



DATE: January 3, 2022
TO: Amy J. Malm
Mark McNabb
FROM: Christopher Martin
SUBJECT: Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (Case No. 21-C44213).

Form A Filing Contact(s)

Primary Contact:

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Form A Exhibit(s)

<u>Exhibit:</u>	<u>Description:</u>
Exhibit 1-A	Exchange Agreement
Exhibit 1-B	Organizational Charts of QHC and its Affiliates
Exhibit 2-C	Organizational Charts of Applicants and their Affiliates
Exhibit 12-A	AAH's 2020 Fiscal Year Financial Statements
Exhibit 12-B	AAH's 2019 Fiscal Year Financial Statements
Exhibit 12-C	AAH's 2018 Fiscal Year Financial Statements
Exhibit 12-D	AAH's 2016 and 2017 Fiscal Year Financial Statements
Exhibit 12-E	AAH's 2Q 2021 Financial Statements
Exhibit 12-F	Three-year Financial Projections for QHC

Executive Summary

On September 20, 2021, Advocate Aurora Health Inc., a Delaware not-for-profit corporation ("AAH"), and its direct subsidiary, Aurora Health Care, Inc. ("AHC"), a Wisconsin nonstock corporation, submitted a Form A. AAH and AHC are each referred to herein as the "Applicant" and collectively as the "Applicants".

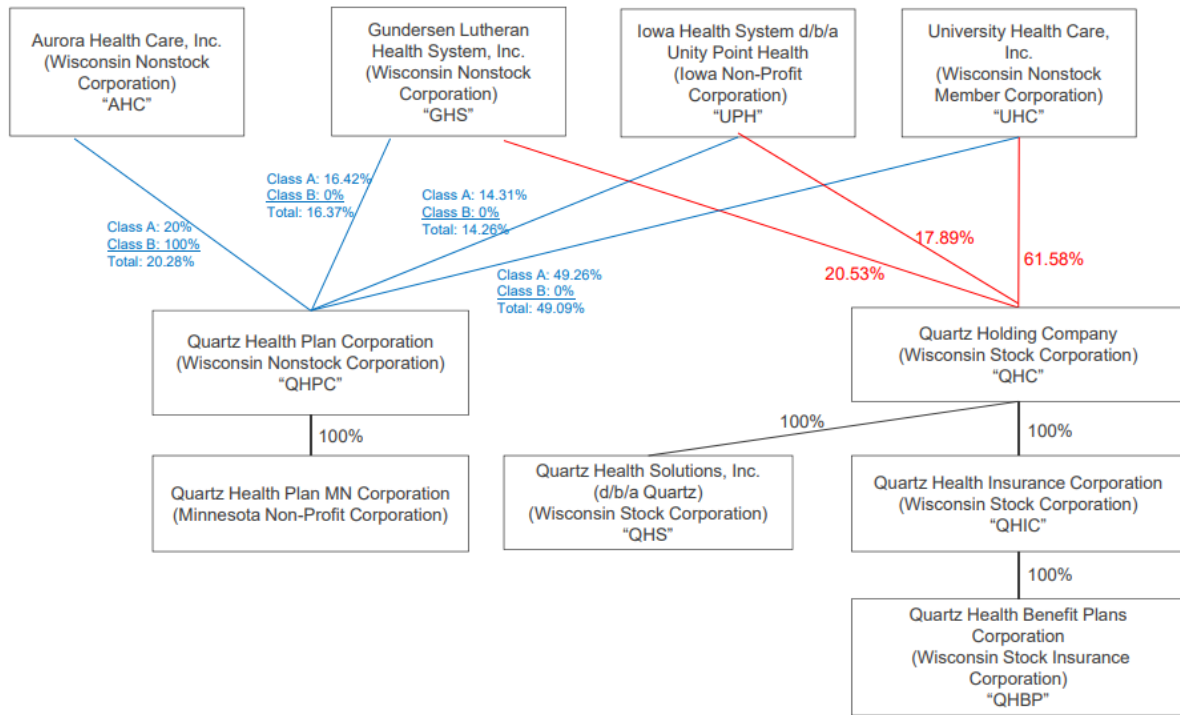
The Applicants intend to acquire control of Quartz Health Insurance Company ("QHIC") and Quartz Health Benefit Plans Corporation ("QHBPC") referred to herein as the "Domestic Insurer" and collectively as the "Domestic Insurers". Pursuant to the phase two of the exchange agreement dated May 1, 2020, the

Applicants intend for AHC to make a contribution to QHC and, in exchange, to be issued 10% of the Class A Capital Stock of QHC and thereby for the Applicants to gain control of QHIC and QHBP.

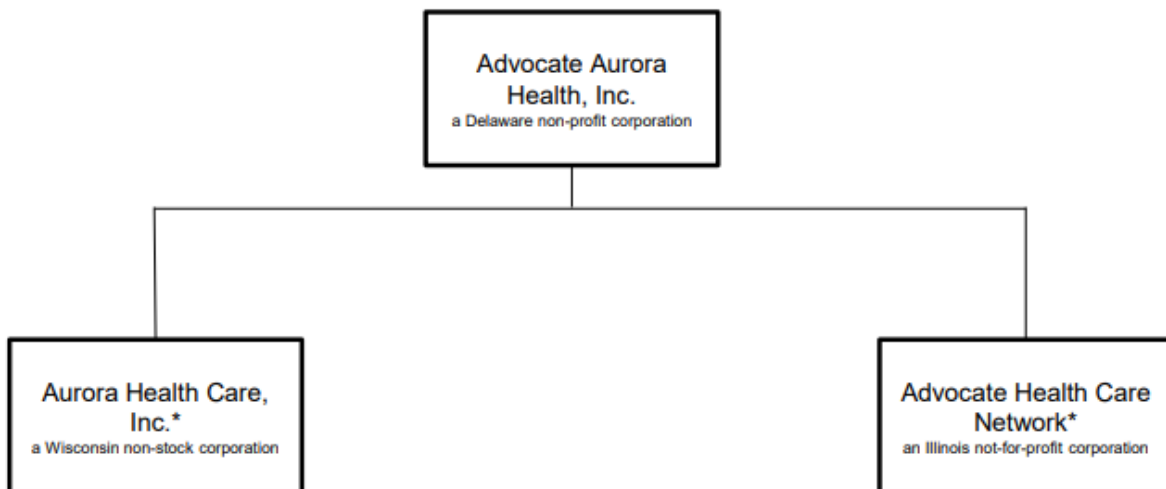
The first phase of plans by the Applicants was reviewed in the Form A, under case number 20-C43722, which is available on the OCI website.

Transaction

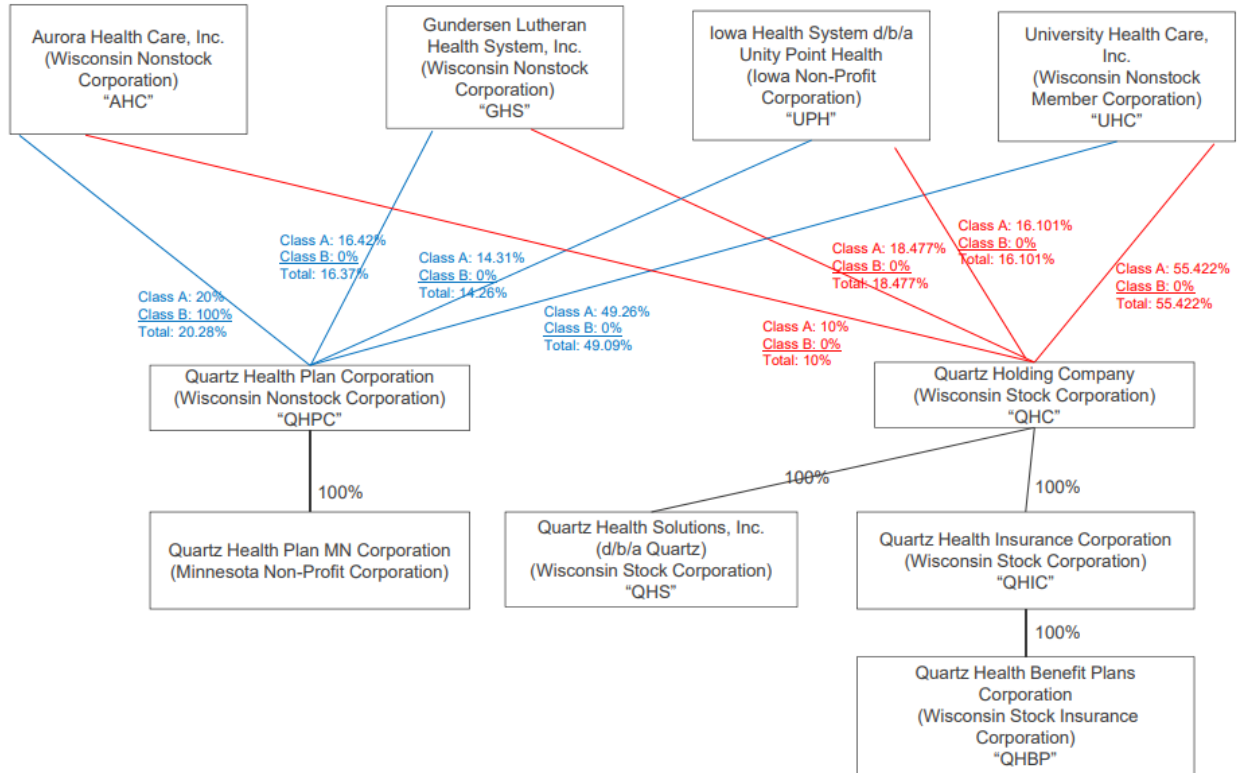
Domestic Insurer Organizational Chart Before Proposed Transaction:



Applicant Organizational Chart Before Proposed Transaction (Simplified):



Domestic Insurer Organizational Chart After Proposed Transaction:



Identity and Background of the Domestic Insurer

Identity of the Domestic Insurers:

Quartz Health Insurance Company
 840 Carolina Street
 Sauk City, WI 53583

Quartz Health Benefit Plans Corporation
 840 Carolina Street
 Sauk City, WI 53583

Background of the Domestic Insurers:

QHIC owns all of the capital stock of QHBP, a Wisconsin stock insurance corporation organized under chapter 611 of the Wisconsin Statutes. All of the capital stock of QHIC is owned by Quartz Holding Company (“QHC”), a Wisconsin corporation organized under Chapter 180 of the Wisconsin Statutes. QHC also owns all of the capital stock of Quartz Health Solutions, Inc., a Wisconsin corporation organized under Chapter 180 of the Wisconsin Statutes.

Identity and Background of the Applicants

Identity of the Applicants:

Advocate Aurora Health, Inc.
 750 W. Virginia Street
 Milwaukee, WI 53204

Aurora Health Care, Inc.

750 W. Virginia Street
Milwaukee, WI 53204

Background of the Applicants:**Advocate Aurora Health, Inc.**

Advocate Aurora Health, Inc. is a Delaware nonprofit corporation that operates as the ultimate parent entity of an integrated delivery system located primarily in Illinois and Wisconsin. Advocate Aurora Health, Inc. serves as the corporate member of both Aurora Health Care, Inc., and Advocate Health Care Network.

Aurora Health Care, Inc.

Advocate Health Care Network and Aurora Health Care, Inc., and Advocate Health Care Network are not-for-profit corporations that, prior to their combination with one another, operated health care systems located primarily in Illinois and Wisconsin, respectively. Advocate Aurora Health, Inc. also houses the leadership team for the integrated delivery system (e.g., the Board of Directors, the CEO and the executive leadership team).

Current Directors and Executive Officers of Advocate Aurora Health, Inc.:

Name	Positions Held
James H. Skogsbergh*	Director, President and Chief Executive Officer
John Daniels, Jr.*	Director, Chairperson of the Board
Michele Baker Richardson*	Director, Vice Chairperson of the Board
Joanne Bauer*	Director
Lynn Crump-Caine*	Director
Joanne Disch*	Director
Mark Harris*	Director
Charles Harvey*	Director
Richard Jakle*	Director
John Timmer*	Director
David Anderson*	Director
Thomas Bolger*	Director
Richard Weiss	Director
Dominic Nakis*	Treasurer
Michael Grebe*	Secretary

Current Directors and Executive Officers of Aurora Health Care, Inc.:

Name	Positions Held
Nan Gardetto*	Director and Chairperson
Janet Krejci*	Director
Robert Figueroa*	Director
Marcia Drame*	Director
Michael Morgan*	Director
Daniel Minahan*	Director
Bill Wyman*	Director
Kristin Blanchard Stearns*	Director
Brianne Sas-Perez*	Director
Tamarra Coleman*	Director
Carlo Nevicosi*	Director
Michael Grebe*	Secretary
Dominic Nakis*	Treasurer
Rachelle Hart*	Assistant Secretary

Jeffrey Bahr, M.D.*	Assistant Secretary
Michael Kerns*	Assistant Secretary
Nan Nelson*	Assistant Treasurer
Jim Doheny*	Assistant Treasurer
Steve Huser*	Assistant Treasurer

Director for Quartz Selected and Elected by Aurora Health Care, Inc.:

Name	Position Held
Jennifer Atkins*	Board Member

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.

Under Phase 2 of the Agreement, AHC is given additional rights and obligations. This includes the ability for AHC to select and elect one member to the Board of Directors of each Quartz entity, excluding Quartz Health Plan MN Corporation. Jennifer Atkins was selected and elected by AHC for this role.

Richard Weiss, one of the Directors of AAH at the time of the Form A filing, will be leaving the board on 12/31/2021. As he will at no point be in a position to exercise control over Quartz, no biographical affidavit was submitted.

Nature, Source, and Consideration

In accordance with the Exchange Agreement, AHC will exchange the contribution for 10% of the Class A capital stock of QHC and thereby obtain control of QHIC and QHBPC. The Contribution will consist entirely of cash, the source of which will be AHC's operating funds. According to the Applicant, no part of the contribution will be obtained from third party financing. The Form A filing states that the terms of the agreement are the result of arm's length negotiations between the parties. QHC and the Applicants were represented by independent legal advisors in the negotiations between parties.

Applicant's Future Plan for the Insurer

Under Phase 2, of three phases, QHIC's and QHBPC's business plans will be amended to expand their respective service areas into certain Wisconsin counties served by AHC's hospitals and other providers, and to reflect the offering of the Products; those amendments will be filed by QHIC and QHBPC directly with the Office of the Commissioner of Insurance.

Except as described in the Form A, the Applicants have no current plans or proposals to cause QHIC or QHPB to declare an extraordinary dividend, to liquidate QHIC or QHPB, to sell any of QHIC's or QHPB's assets, to merge QHIC or QHPB with any person or persons or to make any other material change in QHIC's or QHPB's business operations, corporate structure, or management.

Financial Highlights

Highlighted Financial Data of the Applicant:

Financial Highlights (in thousands)	Unaudited		Consolidated Financial Statement			
	Q2 2021	2020	2019	2018	2017	2016
Total Revenue	6,748,909	13,132,189	12,805,423	9,213,406	4,995,052	4,751,475
Revenue in Excess of Expenses	1,128,723	608,125	1,546,697	72,529	473,897	469,143
Total Assets	22,125,014	21,449,643	18,933,369	16,732,789	5,660,604	5,299,842
Total Liabilities	8,605,635	9,049,599	7,234,705	6,489,812	2,617,398	2,698,155
Total Net Assets	13,519,379	12,400,044	11,698,664	10,242,977	3,043,206	2,601,687
Net Cash Provided by Operating Activities	318,575	593,585	553,773	879,718	630,522	620,505

Financial Projections of the Domestic Insurers:

The financial projections of the Domestic Insurer 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: It is OCI's opinion that this transaction is unlikely to eliminate competition for insurance products in Wisconsin. OCI's initial 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 of the Domestic Insurer 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 five 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.