20th Annual Sohn Investment Conference

Arthur Baer

May 4, 2015

Cavendish Fund Management LLC   www.cavendishfunds.com

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Company Overview

- Premier (PINC) is a healthcare services company operating two divisions: Supply Chain Services (Group Purchasing Organization or GPO) and Performance Services (Consulting and Software)
- Total Member base of 3,400 hospitals (2,100 are part of the GPO) and 110,000 alternate care sites
- 73% of Premier's revenue and 97% of cash flow comes from the Supply Chain Services (GPO) division
- GPO economic model:
  - Pre-negotiate contracts with healthcare supply vendors
  - Charge the vendors a 1%-3% Admin Fee on products purchased by Premier GPO members through these contracts
  - Premier then pays a portion of the Admin Fee back to its members in a Revenue Sharing program
- GPO's are a fully evolved and competitive market:
  - 96% of all acute care hospitals are in at least one GPO
  - 72% of purchases that hospitals make are made using GPO contracts

PREMIER

Current Capitalization

Share Price (5/1/15)	$	37.70
Shares Outstanding		
Class A (mm)		37.35
Class B (mm)		106.66
Total Shares		144.01
Market Cap (mm)	**$**	**5,429**
Net Debt (mm)	**$**	**(440)**
Enterprise Value (mm)	**$**	**4,989**

Division Revenue and EBITDA

TTM December 31, 2014										
Division		**Net Revenue**			**Adjusted EBITDA**		**Capex**		**Adj EBITDA Less Capex**	
Supply Chain Services (GPO)	$	689,708	73.4%	$	374,481	$	2,780	$	371,701	96.5%
Performance Services (Consulting/Software)	$	250,109	26.6%	$	81,389	$	68,007	$	13,382	3.5%
Total Operating Divisions	$	939,817	100.0%	$	455,870	$	70,787	$	385,083	100.0%
Corporate	$	-		$	(81,995)	$	2,298	$	(84,293)	
Total	$	-		$	373,875	$	73,085	$	300,790	

PINC Short Thesis

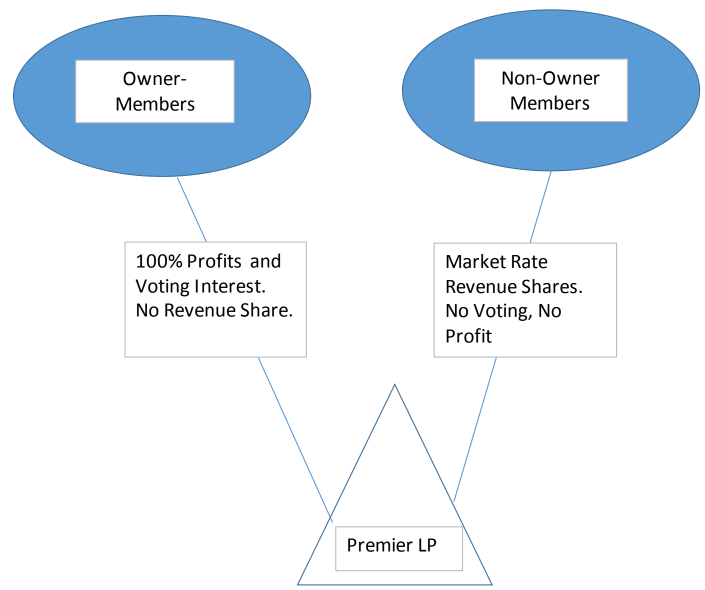
- **Premier's accounting obfuscates the economic reality of its business by publishing misleading financial statements that omit significant expenses required for ongoing operations**
- The omitted expenses are related to a change in economics and corporate structure with Premier's members that took place at the time of the company's IPO in Sept 2013
- These expenses, in the form of consideration paid to its own customers, represent 35% to 77% of the earnings power of the business (depending on methodology used) and are not reflected in the income statement
- Premier also has an undisclosed open and ongoing investigation with the Office of Inspector General (Health and Human Services) that was identified through a Freedom of Information Request and there is an undisclosed arrangement with a paid advisor to the Board
- Premier trades at a premium to its closest peer which based on the structural/regulatory risks and actual earnings power, it does not deserve
- After deducting the actual expenses needed for ongoing operations, there is significant downside and <u>**Premier is fairly valued at $14.50 / share, 62% lower than the current market price**</u>

Pre-IPO Corporate Structure

A Simple Structure, with no Outside Stakeholders…

- Premier was a partnership owned by its members
- Owner-Members did not receive any revenue share of the Admin Fees, but split the profits of the company based on their purchasing volume
- Non-Owner Members received a market rate Revenue Share of the Admin Fees which averaged 66%
- All profits were distributed to the Owner-Members and there would have been no profits available for public shareholders
- 77% of gross Admin Fees came from Owner-Members and 23% of gross Admin Fees came from Non-Owner Members

Pre-IPO Structure



Certain Subsidiaries and Holding Companies Not Pictured For Simplicity of Presentation

Gross Admin Fee Breakdown

FY 2013 (Ending 6/30/13)	Gross Admin Fees	
Owner Members	$ 471,045	76.6%
Non-Owner Members*	$ 143,510	23.4%
Total gross administrative fees	$ 614,555	100.0%

*Adjusted for Innovatix pass through fees of $31,855.

Post -IPO Corporate Structure

A Complex Structure, with Outside Stakeholders…

- No economic changes For Non-Owner Members
- Owner-Members designate Premier as their Primary GPO and execute "longer" term GPO Participation Agreements that can be cancelled for convenience by either party with 1 year notice

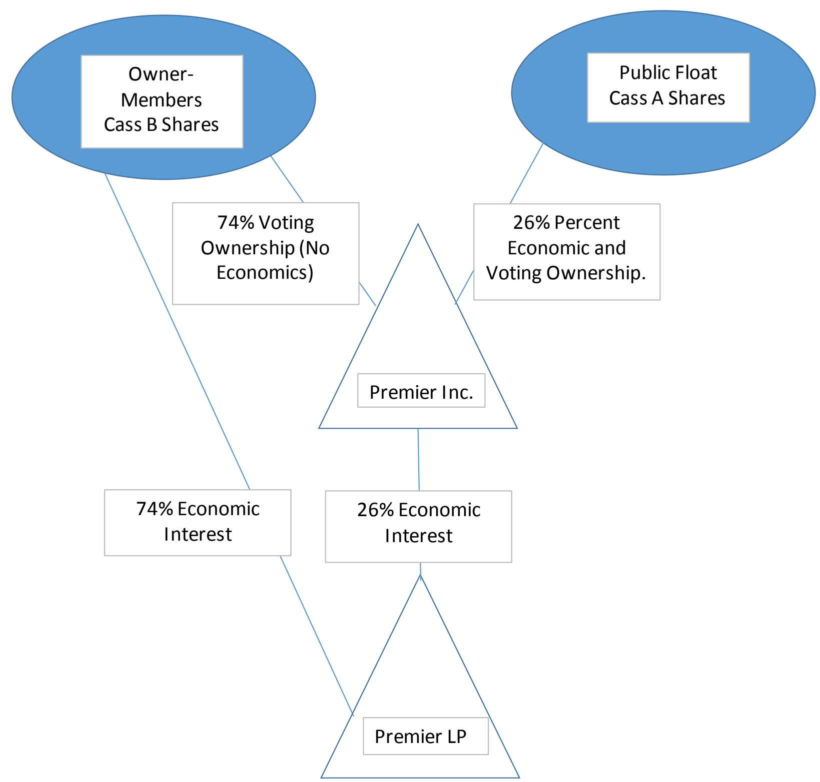
Owner-Member Key Economic Consideration:

- 30% revenue share of Admin Fees related to that Owner-Member
- "Tax" Distributions that are paid quarterly to cover pro-rata share of partnership income (whether or not they are taxpayers)
- Class B shares that vest annually over 7 years and can be exchanged for Class A shares issued to the public

Termination:

- If either party cancels the GPO Participation Agreement, the Owner-Member stops receiving the Revenue Share and the "Tax" Distribution
- Unvested Class B shares can be repurchased by Premier at a below market price
    - Three limited partners have had their unvested Class B shares repurchased since the IPO for $2.35 / share

Post-IPO Structure



Certain Subsidiaries and Holding Companies Not Pictured For Simplicity of Presentation

Accounting

Under the New Post-IPO Premier Substituted the "Tax" Distributions and the Class B Equity Consideration for a Significantly Below Market Revenue Share and Neither are Included as Operating Expenses

- 30% Revenue Share of Admin Fees treated as a reduction in revenue (GAAP compliant)
- "Tax" Distributions currently accounted for as an adjustment to Redeemable Limited Partners Capital on the balance sheet and a financing transaction on cash flow statement
- Class B Shares currently accounted for as an adjustment to Redeemable Limited Partners Capital on the balance sheet and as the net change (from period to period) in market value in a line item called "Adjustment of redeemable limited partners' capital to redemption amount" below net income
  - The labeling itself is misleading because it has nothing to do with the redemption amount of unvested share (as seen earlier in the actual redemptions)

Redeemable Limited Partners Capital Account Roll Forward (Balance Sheet Account)

	Receivables From Limited Partners	Redeemable Limited Partners' Capital	Accumulated Other Comprehensive (Loss) Income	Total Redeemable Limited Partners' Capital
June 30, 2014	$ (18,139)	$ 3,262,666	147	$ 3,244,674
Distributions applied to receivables from limited partners	$ 1,635			$ 1,635
Repurchase of redeemable limited partnership interest		$ (1,515)		$ (1,515)
Net income attributable to Premier LP		$ 54,816		$ 54,816
Distributions to limited partners		$ (22,691)		$ (22,691)
Net unrealized gain on marketable securities			$ (62)	$ (62)
Adjustment to redemption amount		$ 382,657		$ 382,657
30-Sep-14	$ (16,504)	$ 3,675,933	$ 85	$ 3,659,514

Accounting for Consideration to Customers

Providing Consideration (Including Equity) to Customers is Not Unique, in Fact FASB has Very Clear Guidance Relating To These Issues…

- Cash payments should be a reduction in revenue and Equity should be an expense, both in the periods earned by the customer

Tax Distribution

How should it be accounted? <u>As a Reduction in Revenue</u>
EITF ABSTRACTS Issue No. 01-9: Accounting for Consideration Given by a Vendor to a Customer

"The Task Force reached a consensus that cash consideration (including a sales incentive) given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement."

When should it be expensed? <u>As Earned</u>

"The Task Force reached a consensus that the vendor should recognize the rebate or refund obligation as a reduction of revenue based on a systematic and rational allocation of the cost of honoring rebates or refunds earned and claimed to each of the underlying revenue transactions that result in progress by the customer toward earning the rebate or refund."

Equity Consideration

How should it be accounted? <u>As an Expense</u>
EITF ABSTRACTS Issue No. 01-9: Accounting for Consideration Given by a Vendor to a Customer

(emphasis added). "If the consideration consists of ………anything other than cash (including "credits" that the customer can apply against trade amounts owed to the vendor) <u>*or equity instruments*</u> ….. the Task Force reached a consensus that the cost of the consideration should be characterized as an expense…."

When should it be expensed? <u>When Vested</u>
EITF ABSTRACTS Issue No. 96-18 : Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

"Equity issuances must be accounted for at the earlier of (i) "the date at which a commitment performance by the counterparty to earn the equity instruments is reached" or (ii) "the date at which the counterparty's performance is complete."

What Value Should We Use? <u>Fair Value</u>

"……should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable."

True Business Economics

Two Methods to Evaluate the Actual Economics of this Business

Option #1	Option #2
Adjust the company's earnings to account for a market rate Revenue Share instead of the arbitrary 30%	Value the consideration provided to the Owner-Members that they are now accepting and expense that amount 1) "Tax" Distributions 2) Equity Consideration

Option #1: Normalized Revenue Share Rates

30% Revenue Share Paid to Owner-Members is Not a Market Rate…

Historical Revenue Share

Premier has historically paid Non-Owners substantially higher Revenue Share percentages averaging 66.4% in total.

(FY Ending 6/30/13)	Rev Share	Adj GNYHA	Excluding GNYHA
Non-Owner Members Gross Admin	$ 143,480	$ (49,000)	$ 94,480
Non-Owner Members Revenue Share*	$ (95,306)	$ 36,900	$ (58,406)
Net Admin Fees	$ 48,174	$ (12,100)	$ 36,074
Revenue Share: Non-Owner Members	66.4%		61.8%

*Adjusted for Innovatix pass through fees of $31,855.

Premier's Largest Customer

GNYHA, the largest customer representing 8.4% of net revenue, was paid a 75.3% Revenue Share (before converting to an Owner-Member)

GNYHA	Implied Gross Admin	2013 Revenue Share	Net Admin	Implied Revenue Share
Non-Owner Member	$ 49.00	$ 36.90	$ 12.10	75.3%
Owner Member	$ 35.30	$ -	$ 35.30	0.0%
	$ 84.30	$ 36.90	$ 47.40	

Non-Owner Member from Jul '12 - Dec '12 and Owner-Member from Jan '13 - June '13.

Competitor

MedAssets currently pays a 41.1% Revenue Share and forecasts a 100-200 bp increase in 2015 (with annual increases every year)

MedAssets - Revenue Share

	2014	2013	2012
Gross Admin Fees	$ 494,927	$ 472,113	$ 427,698
Revenue Share	$ 203,564	$ 182,638	$ 160,783
Revenue Share %	41.1%	38.7%	37.6%
Annual Increase	6.32%	2.91%	7.12%
Five Year Total Increase	21.72%	14.49%	11.25%

"…our forecasted 100 to 200 basis points increase in revenue share obligation rate due to renewal pricing in a competitive market environment, consistent with previous year-over-year increases."

"…..if you look back at the annual results for the company, you'll see year-over-year increases in revenue share obligation pretty much throughout and certainly the rate this year is indicative of some prior years slightly different but not dramatically different."

Option #1: Normalized Revenue Share Economics

An Adjustment in Revenue Share Percentages has a Huge Impact…

- Net Admin Fees have no direct costs – a $1 reduction in net Admin Fees, will equate to $1 reduction in operating income
- Premier is overstating operating income by $195 million using their own historical Revenue Share Percentages or $129 million using a more conservative 54% (average of MedAssets actual and Premier historical)

Normalized Revenue Share Adjustment

	Current LTM	54.0% Rev Share LTM	66.40% Rev Share LTM
Owner-Members (Estimated)	$ 536,732	$ 536,732	$ 536,732
Non-Owner Members (Estimated)	$ 163,917	$ 163,917	$ 163,917
Gross Admin Fees (Estimated)	$ 700,649	$ 700,649	$ 700,649
Revenue Share Percentage	30.00%	54.00%	66.40%
Revenue Share - Owner Members	$ 161,020	$ 289,836	$ 356,390
Revenue Share Percentage*	61.80%	61.80%	61.80%
Revenue Share - Non-Owner Members	$ 101,301	$ 101,301	$ 101,301
Net Administrative Fees	$ 438,329	$ 309,513	$ 242,958
Change From Current	N/A	$ (128,816)	$ (195,371)
% Impact to LTM EBITDA	**N/A**	**-34.45%**	**-52.26%**
% Impact to LTM EBITDA Less Capex	**N/A**	**-42.83%**	**-64.95%**

* Disclosed revenue share, after backing out largest member now included as an Owner.

Option #2: Valuing Consideration to Customers

Other Consideration Paid to Owner Members is Significant and is Only Paid so Long as the Owner-Members Maintain Premier as their Primary GPO

Tax Distributions

"Tax" Distributions paid to Owner-Members have been $91 million in the last year. They have been recorded as a financing transaction on the cash flow statement.

		CY - Q4	CY - Q3	CY - Q2	CY - Q1
	LTM - Actual	12/31/2014	9/30/2014	6/30/2014	3/31/2014
"Tax" Distrubution	$ 91.20	$ 23.75	$ 22.69	$ 22.41	$ 22.35

Owner-Members are generally, non-profit and do not pay taxes.

Revenue Reduction Per Year of $91 million

Class B Unvested Shares

Potential Class B Shares (mm)		112.61
Years Vesting		7.00
Class B Shares Per Year (mm)		16.09
Redemption Price	$	2.35
Fair Value	$	14.50
Difference	$	12.15
Operating Expense Per Year (mm)	$	195

- "Tax" Distribution and Equity should be charged as an operating expense on the income statement
- This equity consideration should not be backed out in a pro-forma as customers would not purchase products through Premier unless paid this additional consideration
- In total, Premier is overstating operating income by $286 million ("Tax" Distributions and Equity)

Regulatory Concerns

"Open and Ongoing Investigation" by Office of Inspector General Undisclosed by Premier

Anti-Kickback Statute

Anti-Kickback statute prohibits remuneration in return for recommending products or services that are covered by Medicare/Medicaid

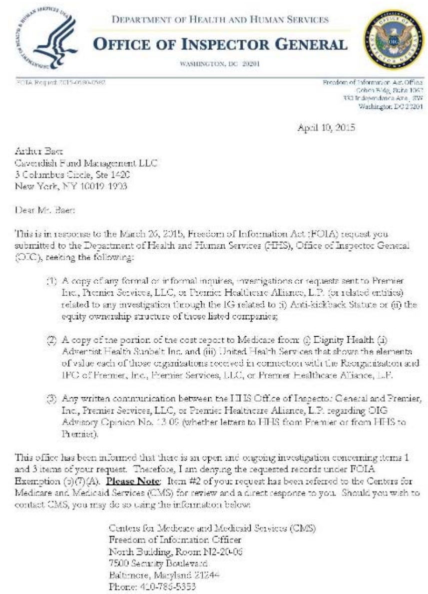
- Certain specific exemptions to the statute that Premier relies to collect - providing equity interests is not one of those exemptions. Admin Fees and remit Revenue Share to its members
- Prior to the IPO, the OIG at the HHS published an Advisory Opinion (at the request of a competitor) which indicated that a similar reorganization could potentially be prohibited under the Anti-Kickback Statute
- Premier maintained their restructuring was different, did not seek (nor receive) approval from the OIG and went ahead with their IPO

Premier disclosed in the 10-k for the FY ending 6/30/14, they had responded to an "informal" request from the OIG

FOIL Request (dated April 10, 2015):

(1) A copy of any formal or informal inquires, investigations or requests sent to Premier Inc., Premier Services, LLC, or Premier Healthcare Alliance, L.P. (or related entities) related to any investigation through the OIG related to (i) Anti-Kickback Statute or (ii) the equity ownership structure of those listed companies;

(3) Any written communication between the HHS Office of Inspector General and Premier, Inc., Premier Services, LLC, or Premier Healthcare Alliance, L.P. regarding OIG Advisory Opinion No. 13-09 (whether letters to HHS from Premier or from HHS to Premier)



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201

FOIA Request 2015-0080-0582

Freedom of Information Act Office
Cohen Bldg, Suite 1062
330 Independence Ave., SW
Washington, DC 20201

April 10, 2015

Arthur Baer
Cavendish Fund Management LLC
3 Columbus Circle, Ste 1420
New York, NY 10019-1903

Dear Mr. Baer:

This is in response to the March 26, 2015, Freedom of Information Act (FOIA) request you submitted to the Department of Health and Human Services (HHS), Office of Inspector General (OIG), seeking the following:

(1) A copy of any formal or informal inquires, investigations or requests sent to Premier Inc., Premier Services, LLC, or Premier Healthcare Alliance, L.P. (or related entities) related to any investigation through the IG related to (i) Anti-kickback Statute or (ii) the equity ownership structure of those listed companies;

(2) A copy of the portion of the cost report to Medicare from (i) Dignity Health (ii) Adventist Health Sunbelt Inc. and (iii) United Health Services that shows the elements of value each of those organizations received in connection with the Reorganization and IPO of Premier, Inc., Premier Services, LLC, or Premier Healthcare Alliance, L.P.

(3) Any written communication between the HHS Office of Inspector General and Premier, Inc., Premier Services, LLC, or Premier Healthcare Alliance, L.P. regarding OIG Advisory Opinion No. 13-09 (whether letters to HHS from Premier or from HHS to Premier).

This office has been informed that there is an open and ongoing investigation concerning items 1 and 3 items of your request. Therefore, I am denying the requested records under FOIA Exemption (b)(7)(A). **Please Note**: Item #2 of your request has been referred to the Centers for Medicare and Medicaid Services (CMS) for review and a direct response to you. Should you wish to contact CMS, you may do so using the information below:

Centers for Medicare and Medicaid Services (CMS)
Freedom of Information Officer
North Building, Room N2-20-06
7500 Security Boulevard
Baltimore, Maryland 21244
Phone: 410-786-5353

"This office has been informed that there is an open and ongoing investigation concerning items 1 and 3 items of your request. Therefore, I am denying the requested records under FOIA Exemption (b)(7)(A)."….. "Exemption (b)(7)(A) permits the withholding of investigatory records compiled for law enforcement purposes when disclosure could reasonably be expected to interfere with enforcement proceedings."

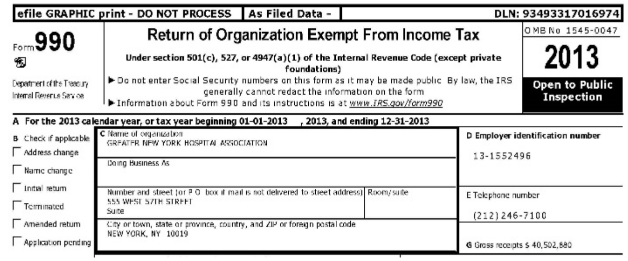
Undisclosed Arrangement

What Exactly is Premier's Relationship With GNYHA?

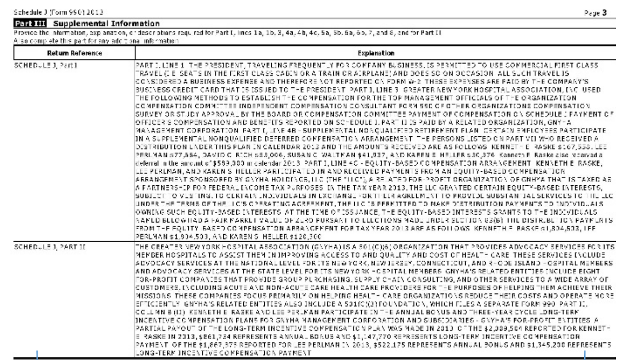
Undisclosed Arrangement

- GNYHA Non-Profit Tax Return discloses an equity based profits interest provided to Lee Perlman from the GNYHA Holdings LLC (the Manger for the beneficial owner of GNYHA's Premier shares)
- Lee Perlman is a former Board member of Premier and currently a paid advisor to the board
- He even introduced the company at the first Investor Day, with a picture tweeted out by Premier

1. Why wasn't this equity related interest disclosed and what exactly is Mr. Perlman's arrangement?
2. Can a GNYHA principal accept profits interest related to Premier equity within the Anti-Kickback statue since he is a customer?



Page 26



"….. Lee Perlman… participated in and received payments from an equity-based compensation arrangement sponsored by GNYHA Holdings LLC….certain equity-based interests subject to vesting……the distribution payments from the equity based compensation arrangement for tax year 2013 are as follows…….Lee Perlman $1,804,503."

Valuation

- With the regulatory risk of an undisclosed investigation and related party dealings, Premier should trade at a multiple lower than peers, however this valuation assumes a 10.0x EV/EBITDA multiple
  - MedAssets, Premier's closest competitor, trades at 8.9x EV/EBITDA
- Adjusting the mischaracterized financials:
  - Option #1: Revenue Share adjustment, results in a normalized EBITDA of $245 million and an Enterprise Value of $2.45 billion ($20 per share)
    - Assumes 54% conservative midpoint Revenue Share
  - Option #2: Accounting Adjustments for "Tax" Distributions and Equity Consideration results in a normalized EBITDA of $87 million and an Enterprise Value of $870 million ($9 per share)
- **My fair value is $14.50, the midpoint, which is 62% lower than the current market price**

Valuation Framework

	Option #1 Normalized Revenue Share	Option #2 GAAP Adjusted	Average
Reported EBITDA	$ 373,875	$ 373,875	$ 373,875
EBITDA Adjustments	$ (128,816)	$ (286,617)	$ (207,716)
Normalized EBITDA	$ 245,059	$ 87,258	$ 166,159
Percent of EBITDA Overstatement	34.5%	76.7%	*55.6%*
EBITDA Multiple	10.00x	10.00x	10.00x
Enterprise Value	$ 2,450,592	$ 872,579	$ 1,661,586
Less: Debt	$ (34,581)	$ (34,581)	$ (34,581)
Add: Cash	$ 474,540	$ 474,540	$ 474,540
Total Equity Value	$ 2,890,551	$ 1,312,538	$ 2,101,545
Per Share Fair Value	$ 20.07	$ 9.11	$ 14.59

Appendix

Planned Equity Offering

Get Ready For The Shares…

The Owner-Members are eligible to sell up to 27.3 million shares (73% of the current Class A float) by November 2015. An underwritten offering is already planned

- Owner-Members owned 112 million Class B shares that are convertible to Class A shares in equal annual installments for 7 years as they vest (16 million shares per year)
- Premier agreed to conduct an underwritten secondary offering each year for three years
- The Owner-Members can also exchange vested shares on a quarterly basis and sell pursuant to rule 144 restrictions
- The first underwritten secondary offering was conducted in November 2014 and the others will be completed in November 2015 and November 2016
- In the first exchange (one year after the IPO), 4.7 million shares of Class B common stock was exchanged
    - The backlog of 11.3 million shares from the first year can be exchanged anytime on a quarterly basis

Potential Shares For Sale	
Class A Outstanding (2/5/2015)	37.35
Class B Shares (at IPO)	111.9
Eligible For Exchange / Sale Each Year (mm)	16.0
Exchanged - Year 1 (mm)	4.7
Backlog From Year 1 (mm)	11.3
Year 2 Eligible (mm)	16.0
Total Eligible Shares Nov '15 (mm)	**27.3**
Percent of Current Class A Float	**73.0%**
Remaining Future Shares Thereafter (mm)	79.9