Premier, Inc.

Positioning for long-term growth, but short-term headwinds may persist

Reiterate Rating: UNDERPERFORM | PO: 21.00 USD | Price: 21.53 USD

Strategic levers can help, but core still under pressure

While Premier continues to make progress on operational reprioritization, we see elevated execution risks with core operations still under pressure. On the plus side, the strategic review is now complete, and management provided an initial FY24 guide, both of which improve visibility. Finding new ownership for Contigo, an asset that is experiencing decelerating growth should also help simplify operations given the direct to employer offering is outside the scope of Premiers core business. Further, management expects the potential divesture of Contigo and S2S Global to be slightly accretive to EBITDA. Meanwhile, the resumption of share buybacks should help bolster EPS. However, the benefits from these strategic levers only partly offset the pressures experienced in the core business. The FY24 guide was meaningfully below ST/BofA expectations. Importantly, Performance Services, the higher growth contributor to the business is expected to decelerate meaningfully in FY24. Meanwhile, ongoing net-admin fee pressure from contract restructuring continue to weigh on Supply Chain Services. While incremental visibility is a plus, with limited growth expansion opportunities and decelerating Performance Services growth, we continue to view PINC as a steady supply chain company rather than as a health IT- provider warranting a higher multiple. We reiterate our Underperform rating and $21 PO on ~5.5x CY24E EV/EBITDA (5.0x prior). Our multiple increases slightly to reflect peer multiple expansion.

We reduce our estimates across both segments

We are reducing our FY24 revenue from $1,342.3MM to $1,296.5MM to reflect lower revenue across both segments. We also reduce our FY24 adjusted EBITDA estimate from $446.4MM to $410.0MM to reflect lower revenue and decremental operating leverage. Our FY24 EPS moves from $2.08 to $2.15, primarily reflecting the benefit of lower diluted shares as our model considers the $400MM accelerated repurchase transaction embedded in the FY24 guide.

Upcoming catalysts: Execution on core and M&A

Looking ahead, incremental updates on the planned divestures of Contigo and S2S Global and execution toward the FY24 guide will be key drivers. Other factors that could drive shares include any incremental color on utilization and fee-share dynamics.

Estimates (Jun) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	2.55	2.50	2.15	2.43	2.52
GAAP EPS	2.09	1.99	1.50	1.72	1.79
EPS Change (YoY)	4.1%	-2.0%	-14.0%	13.0%	3.7%
Consensus EPS (Bloomberg)			2.17	2.23	2.36
DPS	0.79	0.84	0.88	0.88	0.88
Valuation (Jun)					
P/E	8.4x	8.6x	10.0x	8.9x	8.5x
GAAP P/E	10.3x	10.8x	14.4x	12.5x	12.0x
Dividend Yield	3.7%	3.9%	4.1%	4.1%	4.1%
EV / EBITDA*	6.1x	6.1x	7.4x	7.1x	6.8x
Free Cash Flow Yield*	11.9%	12.1%	10.7%	8.3%	8.6%

* For full definitions of *iQmethod*[SM] measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 8. Price Objective Basis/Risk on page 8. 12656100

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06 February 2024

Equity

Key Changes

(US$)	Previous	Current
2024E EPS	2.08	2.15
2025E EPS	2.33	2.43
2024E EBITDA (m)	446.4	410.0
2025E EBITDA (m)	490.0	431.2
2026E EBITDA (m)	522.3	449.5

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Stock Data

Price	21.53 USD
Price Objective	21.00 USD
Date Established	7-Nov-2023
Investment Opinion	B-3-7
52-Week Range	18.89 USD - 33.75 USD
Mrkt Val (mn) / Shares Out (mn)	2,998 USD / 139.2
Free Float	98.5%
Average Daily Value (mn)	18.47 USD
BofA Ticker / Exchange	PINC / NAS
Bloomberg / Reuters	PINC US / PINC.OQ
ROE (2024E)	9.8%
Net Dbt to Eqty (Jun-2023A)	14.1%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

GPO – Group purchasing organization

LSD – Low-single digit

MSD – Mid-single digit

HSD – High-single digit

*iQprofile*SM Premier, Inc.

iQ*method SM – Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.9%	10.7%	8.1%	8.4%	9.0%
Return on Equity	13.8%	13.1%	9.8%	9.5%	10.3%
Operating Margin	25.7%	30.3%	24.5%	25.4%	25.8%
Free Cash Flow	357	362	319	248	256

iQ*method SM – Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.5x	1.7x	1.4x	1.4x
Asset Replacement Ratio	0.7x	0.6x	0.7x	0.7x	0.7x
Tax Rate	24.1%	25.8%	27.5%	27.9%	27.9%
Net Debt-to-Equity Ratio	3.1%	14.1%	-2.9%	2.7%	8.4%
Interest Cover	33.0x	28.0x	NA	NM	34.9x

Income Statement Data (Jun)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,433	1,336	1,297	1,327	1,372
% Change	-16.7%	-6.8%	-3.0%	2.4%	3.4%
Gross Profit	885	896	848	868	898
% Change	5.7%	1.3%	-5.4%	2.3%	3.5%
EBITDA	499	500	410	431	449
% Change	5.4%	0.2%	-18.0%	5.2%	4.2%
Net Interest & Other Income	40	2	22	8	2
Net Income (Adjusted)	**310**	**299**	**246**	**249**	**256**
% Change	**2.6%**	**-3.4%**	**-17.7%**	**1.0%**	**2.9%**

Free Cash Flow Data (Jun)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	268	175	201	209	216
Depreciation & Amortization	129	134	132	138	143
Change in Working Capital	7	45	79	(8)	(8)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	40	91	6	6	6
Capital Expenditure	(87)	(82)	(97)	(97)	(100)
Free Cash Flow	**357**	**362**	**319**	**248**	**256**
% Change	**12.0%**	**1.5%**	**-11.8%**	**-22.4%**	**3.4%**
Share / Issue Repurchase	(250)	0	(400)	(150)	(150)
Cost of Dividends Paid	(96)	(100)	(101)	(90)	(89)
Change in Debt	(24)	(36)	(265)	0	125

Balance Sheet Data (Jun)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	86	90	231	86	75
Trade Receivables	114	115	103	106	109
Other Current Assets	445	437	389	397	409
Property, Plant & Equipment	213	212	242	267	292
Other Non-Current Assets	2,498	2,518	2,503	2,487	2,469
Total Assets	**3,357**	**3,371**	**3,469**	**3,342**	**3,354**
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	600	499	519	521	528
Long-Term Debt	155	418	153	153	278
Other Non-Current Liabilities	353	119	119	119	119
Total Liabilities	**1,108**	**1,037**	**792**	**794**	**926**
Total Equity	**2,249**	**2,334**	**2,677**	**2,549**	**2,428**
Total Equity & Liabilities	**3,357**	**3,371**	**3,469**	**3,342**	**3,354**

* For full definitions of *iQmethod*SM measures, see page 9.

Company Sector

Healthcare Technology & Distribution

Company Description

Premier is the second-largest group purchasing organization (GPO), aggregating more than $67Bn of medical supply spend for its hospital/provider customers. The company has used its scale to build additional capabilities, both organically and through acquisitions, to offer additional capabilities to its customer base. These include analytics tools, workflow enhancements, direct sourcing, and other items.

Investment Rationale

Our Underperform rating is driven by a lack of incremental catalysts to drive outsized growth, with the stock accurately reflecting the upside potential when compared with its supply chain/health IT peers, in our view. PINC still has the ability of its GPO to drive cost savings for health system customers as well as benefit from the Products sell-through (COVID-upside), but we see limited growth expansion opportunities beyond this.

Stock Data

Average Daily Volume	858,036

Quarterly Earnings Estimates

	2023	2024
Q1	0.52A	0.54A
Q2	0.72A	0.60A
Q3	0.58A	0.46E
Q4	0.68A	0.54E

FY2Q'24 Call Takeaways

Prepared Remarks

- Capabilities key to mission:
    - Provider led technologies key
    - Differentiation is data, technology, and wide scale
- Strategic review
    - Find owners for Contigo and S2S Global
    - Contigo – expect provider/sponsor health plans will progress, but outside partners can drive broader partnerships/scale
    - S2S Global – was as strategic business to augment chain services with commodity purchases.
- 10Yr agreement with Tufts Health

Financials

- 2Q results:
    - Total net revenue declined, met expectations for profitability
    - Supply chain services – net admin fees impacted by aggregated blended fee share to mid-50's level. Offset by growth in member purchasing
    - Direct sourcing – Excess market supply – lower demand/pricing driving lower products revenue
    - Manufacturing – domestic gown manufacture (Tennessee). Expect to launch domestic glove program in 2024
    - Drug resiliency program supports 150 drugs
    - Performance Services – Enterprise license agreements revenue down. Driving growth in consulting services business (clinical/margin improvement)
    - Adj. Markets business grew 29% in aggregate. Applied Sciences business – TFS Health Science partnership for real-world evidence.
    - Market validation – Tech-enabled margin improvement. 100k manual paper invoices automated per client.
    - EBITDA impacted by:
        - Performance service adj. EBITDA decreased due to lower revenue and higher headcount for consulting/adj. market growth
        - Supply chain services adj. EBITDA down due to revenue and increased Opex to support business. Lower logistics/product costs offset in Direct Sourcing

- FCF – Impacted by tax payments and increase in capitalized software
- Final purchase price to be up to $740MM- true up period ends in February. Using proceeds to paydown revolving credit facility
- Board approved $1Bn share repurchase authorization with $400MM accelerated share repurchase
- Declared a dividend of $0.21/share as of March 1st.

- FY24 Guidance:
  - Total Net Revenue: $1.265Bn to $1.325Bn
    - Supply Chain Services: $840MM to $880MM
    - Performance Services: $425MM to $445MM
  - Adjusted EBITDA: $405MM to $425MM
  - Adjusted EPS: $2.06 to $2.18. Includes a $0.09-$0.10 impact from share repurchases
  - FCF to be 45-55% of adj. EBITDA
  - Does not incorporate more than $400MM repurchase or any M&A
  - Expect aggregate blended fee share in mid-high 50's.
  - Assuming that patient utilization remains stable – flat to LSD growth
  - Direct sourcing – reached lower end of quarterly run rate of the business. Expect flat to nominal sequential growth, pricing/utilization normalize. Glove/Gown initiatives to help offset pressure
  - Performance Services:
    - Contigo Health – Revenue contribution as 40% of aggregate adj. markets business
    - Contigo Health to represent 1/3 of aggregate adj. markets revenue in FY24

Q&A

- Why did Contigo and S2S stand out as best assets to divest? Timeline?
  - Became apparent that there was interest in S2S and Contigo Health assets. Right partners can support growth.
  - Not necessarily core to capabilities
  - Look at the businesses – scale/resources and expertise that other partners can bring to these businesses is important
- Cut assumptions pretty heavily for Performance Services. Doesn't look like 1H was that bad, why change the outlook so much?
  - Take out last year tough comp, 1H was fine

  - FY guidance – not seeing growth in Contigo Health that had anticipated at start of the year (haircut). Shrinking relative to less of adj. Markets business
  - Strategic alternative review business somewhat impacted
  - Tapered expectations for Enterprise License Agreement – taking longer to get over finish line. Given profitability of license agreement – flows through to EBITDA as well
- Quarterly cadence and how to think about 3Q/4Q for Supply Chain and Performance Services?
  - Supply Chain Services – expect slight step-up q/q in 3Q and relatively flat 3Q to 4Q
  - Expect some step up in direct sourcing given hit bottom rung
  - Performance services – 2Q repeating itself through 2H. Some gap closure plans that could help 3Q step up, but largely in line with 2Q
- TRPN Assets bought in Contigo – is that in the divesture?
  - Third-party admin business, TRPN network, Center of Excellence business
  - Was revenue associated with TRPN assets fully in 2023 numbers? – not about 8 months in 2023 and FY in 2024
- Contigo and S2S, are there any other parts of the business that could be affected by not having this business?
  - Not expect material dis-synergies
  - Would highlight that S2S business is a contracted GPO supplier. So do achieve GPO administrative fees – expect that to continue. If they chose not to do a GPO contract, would impact, but unlikely
- How do you expect to finance Accelerated Repurchase Program (ASR)?
  - Will use cash to finance repurchase. Some potential, may have a short-term bridge to support the financing
- Some of the softness in Contigo driven by Strategic Review. What other businesses would be impacted?
  - Performance Services overall – strategic review has had customers across all businesses have questions on what the future holds
  - Excited to get that behind
  - Contigo/S2S – excited to see what a partner can do there
  - FCF conversion – Contigo/S2S in guidance
  - Expect slight improvement in working capital if Contigo/S2S is sold
- What determines timing/likelihood of $600MM repurchase ex- ASR?

  - Do not expect to be in the market while ASR is there. Could likely take through 1Q FY25
  - August 2024 is when you can expect timing for additional $600MM in repo
  - Either open market or another ASR
- Direct sourcing business – would partnerships on gowns/gloves be included in divesture?
  - Depends on nature of negotiations
  - Gloves/Gowns/Masks are independent today
- Sourcing profitability – Gross margin improved, but revenue pressures?
  - Low-single digit EBITDA margin business
- Contigo – did about $40MM in revenue last year, about same this year. Adj. markets about $10MM quarterly decrease. Is the 2H revenue reduction because Contigo is higher in 1H and lower in 2H or Enterprise License is much lower in 2H?
  - Contigo comments accurate
  - Don't expect a significant step back in adj. Markets in 2H
  - 2Q Applied Sciences business was strong, may not grow at that clip in 2H, but still strong
  - Not being aggressive on Enterprise License Agreements
- Share back rate exiting FY24? Do you expect FY25 to be in line with market?
  - Expect FY24 fee share rate to be in the mid 50% range
  - If further consolidation continues in marketplace, could see pressure that drives above mid-50% range fee share
- Interested on timing on when Contigo? Why wasn't partnership done earlier?
  - Contigo announcement due to: Process continued to evolve, there was a lot of interest in the asset
  - Like to find a partner that can collectively support health systems in pay-vider space
  - Team/Board felt it was time to really move out of the strategic review
- Hoping for updated perspective Premier's ability to capture better hospital margins?
  - At end of CY23 – inpatient volumes up 1.4%, outpatient up 1.6%
  - Expect a bit of a tailwind for supply chain capabilities
  - Three significant issues in healthcare:
    - Labor issue – well positioned to deal with this (AI solutions to drive automation)

        - Strategy on focusing on prior authorization is differentiated with data and AI
        - Pharmaceutical real world evidence business is unique
        - Supporting scale – help bend cost curve

- Performance Services in 2H?
    - Generally – expect 3Q/4Q to be broadly in line with 2Q. Some gap closure expectations for Contigo to be in that level
    - Adj. EBITDA – expectations would be relatively consistent with revenue cadence for FY24
- Would partnerships be majority interest? Control aspect and investment side?
    - Expectation would be majority to all control/leadership would transfer to new owner
- Contribution from sourcing and Contigo. If Contigo/S2S Global moved to partner, would it be material to EBITDA?
    - Slightly accretive to EBITDA, but not tremendously material
- Natural growth rate of the businesses in FY23/24 – what should it have been?
    - Independent of Fee Share pressure, should be Low-single digit growth. With fee-share pressure, mid-single digit decline
    - Performance services – core provider technology – low to mid-single digit. Adj. Markets – 30-40% growth businesses. Contigo slowdown brought it to 20%.
- What will determine if you'll move this to discontinued operations?
    - With a formalized plan expect it be in discontinued operations

Price objective basis & risk

Premier, Inc. (PINC)

Our $21 price objective is based on about 5.5x our CY24 EV/EBITDA estimate. This multiple is roughly in line with the five-year average, both on an absolute multiple basis as well as its relative 25% discount to the S&P 500, and incorporates the mix shift toward lower-margin non-GPO revenue as well as not fully normalizing for the tax changes.

Downside risks to our PO are enhanced pricing pressure in the GPO market, shifts in profitability tied to the change in admin fee share due to the ownership restructuring, competition from new e-commerce entrants, ongoing pressures on Performance Services revenue growth, any volume fluctuations related to the COVID-19 outbreak, and a slowdown in specialty market growth. Upside risks are accelerated demand for new IT systems, share gains within the GPO market, and incremental contributions from deployed cash flow.

Analyst Certification

I, Allen Lutz, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omnicell Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

*iQ*method℠ Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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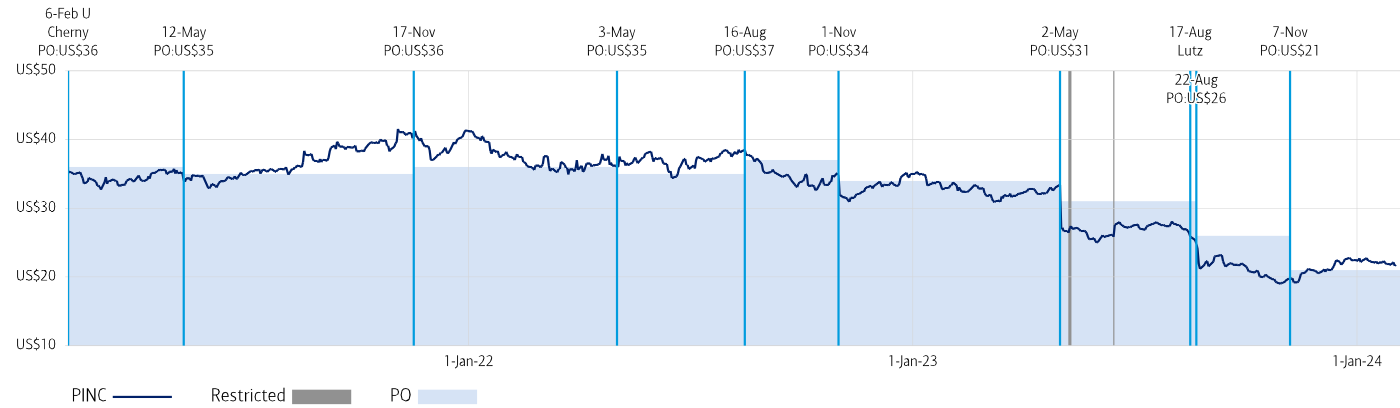
Disclosures

Important Disclosures

Premier, Inc. (PINC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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