

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION)	
OF CONTROL OF DENTAQUEST OF)	HEARING OFFICER’S
NEW JERSEY, LLC BY)	REPORT
SUN LIFE FINANCIAL INC.,)	
SUN LIFE GLOBAL INVESTMENTS INC.,)	
SUN LIFE ASSURANCE COMPANY OF)	
CANADA, SUN LIFE 2007–1 FINANCING)	
CORP., SUN LIFE (BERMUDA) FINANCE)	
NO. 2 LLC, SUN LIFE (LUXEMBOURG))	
FINANCE NO. 1 SARL, SUN LIFE)	
(LUXEMBOURG) FINANCE NO. 2 SARL,)	
SUN LIFE ASSURANCE COMPANY OF)	
CANADA–U.S. OPERATIONS)	
HOLDINGS, INC. AND DQ ACQUISITION)	
CORP.)	

Procedural History

In accordance with N.J.S.A. 17:27A–2, by a filing dated October 25, 2021, as supplemented through May 3, 2022, Sun Life Financial Inc., Sun Life Global Investments Inc., Sun Life Assurance Company of Canada, Sun Life 2007–1 Financing Corp., Sun Life (Bermuda) Finance No. 2 LLC, Sun Life (Luxembourg) Finance No. 1 SARL, Sun Life (Luxembourg) Finance No. 2 SARL, Sun Life Assurance Company of Canada–U.S. Operations Holdings, Inc. and DQ Acquisition Corp. (collectively the “Applicants”), filed with the Department of Banking and Insurance (the “Department”) an application to acquire control (“the Form A filing”) of

DentaQuest of New Jersey, LLC. (“DentaQuest” or the “Company”), a New Jersey Licensed Organized Delivery System (“ODS”)¹.

The proposed acquisition will occur pursuant to an Agreement and Plan of Merger dated as of October 3, 2021 (“Merger Agreement”) by and between Sun Life Assurance Company of Canada–U.S. Operations Holdings, Inc. (“SLAC CN–US”), DentaQuest Group, Inc., DQ Acquisition Corp. (“Merger Sub”), Sun Life Financial Inc. (“Sun Life” or the “Ultimate Controlling Entity”) and Slingshot Securityholder Representative, LLC., solely in its capacity as the representative for the stockholders of DentaQuest Group, Inc. Common Stock. As a result, following the completion of the transactions contemplated by the Merger Agreement, Sun Life will become the Ultimate Controlling Entity of DentaQuest, an indirect wholly–owned subsidiary of DentaQuest Group, Inc., as described in detail below.

Pursuant to N.J.S.A. 17:27A–2(d) and after notice was provided in papers of general circulation and on the Department’s website, a public hearing was held on the Form A filing on May 16, 2022. Pursuant to N.J.A.C. 11:1–35.6(g), the public hearing was conducted based on the documents filed. The hearing panel and Department staff determined that the documents filed in connection with the proposed acquisition satisfied the requirements of N.J.S.A. 17:27A–2(b). Public comments were allowed to be submitted to the Department through the close of business on May 16, 2022, and no comments were received. The record was closed on May 16, 2022.

¹ Pursuant to N.J.S.A. 17:48H–16(a) and N.J.A.C. 11:22–4.10, a licensed ODS organized under the laws of the State of New Jersey is treated as a domestic insurer for purposes of the Insurance Holding Company Systems Act, N.J.S.A. 17:27A–1 to –14.

Findings of Fact

DentaQuest was formed in the State of Wisconsin on April 22, 2003 and commenced business on January 13, 2010. On December 21, 2017, DentaQuest became licensed as an ODS for dental in this State. DentaQuest contracts with health plans in New Jersey on both an at-risk and not at-risk basis to administer dental and vision benefits, typically for Medicaid, Medicare Advantage, or dual populations. The immediate parent is DentaQuest LLC, a wholly-owned direct subsidiary of DentaQuest Group, Inc. (“DentaQuest Group”) which in turn is 40% owned by CP Monarch, L.P. and 60% owned by CareQuest Institute for Oral Health, Inc.

Sun Life Financial Inc. is a publicly traded company domiciled in Canada. Sun Life is a foreign private issuer under the U.S. Securities Exchange Act of 1934, as amended, and trades on the Toronto (TSX), New York (NYSE) and Philippine (PSE) stock exchanges under the ticker symbol SLF.

Applicants propose to acquire DentaQuest Group for an aggregate purchase price of approximately \$2.475 billion (base consideration). The proposed acquisition will occur by way of Merger Sub merging into DentaQuest Group (“Merger”). Merger Sub was formed solely for the purpose of engaging in the transactions contemplated by the Merger Agreement. Merger Sub is a direct wholly owned subsidiary of SLAC CN-US, which is in turn 70.0% owned by Sun Life 2007-1 Financing Corp., 15% owned by Sun Life (Luxembourg) Finance No. 2 SARL, and 15% owned by Sun Life (Luxembourg) Finance No. 1 SARL. Together, Sun Life 2007-1 Financing Corp. and Sun Life (Bermuda) Finance No. 2 LLC hold 100% of the voting and economic interests of Sun Life (Luxembourg) Finance No. 2 SARL. The outstanding shares of Sun Life (Luxembourg) Finance No. 1 SARL are owned by Sun Life 2007-1 Financing Corp. Sun Life

2007–1 Financing Corp. is a wholly–owned direct subsidiary of Sun Life Global Investments Inc., which is in turn a wholly–owned direct subsidiary of Sun Life. Sun Life (Bermuda) Finance No. 2 LLC is a wholly–owned direct subsidiary of Sun Life Assurance Company of Canada a stock life insurance company, whose outstanding shares are owned by Sun Life, the Ultimate Controlling Entity. Pursuant to the Merger Agreement, Merger Sub will merge with and into the DentaQuest Group, whereby DentaQuest Group will continue as the surviving corporation and a wholly–owned direct subsidiary of SLAC CN–US. DentaQuest will remain a wholly–owned direct subsidiary of DentaQuest Group, with Sun Life as the Ultimate Controlling Entity. Organizational structure of DentaQuest Group will mirror that of Merger Sub, described above. Subsequent to the proposed transactions, no other individual or entity will hold a voting interest in DentaQuest of 10% or more.

The consideration will be funded with cash on hand, including from proceeds of short–term loans and subordinated debt issuance used in the ordinary course of business. Prior to the closing of the proposed acquisition, SLAC CN–US, through a combination of short–term borrowing and capital contributions from Sun Life (by way of Sun Life Global Investments, Inc. and Sun Life 2007–1 Financing Corp.), will acquire an amount sufficient to pay the purchase price of approximately \$2.475 billion. None of the shares or assets of the DentaQuest will be pledged or encumbered in connection with the issuance. Consummation of the proposed acquisition contemplated by the Merger Agreement is not subject to any financing condition or other financing contingency. Accordingly, the proposed acquisition is not subject to any financing contingency and will not result in acquisition debt of the Applicants that exceeds fifty percent (50%) of the purchase price.

Following completion of the proposed acquisition, the Applicants have no contemplated or actual plans to cause DentaQuest to declare an extraordinary dividend, liquidate DentaQuest, to sell the DentaQuest's assets, merge DentaQuest, or any other material change in DentaQuest's business operations or corporate structure or management. Further, Applicants represent that, the business operations of DentaQuest may change in a manner consistent with sound business practices and the growth and stability of its business, and in accordance with applicable law, including any required regulatory approvals.

Based on the consolidated financial statements filed by Sun Life at year-end 2021, Sun Life reported net before-tax income in United States Dollars ("USD") of \$3.989 billion, net before-tax income in USD of \$2.572 billion in 2020 and net before-tax income in USD \$2.474 billion in 2019.

Analysis

N.J.S.A. 17:27A-2(d)(1) provides that the Commissioner shall approve an acquisition of control of a domestic insurer unless he or she finds that one or more of the seven disqualifying factors set forth therein exist. The statute provides in pertinent part:

The Commissioner shall approve any merger or other acquisition of control ... unless, after a public departmental hearing thereon, he [or she] finds that:

(i) After the change of control the domestic insurer ... would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

(ii) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in this State or tend to create a monopoly therein ... [applying the competitive standard as set forth in the statute];

(iii) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders;

(iv) The financial condition of any acquiring party is such that (a) the acquiring party has not been financially solvent on a generally accepted accounting principles basis, or if an insurer, on a statutory accounting basis, for the most recent three fiscal years immediately prior to the date of the proposed acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); (b) the acquiring party has not generated net before-tax profits from its normal business operations for the latest two fiscal years immediately prior to the date of acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); or (c) the acquisition debt of the acquiring party exceeds 50% of the purchase price of the insurer;

(v) The plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest;

(vi) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger or other acquisition of control; or

(vii) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

Upon a thorough review of the documents submitted into evidence, the hearing panel and Department staff have determined that none of the seven disqualifying factors set forth above should result if the proposed acquisition is effectuated. Each of these conditions is discussed below.

First, after the acquisition, DentaQuest will continue to meet the requirements to transact the business for which it is presently licensed pursuant to Title 17 of the New Jersey Statutes. There is nothing in the record to indicate that after the proposed acquisition DentaQuest would not

be able to continue to satisfy the requirements to transact the business for which it is presently licensed.

Second, it does not appear that the proposed acquisition will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A–2(d)(1)(ii) provides that in applying this competitive standard, the standard set forth in N.J.S.A. 17:27A–4.1(d) shall apply. The statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. The statute by its terms does not apply if, as an immediate result of the acquisition, there would be no increase in the overall market share of the involved insurers after the acquisition. See N.J.S.A. 17:27A–4.1(b)(2)(d). In this case, the proposed acquisition meets these exemption standards in all lines of business because the Applicants and DentaQuest do not compete in any lines of business. Accordingly, the proposed acquisition will not violate the competitive standard set forth in N.J.S.A. 17:27A–4.1 because it does not substantially lessen competition in New Jersey or tend to create a monopoly therein.

Third, it does not appear that the financial condition of the Applicants will jeopardize the financial condition of DentaQuest. Sun Life reported Shareholder equity in USD of \$21.968 billion at year-end 2021. Sun Life reported Shareholder equity in USD of \$20.234 billion in 2020, and \$18.757 billion in 2019.

Fourth, it appears that the financial condition of Sun Life is such that it has been solvent on a basis of generally accepted accounting principles for the three-year period immediately prior to the date of the proposed acquisition. Based on the consolidated financial statements filed by Sun Life at year-end 2021, Sun Life reported net before-tax income in USD of \$3.989 billion, net before-tax income in USD of \$2.572 billion in 2020 and net before-tax income in USD \$2.474 billion in 2019. As stated above, the consideration will be funded with cash on hand, including

from proceeds of short-term loans and subordinated debt issuance used in the ordinary course of business. Consummation of the proposed acquisition contemplated by the Merger Agreement is not subject to any financing condition or other financing contingency. Prior to the closing of the proposed acquisition, SLAC CN-US, through a combination of short-term borrowing and capital contributions from Sun Life (by way of Sun Life Global Investments, Inc. and Sun Life 2007-1 Financing Corp.), will acquire an amount sufficient to pay the purchase price of approximately \$2.475 billion. Further, based on this representation, the requirement that the acquisition debt may not exceed 50 percent of the purchase price is satisfied.

Fifth, the Applicants do not propose to liquidate DentaQuest or sell its assets. As set forth above, the Applicants do not intend to change the business operations, corporate structure, management, or general plan of operations other than may arise in the ordinary course of business.

Sixth, there is nothing in the record from which it may be concluded that the competence, experience, and integrity of the persons who will control the operations of DentaQuest are such that it would not be in the best interest of the policyholders and of the public to permit the acquisition of control. Following the transaction, the Applicants intend to maintain DentaQuest's business operations, corporate structure, and management.

Seventh, there is nothing in the record from which it may be concluded that the proposed acquisition is likely to be hazardous or prejudicial to the insurance buying public for the reasons set forth above.

Recommendation

Based on the foregoing analysis, the hearing panel and Department staff recommend that the proposed acquisition be approved.

Upon a thorough review of the foregoing, I concur with the findings, analysis and recommendations of the hearing panel and Department staff. I therefore recommend that the proposed acquisition be approved.

May 24, 2022
Date

s/ John Rossakis
John Rossakis
Hearing Officer

JR2022 DentaQuest by Sun Life Officer Report/Orders

Exhibits List

In the Matter of Acquisition of Control of DentaQuest of New Jersey, LLC by Sun Life Financial Inc., Sun Life Global Investments Inc., Sun Life Assurance Company of Canada, Sun Life 2007–1 Financing Corp., Sun Life (Bermuda) Finance No. 2 LLC, Sun Life (Luxembourg) Finance No. 1 SARL, Sun Life (Luxembourg) Finance No. 2 SARL, Sun Life Assurance Company of Canada–U.S. Operations Holdings, Inc. and DQ Acquisition Corp. (collectively the Applicants”)

- Exhibit 1: Form A Statement dated October 25, 2021
- Exhibit 2: Applicant Waiver of 20–day notice of hearing submitted on April 26, 2022 by Bressler, Emery & Ross, P.C.
- Exhibit 3: DentaQuest Waiver of 20–day notice of hearing submitted on April 26, 2022 by Bressler, Emery & Ross, P.C.
- Exhibit 4: Affidavit of Publication of Notice of Hearing in The Record, reflecting publication on May 9, 2022
- Exhibit 5 : Affidavit of Publication of Notice of Hearing in Courier Post, reflecting Publication on May 9, 2022
- Exhibit 6: Affidavit of Publication of Notice of Hearing in Star Ledger, reflecting publication on May 9, 2022