



J.P. MORGAN HEALTHCARE CONFERENCE TRANSCRIPT

JANUARY 13, 2014 / 02:30 PM PST

On January 13, 2014, Premier, Inc. presented at the 32nd annual J.P. Morgan Healthcare Conference in San Francisco, CA. The following transcript is an interpretation of the statements made during the presentation. The actual presentation remarks may have differed slightly.

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Lisa Gill *JPMorgan Chase & Co. - Analyst*

PRESENTATION

Lisa Gill - JPMorgan Chase & Co. - Analyst

Good afternoon. My name is Lisa Gill, and I am the healthcare technology and distribution analyst with JPMorgan.

It is with great pleasure, this afternoon, that I introduce you to Premier. This is a company that we took public earlier this year.

I think it's a really interesting and dynamic story, and to tell us a little bit more about it is CEO, Susan DeVore. The breakout room will be the Sussex room after the presentation. With that, let me pass it over to Susan.

Susan DeVore - Premier, Inc. - CEO

Thanks, Lisa. Welcome everybody, and thanks for being here in San Francisco.

I would like to introduce part of my team first, so you get to recognize these folks. Mike Alkire is the Chief Operating Officer; Craig McKasson, Chief Financial Officer; and I have my leader of Informatics and Technology, Keith Figlioli, out in the audience as well as our Investor Relations guy, Jim Storey.

The four of us, Mike, Craig, Keith and I, on a combined basis, have about 40 years with Premier. So this is a long-term commitment that we have to transforming healthcare and a team that's worked together for a long period of time.

I'd like to draw your attention to the slide on forward-looking statements and non-GAAP financial measures. Please review the statements we make here today in the context of the information on this slide.

Now let's get to the story of Premier. This is all for us about transforming healthcare from the inside.

Our providers actually are trying to solve a lot of problems -- cost problems, quality problems, outcome problems. And the importance of companies like Premier in healthcare is that we're able to really succeed in an environment that's very dynamic by bringing data to it, by bringing collaboration to it, by bringing people inside these health systems to solve the problem.

We all know that healthcare reform is clearly upon us. The clear message in our healthcare systems is not, tell me the next solution I can buy, or the bolt-on technology that I can add.

Basically, they're telling us how do I lower my costs, how do I improve my quality, how do I survive in value-based purchasing, how do I make data that I have integrated and actually usable? And so what we do with our members from the inside is really co-innovate.

It's an incubation engine for new ideas. We predict the needs of their healthcare customers in the community.

We provide visibility through our data analytics to cost opportunities, quality opportunities. We have a fairly unique strategy around vertically integrating supply chain. Not doing supply chain the traditional way, but vertically integrating it.

We are an early leader in population health management. You'll hear more about that later. And this is a scale play with shared infrastructure.

So when I think about transforming healthcare from the inside I think there are four big differentiators about Premier. One is our unique member alignment; two, we're data-driven and technology-enabled in everything that we do; three, we have a very diversified growth engine and you'll see all of those levers; and four, we have a compelling financial profile.

So let's talk a little bit about the first one, our member model, which drives innovation and it drives growth. You see on the right-hand side, that's a representative sample of some of our owners and customers.

We have a footprint that's 57% of the U.S. community hospitals. We have over \$40 billion in supply chain spend. We have very deep data assets in the clinical space, in the labor space, in the supply chain space, in the infection control space, in the population space.

Our member owners own 78% of the Company. We have several large IDN health systems CEOs on our board.

And we have been through a very long process. I said on the first quarterly earnings call that this was the longest roadshow in history because I have spent the last two years with all of our owners and large health system members talking about our strategy, why we needed additional capital and what we plan to do with the additional capital.

We co-innovate with our members. Our members sit on, hundreds of our members, sit on committees and work with us in collaboratives to actually tell us what their problems are, help us find solutions or build solutions, and then we can test those solutions on a subset of our members and scale it to the whole channel.

We are reporting our integrated solutions in two segments but we really view this business as one integrated business. So if you start at the bottom, fundamentally about three years ago we rebuilt our entire technology infrastructure platform. And we did that so all of this data that we had in various applications could be connected and could be made into business intelligence that was useful.

Above that, about two years ago we decided to integrate fully our field force and our sales force. So we're not going to market with one solution, one one-off solution.

We're actually going to market within our own customer membership base and new customers with an integrated set of solutions on a platform with one field team. And our field team members sit inside our health systems mining data, finding problems and helping implement the solutions.

Our supply chain services segment includes a group purchasing organization, one of the largest healthcare group purchasing organizations, a direct sourcing company where we are buying product directly and a specialty pharmacy. You can see there that we have 2,000 acute care hospitals using our services. We have almost 100,000 non-acute care alternate sites that are using our services.

On the performances side of the business, the other segment, that's where we have our SaaS-based analytic products. We have our enterprise data platform. We have our multi-hospital collaboratives where we combine data with people, with collaboration to solve problems, and we have our consulting and advisory services.

We are data-driven and we're technology enabled. And our supply chain strategy is technology enabled and it contemplates selected vertical integration of the supply chain.

Our healthcare systems have a big cost problem. And they've got to take cost out of every piece of the supply chain.

So we have a GPO and we do contracts in the GPO to try to lower the cost of supplies. But we also bought a direct sourcing company about 15 months ago to go direct, and that company is delivering 15% to 18% savings on those products.

We bought a specialty pharmacy, we bring over the clinical data from our clinical database. And all of this is designed to help health systems decide how can I lower the price of the product, how can I use less of the product, how can I standardize my physicians around a product, how can I make sure I've got clinical effective outcomes by using those products? And so a pretty different strategy as it relates to supply chain.

On the performance services side, we think we have a data engine and a master data management and a platform that's unmatched by anybody else. You can see here we have supply chain data on 1,100 hospitals.

We have quality data on 870 hospitals. We have labor data on 780 hospitals, which is about \$30 billion of spend.

We have data coming real-time direct from EHRs through our infection control application. And we have partnerships in the population health space that are feeding data from 400 payers into the platform, and it all sits on an integrated platform.

So what this means for us is, compared to others, is that we are able to be vendor agnostic and payer neutral. We're not an EHR, we're not an insurance company, we're not a revenue cycle company.

We are a data analytics information company. We mine the data and then we help these health systems use it to transform their business.

We also collaborate in groups. So we have about 350 hospitals that came together and said, okay, well if we use your data, Susan, what are we going to get from it? And I said, well, if we all use the same applications, and we decide we're going to measure mortality and cost and safety and patient satisfaction and readmissions and evidence-based care the same way, then we'll find out where we all really are, we'll transparently share the information, and then we'll figure out what the high performers are doing to drive the improvement.

We've been at this now for about five years. Those hospitals alone, those 350 alone, have saved 112,000 lives, \$10 billion, reduced mortality by 39%, took sepsis, which was the number one cause of preventable mortality when we started, to number 14.

And so what we're able to do is not just provide consulting, and not just provide research or content. We're actually able to provide data that proves and disproves the theories about how you change the way healthcare is delivered in this country.

Population health, many of our members are sitting in this area between fee-for-service health and population health, and they are desperately trying to figure out who really has something of content. Where is the beef in terms of building true capabilities to improve the outcomes of populations?

And so what we've done is taken the clinical data that comes from our existing applications and connected it from population data coming from Verisk and connected it to data that Phytel can deliver through CareFocus, which is all about ambulatory care management. And we've put that together and connected it to a collaborative of hundreds of hospitals that are working to build ACOs. And they're all identifying the capabilities they need and they're trying to figure out how to build some of that infrastructure and share the cost of building that infrastructure.

With all that you can see that we have a pretty diversified growth engine and we have lots of levers. On the supply chain side of the business we can grow the penetration of our contracts in the GPO.

We can increase the use of our direct sourcing company and buying products directly. We can expand the use of our specialty pharmacy. Both direct sourcing and specialty pharmacy are early-stage businesses.

Alternate site, which is all those sites around acute care hospitals, a very fragmented business, growing at a rate that's faster than the acute care volume rate. So opportunities for growth there.

And we have a lot of uses identified for the capital in the supply chain space. We think there's a lot of work in supply chain workflow that needs to happen. There are capabilities in acquisitions and opportunities in supply chain.

On the performance services side, we can penetrate our existing members with more of our applications. We continue to add population health capabilities, which are growth opportunities for us, as well. And then in both segments we have very significant upside in the acquisition arena.

When we look at our customer base today, our member base today, you can see from the picture on the left that there's a lot of white space opportunity for us. It's roughly half of our customers on the supply chain side don't use informatics yet and half of our customers on the informatics side don't quite use all the components of our supply chain services yet.

So what our field team does and sales team does is look at all the capabilities that we have to solve their problems. And if our existing customer base used all of the products and all of the services that we have, there's a \$5 billion revenue opportunity just in the white space.

We do this in a bunch of different ways. I talked about already this sort of co-development that we do with our members. They tell us they have a problem or they bring us a unique solution that they've found somewhere, we test it on four or five of them, we scale it to the channel.

So we build our own applications organically; we've been doing that for many years. We build our collaboratives, multi-hospital collaboratives, which keep our members sticky to Premier on our own. And then we have acquired several companies, granted, they've been smaller companies that we've acquired over the last several years that actually solve a capability problem that our customer members have.

And then if we want to test a product and we're not sure we want to buy it or build it yet, we'll do partnerships with companies. They want our channel, we want their capability, we want speed to market, and so we'll work together in a partnership sort of way and then decide where to go from there.

A case study is somebody like Banner Health. Don't know how many of you are familiar with Banner. Banner is a multistate, multi-hospital ambulatory facility kind of provider.

They have a little bit of everything. They actually have a lot of everything.

They're a pretty progressive place. So Banner was in the GPO originally and they had a labor productivity problem. So we said here's our labor productivity data application and we'll help you take labor costs out of your system.

And then we said, but you don't use our quality product, you don't use our clinical quality product. And they said, well, we like this company called CareScience better, we like the science behind their product.

So, we looked at CareScience, we liked it too, we liked it better than our science, we bought CareScience, we merged their science with our benchmarking and had a best-in-breed kind of product. Now Banner was in with us on the quality side and on the clinical side.

So then they joined the collaborative, the one I told you about a minute ago that was working on cost and quality and outcomes improvement. And then when we bought the global sourcing company, Peter Fine said, I get this, I don't know why I would buy a global sourcing company if I can use yours and I can buy gloves, he has his own distribution center and I can bring it into my distribution center and save 15%, why wouldn't I do that?

Same is true of specialty pharmacy. He said why would I build my own?

If I can brand yours, mine, and serve my patients and keep those patients connected to me, that makes sense to me. So what started out as a pure GPO relationship today has generated in the life of the relationship almost \$400 million of value for him and annual run rate of revenue for us of about \$23 million.

So we have a compelling financial profile, we have very strong revenue growth, EBITDA growth in our history. These are the actual numbers. Craig will report pro forma numbers as we're going forward with the business model change, but we are essentially a consolidated net revenue compound annual growth rate of 13% over the last three years, 10% in compound annual growth rate in EBITDA.

You can see the growth rates there in supply chain both net revenue and EBITDA and performance services. Performance services is a very strong and growing business for us.

The acute care GPO is a mature and stable business. The alternate site business is a fast-growing business and these new ventures on the supply chain side of our business in direct sourcing and specialty pharmacy are early-stage businesses.

Consolidated first-quarter highlights, we got through our first quarter and we're gearing up for our second-quarter report out on February 10, I think it is. But you can see here from a pro forma net revenue perspective, Q1 2014 over Q1 2013, roughly 10% growth in supply chain services on the top line, 10% growth in performance services on the top line, and overall EBITDA growth of 8%, 5% pro forma adjusted fully distributed net income.

The guidance that we've provided for fiscal 2014 is pro forma net revenue in supply chain services of \$614 million to \$631 million, performance services \$231 million to \$238 million for a total of \$845 million to \$869 million. Non-GAAP pro forma adjusted EBITDA \$335 million to \$355 million and a non-GAAP, pro forma adjusted fully distributed earnings per share of \$1.20 to \$1.29.

In closing, we are in this for the long term. We think the health care problem in this country is a multi-decade problem.

We don't think it's effectively solved by either government or insurance companies by themselves. We think it needs to be solved with deep understanding of provider data and horizontal payer data connected to really change the way healthcare is delivered.

We have a unique alignment and relationship with our customers. 70% of our customers have been with us for more than 14 years.

We have contracts on the supply chain side. We have contracts on the performance services side. So we have a unique customer alignment.

You've seen all the levels of data we have and the data management capabilities we have and the technology enablement that we have all the way around the cost and quality and safety problems. We have a diversified ability to pull a lot of different levers, so if utilization's going one way or cost problems are going another way, or Washington is talking about bundled payment or ACOs, we have lots of revenue model levers to pull.

And we have historically executed. So we have aggressive targets and we have a compelling financial profile.

So I'll stop there and I think we're over in the Sussex room for some additional Q&A. Thanks so much.