

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION)	
OF CONTROL OF DENTAQUEST OF)	
NEW JERSEY, LLC BY CP MONARCH,)	HEARING OFFICER'S
L.P., CP MONARCH GP, LLC, CCP III AIV)	REPORT
IV, L.P., CENTERBRIDGE ASSOCIATES)	
III, L.P., AND CCP III CAYMAN GP LTD.)	

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated July 10, 2019, CP Monarch, L.P., CP Monarch GP, LLC, CCP III AIV IV, L.P., Centerbridge Associates III, L.P., and CCP III Cayman GP Ltd., all members of the Centerbridge Capital Partners III fund (collectively “Centerbridge” or “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 (“DQNJ” or “the Company”), a New Jersey domiciled Organized Delivery System (“ODS”)¹ that offers dental and vision services to insurance companies in New Jersey. DQNJ is a direct wholly owned subsidiary of DentaQuest Group, Inc., a Delaware corporation “DQG”). All of the membership interests in DQNJ are currently indirectly owned by DQG, and all of the issued and outstanding shares of common stock of DQG (the “DQG Voting Shares”) are currently directly owned by Catalyst Institute, Inc., a Massachusetts corporation (“Catalyst”). As a result of the proposed transaction, pursuant to a Stock Purchase Agreement dated June 18, 2019 (“the Stock Purchase Agreement”), Centerbridge will acquire 40 percent of the DQG Voting Shares.

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.

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 December 26, 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 December 26, 2019, and no comments were received. The record was closed on December 26, 2019.

Findings of Fact

DQNJ became a licensed ODS in New Jersey on December 21, 2017. DQG is incorporated under the laws of the State of Delaware and has its principal place of business in Boston, Massachusetts. DQG was established in 2001 under its former name of DentaQuest Ventures, Inc., a wholly owned subsidiary of Dental Service of Massachusetts, Inc. ("DSM"), a not-for-profit corporation incorporated under Chapter 176E of the Massachusetts General Laws. On October 11, 2016, DSM formed Catalyst as its sole member, with no assets, liabilities, or operating activity. On January 11, 2017, Catalyst obtained its 501(c)(4) exemption from the Internal Revenue Service. On January 1, 2018, Catalyst became the sole member and parent of DSM, which is also a 501(c)(4) entity under the Internal Revenue Code and a not-for-profit dental service corporation, incorporated under Chapter 176E of the Massachusetts General Laws. DQG became a wholly owned subsidiary of Catalyst on June 6, 2018.

DQG was established to operate on a for-profit basis and was created to acquire business outside of Massachusetts and to administer dental insurance business both within and outside of

Massachusetts. In 2004, DQG acquired all of the assets of DentaQuest, LLC, formerly known as the Doral Companies.

Centerbridge is a private investment management firm with offices in New York and London that has approximately \$28 billion of capital under management as of March 2019 through the pooled investment vehicles it manages. It was founded in 2005 and is comprised of Centerbridge Capital Partners III, L.P. (the "Fund"), a Delaware limited partnership organized on June 13, 2014, and multiple Alternative Investment Vehicles (the "AIVs"), such as the applicants. The Fund commenced operations on April 27, 2015. The Fund's strategy is generally to make (i) private equity investments and (ii) distressed investments, in each case with the primary purpose of obtaining control or influence in portfolio companies.

Pursuant to the Stock Purchase Agreement, included as part of the Form A Filing, at the closing of the transactions ("the Closing"), Catalyst will sell, assign, transfer, and convey to CP Monarch L.P., and CP Monarch L.P. will purchase and acquire from Catalyst, 220,000 DQG Voting Shares of the 550,000 DQG Voting Shares issued and outstanding. At the Closing, CP Monarch L.P., Catalyst, and DQG will enter into a Stockholders Agreement ("the Stockholders Agreement") with respect to DQG, pursuant to which CP Monarch L.P. will be provided the right to designate three individuals to serve on the eight member Board of Directors of DQG ("DQG Board") for so long as CP Monarch L.P. and its affiliates continue to hold more than one-half of the DQG Voting Shares acquired pursuant to the Stock Purchase Agreement, while Catalyst will have the right to designate the remaining five individuals to serve on the DQG Board. The Stockholders Agreement provides the applicants certain other rights that are consistent with the protections that would typically be provided to an investor acquiring a minority interest in a portfolio company. Additionally, certain subsidiaries of DQG will enter into new intercompany

agreements with certain affiliates of Catalyst that are not subsidiaries of DQG. DQNJ will not be a party to any of these new intercompany agreements.

The applicants are pursuing the acquisition of a portion of DQG's Voting Shares because they believe that DQG is well positioned for continued growth and they plan to work with the current management team of DQG to continue to pursue its existing business plan in DQG's next phase of growth and development. The applicants believe that their experience in investing in insurance enterprises and their track record of partnering with their portfolio companies will help DQG accelerate its growth and development. The applicants stated that Centerbridge has developed several capabilities that enhance its ability to create value in its investments, including: (i) deep knowledge in financial services; (ii) the ability to foster operational improvement in portfolio companies; and (iii) a robust talent management capability. Centerbridge believes that applying these multiple capabilities through an interdisciplinary "one team" approach is a differentiated hallmark of their investment process.

As provided in the Stock Purchase Agreement, at the Closing, CP Monarch, L.P. will pay the acquisition consideration in cash by wire transfer of immediately available funds to Catalyst immediately prior to the Effective Time and to the holders of the shares of common stock of DQG outstanding immediately prior to the Effective Time. At the Effective Time, by virtue of the acquisition, the equity interests of Catalyst will be converted into a 40 percent equity interest in DQG. The total purchase price, as set forth in the Stock Purchase Agreement, is \$264,000,000, subject to certain adjustments to account for : (i) the working capital, cash, indebtedness of DQG and its subsidiaries at the time of the Closing, (ii) certain transaction expenses, and (iii) an agreed amount of regulatory capital with respect to certain subsidiaries of DQG. The applicants expect

to pay the purchase price with available cash on hand, and stated that neither Centerbridge nor any of its subsidiaries will issue any new debt in connection with the payment of the purchase price.

Moreover, the applicants stated that they have no present plans to cause the Company to declare any extraordinary dividend, to liquidate the Company, to sell or pledge the Company's stock, or any of its assets, or to merge or consolidate it with any person or persons. Moreover, the applicants stated that there are no plans to make any other material change to either the Company's business operations, corporate structure, or management, other than may be provided in the Form A filing or as may arise in the ordinary course of business. The applicants further stated that following the Closing, the Company will continue to maintain its separate corporate existence, and there are no anticipated changes to the Company's Board of Directors or executive officers.

The applicants stated that the Company provides services to insurance companies pursuant to intercompany management agreements. The applicants stated there are no plans or proposals to reduce in any material respect the number of employees employed by the Company.

As noted above, the applicants expect to pay the purchase price with available cash on hand and neither Centerbridge nor any of its subsidiaries will issue any new debt in connection with the payment of the purchase price.

Based on the consolidated financial statements filed by the applicants, including their affiliated funds, the applicants had total assets of approximately \$3,179,381,000 in 2018; and \$3,274,726,000 in 2017. The applicants had total liabilities of approximately \$23,007,141 in 2018; and \$35,313,793 in 2017. In addition, the applicants and affiliated funds, on an aggregated basis, reported an increase in capital from operations of \$265,258,401 in 2018; and \$418,927,035 in 2017.

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, the Company will continue to meet the requirements to transact the business for which is presently licensed pursuant to Title 17 of the New Jersey Statutes. DQNJ became a licensed ODS in New Jersey on December 21, 2017. There is nothing in the record to indicate that after the proposed transaction the Company 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 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, the none of the applicants and their subsidiaries currently writes any insurance business in the "Dental Only" line

of accident and health insurance business in this State. Further, DQNJ and its affiliates do not have any direct written premium in the “Vision Only” line of accident and health insurance business in this State. Accordingly, there would be no increase post-acquisition in the market share of the insurers in the New Jersey insurance market. As a result, 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 the Company. As reported in the applicable financial statements filed by the applicants, the applicants and their affiliated funds had total assets of \$3,179,381,000 in 2018; and \$3,274,726,000 in 2017. The applicants had total liabilities of approximately \$23,007,141 in 2018; and \$35,313,793 in 2017.

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 immediately prior to the date of the proposed acquisition. As noted above, they have substantial assets. In addition, the applicants and their affiliated funds, on an aggregated basis, reported an increase in capital from operations of \$265,258,401 in 2018; and \$418,927,035 in 2017.

Lastly, no debt is being used to finance the transaction on behalf of the applicant. Accordingly, the requirement that the acquisition debt may not exceed 50 percent of the purchase price is satisfied.

Fifth, the applicant does not propose to liquidate the Company or sell its assets. As set forth above, the applicant does 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 the Company 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 Company will continue to maintain its separate corporate existence, and there are no anticipated changes to the Company's Board of Directors or executive officers. The Company's management team will remain in place following the transaction.

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.

12/30/19
Date

Lynn Certo
Lynn Certo
Hearing Officer

Exhibits List

IN THE MATTER OF THE ACQUISITION OF DENTAQUEST OF NEW JERSEY, LLC by
C.P. MONARCH, L.P., CP MONARCH, GP, LLC, CCP III AIV IV, L.P., CENTERBRIDGE
ASSOCIATES III, L.P. and CCP III CAYMAN GP LTD

Exhibit 1 – Form A application dated July 10, 2019

Exhibit 2 – Waiver of 20-day notice of hearing submitted by Cynthia Borrelli, Esq. of Bressler, Amery, Ross, P.C., dated December 16, 2019 for the Applicant(s)

Exhibit 3 – Waiver of 20-day notice of hearing submitted by Cynthia Borrelli, Esq. of Bressler, Amery, Ross, P.C., dated December 16, 2019 for DentaQuest of New Jersey, LLC

Exhibit 4 – Affidavit of Publication of Notice of Hearing in Star-Ledger, reflecting publication on December 19, 2019

Exhibit 5 – Affidavit of Publication of Notice of Hearing in Asbury Park Press, reflecting publication on December 19, 2019

Exhibit 6 – Affidavit of Publication of Notice of Hearing in the Trenton Times, reflecting publication on December 19, 2019

LC DentaQuest by Centerbridge Exhibits List/orders