



DATE: April 23, 2024
TO: Amy J. Malm
Mark McNabb
FROM: Christopher Martin
SUBJECT: Form A - Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer

Filing Contact(s)

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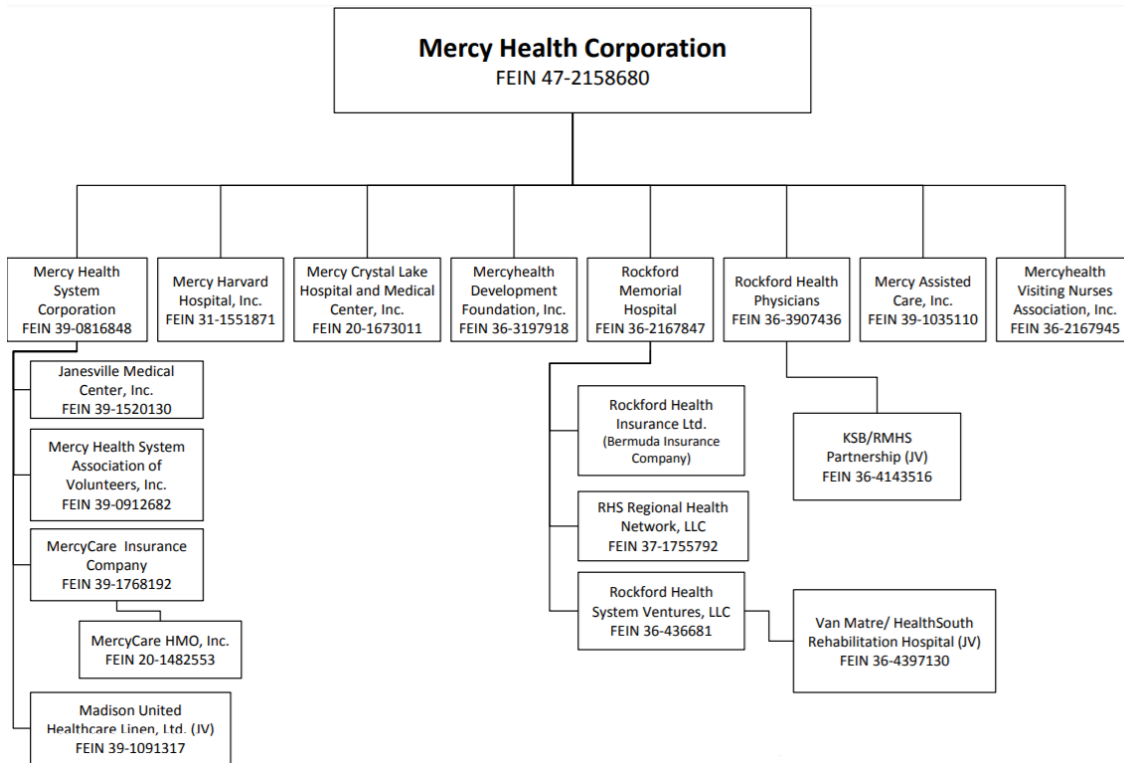
Exhibit(s)

<u>Exhibit:</u>	<u>Description:</u>
Ex. 1	Transmittal Letter
Ex. 2	Form A Filing
Ex. 3	Agreement and Plan of Merger
Ex. 4	Pre and Post Closing Organizational Chart
Ex. 5	List of Directors and Executive Officers of Applicant and Mercy Health Corporation
Ex. 6	Business Plan

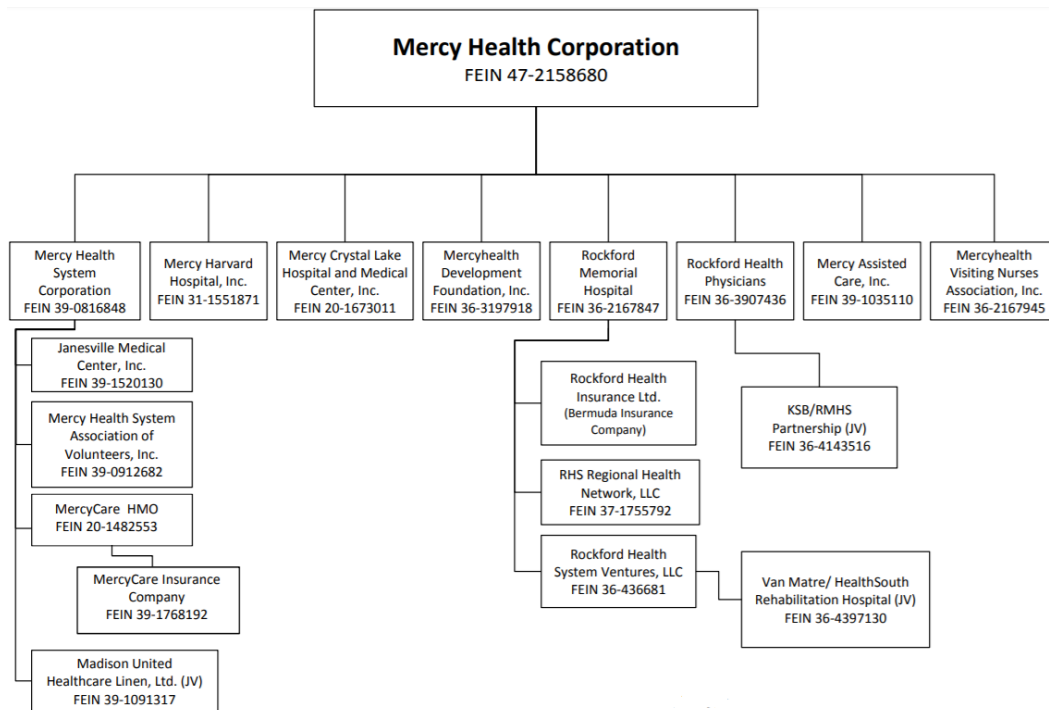
Executive Summary

On December 14, 2024, MercyCare Merger Sub, Inc. (Merger Sub, the "Applicant"), submitted a Form A filing, in the matter of the acquisition of control of MercyCare Insurance Company (MCIC) and MercyCare HMO, Inc. (MCHMO). As a result of the merger between Merger Sub and MCIC, MCIC will be wholly owned by MCHMO, MCHMO will be wholly owned by Mercy Health System Corporation (MHSC), and MHSC will be wholly owned by Mercy Health Corporation (MHC). The acquisition of control will occur as outlined in the merger agreement dated December 13, 2023

Organizational Chart Before Proposed Transaction:



Organizational Chart After Proposed Transaction:



Identity and Background of the Domestic Insurer(s)

Identity of the Domestic Insurer(s):

MercyCare Insurance Company

580 N. Washington
Janesville, WI 53542

MercyCare HMO, Inc.

580 N. Washington
Janesville, WI 53542

Background of the Domestic Insurer(s):

MercyCare Insurance Company

MCIC is a Wisconsin domestic stock insurance company and was incorporated under ch. 611, Wis. Stat. on 9/14/1993. MCIC is currently a wholly owned subsidiary of MHSC which in turn is a wholly owned subsidiary of MHC.

MercyCare HMO, Inc.

MCHMO is a Wisconsin domestic HMO and was incorporated under ch. 611, Wis. Stat. on 08/04/2004. MCHMO is currently a wholly owned subsidiary of MCIC.

Identity and Background of the Applicant(s)

Identity of the Applicant(s):

MercyCare Merger Sub, Inc.

580 N. Washington
Janesville, WI 53545

Background of the Applicant(s):

MercyCare Merger Sub, Inc.

Merger Sub was created on 12/8/2023 in order to facilitate the merger. The company does not maintain its own operations and will be the non-surviving entity.

Executive Officers and Directors of MHC

<u>Name</u>	<u>Title</u>
Javon R. Bea*	President & CEO
Thomas D. Budd*	Secretary & Treasurer
Mark L. Goelzer, M.D.*	Director
Wesley M. Jost*	Director
Thomas R. Pool*	Director, Chair
Katherine A. Schack*	Director
Dave L. Syverson*	Director, Vice Chair

Executive Officers and Directors of Mercy Health System Corporation

<u>Name</u>	<u>Title</u>
Javon R. Bea*	President & CEO
Thomas D. Budd*	Secretary & Treasurer

Mark L. Goelzer, M.D.*	Director
Thomas R. Pool*	Director, Chair
Katherine A. Schack*	Director, Vice Chair
Dave L. Syverson*	Director

Executive Officers and Directors of MercyCare Merger Sub, Inc.

<u>Name</u>	<u>Title</u>
E. Patrick Cranley	Director, President, Vice President, Secretary, Treasurer

Executive Officers and Directors of MCIC and MCHMO

<u>Name</u>	<u>Title</u>
Javon R. Bea*	President & CEO
Thomas D. Budd*	Secretary & Treasurer
Mark L. Goelzer, M.D.*	Director
Wesley M. Jost*	Director
Thomas R. Pool*	Director, Chair
Katherine A. Schack*	Director
Dave L. Syverson*	Director, Vice Chair

Note: * following an individual's name indicates that the biographical affidavit was provided for the individual and there are no outstanding significant concerns after OCI review. OCI did not review a biographical affidavit for E. Patrick Cranley who will only momentarily have control in order to facilitate the transactions.

Nature, Source, and Consideration

No cash consideration will be paid by any Mercy entity pursuant to the merger agreement. As noted in the agreement, the 10,000 outstanding shares of MCIC which are currently held by MHSC will be exchanged for 100 shares of MCHMO. The 100 shares of MCHMO are currently held by MCIC. As an effect of the merger, the 100 shares of MCHMO will be cancelled and the 10,000 shares of Merger Sub will be converted to 10,000 shares of MCIC. This will cause MCIC to be a direct subsidiary of MCHMO and MCHMO to be a direct subsidiary of MCHS.

The Applicants stated in the Form A that there has not been any recent purchase of any voting securities in the Domestic Insurers in the past 12 months and there have been no other recommendations to purchase voting shares in the past 12 months.

Applicants Future Plans

After the merger, MercyCare intends that MCIC will distribute most of its assets and liabilities to MCHMO. It will maintain the minimum assets necessary to meet the statutory requirements to keep its licenses. MCHMO will continue to participate in the individual marketplace for Wisconsin and Illinois. Following the closing of the proposed transaction, the domestic insurers will continue to be managed by the existing directors and officers, in substantially the same manner as pre-merger operations. Review of the confidential business plan provided by the Applicants further shows the expectation that the Domestic Insurers' will continue to operate in a substantially similar manner post transaction. The Applicants have no plans to declare an extraordinary dividend, liquidate the Domestic Insurers, sell the Domestic Insurers' assets, or merge it with any person or to make any other material changes in the Domestic Insurers' business operations, corporate structure, or management.

Financial Highlights

Highlighted Financial Data of MHSC:

Financial Highlights (in thousands)	Consolidated Financial Statements					
	2023	2022	2021	2020	2019	2018
Total Assets	2,294,438	2,203,219	2,299,565	2,065,626	2,038,078	2,001,622
Total Liabilities	1,060,243	1,084,329	1,088,116	1,067,513	1,039,441	1,053,893
Total Net Assets	1,234,195	1,118,890	1,211,449	998,113	998,637	947,729
Total Revenue	977,659	962,351	1,163,159	1,160,058	1,152,423	1,094,414
Operating Income	36,557	29,627	37,516	(23,078)	14,253	33,172
Excess of Revenue Over Expenses	67,446	(80,766)	188,932	144	62,186	72,483
Increase in Net Assets Without Donor Restrictions	113,487	(92,535)	210,074	(277)	49,392	79,316

Highlighted Financial Data of MercyCare Merger Sub, Inc.:

Merger Sub was created to facilitate the transfer of shares as noted in the merger agreement and does not maintain any operations of its own. Therefore, financial statements were not requested or reviewed by OCI.

Financial Projections of the Domestic Insurer(s):

MCIC

The financial projections of the Domestic Insurer(s) are confidential. OCI reviews these projections as part of the Form A review process.

MCHMO

The financial projections of the Domestic Insurer(s) are confidential. OCI reviews these projections as part of the Form A review process.

611.72 (3) Standard

Wisconsin Statute s. 611.72(3)(am) creates a five-part test for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. It reads, in relevant part:

(am) The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

1. After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation would 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;
2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;
3. The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders;
4. The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate

structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest; and

5. The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

s. 611.72(3)(am)1: After reviewing the documents provided by the Applicant in their Form A filing, OCI Staff believes that the Applicant is able to satisfy s. 611.72(3)(am)1. In reaching this decision, OCI staff has relied heavily on the proposed business plan and financial projections.

s. 611.72(3)(am)2: OCI's determined that a Form E analysis was not necessary. OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025(4), Wis. Adm. Code.

s. 611.72(3)(am)3: Paragraph three requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurance corporation or its parent insurance corporation, or prejudice the interest of its Wisconsin policyholders. After reviewing the documents provided by the Applicants, the concern that affiliated non-insurance operations would jeopardize the financial condition is deemed minimal. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

s. 611.72(3)(am)4: Paragraph four requires that the post-transaction plans to change the business structure be "fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest." The Form A filing notes that the Applicants have no current plans or proposals to declare any extraordinary dividend, to liquidate the Domestic Insurer, or to sell the assets of the Domestic Insurer. Additional review of the filing by OCI staff do not indicate any significant changes to the operation of the Domestic Insurer. Compliance with s. 611.72(3)(am)4, Wis. Stat., is expected.

s. 611.72(3)(am)5: Paragraph 5 requires that OCI review the Biographical Affidavits of the proposed officers and directors of the Applicants. This review did not raise significant concerns.

Recommendation

The Acquisition of Control in the above-referenced Form A filing will not violate the law or be contrary to the interests of the insureds, and it does not meet any of the disqualifying criteria outlined in s. 611.72 (3), Wis. Adm. Code. Therefore, the transaction should be approved.