

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION)	
OF CLOVER INSURANCE CO. AND)	
CLOVER HMO OF NEW JERSEY)	HEARING OFFICER'S
BY GREENOAKS CAPITAL PARTNERS,)	REPORT
LLC, ON BEHALF OF VARIOUS)	
GREENOAKS FUNDS, NEIL MEHTA, AND)	
BENJAMIN PERETZ)	

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated November 15, 2018 and supplemented through December 11, 2018, Greenoaks Capital Partners, LLC, on behalf of various affiliated Greenoaks funds, Neil Mehta and Benjamin Peretz, (“the applicants”), filed with the Department of Banking and Insurance (“the Department”) an application to acquire control (“the Form A filing”) of Clover Insurance Company and Clover HMO of New Jersey (“Clover” and the “Clover HMO”, respectively, collectively, “the insurers”). Clover is a New Jersey domiciled life and health insurance company, and Clover HMO is a New Jersey domiciled health maintenance organization. The insurers are indirectly, wholly-owned by Clover Health Investments, Corp. (“CHIC”), a Delaware domiciled corporation.

As a result of the proposed transaction, Greenoaks, through certain affiliated funds, will make a capital contribution of \$450 million to CHIC in consideration of the following: a) the ability to designate one representative to the Board of Directors of CHIC; and b) receipt of certain securities that entitle Greenoaks and its affiliated funds to either shares of common stock or a return of their capital investment at a date specified based upon the occurrence or non-occurrence of certain conditions. To consummate this proposed transaction, first, Greenoaks must capitalize

its affiliated funds to make the investments contemplated in the Form A filing, and second, Greenoaks and CHIC must close on the proposed transaction.

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 February 8, 2019. 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 February 8, 2019, and no comments were received. The record was closed on February 8, 2019.

Findings of Fact

Clover is a New Jersey domiciled health insurance company offering Medicare Advantage products. It was formed on February 13, 2012 and commenced business in New Jersey on January 12, 2013. It is licensed to provide those products in Florida, New Jersey, Pennsylvania and Texas. Clover HMO is a New Jersey domiciled HMO that provides Medicare Advantage services through an HMO network. It was formed on November 21, 2017 and although it began soliciting business in 2018, it had no policies in effect until January 1, 2019. It is licensed in New Jersey and Texas. Greenoaks Capital Partners, LLC is a global investment firm based in San Francisco, California, that has approximately \$2.7 billion in assets under management as of September 2018 through the approximately 40 pooled investment vehicles it manages. It was founded in 2012. Greenoaks makes long-term concentrated investments in growing, technology-enabled companies, and some of its affiliated funds are current investors in CHIC.

The applicants propose a \$450 million capital contribution to CHIC. It will make this capital contribution of \$450 million in consideration of receipt of certain securities that entitle

Greenoaks and its affiliated funds to either shares of common stock or a return on investment on a specified date upon the occurrence or non-occurrence of certain conditions.¹ No debt is involved in this transaction. Greenoaks will also be entitled to designate one representative on the Board of Directors of CHIC. Immediately upon closing of the proposed transaction, Greenoaks intends to appoint Benjamin Peretz to CHIC's Board of Directors. Benjamin Peretz and Neil Mehta are the managing members of Greenoaks.

The applicants stated that they do not intend to assume control of the day-to-day management of Clover or Clover HMO and intends to allow day-to-day management to remain as is. The applicants stated that they have no plans to liquidate either Clover or Clover HMO, sell their assets, or merge them with another person, nor to initiate the declaration of an extraordinary dividend. Clover and Clover HMO intend to grow its Medicare Advantage business incrementally in New Jersey, Texas, Georgia and Pennsylvania, and possibly expand to additional states for the plan year of 2019 or thereafter, including Arizona, South Carolina and Tennessee. In addition, Clover HMO intends to offer Medicare Advantage HMO plans in New Jersey and Texas. The applicants stated that market expansions will be controlled so that growth does not create financial stress for the insurers. The applicants further stated that they will not alter these plans as part of the financing contemplated by the transaction.

Based on the consolidated financial statements filed by the applicants, including their affiliated funds, the applicants had total assets of approximately \$461,583,608 through September 30, 2018; \$338,808,508 in 2017; and \$120,569,082 in 2016. In addition, the applicants and affiliated funds, on an aggregated basis, reported net income of \$65,649,796 for 2017 and

¹ The Department has reviewed the specific terms of the investment, which are confidential trade-secrets, proprietary commercial and/or financial information, or information which if disclosed would give an advantage to competitors or bidders. It is therefore not considered a "government record" under the Open Public Records Act, N.J.S.A. 47:1A-1 to -13.

\$159,546,090 through September 30, 2018. The Department also reviewed personal financial information of Benjamin Peretz and Neil Mehta.²

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 percent of the purchase price of the insurer;

² The financial information of individuals is confidential and is not subject to disclosure pursuant to N.J.A.C. 11:1-35, Exhibit A, Item 12 and N.J.S.A. 47:1A-1 to -13.

(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, Clover and Clover HMO will continue to meet the requirements to transact the business for which they are presently licensed pursuant to Titles 17B and 26 of the New Jersey Statutes. Clover was formed on February 12, 2012 and commenced business in New Jersey on January 12, 2013. Clover HMO was formed on November 21, 2017 and began soliciting business in 2018 but has had no policies in effect until January 1, 2019. The Hearing Panel and Department staff note that CHIC and the insurers have agreed to provide the Department with confidential information on a prospective basis regarding the use of the capital contribution, the occurrence/non-occurrence of certain conditions that may trigger a requirement to return the investment by a specified date, and enhanced controls to ensure that any future events under the proposed transaction will not impair the solvency of the insurers. In totality, there is nothing in the record to indicate that after the proposed transaction Clover and Clover HMO 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 proposed transaction 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. The applicants stated that they have no ownership interest in any other domestic insurer. 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). Here, there would be no increase post-acquisition in the market share of the insurers in the New Jersey insurance market. Accordingly, the proposed transaction 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 Clover or the HMO. As reported in the applicable financial statements filed by the applicants, the applicants and their affiliated funds had total assets of \$461,583,608 through September 30, 2018; \$338,808,508 in 2017; and \$120,569,082 in 2016. The Department also reviewed personal financial information of Benjamin Peretz and Neil Mehta, the managing partners of Greenoaks.³

Fourth, it appears that the financial condition of the applicants is such that they have been solvent on a basis of generally accepted accounting principles for the three-year period

³ See fn3 supra.

immediately prior to the date of the proposed acquisition. In addition, the applicants and their affiliated funds, on an aggregated basis, reported net income of \$65,649,796 in 2017 and \$159,546,090 through September 30, 2018. Lastly, no debt is being used to finance the transaction on behalf of the applicants. Accordingly, 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 Clover or Clover HMO or sell their assets. As set forth above, the applicants do not intend to change the business operations, corporate structure, management, or general plan of operations, of the insurers except for certain controlled expansions of business as noted above.

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 Clover or Clover HMO are such that it would not be in the best interest of the policyholders and of the public to permit the acquisition of control. Clover and Clover HMO will continue to be led by current members of their senior management team, with the addition of Benjamin Peretz to CHIC's Board of Directors.

Seventh, there is nothing in the record from which it may be concluded that the proposed transaction 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 transaction 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 transaction be approved.

2/13/2019

Date



Ava Rimal
Hearing Officer

AR Clover by Greenoaks Hearing Officer Report/Orders

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

EXHIBIT LIST

IN THE MATTER OF THE ACQUISITION OF CONTROL OF CLOVER INSURANCE CO.
AND CLOVER HMO OF NEW JERSEY BY GREENOAKS CAPITAL PARTNERS, LLC, ON
BEHALF OF VARIOUS GREENOAKS FUNDS, NEIL MEHTA, AND BENJAMIN PERETZ

- Exhibit 1.....Form A application dated November 15, 2018
- Exhibit 2.....Amendment Number One to Form A submitted December 11, 2018
- Exhibit 3.....Waiver of 20 day notice of hearing, submitted by Cynthia Borrelli,
of Bressler, Amery and Ross, on behalf of the Applicants,
dated January 28, 2019
- Exhibit 4.....Waiver of 20 day notice of hearing, submitted by Cynthia Borrelli,
of Bressler, Amery and Ross, on behalf of Clover Insurance Company and
Clover HMO of New Jersey, Inc., dated January 28, 2019
- Exhibit 5.....Affidavit of Publication of Notice of Public Hearing for notice published in
the Trenton Times on Friday February 1, 2019
- Exhibit 6.....Affidavit of Publication of Notice of Public Hearing for notice published
in the Newark Star Ledger on Friday, February 1, 2019
- Exhibit 8.....Affidavit of Publication of Notice of Public Hearing for notice published
in the Asbury Park Press on Friday, February 1, 2019