# Market Research Report

**September 2017**

Prepared for:

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President

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# Expert Market Research

# A. Industry Research

Newco will be part of the industry defined as Dental Insurance in the United States. This industry underwrites dental insurance policies. Dental insurance helps cover the costs of dental care, ranging from basic preventative coverage to major dental work, depending on the type and scope of the insurance plan. Reinsurance of dental policies is not included in this industry; however, revenue from all dental insurance providers including private health insurance, Medicare and Medicaid is included in this industry.

## *1. Market Sizing*

The Dental Insurance industry has experienced moderate growth over the past five years, with revenue gains averaging 2.3% per year. Consequently, industry revenue reached $75.2 billion in 2016.

| Geographic area | Number of establishments | Employment | Sales | Profit |
|---|---|---|---|---|
| United States | 1,444 | 81,996 | $75.2 billion | $3.3 billion |

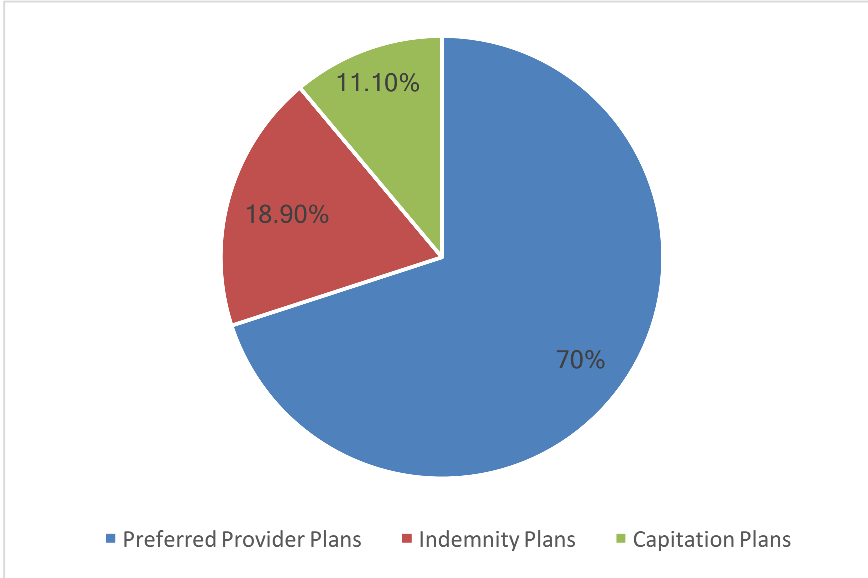
**Figure 1: Market Size**

## *2. Products and Services Segmentation*

Dental insurance plans differ in the level of reimbursement offered for certain procedures and in annual dental spending caps. Plans can generally be divided into two categories: managed-care and fee-for-service. Managed-care dental plans are cost-containment systems that restrict the type, level and frequency of treatment, limit the access to care and control the level of reimbursement for services. Fee-for-service dental plans are generally arrangements where dentists are paid for each service performed according to the fees created by the dentist.

Dental plans can also be broken down into different categories for procedures. Preventative and diagnostic services generally include cleaning, oral exams and X-rays. Insurance plans typically cover 100.0% of these costs. For basic restorative services, including fillings and extractions, dental insurance usually covers 80.0% of the total cost. For major restorative services, such as bridges, crowns and complete dentures, dental insurance usually pays 50.0% of the total cost.

**Preferred provider organization plans**-Preferred provider organization (PPO) plans give patients the ability to select a dentist from a network or list of providers that have contractually agreed to discount their fees. If the patient chooses to receive treatment from a non-participating dentist, that patient may be required to pay for a greater share of the service or pay higher deductibles and co-payments. PPOs can be fully insured or self-insured. PPOs are typically less expensive than indemnity plans and are regulated by the appropriate state insurance department. These plans have monthly premiums, pay only a specified percentage for each type of treatment and have an annual cap on funds available. Most PPO plans cover 80.0% to 100.0% of preventive care, cleanings, checkups, protective dental sealants, X-rays and fluoride treatments. Typically, 80.0% of basic care costs, including root canal therapy, extractions and fillings, are covered. Major care, such as crowns (caps), permanent bridgework, full and partial dentures and periodontal (gum) care, is often covered at 50.0% of the cost. In 2016, PPO plans are anticipated to account for 70.0% of total industry revenue.




**Indemnity plans**-Indemnity plans allow patients to choose their own dentist. Under this plan, limits and co-payments are set according to the level of coverage purchased. The dental indemnity insurance plan pays the dental office on a traditional fee-for-service basis. The buyer of the plan pays a monthly premium to the insurance company, which then reimburses the dental office for the services performed. These plans often have a pre-determined or set deductible amount, which can vary depending on the plan. Indemnity plans also can limit the amount of services covered within a given year, and pay the dentist based on a variety of fee schedules. These plans usually have high deductibles and probationary periods on certain procedures. In 2016, indemnity plans are anticipated to account for 18.9% of total industry revenue.

**Capitation plans**-With dental health maintenance organization (DHMO) plans, or capitation plans, patients are assigned to a specific dental office where contracting dentists receive a fixed monthly fee per patient or family regardless of whether treatment is performed. Under DHMOs, dentists agree to provide specific types of treatment, usually preventative or routine services, to the patient at no charge. For other services, clients must pay premiums and co-payments on a per-visit basis. DHMOs reward dentists who keep patients in good health by keeping utilization rates low. These plans are typically the least expensive and are regulated by state insurance departments. In 2016, capitation plans are anticipated to account for 11.1% of total industry revenue.

## 3. *Key Market Trends – Industry Drivers*

Despite mounting competition from direct reimbursement and discount dental plans, increased healthcare spending and growing demand for dental insurance coverage are anticipated to drive growth for the Dental Insurance industry. Moreover, the industry is set to expand due to the Obama administration's healthcare reform, which includes provisions to increase oral healthcare coverage. As a result of these trends, industry revenue is expected to increase at an annualized rate of 3.8% over the five years to 2021 to reach $90.6 billion.

- The largest drivers of industry revenue growth over the next five years will be the aging US population and increased insurance coverage caused by the Patient Protection and Affordable Care Act (PPACA). The PPACA is expected to cause the number of people with private health insurance to increase at an annualized rate of 0.9% over the next five years. Increased private health insurance typically means increased private dental insurance, therefore leading to revenue growth.
- Specifically, 5.3 million adults are expected to gain extensive dental coverage under the law through Medicaid or the healthcare exchanges. Furthermore, the PPACA states that pediatric dental care must be included as part of the minimum essential coverage for individuals. Under the PPACA, 8.7 million children are anticipated to gain dental benefits, reducing the number of children without dental benefits by 55.0%, further increasing industry revenue. This enrollment growth largely explains the expected 3.5% revenue growth in 2017.
- In addition, dental insurance enrollment will benefit from growing total dental spending. Dental expenditure is projected to increase at an annualized rate of 5.5% to $161.5 billion in 2021. As a result of this growth in dental expenditure, IBISWorld expects the number of industry establishments to increase at an annualized rate of 2.4% to 1,626 locations over the five years to 2021. A growing number of establishments will also increase the industry's demand for labor at an annualized rate of 3.2% to 95,875 employees. Nonetheless, IBISWorld expects the industry to consolidate further over the next five years, as participants try to increase market share to reduce overheads per policy to improve margins. To that end, the number of enterprises are expected to grow more slowly at an annualized rate of 2.1% to 318 companies.
- Furthermore, as the economy continues to grow, unemployment will decrease and disposable incomes will rise. Total US employment is expected to grow an annualized rate of 0.7% over the five-year period, boosting demand for employer-sponsored dental plans. This trend is important because the majority of industry premiums are related to group dental insurance plans. Moreover, the rise in discretionary spending will likely support industry revenue growth, because individuals, families and self-employed business owners will be in better fiscal positions to expand their dental coverage.
- Despite anticipated increases in downstream demand caused by improving macroeconomic conditions and the healthcare reform, external competition for the industry is forecast to increase, particularly from direct reimbursement and discount dental plans. Direct reimbursement plans are self-funded (employer) plans that

reimburse patients according to the amount of money spent on dental care, rather than the type of treatment received. Discount dental plan members pay a small annual membership fee to access a network of participating dentists and dental specialists who provide discounts on dental care at the time of service. Instead of paying high premiums to subsidize the cost of procedures, businesses and individual customers pay a discounted rate for each procedure as needed. As a result of growing demand for discount dental plans, a number of industry operators have begun offering these plans in addition to traditional dental insurance. As a result of this increased competition, industry profit margins are anticipated to grow slowly from 4.4% of revenue in 2016 to only 4.6% in 2021.

# B. Competitive Research

### *4. Competitive Landscape*

**Internal competition**-Companies within the industry largely compete on the basis of policy pricing. Companies that can provide better pricing, including premium and member out-of-pocket costs, will remain competitive. The level and quality of service is also extremely important, because dental needs vary substantially on a client-to-client basis. Moreover, reputation and image are crucial for generating premiums, because perceptions about a provider's level of care often influence demand. Other factors that distinguish competing dental plans include the comprehensiveness of coverage and the financial stability of a provider. Smaller plan providers typically target a particular state or region, which may limit the scope of their coverage. Larger providers are frequently able to offer more extensive network coverage.

**External competition**-The industry has a great deal of external competition, with discount dental plans and direct reimbursement plans posing the greatest threats. Many consumers that do not receive dental insurance from their employers use discount dental plans to reduce their out-of-pocket expenses on dental care. Additionally, more businesses are using discount dental plans for an affordable and easy way to provide their employees with dental benefits. Discount dental plans are not dental insurance products, but they provide individuals, families, businesses and other groups with dental benefits. Because they are not dental insurance plans, discount dental plans do not have co-payments, deductibles or annual limits. Discount dental plan members pay a small annual membership fee to access a network of participating dentists and dental specialists that provide discounts on dental care at the time of service. Instead of paying high premiums to subsidize the cost of procedures, customers are paying a discounted rate for each procedure as needed. These plans increase competition for dental insurance as consumers look to them as a less costly alternative.

Direct reimbursement (DR) plans are self-funded plans that reimburse patients according to the amount of money spent on dental care, rather than the type of treatment received. These plans enable employers to offer cost-effective dental benefits, while allowing employees to choose any dentist. The employer pays for dental care with company funds, rather than paying premiums to an insurance company or third-party administrator. The patient then receives prescribed dental treatment and is reimbursed directly by the employer. Instead of paying monthly insurance premiums, employers pay a percentage of actual treatments received. Direct reimbursement plans also remove the potential responsibility of influencing treatment decisions due to plan selection or sponsorship. DR is the ADA's preferred method of financing dental treatment.

## 5. Overview of Competitors

Newco's top three competitors include:

**Delta Dental**
1515 W 22nd St Ste 450
Oak Brook, IL 60523
http://www.deltadental.com

Delta Dental Plans Association (DDPA) members collectively make up the largest dental benefits provider in the US. The not-for-profit organization provides dental benefits administration and related services to some 60 million people through its nationwide network of independent affiliates. The dental health care association has about 40 affiliates that contract with more than 97,000 large and small employer groups to provide dental benefits through HMO, PPO, and POS (Point of Service) plans.

DDPA's products include Delta Dental Premier, a national, network-based dental program in which participating dentists are prohibited from billing the patient above the maximum allowed fee; Delta Dental PPO, a national, network-based dental program in which participating dentists agree to deeper discounts; DeltaCare USA, a dental health maintenance organization; Delta Dental PPO plus Premier, a program affording all of the benefits of Delta Dental PPO with the added ability to access the Delta Dental Premier network; Delta Dental Legion, a voluntary dental benefits program developed to serve Uniformed Service Retirees and their families; DeltaVision, a vision benefit plan offered in select Delta Dental markets; and Delta Dental Patient Direct, a dental discount program available in selected Delta Dental markets for groups, individuals and families.

The Delta Dental Premier plan offers access to about 155,000 contracted dentists and more than 348,000 office locations. The Delta Dental PPO network has more than 207,000 dentist locations, while its HMO plan, DeltaCare USA, offers access to more than 57,000 primary care dentists. The company also offers specialized dental benefit plans for military retirees (TRICARE Delta Dental Legion) and vision benefits (DeltaVision) in selected markets. Altogether, DDPA processes more than 97 million dental claims each year; it reports a claims accuracy rate of 99.7%.

The association's role is to support its member organizations through programs and divisions that focus on education, communication, collaboration, corporate identity, regulatory and legislative issues, dental science, and oral health. Its cost control efforts save groups more than $14.7 billion per year.

DDPA's members operate in all 50 US states, plus Washington, DC, and Puerto Rico.

DDPA's strategy for growth consists of offering new dental plan products, expanding customer access to dentists, improving the quality and affordability of care, and increasing the use of information technology to control administrative costs. It also promotes preventative care in partnership with its affiliates.

To support its member companies, DDPA conducts research into new dental treatments and oral health trends. It also represents its members on federal regulatory issues, and it provides them with other administrative, communication, and collaborative services.

DDPA was formed through the 1966 merger of several dentist-formed organizations, including Washington Dental Service and Oregon Dental Service.

**MetLife**
200 Park Ave
New York, NY 10166
http://www.metlife.com

Operating through its Metropolitan Life Insurance subsidiary, MetLife is the largest life insurer in the US. Its Insurance Products segment includes all of its group and individual life insurance and non-medical health insurance products (dental, disability, illness). Its Retirement Products segment includes annuity products. MetLife's Auto & Home segment works through subsidiary Metropolitan Property and Casualty. MetLife is a big player in Japan, and growing in more than 50 other countries, especially in Latin America. MetLife plans to split off much of its US life business.

MetLife is organized into six segments: Retail; Group, Voluntary & Worksite Benefits; Corporate Benefit Funding; Latin America (the Americas); Asia; and Europe, the Middle East, and Africa (EMEA). Certain results are also reported in the operations of the Corporate & Other segment, including MetLife Home Loans.

In the US, MetLife provides a range of insurance and financial services offerings including life, property/casualty, disability, dental, guaranteed interest, and annuities. These are distributed through both in-house and independent retail channels and in the workplace. Internationally, the company provides life, accident, medical, dental, and other insurance, as well as annuities and other retirement and savings products to individuals and groups.

The company's Retail segment is organized into two businesses: life and other (variable life products, universal life products, term life products, whole life products, disability products, property & casualty); and annuities (variable annuities and fixed annuities). In 2015 retail sales accounted for 30% of total revenue.

The Group, Voluntary & Worksite Benefits segment is organized into Group and Voluntary and Worksite. Group insurance products and services include life, dental, group short- and long-term disability and accidental death and dismemberment coverages. That segment accounted for 28% of revenue in 2015.

The Corporate Benefit Funding segment handles investment management for large employers that offer retirement benefits, including pension closeouts and specialized life insurance products used to fund such benefit plans. Corporate Benefit Funding accounted for 13% of revenue last year.

While the US remains its largest overall market, international sales accounted for about 30% of MetLife's revenues. The company also operates in the Americas and Asia, and in Europe, the Middle East, and Africa (EMEA). In Latin America it operates in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Uruguay (with the bulk of regional revenues coming from Mexico, Chile, and Argentina). The company operates in 10 countries in Asia, with its largest operations in Japan and Korea. It also does business in Australia, Bangladesh, Hong Kong, and Nepal, and through a joint venture in China, Malaysia, and Vietnam. MetLife operates in 26 countries across EMEA. The segment's biggest operations are in Poland, the Persian Gulf, and Russia.

Policies and other products are sold to some 100 million customers through a vast network of targeted marketing and sales forces, financial advisors, consultants, agency distribution groups, captive agents, independent agents, affiliated broker-dealers, and direct marketing (including direct response television, web-based lead generation, telemarketing, as well as through third parties and e-commerce). In addition, MetLife sells some products through affinity groups and through employers.

In 2016, MetLife announced plans to spin off much of its US retail operations into a new company named Brighthouse Financial. Its MetLife Insurance Company USA, General American Life Insurance Company, Metropolitan Tower Life Insurance Company, and several other units will be included in the transaction, whether that be in the form of an initial public offering or a spin-off. Together, those units have represented about 20% of MetLife's total earnings.

Going forward, MetLife plans to focus on pension and retirement products, insurance sold to employers, and non-US life insurance. The company has pinned much of its growth efforts on emerging markets by increasing its already strong presence in the Asia/Pacific region and in Latin America through acquisitions and new product introductions. To support this growth, the company has organized its operations along geographic lines: The Americas; Europe, the Middle East and Africa (EMEA); and Asia.

**Guardian**
7 Hanover Sq
New York, NY 10004
http://www.guardianlife.com

Guardian and its subsidiaries offer life insurance, disability income insurance, and retirement programs to individuals, business owners, and their employees. Its employee health indemnity plans provide HMO, PPO, and dental and vision plans, as well as disability plans. Its Guardian Insurance & Annuity subsidiary offers retirement options that include mutual funds and annuity products, which its Guardian Investor Services manages. Guardian also offers estate planning and education savings programs. The firm is a mutual company owned by its policyholders.

Like other bread-and-butter life insurance companies, Guardian took advantage of the deregulated financial services market and built up its wealth management capabilities to target baby boomers readying for retirement. Over the years it created broker-dealer Park Avenue Securities and launched Guardian Trust Company to offer trust and investment management services. Guardian also added subsidiaries in complementary fields through acquisitions, such as disability insurance specialist Berkshire Life Insurance.

Guardian Life's largest operating markets (by number of associates) include New York, Pennsylvania, Massachusetts, Wisconsin, and Washington State. The company offers its products in all 50 states and the District of Columbia.

Some 3,300 financial representatives (including general agents, brokers, and wholesalers) in more than 70 agencies throughout the US distribute the company's products. Guardian has taken advantage of its stability by building up its distribution force. It is also investing in technology to support its services, and it is focusing on building up its sales to small businesses and individuals.

More than 80% of Guardian's financial representatives have completed the firm's social media training program and interact with clients and partners through online channels.

To achieve growth, Guardian takes a long view of things in setting its strategic goals. Those goals include improving its products, expanding its distribution, and enhancing its service capabilities. The company selectively invests in opportunities that support its financial stability and strength in order to heighten its ability to pay competitive policyholder dividends over time. Guardian also forms strategic partnerships and has widened options for its investment customers by adding new funding vehicle options.

The company has also positioned itself for future growth and bolstered its competitive edge by preparing its group employee benefits business for post-health care reform changes. Steps taken included adding new products, enhancing support services, customizing worksite and voluntary benefit offerings, and expanding the benefit distribution networks. Additionally, Guardian added new life insurance policy options and individual disability products to expand customer options.

Guardian in 2016 completed the acquisition of Avēsis Incorporated, a leading government contract vision, dental, and hearing provider. The deal strengthened Guardian’s government programs business as one of the leading administrators for vision, dental and hearing benefits for government and commercial programs with 3 million members administered under Medicaid, CHIP, and Medicare Advantage programs.

The same year, Guardian acquired Aon Hewitt’s Absence Management Administration Business, adding 200 blue chip customers and 1,300 employees across the US, Canada, and India.

## 6. Website Performance of Competitors

Below is an overview of the competition's website performance:

| Business Name | Links to Site | Monthly Website Visitors |
|---|---|---|
| **Delta Dental** | 1,055 | 1.2M |
| **MetLife** | 3,350 | 2.5M |
| **Guardian** | 751 | 281k |

**Figure 2: Website Performance**

## 7. Social Media Presence of Competitors

Below is an overview of the competition's social media presence:

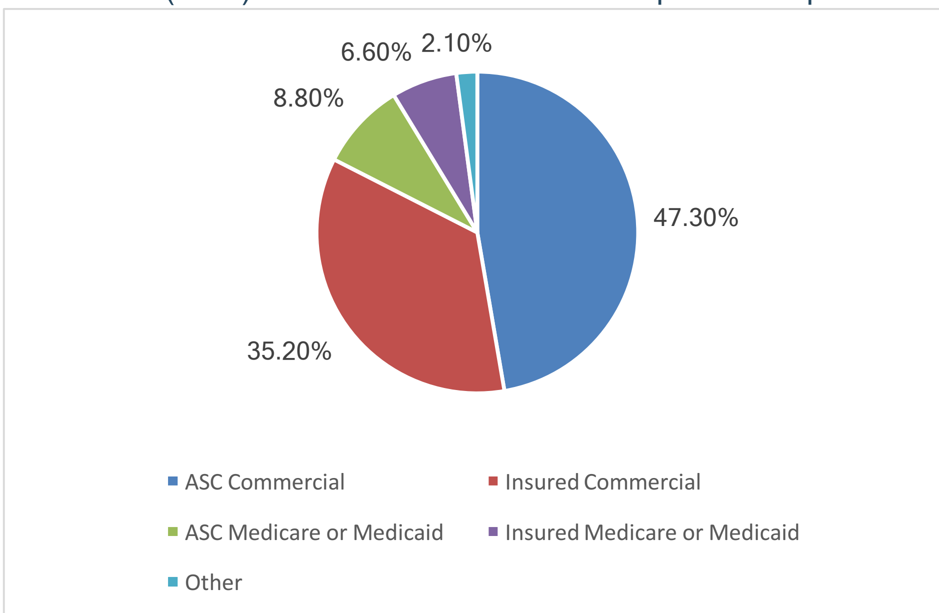
| Business Name | Facebook | LinkedIn | Twitter |
|---|---|---|---|
| **Delta Dental** | 6.1k likes | 12,264 followers | 11.1k followers |
| **MetLife** | 650k likes | 230,533 followers | 41.6k followers |
| **Guardian** | 65k likes | 23,143 followers | 11.1k followers |

**Figure 3: Social Media Presence**

# C. Customer Research

## 8. Key Customer Segments

**Commercial**-Commercial clients, which include employers, other groups, individuals and providers, are anticipated to account for 82.5% of total industry revenue in 2016. More specifically, insured commercial clients are expected to account for 35.2% of industry revenue, while administrative services contract (ASC) commercial clients are anticipated to represent the remaining 47.3% of total industry revenue. With insured commercial clients, industry operators assume all or the majority of the risk for dental care costs. With ASC commercial clients, the plan sponsor assumes all or the majority of the risk for dental care costs.




Many employers purchase dental insurance plans for their employees. Dental insurance rates are generally lower for group plans because the risk for the insurance company is spread out across the group of employees. Generally, the employee pays part of the dental insurance cost and the employer pays the rest. Group dental insurance purchased by an employer is particularly beneficial for an employee with a preexisting condition, because the coverage will begin either immediately or 90 days after starting a new job. Job-based coverage has been falling as companies reduce or cut dental insurance offerings to save money.

When an individual's employer does not offer insurance benefits, these consumers often seek individual dental insurance. Unemployed, self-employed and laid-off workers also purchase dental insurance. When an individual buys dental insurance on their own, premiums will generally be higher because there is no group risk pool.

Unions enable working people to come together and contractually bargain for many benefits, including dental insurance. Many different industry unions offer dental insurance to eligible members. In many cases, union workers can join a specific group to receive benefits and, assuming they are approved, will be enrolled in dental insurance. Like employer-purchased dental insurance, union-purchased dental insurance rates are generally lower because the risk for the insurance company is spread out across the members in the union.

**Medicare, Medicaid and other**-Medicare covers a very limited number of dental services. Medicare does not cover routine dental care or most dental procedures, such as cleanings, fillings, tooth extractions or dentures. Additionally, Medicare does not pay for dental plates or other dental devices.

Dental services under Title XIX of the Social Security Act, the Medicaid program, are required to cover comprehensive dental services for children, but coverage for adult dental services is optional. Most Medicaid-eligible individuals younger than 21 will receive dental coverage as a required component of the Early and Periodic Screening, Diagnostic and Treatment (EPSDT) benefit. The program's focus is on prevention, early diagnosis and treatment of medical conditions. Dental services must be provided at intervals that meet reasonable standards determined by specific states or medical necessity.

States may choose to provide dental services to their Medicaid-eligible population; however, states may choose not to provide dental services as part of its Medicaid program. While most states provide at least emergency dental services for adults, less than half of the states provide comprehensive dental care.

In 2016, Medicare and Medicaid offerings are anticipated to account for 15.4% of total industry revenue. Moreover, a range of organizations are expected to account for the remaining 2.1% of industry revenue, largely through fees associated with accessing a dental provider network.

## 9. Demographic Profile of Target Market

Newco will target businesses with 200 employees or more. Below is a breakdown of this market.

| Industry | Employment size of establishment | Number of establishments |
|---|---|---|
| **Total for all sectors** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Agriculture, forestry, fishing and hunting** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Mining, quarrying, and oil and gas extraction** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |

| | | |
|---|---|---|
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Utilities** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Construction** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Manufacturing** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Wholesale trade** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Retail trade** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Transportation and warehousing** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Information** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Finance and insurance** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Real estate and rental and leasing** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| | All establishments | |

| | | |
|---|---|---|
| **Professional, scientific, and technical services** | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Management of companies and enterprises** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Administrative and support and waste management and remediation services** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Educational services** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Health care and social assistance** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Arts, entertainment, and recreation** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Accommodation and food services** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Other services (except public administration)** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |
| **Industries not classified** | All establishments | |
| | Establishments with 100 to 249 employees | |
| | Establishments with 250 to 499 employees | |
| | Establishments with 500 to 999 employees | |
| | Establishments with 1,000 employees or more | |

# D. Financial Research

### *10. Average Industry Financial Metrics – Costs and Profit Margins*

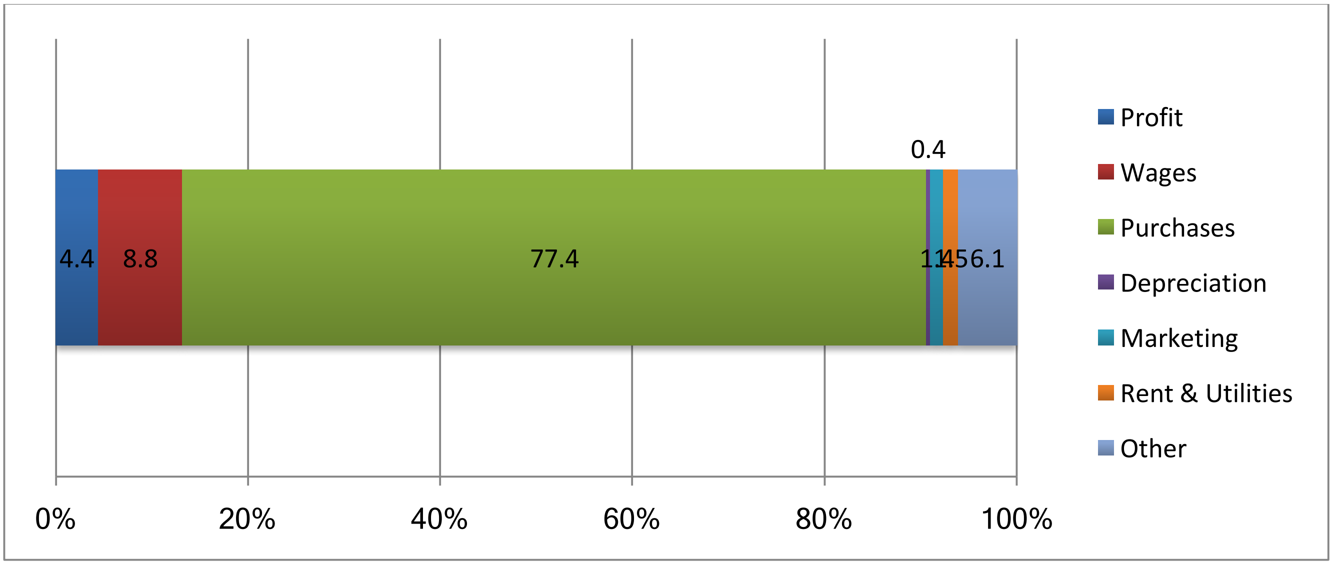



**Figure 4: Production Costs and Profit Margins**

**Profit**-Industry profit, defined as earnings before interest and taxes, is expected to decrease during the five years to 2016, falling from 7.8% of revenue in 2011 to an estimated 4.4% in 2016. Industry profit margins have fallen as a result of Healthcare reform's high compliance costs. In addition, industry operators have had to invest heavily in technology over the past five years, because cyber security has become an important input for insurance providers. Increased technology costs have led to lower profit margins.

Profit margins have also been hurt by external competition from direct or discount reimbursement plans. Direct reimbursement plans are self-funded (employer) plans that reimburse patients according to the amount of money spent on dental care, rather than the type of treatment received. Discount dental plan members pay a small annual membership fee to access a network of participating dentists and dental specialists who provide discounts on dental care at the time of service. Instead of paying high premiums to subsidize the cost of procedures, businesses and individual customers pay a discounted rate for each procedure as needed.

**Purchases**-Purchase costs are the single largest expense for dental insurance companies. Purchase costs are primarily made up of benefit expenses. The benefit expense includes costs of care for dental services consumed by members. While members generally pay monthly rates for insurance coverage, the insuring company then incurs a share (sometimes all) of the costs when members visit the dentist. Dental costs are dependent upon utilization rates, which represent the volume of consumption of dental services. Most dental ailments are preventable, and so preventative care, including regular checkups and cleanings, makes up a majority of these costs. This generally varies with the age and health status of the population along with social and lifestyle choices. These costs are expected to account for 75.2% of revenue in 2016 and their share has declined slightly over the past five years due to a small decline in expenditure per policy because of a rising number of subscribers.

**Wages**-A major component of insurers' administrative costs is linked to claims processing and running call centers, which are both closely linked to information technology (IT). Recently, some insurers have claimed that better IT management and the increasing use of technology have helped temper administrative costs. Additionally, with healthcare reform, the industry's need for highly skilled professionals such as business analysts, risk analysts and IT professionals has increased substantially, resulting in an increase in the average wage paid out by industry operators. Overall, wages are expected to account for 8.8% of revenue in 2016, up from 8.2% in 2011.

**Other**-Operating expenses also include costs related to negotiating payment structures and rates with medical providers, such as dentists. Companies in the industry also incur professional fees, including legal services and litigation fees. Moreover, dental insurers are anticipated to spend 1.4% of total revenue on marketing expenses. Marketing directed toward employers' human resources staff may be more focused and, therefore, less costly than marketing aimed at individuals. Because most domestic consumers obtain health insurance coverage through their employers, insurers must compete for the business of both employers and employees.

## 11. Average Industry Financial Metrics - Industry Financial Ratios

The following figure is a list of all the major financial ratios that govern the industry.

| Financial Ratios | |
|---|---|
| Quick Ratio | 2.54 |
| Current Ratio | 2.96 |
| Current Liabilities to Net Worth | 49.7% |
| Current Liabilities to Inventory | x289.28 |
| Total Debt to Net Worth | x1.15 |
| Fixed Assets to Net Worth | x0.16 |
| Days Accounts Receivable | 33 |
| Inventory Turnover | x176.38 |
| Total Assets to Sales | 64.2% |
| Working Capital to Sales | 29.2% |
| Accounts Payable to Sales | 8.6% |
| Pre-Tax Return on Sales | 2.4% |
| Pre-Tax Return on Assets | 3.7% |
| Pre-Tax Return on Net Worth | 8.0% |
| Interest Coverage | x20.00 |
| EBITDA to Sales | 23.1% |
| Capital Expenditures to Sales | 2.4% |

Figure 5: Average Financial Ratios, FirstResearch