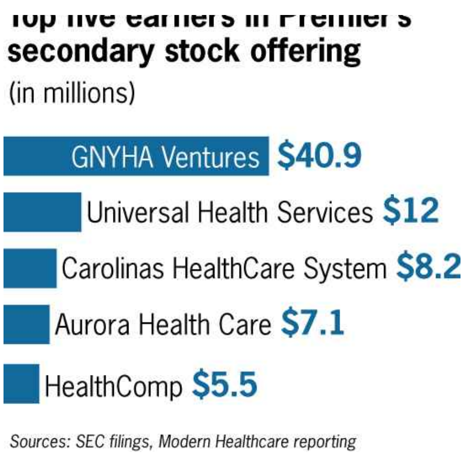
Modern Healthcare



About one-fifth of the hospitals, health systems and purchasing groups that own the **Premier** healthcare alliance made nearly $120 million by selling shares in a secondary offering underway this month.

Premier, a Charlotte, N.C.-based group purchasing organization and data and analytics provider, **filed an initial public offering (http://www.modernhealthcare.com/article/20130926/NEWS/309269942)** last year, making it one of two publicly traded GPOs.

Premier's restructuring included an option for the 177 organizations that are both members and owners of Premier to convert their Class B shares for Class A public shares and sell one-seventh of those shares each year for seven years. Doing this allows the member-owners to make money off their ownership in Premier for the first time.

On Nov. 13, Premier announced the pricing of the **secondary offering (http://www.modernhealthcare.com/article/20141031/blog/141039969)** of 3,709,394 shares of Class A common stock for $32.25 per share, totaling $119.99 million on a pre-tax basis.

About one-third of the shares sold were owned by GNYHA Ventures, a for-profit subsidiary of the **Greater New York Hospital Association** that operates a GPO. The New York-based company earned $40.9 million on a pre-tax basis when it sold 1,264,600 shares, the total amount it could sell on the public market.

As of June 2014, GNYHA Services owned about 12% of Premier, making it the company's largest owner. “We decided it made sense for us to diversify our investment holdings,” Lee Perlman, president of GNYHA Ventures, said in a statement. “Our business relationship with Premier has never been stronger and we look forward to its continued growth.”

Universal Health Services, a King of Prussia, Pa.-based publicly traded hospital company that operates 136 hospitals, sold 272,113 shares, bringing in roughly $12 million on a pre-tax basis.

Another 18 member-owners opted to exchange their class B shares for 975,873 shares of Class A common stock but did not sell those shares in the offering.

In the year since Premier went public, some analysts have applauded the company's performance. Michael Cherny, a managing director and analyst for ISI Group, last month told Modern Healthcare that Premier's performance as a publicly traded company has been “remarkably consistent,” noting growth in net administrative fees and the handful of acquisitions it has made.

Group purchasing organizations negotiate contracts on behalf of their members, which can range from hospitals to nursing homes. In return, they receive administrative fees up to 3% on the costs of supplies.

A report released last month by the American Hospital Association found that 56% of hospitals buy the majority of their medical products through a national GPO and self-contract or buy off-contract for about 25% of purchases. Hospitals tend to stay with their primary GPO for about 11 years on average.

But there are broader pressures that may be affecting the company's business and group purchasing in general. Some hospital systems are bypassing the GPO and contracting directly with medical device manufacturers as they seek to reduce the costs of supplies. In recent years, several new hospital-owned purchasing organizations cropped up. In addition, the device sector is rapidly consolidating, in part to push back against ongoing pricing pressure.

“They are getting squeezed on both sides,” said Sean Wieland, an analyst for Piper Jaffray. “Health systems know this business better than any of us and they are selling their stock.”

ISI Group's Cherny said it's not surprising that some hospitals would decide to sell shares for cash. “Hospitals tend to have financial challenges,” he said. “More importantly, these member-owners tend to be very dedicated and loyal customers.”

Follow Jaimy Lee on Twitter: ***@MHjlee***

Tags: **Finance**, **Group Purchasing Organizations**, **Hospitals**, **Providers**, **Supply Chain**