actually, as Craig and I joked with each other during the lead-up to the IPO, this has probably been one of the longest road shows in history. The fact is that our members have met with our executive team and our executive team has spent the past two years meeting with all 181 member owners to discuss and reach consensus on our planned future.

We were determined to restructure the company in a way that one, would provide Premier with the capital necessary to invest in the solutions our members need, to meet the many healthcare challenges that lie ahead. Two, we wanted to structure it in a way that would maintain the collaborative co-innovative partnership we enjoy with our hospital member owners, which we believe is one of the keys to our success. And three, we wanted a model thal would allow our member owners to unlock the value of their investment in our company.

For some of you, it also might seem like Premier sprang up out of nowhere, but we have actually been around for a long time. In fact our roots date back to the late 1960s. And over the years we have built one of the nation's largest health system group purchasing organizations and also one of the nation's largest clinical databases, as well as what we think is one of the most advanced integrated data platforms in the country. Together these offerings help our healthcare members better manage costs and clinical outcomes in a very holistic way.

We are all about solving the problems that health systems have. How do I get my costs down? How do I get my quality up? How do I improve safety? How do I achieve better outcomes? We are addressing all of this with data, with intelligence, with business analytics, and wrap-around services that really help our health systems function more efficiently in a reform environment. Today, Premier is one of the nation's leading healthcare improvement companies. We play a critical highly differentiated role in care delivery in America.

We have an alliance of over 2900 hospitals and approximately 100,000 other providers of care. We collect clinical, operational, and financial data on one out of four hospital patients in the US, including 2.5 million realtime clinical transactions processed on a daily basis. And our platform is set up so that we can connect all systems regardless of the vendor. Our platform is payer neutral and vendor agnostic.

Our members use our GPO, our integrated data, our benchmarking analytics, our collaboratives, our consulting and all of our other services to meet the requirements of the rapidly evolving industry. We help drive innovation in the healthcare supply chain, deliver continuous improvements in healthcare costs and quality, and support success under these emerging population health models.

One of the key differentiators is the fact that we operate a long standing member-owned model. We have preserved this structure in our IPO to maintain the collaborative alignment and commitment among our members. Not only do our members own us and use our products and solutions, but they work with us, to build and test and scale these solutions. And then drive them out to receptive members. So, our products and services are built to meet an expressed need of our members and we deliver these solutions through a large membership channel that represents 57% of US community hospitals. This model also gives us great confidence in our ability to cross-sell and grow in a highly-efficient way.

Bottom line, we have developed a model to co-develop the long-term solutions that reinvent and improve the way care is delivered to patients nationwide. As you can tell, we are passionate about leading the transformation to coordinated high quality cost effective care. We believe our reorganized corporate structure and successful IPO have provided us with the capital we need and the opportunity to effectively deploy it.

So, that is who we are, in a nutshell, for those of you who are new to Premier. As Craig will discuss, we report our financial results under two segments, Supply Chain Services and Performance Services. However, I want to set the context by noting that operationally, we approach our business as a fully-integrated enterprise. Our technology platform, which we call PremierConnect, underlies and feeds all of our core offerings.

Our applications, our advisory services, our national collaboratives and our member relations, and sales and marketing efforts are carried out on a broad integrated basis. This capability is absolutely necessary for the goals we have of disrupting the industry and changing the way our health care systems operate in the US.

As you all are aware, health care reform is upon us. And the clear message coming out of this reform environment is that our health care system must reduce costs, increase efficiencies, improve outcomes, and better manage the health of its populations if the industry is to succeed and prosper in this new environment. So, in this sense, Premier is a necessary disruptive force in the industry. We are culturally, strategically, operationally, and financially positioned to help transform the health care industry and we're doing it from the inside.

Our IPO was a very complex process, as it entailed a complete reorganization of our corporate structure and membership alignment. But we undertook this process after a thorough review of our options and with the understanding that we need greater access to capital in order to meet the needs of our members and grow our alliance.

Let me share one more thought before turning to the quarterly review. As a newly public company, we are fully committed to providing quarter-to-quarter financial and operational updates and we welcome these calls with our analysts and investors to discuss our progress. But it is also critically important to understand that we will continue to manage this Company based on our long-term view. I know that may sound trite, but for those of you who already know us, you know that we, our Company, our management team, our employees, our members, we are on a mission. We are on a mission to improve the health of communities and it is a long-term objective. The steps we take and the investments we make will always be driven by this mission. We're looking for comprehensive solutions for the long term, not just quick fixes for the moment.

So now, let's turn to first quarter. Reviewing the quarter, our performance was in line with our expectations and gives us good visibility into the remainder of fiscal 2014. Overall, revenues grew by 10% to just under $200 million on a pro forma basis.

And I think the makeup of that revenue growth gives a good illustration of the number of growth drivers we have across our businesses. For example, within Supply Chain Services, our core GPO administrative fees grew by 2.3%, lower than our normal rate of growth and was largely a function of timing issues associated with member recruiting activities, as we undertook the IPO process.

But also, within Supply Chain, both our specialty pharmacy and direct sourcing businesses grew sharply, resulting in an overall 10% growth rate for that segment. And looking to the remainder of this fiscal year, not only do we have a good trajectory in those businesses, but we also have visibility into accelerating admin fee growth based on recent member additions that I will talk about in more detail in just a few minutes, as well as continued strong growth in our alternate site GPO business.

Similarly, within Performance Services, our top line also grew at 10%, driven primarily by our new SaaS informatics subscriptions. We continue to foster new solutions developments within our member community, which has helped to yield innovative products and services that we are driving through our platform. This has the benefit of adding to our top line visibility, but it also comes full circle, as the number of our new Performance Services applications are being adopted by new and existing members, as part of a broader set of solutions across our platform, including GPO. Revenue growth in Performance Services also carries high operating leverage, as you can see in our EBITDA growth for this segment.

So, overall I am pleased with our performance for the first quarter of this year. We met our own internal expectations. We have high visibility into the remainder of the year. And we also achieved a number of milestones in terms of new business development that I will discuss.

Clearly, one of the key differentiators in the way we serve our industry is our focus on total supply chain costs and total costs. Our focus is to help our members reduce costs and improve quality and improve outcomes. So, our first quarter performance and our outlook for the year demonstrate the multiple levers available for us to drive growth across each business segment.

Looking again now at Supply Chain Services, we are seeing growth in both our acute care and alternate site GPOs. This includes our 50% ownership in Innovatix, an alternate site GPO that has added some important contract wins in recent months, including the recently announced exclusive three-year supply chain agreement with PharMerica. PharMerica is a national leader in institutional and specialty home fusion in pharmacy services with some 90 locations across 45 states. We're also seeing continued traction with our direct sourcing and specialty pharmacy businesses, which as you know are part of our Supply Chain Services offering.

Performance Services delivered growth as expected during the first quarter, largely a result of new SaaS informatics product subscriptions. We also have a recent acquisition in the Performance Services business that is showing impressive early results and attracting a lot of interest from our members. I want to take a minute or two to tell you about this acquisition, because it provides an excellent example of our ability to purchase an innovative Company and scale it up quickly through our receptive member network.

In July, we purchased a company called SYMMEDRx for about $29 million. SYMMEDRx is a contract management and data service company that assists our members in their efforts to lower their cost structure. Specifically, it targets the very high cost area of physician preference in categories like cardiology and orthopedics. Very tough areas for our members. When we acquired SYMMEDRx it was servicing 20 clients. Within just the first two months we have added six new member agreements and have many more expressing interest.

Additionally, we are using SYMMEDRx with three, as an example, of our members in their Medicare breakeven, total cost reduction initiatives. In these three engagements alone, SYMMEDRx has targeted aggregate cost savings of about $51 million. Performance Services is also working with member hospitals to address the flat, declining or changing reimbursements under our Medicare breakeven initiative launched this past summer, which I just mentioned.

Data flowing through PremierConnect, our integrated technology platform, is analyzed by our performance improvement experts, who then collaborate with our members to reorganize their total cost structure so that they can operate profitably under current and future Medicare payment rates. The goal here is to assist our members in targeting reductions in unjustified variation, including, among other things: pricing, care delivery, resource consumption, and clinical practice. All are focused on reducing costs while maintaining or improving quality.

So, these are just a few examples of what we have been doing in our Performance Services group. As I have already discussed, our IPO and our new corporate structure provide Premier with the access to capital to invest in areas of need for our members and areas of potential growth that we have identified. Strategically, our growth plan is multi-pronged and mutually reinforcing.

From a mix standpoint, we have healthy diversification in our Supply Chain Services business, with our stable GPO business and earlier stage high growth specialty pharmacy and direct sourcing businesses. We also anticipate strong growth opportunities in our Performance Services businesses with SaaS informatics products, advisory services and expanding data management and warehousing capabilities.

Our active pipeline is targeting areas, including alternate site expansion, supply chain analytics and work flow, population health management, data acquisition and management, and ambulatory clinical integration, to name a few. You can see we are active in looking at a lot of growth opportunities.

Our industry isn't without its headwinds. Our members face constraints on revenues from multiple areas, including Medicare reimbursement, commercial contracting, and pressure on utilization and patient volumes. But despite these challenges, our revenue and EBITDA continue to grow and I think this highlights a key differentiator in Premier's business model and how we go to market. We are finding that in this increasingly challenging regulatory environment, major healthcare systems are engaging with Premier, based on our holistic approach to addressing the cost, efficiency, safety, and population issues. Put simply, we have built our platform to incubate and deliver innovative solutions in the face of increased industry pressures and growing need among our members.

Our new business development reflects this. Systems that have signed on for our broad integrated offering, some after historically utilizing only elements of our capabilities, include Johns Hopkins Health System, Inova, Community Medical Centers, and Universal Health Services. Similarly, newer applications we have introduced in Performance Services, such as our Medicare breakeven initiative, were developed in direct response to the needs of our members as they forecast their own revenues and found that they needed to develop an integrated multi-faceted cost solution. These successes, combined with our historic and long-standing relationships with our members, give us very high visibility into the coming fiscal year. And I believe validate our growth strategy.

Craig will provide more color around our initial guidance and expectations for this fiscal year, but I want to offer three initial takeaways from this discussion. First, we now have the capital to facilitate our ability to grow our alliance and meet our members' needs to change and improve their operations. Second, we believe we are starting from a strong position. If you look at the profitability of our business, you can see that we already achieved significant efficiency in our operations, including both Supply Chain Services and Performance Services. And third, the chassis is built. And this efficiency should enable us to bring new solutions to scale very quickly, as we acquire, develop or partner, which we expect to benefit our members and shareholders, as we exercise the true leverage of our scale.

Now, let me turn it over to Craig McKasson, our Chief Financial Officer.

Craig McKasson ***- Premier, Inc. - CFO***

Thank you, Susan. And thanks, everyone, for joining us this morning. As Susan mentioned, we completed our initial public offering, which closed on October 1, issuing 32.4 million shares to the public and raising total net proceeds of $821.7 million. Of this amount we retained approximately $277.8 million in primary proceeds for use by the company to drive future growth and investment and we returned $543.9 million in secondary proceeds to our member owners. The financial implications of the offering are reflected on our pro forma balance sheet and income statement.

I won't walk through all the detail because this was a complex transaction and it is fully explained in our IPO prospectus, which is available through our website and in our first quarter 10-Q which we plan to file with the SEC within the next few days. For the purposes of this discussion, it is important to understand that our member-owners historically owned 100% of the company and we operated similar to a cooperative, with the board electing to distribute approximately 95% to 100% of our net income in cash to our member-owners each year.

Last week, the board of directors did approve one final cash distribution under our historical structure to our member-owners in the amount of $78 million. That is for income generated for the first quarter ended September 30, which was prior to the IPO. In connection with the reorganization and the IPO, our member-owners sold a portion of their ownership in the company in order for Premier to create a sustainable source of capital for us to invest to meet their needs and grow the company.

The reorganization and IPO utilizes what is called an up-C structure, in which the company formed a C-corporation, or parent company, Premier Inc., which sits above the operating company, with two classes of stock. 22.3% of the company was sold to the public in exchange for class A common shares and the member-owners retained 77.7% of their interest in the business in the form of class B common shares and associated partnership units in the operating business that we call Premier Healthcare Alliance LP.

The member owners will vest in their remaining ownership ratably over a seven-year period and will have the ability, if desired, to exchange their class B stock and units into class A shares and sell them in the public market. From a financial reporting standpoint, and you see this reflected in the first quarter financials, the company is comprised of a partnership, as well as taxable corporations and does not pay taxes on the earnings attributable to the limited partnership interests, as that income is taxed at the individual limited partner level, if applicable.

However, given the actual tax rate is subject to change over time as a result of ownership changes, if health system member-owners exchanged their B share ownership into A shares and the amount of public company ownership increases, we are calculating what we call adjusted fully distributed net income, which will calculate income taxes assuming the entire company was a taxable C corporation. This provides consistent comparability without the variability that can result from ownership structure changes.

Basic earnings per share will be determined as required for Generally Accepted Accounting Principles, based on outstanding class A common shares, while adjusted fully distributed earnings per share will be determined assuming all class A and class B shares are held by the public and therefore included in the share determination. The significant change to the income statement is really quite simple and it is largely captured in the revenue line.

Our member-owners who used to receive only a distribution of income will now receive a contractual revenue share equal to 30% of the administrative fees we collect from their contracted purchases. This is explained in footnote A on the income statement. Administrative fee revenue is recorded net of that revenue share, so this change does result in lower net administrative fees on a pro forma basis, as compared to actual fiscal 2014 first quarter revenues.

You will also see on the income tax expense line that our GAAP income taxes are quite low for the consolidated activities of Premier Inc. due to the fact that actual taxes paid reflect only the taxable corporate subsidiaries and taxes attributable to Premier's 22.3% share of net income. In footnote B under the net income line, you see net income attributable to the limited partners who own approximately 77.7% of the company.

Each of the limited partners are allocated their share of the earnings of the partnership, which is our operating company, and are individually responsible for the taxes due, if any, and they will receive a tax distribution to cover that potential obligation. As I just noted, in order to reflect a more normalized tax structure and to provide a true fully diluted net income concept, we are providing a line in the summary table at the beginning of the press release and in the supplemental financial information provided in that release that reflect adjusted fully distributed net income.

This represents net income adjusted for nonrecurring and non-cash items, such as stock compensation expense, attributable to all shareholders, as if all class B shareholders have converted into class A shareholders. And it reflects income taxes at an estimated effective rate of 41% on 100% of our pre-tax income. Taking these adjustments into account, pro forma net revenue results for the first quarter totaled $199.3 million, a 10.1% gain from a year ago.

This is comprised of a $146.2 million contribution from our Supply Chain Services business segment, which represents the adjusted net revenue after deducting the 30% fee share provided to owner members moving forward. And $53.1 million from Performance Services, both of which increased approximately 10% from a year ago. On a pro forma basis adjusted EBITDA of $83.1 million represents a 7.6% increase from a year ago, with the Supply Chain Services segment adjusted EBITDA increasing at 4.2% and Performance Services segment adjusted EBITDA jumping 36.1%.

As you can see, relative top line growth will impact consolidated margin profile due to our mix of products and services. But as Susan pointed out earlier, we do expect the EBITDA performance of our Supply Chain Services segment to increase as the year progresses and some of our newer GPO members continue to convert and ramp up their purchasing. Non-GAAP pro forma adjusted fully distributed net income totaled $44 million for the quarter, or $0.30 a share, compared with $41.9 million, or $0.29 a share, last year.

Turning to guidance, we will be providing fiscal 2014 full-year guidance for consolidated and segment revenue, adjusted EBITDA, and adjusted fully distributed net income per share. The guidance assumes pro forma performance for the first quarter prior to the reorganization and IPO and the year-over-year growth is based on pro forma performance for F2013. As Susan said earlier, we have a high degree of confidence and visibility through the year, which we expect to be somewhat back end loaded, as our recent member additions ramp up their conversion to our contracts.

We have completed one quarter of our fiscal year and believe we have visibility into a very significant amount of our F2014 revenue, based on the SaaS product subscriptions and advisory services contracts in our Performance Services segment and the contracted revenue in our Supply Chain Services segment. Our current F2014 guidance is in line with the growth expectations we outlined in our IPO road show.

Looking at revenue, we expect our Supply Chain Services segment to produce fiscal full-year pro forma net revenue of $614 million to $631 million, representing an increase of approximately 10% to 13% from F2013. We expect our Performance Services segment to produce revenue of $231 million to $238 million, representing 12% to 16% growth for the year. On a consolidated basis, we expect pro forma net revenue in the range of $845 million to $869 million, representing an increase of approximately 10% to 13%.

We anticipate that our consolidated pro forma adjusted EBITDA will be in a range of $335 million to $355 million for the full fiscal year, reflecting anticipated growth of approximately 7% to 13% from a year ago. Non-GAAP pro forma adjusted fully distributed net income on a per share basis for the fiscal year is expected to be in the range of $1.20 to $1.29. Comparisons to year-ago results are not meaningful, since we had no comparable shares outstanding under the historical business model.

I would like to reiterate that this guidance is based on our existing business activities and does not include significant benefit we might achieve through future acquisitions or other investments. We do caution against undue reliance on these guidance estimates and refer you back to our discussion of forward-looking statements. With that, let me turn the call back over to Susan.

Susan DeVore – *Premier, Inc. - President & CEO*

Thanks so much, Craig. And a couple of quick comments and then we will open up the call for Q&A. As I noted earlier, our goal is to truly transform the healthcare industry, working with our members in a collaborative fashion. Our members are now our largest shareholder base and we believe this alignment will be beneficial for all of us. We are ideally positioned to innovate from within and we now have access to capital and we intend to deploy it effectively. So, could you please, operator, open the line for questions now?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question is from the line of Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan - Analyst*

Thank you very much. And good morning, everyone. Craig, if I could just start with you. If we can talk about guidance for 2014, as far as the earnings progression goes throughout the quarters, is there anything unusual that we should think about as we think about 2014 versus 2013 as we model?

Craig McKasson - *Premier, Inc. - CFO*

Lisa, thank you for asking that question. We would expect some back-end loading to our financial model through the year. Number one, as I mentioned in my remarks, as our newer GPO members ramp up their contract purchasing. I also would highlight that the back-end fourth quarter of the year last year had a higher level of expense as a result of incentive compensation and other matters. So, we will expect to see a lift come particularly in the fourth quarter.

Lisa Gill - ***JPMorgan - Analyst***

Okay. Great. And then secondly, maybe Susan, any impact that you are seeing from the weaker utilization environment on the GPO business and also, any timing effect there as well?

Susan DeVore - ***Premier, Inc. - President & CEO***

Great question, Lisa. Because we have all of this data, we're able to see what is happening in our health systems. If we look at the last six months of data, it would indicate that inpatient volumes are down maybe 1.2% or so. Outpatient volumes are up about 0.9% in our members. And total cost per case is up 2.5% to 2.6%. So, we think our admin fees are reflective of that environment. But what I would say is that, as I mentioned, the conversions of Universal and Johns Hopkins and Inova and Community, and Loma Linda, all of those are in process now and that will contribute to some back-end loading of increasing growth in the admin fees over the year.

Lisa Gill - ***JPMorgan - Analyst***

Okay, great. Thank you for the comments.

Operator

Your next question is from the line of Jamie Stockton, Wells Fargo.

Jamie Stockton - ***Wells Fargo Securities - Analyst***

Good morning. Thanks for taking my questions. I guess maybe the first one, just as far as backlog is concerned, do you guys plan to provide any metrics around the next 12 months or anything other than guidance that is going to give investors and analysts some visibility into the amount of business that you've got on the books?

Susan DeVore – ***Premier, Inc. - President & CEO***

No, Jamie, as we discussed on the road show, we do have very high visibility due to our multi-year contracts on both sides of the business. And this broad ability we have to cross-sell. There are a lot of internal measurements that management uses to operate the business and we're reviewing all of those metrics and deciding which ones we'll commit to reporting externally and at what frequency, so that we can augment our financial measures. We want to provide investors with consistent and dependable non-financial measures. And so we will be doing that certainly on an annual basis.

Jamie Stockton - ***Wells Fargo Securities - Analyst***

Okay. And then maybe just to follow up on Lisa's question about what the environment looks like. I guess what's built into guidance at this point. If inpatient volumes are down 1% and outpatient is up 1%, would you say that guidance is based on an assumption that the environment continues to look like that over the next nine months?

Susan DeVore - ***Premier Inc - President & CEO***

So, Craig, do you want to give some color on that?

Craig McKasson - ***Premier Inc - CFO***

Sure, thanks, Susan. Great question, Jamie. So, when we look at the range for our guidance, if we look at the high end of our guidance I think we believe number one, that we have deep visibility to the revenue drivers, that the contracts, as we mentioned, are going to continue to ramp up with our newer members at a quick pace, and that some of the newer company acquisitions that we have will ramp up at the higher end of the expectations that we had in place, and we would not see further deterioration in the volumes that we've seen to date. On the low end of the guidance, I think that that trend would continue and be sustained and then we would see some slower contract ramp-up, as a result of that and the new members that are coming on board.

Jamie Stockton - ***Wells Fargo Securities - Analyst***

Okay. That's great. And then maybe just one more on the acquisition. If you look at the 20 clients that SYMMEDRx had when you bought them, are there any rules of thumb for the organizations that they were working with as far as the performance improvement that they saw, the percentage of physician preference items that were purchased through their contracts or their GPO's contract that they saw increase after working with SYMMEDRx? Any metrics like that that we can keep in mind as you try to take that offering out to the membership base?

Susan DeVore – *Premier, Inc. - President & CEO*

It varies, Jamie, by member. So, across the 20 clients, they go in and analyze all the data on 10 clinical conditions and the physician preference products and they identify the leakage of pricing and the opportunity. So, it varies by member. As I indicated in the earlier discussion, just three of the members, they're large IDN's, but in three of those members alone, it was $51 million of savings. So, it is a broad range of savings and it is a significant pain point for health systems, but it does vary by member.

Jamie Stockton - *Wells Fargo Securities - Analyst*

Okay. That's great. Thank you.

Operator

Your next question is from the line of Elizabeth Blake, Bank of America Merrill Lynch.

Robert Willoughby - *BofA Merrill Lynch - Analyst*

Hi, Robert Willoughby sitting in for Elizabeth this morning. Craig, you may have touched on it, the breadth of the earnings guidance that you did break out, you do have a great deal of visibility, the range seemed a bit broad to me. Is the variability simply around the timing of the membership, the new members ramping up or what are the other factors that dictate the high end and the low end of the earnings range?

Craig McKasson – *Premier, Inc. - CFO*

I think the primary consideration, Bob, is the timing of the conversion of the new members, and then also as Jamie had asked about, just the issue of the market dynamics and what is happening with utilization. We do continue to see really strong growth in the non-acute care part of the business. And as that expands that will augment or offset any continued softness in the inpatient side of the business. So, those two factors are really what are driving the variability in that range.

Robert Willoughby - *BofA Merrill Lynch - Analyst*

Okay. And is there anything unusual about the profit profile of SYMMEDRx? Is it above breakeven or where does that stand?

Craig McKasson – *Premier, Inc. - CFO*

SYMMEDRx is still very early stage in terms of its performance, but it is not -- it is not a significant investment in terms of the level of performance we have.

Robert Willoughby - *BofA Merrill Lynch - Analyst*

Okay. And can you confirm a CapEx number, Craig, for the year?

Craig McKasson – *Premier, Inc. - CFO*

We would still expect to be in the $40 plus million range for the year.

Robert Willoughby - *BofA Merrill Lynch - Analyst*

$40 million plus. Okay. Thank you.

Susan DeVore - ***Premier, Inc. - President & CEO***

Thanks, Robert.

Operator

The next question is from the line of Ryan Daniels, William Blair.

Ryan Daniels - ***William Blair & Company - Analyst***

Good morning. Thanks for taking the question. Susan, I guess a quick one for you, big picture. I'm just curious how your conversations with members have evolved over the last year, as you have gone through the restructuring and now the IPO. Are they looking more for a holistic solution set for you in providing more guidance for the growth loop current in Performance Services and other areas? Just any color there would be helpful.

Susan DeVore – ***Premier, Inc. - President & CEO***

So, as you know, Ryan, we have long-standing relationships with our members and very, very high retention rates. And so, our long-standing relationships with the Banners and the Adventists Floridas and the THRs, big, big systems, they are all looking for integrated solutions and they're looking at everything they do with us today. And they were very pleased with the outcome of the IPO, but mostly because it will deliver capital to Premier to continue to make investments at scale.

Because even the big IDNs don't think they have enough scale to make all of the continuing infrastructure investments that they need to make. And particularly with new members, when they look at this combined Supply Chain and Performance Services and analytics and quality and cost improvement, they do see holistic solutions and I think they're all facing financial pressure and they're looking for more efficient ways to do everything they need to do.

So, I would say that the level of integration discussion has increased and the level of interest in how we deploy our capital for additional future state problems that they think they're going to face has increased. They're all watching this debacle with the exchanges and they're more worried today about the revenue they will see from the coverage and the Medicaid expansion and that is creating more cost pressure, which means they're looking for more and more integrated solutions around cost and quality.

Ryan Daniels - ***William Blair & Company - Analyst***

Okay. That's very helpful color. And then as we think of the Performance Services segment, do you have a blueprint for growth as it relates to the level of new product launches with some of your SaaS based information technology tools or new collaboratives, or is it really more just responding to partner needs and emerging issue sets versus something that you have created a three- to five-year road map for what you plan to develop.

Susan DeVore – ***Premier, Inc. - President & CEO***

So, we do have, as you know and as I have discussed, these relationships inside where we get continuous feedback around pain points. Up from that and from all of the data that we have, which also help us identify pain points and opportunities, we have built a quarterly road map and we have a quarterly road map for all of our technologies, our technology enhancements, our collaboratives, our supply chain activities, so, that we can stage and manage and operate the launches of all of those things. So, we have an organized process for rolling out those new solutions, new enhancements, new collaboratives.

Ryan Daniels - ***William Blair & Company - Analyst***

Okay, perfect. And then two quick ones for Craig and I will hop off. Just R&D down nicely year-over-year, I assume that relates to the completion of some of the enterprise data warehousing investments, but one, is that right and then two, how should we consider that going forward? And then the second question, just want to make sure we get the end of quarter share count. Always a bit challenging on an IPO, so, love to get the calibration around the share count going forward. Thanks.

Craig McKasson – *Premier, Inc. - CFO*

So, as far as R&D, you are correct, in terms of the reason we saw the decline year-over-year is we did have significant expenses in order to finish up our enterprise data warehouse and PremierConnect activities in the prior year. Some of the ongoing R&D expense will continue to be a function of developmental activities and how much of that is capitalized versus flows through the P&L in terms of R&D expense, but I would expect it to be at the consistent levels that you see now. Relative to the share count, Ryan, I will have to pull up the detail, but I think the approximately 145 million shares that is out there is the number that will be the fully distributed share count, fully diluted assuming class A and class B conversions for the year.

Ryan Daniels - *William Blair & Company - Analyst*

Okay. Perfect. Thanks again, guys.

Susan DeVore – *Premier, Inc. - President & CEO*

Thanks.

Operator

(Operator Instructions)

Your next question is from the line of Michael Cherny, ISI Group.

Michael Cherny - *ISI - Analyst*

Good morning, guys, and thanks for all the color. So, I just want to dig in a little bit, you mentioned you talked about some of the recent customer wins you have ramping throughout the year. Can you talk a little bit, maybe a follow-up to Ryan's question with some of these new customers. As you were going through the IPO process, the conversion process, how did that sales pitch differ from what you had done previously? What did they like and maybe even not appreciate about the conversion? And maybe just a little clarity into at the end of the day what do you think was the key driver of them choosing to go with you versus the previous GPO?

Susan DeVore - *Premier Inc - President & CEO*

The sales pitch didn't differ really from what we had been doing for the last several years. I think over the last couple of years we have gotten more crisp on how you bring this integrated value proposition to the table. So, Johns Hopkins, for example, was using some of our quality applications in a couple of their community hospitals. They were using some of our GPO in a couple of their community hospitals. And when we went to talk to Johns Hopkins, we talked about quality, safety, we talked about our quest collaborative, we talked about supply chain and we talked about how it was all integrated on a platform. And so, that's what I think they're interested in. When we talked to Universal, which is starting out as a GPO relationship, it was because given the size and scope of their facilities, they could get very significant savings through our GPO contracts in the food program and in the pharmacy program, which were very critical to their business. And so, for them, the starting point was that.

But I think for most of our large scale new members in the sales process, it really is this data, which is very deep, sitting on an integrated platform and helping them solve their clinical problems, their cost problems in an integrated way, and really being able to help them dig down, not just to the price of a product in a GPO, but the resource utilization and the variation that they can identify in the way that they're delivering care across their systems. And when you have that, plus a quality and safety focus. In addition to a lot of them are interested in all of our emerging population health capabilities, and so, I think they see it as an integrated set of comprehensive solutions in a very tough environment. And today they're buying a lot of one-off solutions from a lot of different people and I think that they're re-evaluating that. But I don't think that that process and sales process has changed dramatically over the last couple of years.

Michael Cherny - *ISI - Analyst*

Great. Thanks. That's helpful. And then you talked about the total quality opportunity, excuse me. Obviously, over time, you guys have made a few smaller acquisitions, complimenting some of the core capabilities you have, complimenting the organic growth. As you think ahead, particularly as SYMMEDRx becomes more integrated with the business, thinking more broadly, how do you think about the acquisition strategy, the ability to both invest in businesses as well as outright buy them in terms of both complimenting your total growth, also complimenting your service offering and maybe any sense of the type of assets that if you were to pursue further acquisitions you would be looking at more closely?

Susan DeVore *- Premier Inc - President & CEO*

We are always looking for opportunities in the market. And we have a history and a very considered process in terms of how we look at acquisition opportunities and then how we integrate them. We want them to be strategic fit, cultural fit, financial fit and be able to be integrated. And we have a diverse portfolio, as you know. And we do it by building our own, by acquiring and by partnering, and as you said, we do have a history on that.

We did, in the road show, roll out some of our ideas for capital deployment and we continue to look at a variety of companies in some of those spaces. And so the space around physician preference, the space around alternate site, the space around supply chain work flow analytics, the space around integrated pharmacy solutions, all of those things are interesting to us on the Supply Chain side.

And then on the Performance Services side, a lot of interest in ambulatory data acquisition and data acquisition capabilities generally, as well as some of the emerging capabilities in population health. So, that would be my summary of the interesting areas for us and we do have a built-in process for evaluating those. We don't have a particular size criteria for an acquisition. We do have ROIC expectations. And it is a balanced portfolio we're trying to create to solve the problems of our health system.

Michael Cherny *- ISI - Analyst*

Very helpful. Thanks a lot.

Operator

Your next question is from the line of Leo Carpio, HM global.

Leo Carpio *- HM Global - Analyst*

Good morning. I have a couple of questions. I apologize if this question has been already addressed. Could you provide any color on your performance fees that you earned in the quarter and how is that tracking versus your expectations? And then the second question, regarding guidance. It sounds like the midpoint of the guidance assumes that the hospital volume trends for the year, for the next couple of quarters remains in the inpatient around 1% down guidance. Am I viewing this correctly?

Craig McKasson *- Premier, Inc. - CFO*

Relative to performance fees, we don't have a substantial amount of performance fees in our portfolio. We do have a couple of engagements where we do have performance fees. Performance on those is trending according to plan. And so, no significant exposure from a performance fees perspective. There were not substantial performance fees in the first quarter numbers at all. Relative to guidance, want to make sure I understand the question correctly.

Leo Carpio *- HM Global - Analyst*

Well, in your comments you made regarding the hospital inpatient volumes and outpatient volumes you're indicating that the last six months has been trending about 1% down year-over-year on the inpatient side. And then outpatient side, seeing an uptick and you were providing color saying that the high end of the range versus the low end of the range, I was trying to see what is your assumption going forward for the midpoint of the range.

Susan DeVore *– Premier, Inc. - President & CEO*

So, Craig, you can comment on the midpoint of the range kind of question. When I mentioned the inpatient down 1%, I actually don't think that is what we are reflecting in guidance. I actually think that 1% down utilization is being offset by the ramp up of our new members, the contract penetration we're seeing and the alternate site growth we're seeing. So, Craig, now how that reflects into the midpoint of the --.

Craig McKasson – *Premier, Inc. - CFO*

That really is what is reflected in the midpoint. So, that we will continue to drive penetration opportunities in our existing membership footprint. We are going to continue to drive alternate site growth. And the conversions are going to go according to plan, with respect to the new members that we brought on board over the past year. The upper and lower limits on that would be to the extent that those conversions can either be accelerated or that there is some slowdown or something that happens in that process.

Leo Carpio - *HM Global - Analyst*

Okay. Thank you.

Susan DeVore - *Premier, Inc. - President & CEO*

Thanks, Leo. I think that that is the last question. And so I would just like to, before we close the call, leave you with a few final thoughts. When you think about big data these days you hear everyone talking about all of the data they have and what they can do with it, so you might be saying what is different about Premier. I would like for you to just remember these four points.

First, we're an industry leader. We have been serving the healthcare industry on the supply chain and data side for more than 20 years. I don't know anybody who has the depth that we do of labor data, supply chain data, clinical data, outcomes data, and now payer data, population data, infection control data and we've built it so it can set all on the same platform. We're pulling it from every electronic health record, from payers, from all kinds of transactional systems, across the provider footprint, including ERP systems. We clean it, we normalize it, we compare it. We don't have to wait for publicly available data. We don't have to wait for surveys. We sit inside our member-owners every day, focused on driving improvement in quality and safety and reduction in costs and they provide us with their data so that we have it resident in our integrated data warehouse. And with our member base, it is payer neutral and vendor agnostic. So, that is the first big thing.

Secondly, Premier has deep and long-standing relationships with our member-owners. We're aligned in our interests to reduce costs, improve outcomes, and increase efficiencies.

Third, we are continuing to co-innovate with our members, working together from inside the health organization, collaborating on solutions to their needs and driving these solutions into the wider healthcare system to deliver really meaningful and measurable change.

And lastly, we're building on a strong financially secure foundation. We have delivered value over the years to our members. They have come to expect it. We plan to continue delivering value in the years ahead to our members and to our shareholders.

So, on behalf of Craig, our Chief Operating Officer, Mike Alkire, the rest of our executive team, and the committed employees of Premier, I just want to thank you for spending time with us today. We look forward to meeting with many of you in the weeks and months ahead. Operator, could you now close the call? Thank you very much, everybody.

Operator

Thanks to all of our participants for joining us today. This concludes our call and you may now disconnect. Have a good day.