

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION OF)
CONTROL OF MAGELLAN BEHAVIORAL)
HEALTH OF NEW JERSEY, LLC, AN)
INDIRECT SUBSIDIARY OF MAGELLAN)
HEALTH, INC., BY CENTENE)
CORPORATION)

HEARING OFFICER'S
REPORT

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated January 8, 2021, Centene Corporation (“Centene” or “the applicant”) a publicly traded Delaware corporation, filed with the Department of Banking and Insurance (“the Department”) an application to acquire control (“the Form A filing”) of Magellan Behavioral Health of New Jersey, LLC (“Magellan BH”). Magellan BH is an organized delivery system (“ODS”)¹ domiciled in New Jersey and is a direct, wholly owned subsidiary of Magellan Pharmacy Services, Inc., a Delaware corporation, which is, in turn, a wholly owned subsidiary of Magellan Health, Inc. (“Magellan Health”), a publicly traded Delaware corporation.

This transaction is part of an agreement whereby, through mergers with its subsidiaries, Centene will acquire control of Magellan BH. Centene will then indirectly own 100 percent of the issued and outstanding shares of the capital stock of Magellan BH.

Pursuant to N.J.S.A. 17:27A-2(d), a public hearing was held on the Form A filing on May 6, 2021. 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

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.

connection with the proposed acquisition satisfied the requirements of N.J.S.A. 17:27A-2(b). Public comments were allowed to be submitted through the close of business on May 6, 2021. No comments were received. No other documents were required, and the record was closed on May 6, 2021.

Findings of Fact

Magellan BH was incorporated on April 10, 2001 and commenced business in New Jersey on January 1, 2006. Centene was organized in 1993 in Wisconsin as a holding company for its initial health plan, and commenced operations in 1994. Centene then reincorporated in Delaware in 2001.

Centene is a healthcare corporation that provides services to government-sponsored and commercial healthcare programs, focusing on uninsured and under-insured individuals. Centene's locally based staff helps its members in accessing care, coordinating referrals to health and social services, and addresses member concerns and questions. Centene also provides its members with education and outreach to assist them to access healthcare to ensure they receive appropriate services and effectively manage routine care and chronic health problems. Centene operates two business segments: Managed Care and Specialty Services. The Managed Care segment, which constitutes 95 percent of its total external revenues, provides health plan coverage to individuals through government subsidized and commercial programs. The Specialty Services segment, which constitutes five percent of its total external revenues, includes companies offering healthcare services and products to its Managed Care segment and other external customers.

Pursuant to the Agreement and Plan of Merger dated January 4, 2021, ("the Merger Agreement"), included as part of the Form A filing, Mayflower Merger Sub, Inc., ("Mayflower"), a Delaware corporation and wholly owned subsidiary of Centene formed solely for the purposes of

effectuating the merger, will be merged with and into Magellan Health. Magellan Health will survive the merger as a wholly owned subsidiary of Centene (“the Merger Transaction”). Effective upon the consummation of the Merger Transaction, the name of the Surviving Corporation will be “Magellan Health, Inc.” (“Post-Closing Magellan”). Following the Merger Transaction, Centene will directly own 100 percent of the issued and outstanding shares of capital stock of Post-Closing Magellan and will thereby indirectly own 100 percent of the issued and outstanding shares of capital stock of Magellan BH.

The practical effect of the Merger Transaction will be to replace the public common shareholders of Magellan Health with Centene, with Post-Closing Magellan becoming a wholly-owned subsidiary of Centene. After the consummation of the Merger Transaction, Mayflower will no longer exist or function independently from Post-Closing Magellan.

Centene stated that after the Merger Transaction, Centene will establish one of the nation’s largest behavioral health platforms serving 41 million members with the ability to deliver better health outcomes for complex, high-cost populations.

Centene stated that it does not plan to have Magellan BH declare an extraordinary dividend, liquidate Magellan BH, sell its assets, or to merge it with any person or persons or to make any other material change in its business operations, corporate structure, or management. Magellan BH will continue to maintain its separate corporate existence and continue its operations as currently conducted. Centene stated that presently, it does not have plans to change the existing directors and executive officers of Magellan BH, though it does anticipate conducting an ongoing review of Magellan BH’s management, including directors and executive officers. If any changes are necessary as a result of said review, Centene would communicate those changes to the Department as appropriate.

Centene stated that the Merger Transaction is valued on an enterprise value basis of approximately \$2.2 billion, based on the per-share Merger Consideration of \$95.00 for each share of Magellan Common Stock. Centene expects to finance the cash component of the consideration through available cash on hand and the issuance of unsecured senior notes in a public offering registered under the Securities Act of 1933, as amended (“the Securities Act”) with the U.S. Securities and Exchange Commission (“SEC”), or in an offering pursuant to Rule 144A under the Securities Act, or other private placement yielding up to \$2.381 billion in aggregate gross cash proceeds. However, Centene stated that the Merger Transaction is not subject to a financing condition.

In addition to the payment of consideration, Centene may need to assume Magellan BH debt. Centene has entered into a debt commitment letter, dated January 4, 2021 (“the Commitment Letter”), and between Centene and JPMorgan Chase Bank, N.A., pursuant to which, and subject to the terms and conditions of the Commitment Letter, Centene obtained an aggregate principal amount of up to \$2.381 billion in bridge financing, the proceeds of which will be available to Centene in the event that proceeds of the proposed debt offering by Centene or other funds sufficient to pay the consideration are not available prior to the consummation of the Merger Transaction.

The financing contemplated by the Commitment Letter (“the Financing”) is unsecured. No assets or stock of Magellan BH or of any person controlled by Magellan will be pledged or offered as security for the Financing. The stock and assets of Magellan BH will not be pledged or hypothecated as part of the funding of the Merger Transaction.

Based on the consolidated financial statements filed by the Centene, it had shareholders’ equity of \$25,885,000,000 in 2020; \$12,659,000,000 in 2019; and \$11,013,000,000 in 2018.

Additionally, Centene reported net before-tax income of \$2,770,000,000 in 2020; \$1,781,000,000 in 2019; and \$1,458,000,000 in 2018.

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:

(1) 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, Magellan BH 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. Magellan BH was formed on March 26, 2001, commenced business in New Jersey on January 9, 2006, and is currently licensed and in good standing. There is nothing in the record to indicate that after the proposed transaction Magellan BH would not be able to continue to satisfy the requirements to transact the business for which they are presently licensed.

Second, it does not appear that the acquisition of Magellan BH 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. That statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. Centene is a healthcare corporation that provides services to government-sponsored and commercial healthcare programs, focusing on uninsured

and under-insured individuals. Magellan BH is an ODS which does not write any health insurance premiums in New Jersey. 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). Centene owns a New Jersey domestic subsidiary, WellCare Health Plans of New Jersey, Inc. (“Wellcare NJ”). In 2019, the most recent year for which marketshare data is available, Wellcare NJ’s respective health insurance market share in New Jersey was 2.9 percent. Centene’s respective market share was .01 percent. Magellan BH does not have a marketshare in New Jersey. Combined, the entities’ respective marketshare in New Jersey was 2.91 percent. As Centene and its subsidiaries and Magellan BH do not compete against each other in New Jersey, there would be no increase post-acquisition in the marketshare of the involved insurers in the New Jersey insurance market. Centene’s acquisition of Magellan BH will not substantially lessen competition in New Jersey, or tend to create a monopoly therein. Accordingly, the acquisition will not violate the competitive standard set forth in N.J.S.A. 17:27A-4.1.

Third, it does not appear that the financial condition of the applicants will jeopardize the financial condition of Magellan BH. As reported in the applicable financial statements filed by the applicant, the applicant had shareholders’ equity of \$11,013,000,000 in 2018; \$12,659,000,000 in 2019; and \$25,885,000,000 in 2020.

Fourth, it appears that the financial condition of the applicant 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. As set forth above, based upon the filing, the applicant had substantial shareholders’ equity for the most recent three-year period, indicating it has been in a sound and viable financial condition for the relevant period. As noted above, Centene reported a

net before-tax income of 2,770,000,000 in 2020; \$1,781,000,000 in 2019; and \$1,458,000,000 in 2018.0. Centene's estimated total cash on hand balance was approximately \$10.78 billion, which is enough to satisfy the total consideration of \$2.2 billion. Further, on January 4, 2021, Centene entered into a debt commitment letter with JP Morgan Chase Bank to provide \$2.381 billion in bridge financing in the event that proceeds of the proposed debt offering by Centene is not sufficient to pay for the merger consideration. Centene plans to finance the transaction through a debt offering. Although more than 50% of the offering price may be financed, we do not consider it necessary or appropriate to disapprove the transaction when considering all the factors.

Fifth, the applicant does not propose to liquidate Magellan BH, or sell its assets, or change its corporate structure or management. As set forth above, the applicant stated that Magellan BH will continue to maintain its separate corporate existence and continue its operations as currently conducted.

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 Magellan BH are such that it would not be in the interest of the policyholders and of the public to permit the acquisition of control. Centene stated that presently, it does not have plans to change the existing directors and executive officers of Magellan BH, though it does anticipate conducting an ongoing review of Magellan BH's management, including directors and executive officers. If any changes are necessary as a result of said review, Centene would communicate those changes to the Department as appropriate.

Seventh, there is nothing in the record from which it may be concluded that the 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 12, 2021
Date

Jacqueline Dilks-Brotman
Jacqueline Dilks-Brotman
Hearing Officer

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Exhibits List

IN THE MATTER OF THE ACQUISITION OF CONTROL OF MAGELLAN BEHAVIORAL HEALTH OF NEW JERSEY, LLC by CENTENE CORPORATION

Exhibit 1 – Form A application dated January 8, 2021 (including certain confidential information)

Exhibit 2 – Waiver of 20–day notice of hearing submitted by Elena M. Coyle, Partner, Skadden, Arps, Slate, Meagher & Flom LLP for the Applicant

Exhibit 3 – Waiver of 20–day notice of hearing submitted by David S. Haddock, General Counsel and Secretary, Magellan Behavioral Health of New Jersey, LLC for the Domestic ODS

Exhibit 4 –Biographical Affidavits supplement to Form A filing received on April 22, 2021

Exhibit 5 – Amended Exhibit C Directors and Executive Officers of Applicant as of April 26, 2021

Exhibit 6 – Affidavit of Publication of Notice of Hearing in The Record, reflecting publication on April 29, 2021

Exhibit 7 – Affidavit of Publication of Notice of Hearing in Courier Post, reflecting publication on April 29, 2021

Exhibit 8 – Affidavit of Publication of Notice of Hearing in Star Ledger, reflecting publication on April 29, 2021

Exhibit 9 –Biographical Affidavit supplement to Form A filing received May 7, 2021

Exhibit 10 – Amended Exhibit C Directors and Executive Officers of Applicant as of May 10, 2021