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EDITED TRANSCRIPT

Sun Life Financial Inc to Acquire Dentaquest Ventures LLC Call

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PRESENTATION

Operator

Good morning, everyone. My name is Lovely. I'll be your conference operator today. At this time, I would like to welcome everyone to the Sun Life conference call. (Operator Instructions)

The host of the call is Yaniv Bitton, Vice President, Head of Investor Relations and Capital Markets. Please go ahead, Mr. Bitton.

Yaniv Bitton *Sun Life - VP, Head of IR & Capital Markets*

Thank you, Lovely, and good morning, everyone. I would like to start by introducing the members of our management team present for today's call. Hosting the call, we have Kevin Strain, President and Chief Executive Officer; Dan Fishbein, President of Sun Life U.S.; and Manjit Singh, Executive Vice President and Chief Financial Officer. The slides for today's call are available on the Investor Relations section of our website at sunlife.com.

Turning to Slide 2. I draw your attention to the cautionary language regarding the use of forward-looking statements and non-IFRS financial measures, which form part of today's remarks. As noted in the slides, forward-looking statements may be rendered inaccurate by subsequent events.

And with that, I will now turn things over to Kevin.

Kevin Strain *Sun Life - President and CEO*

Thanks, Yaniv, and good morning, everybody. I'm very pleased to announce that Sun Life has reached an agreement to acquire DentaQuest, a leading dental benefits provider in the United States with approximately 33 million members. The purchase price for the deal is US \$2.475 billion in cash and will be financed using a combination of cash and debt. This transaction is right on strategy to grow the U.S. Group Benefits business.

DentaQuest is a recognized leader in dental benefits and will add scale and new capabilities to Sun Life's dental offerings. The acquisition is also consistent with Sun Life's Purpose of helping our clients achieve lifetime financial security and live healthier lives and advances our sustainability strategy focused on improving health and wellness outcomes for all. The connection between oral health and overall health is being increasingly recognized, and DentaQuest's prevention-led model delivers meaningful value for clients and members, including in underserved communities.

The combination of DentaQuest and Sun Life will drive opportunities for growth in the commercial dental space and will bring new capabilities in the important government programs space as well as in care delivery. Adding DentaQuest will position Sun Life as a

leading dental benefits provider in the U.S. and will double our size in employee benefits. This positions us well in the U.S. group benefits space, with strength across life, disability, dental and other benefits, and stop-loss.

Importantly, DentaQuest also brings a great management team with a strong track record of execution with deep and long-standing client relationships. The DentaQuest team adds to our existing management team in the U.S. led by Dan Fishbein, who have also driven superior results at Sun Life over the years.

The transaction will be immediately accretive to underlying earnings per share and ROE and will be highly cash generative. And similar to our existing Group Benefits business, DentaQuest is capital-light with low tail risk and re-priceable offerings, all of which support our medium-term financial objectives. Subject to regulatory approvals and customary closing conditions, we expect the transaction to close in the first half of 2022.

DentaQuest's business is a strong fit for Sun Life and provides us with significant opportunity. I've had a chance to spend time with the DentaQuest team, and I am confident that there is a strong fit and alignment with our value and Purpose. We look forward to welcoming DentaQuest to Sun Life.

I'll now ask Dan Fishbein to speak about the business in more detail.

Daniel Fishbein *Sun Life - President of Sun Life U.S.*

Thank you, Kevin, and good morning. We're very excited about last night's announcement and are looking forward to welcoming DentaQuest's great team to the Sun Life family in the first half of next year.

Turning to Slide 5, it's important to start with some recent history about the Sun Life U.S. business. 10 years ago and for long before that, the U.S. business was mostly a retail life and annuities business with a smaller Group Benefits business. Coming out of the financial crisis, Sun Life decided to de-emphasize the individual life and annuities businesses by selling the annuities business and putting the individual life business into closed-block status.

After that, we emphasized group benefits, a business we've been in since the 1920's but which wasn't previously our primary focus. We've made a series of acquisitions to support that, along with significant organic investments to build out our business. In combination, we've built a strong Group Benefits business that meets the evolving needs of our clients.

In 2016, we acquired Assurant's employee benefits business. That transaction provided us with strong capabilities in dental and voluntary benefits as well as additional capabilities and scale in group life and disability. Two years later, we bought an insurtech, Maxwell Health. This was a small but important acquisition that has enhanced our digital capabilities and the client experience by providing an intuitive online benefits enrollment platform.

And this summer, we acquired PinnacleCare, a leading expert care navigation provider. They use personal health advisers to guide members facing serious medical conditions through the complex U.S. health care system to help ensure they get the right diagnoses, doctors and treatment. This addition will further differentiate our medical stop-loss business, which is the #1 independent stop-loss provider in the U.S. It also starts to transform how we position stop-loss from a business based on financial transactions with employers to a true care management and outcomes-focused business that brings value directly to members.

Our existing U.S. dental business is modest in size based on membership. The acquisition of DentaQuest brings 33 million new members and new capabilities in government programs and care delivery.

Turning to Slide 6, the attractiveness of the capabilities we will be acquiring is clear. DentaQuest is a leader in government programs with 29 million of its 33 million members in that space. This includes Medicaid in which DentaQuest is a leader, Medicare Advantage plans and Affordable Care Act exchanges. DentaQuest also has a commercial dental business in which they manage and provide benefits to approximately 4 million members.

Government programs now cover as many Americans for health insurance as the employer-based market, and this space continues to grow. Government programs are increasingly being delivered through private payers selected through rigorous procurement processes that once established tend to be long term. There is also a lot of activity right now at the Federal and State levels to expand the size and scope of these programs, with more States adding programs, benefits and enrollees. Government programs are a critical part of the overall U.S. benefits space with attractive growth characteristics and will be an important part of our future.

The dental space itself is a large and growing opportunity as well. It's the second most popular benefit after health insurance with a total market of US \$140 billion in dental services expenditures. And dental insurance is a relatively low-capital product requiring modest reserves. As a result, dental tends to have a high return on equity, typically over 30%.

The chart on the right shows the size of the government programs' dental segment. The US \$20 billion from last year is only about 15% of total U.S. dental expenditures, yet half of health insurance, as I mentioned, is currently provided through government programs. So the growth potential in dental is substantial as the same trend that has occurred in health insurance is now underway for dental benefits.

Turning to Slide 7, DentaQuest is a leading dental benefits provider and a leader in Medicaid, as I mentioned earlier. They are strong and growing across the range of government programs, in commercial products and through white label partnerships with health plans.

Their current majority parent entity, the CareQuest Institute for Oral Health, is a non-profit organization that advances oral health, quality and access to care. After the acquisition, we will continue to work closely with CareQuest, which is well aligned with our sustainability strategy and our focus on helping people to live healthier lives. We look forward to working closely with CareQuest to help improve access to oral health care for all Americans.

DentaQuest does business in 36 States and serves 4 million commercial members in addition to their government programs members. With our 1 million commercial members, the combination will also position Sun Life as a top 10 commercial dental benefits provider.

DentaQuest has a very strong emphasis on preventive care, which they call Preventistry. This works well with Medicaid, especially children who are a large part of the Medicaid population they serve. And as Kevin mentioned, DentaQuest has an excellent and experienced management team, who we're excited to welcome to Sun Life in the coming months.

Turning to Slide 8, DentaQuest has been outgrowing its peers in recent years. DentaQuest has achieved a 14% compound annual revenue growth rate over the past few years. Contributing to that growth are expansions of the programs they serve and the fact that they've been consistently winning a high percentage of the new contracts they bid on while retaining a high percentage of existing contracts. DentaQuest also provides and administers dental benefits for a number of regional and national health plans as many plans choose to partner with an expert to deliver dental benefits. DentaQuest's strengths also include a best-in-class dental system, Windward. Windward is scalable, and we plan to use it in Sun Life's commercial business. There will be no system or product conversions of DentaQuest's business, and as such, any disruption and therefore a concern for shock lapse is minimized.

DentaQuest has a lot of scale. For example, they have 2,400 employees so they're able to deliver high-quality care and service to States, other partners and their members via an efficient value-based model. Many of their client relationships are long-standing, often in place for more than a decade. And their excellent service delivery and strong relationships with key States and health plans has driven a 97% retention rate since 2018.

DentaQuest also has a strong provider network tailored to the populations they serve. They supplement this network as needed with their own affiliated dental practices, which is particularly valuable in bringing access to care to underserved populations.

Turning to Slide 9. As we bring DentaQuest and Sun Life together, the combination is something greater than what either company had on its own. DentaQuest's capabilities as a leader in government programs with strong commercial capabilities that are currently only in a handful of their States, differentiated care delivery and care management and a great IT platform plus Sun Life's leading nationwide commercial provider network of 130,000 contracted dentists, national commercial sales team, coupled with a broad product portfolio and strong digital capabilities, results in a great combination with leadership in government programs, a highly competitive commercial

business and significant cross-sell opportunities. We fit together well. DentaQuest brings us the scale, leading technology platform and government programs expertise to compete strongly across all major segments of the dental space.

Turning to Slide 10, this all adds up to Sun Life U.S. becoming a more competitive leader in Group Benefits. After we complete this transaction, we will more than double the size of our employee benefits business by revenues. This is the business through which we offer group life, disability, absence, voluntary, dental and vision products. We'll also have 33 million new members supporting future investments in our capabilities.

We'll also have leading positions in 2 attractive businesses, medical stop-loss in which we're already a leader and now dental, plus strong positions in employee benefits and our full scope white label business. And our business mix is attractive with more than 70% of U.S. revenues expected to come from health products following the closing of the transaction. This has been happening over time, but this acquisition is a tipping point.

Our overall portfolio is also very capital-light, driven by all 4 of our benefits businesses, each of which is short-term re-priceable, has relatively low reserve requirements and has significant and growing fee-based business. And this transaction also provides additional diversification, not just across products but across segments, now including government programs.

We are very excited to add the DentaQuest team to our team and look forward to welcoming them to Sun Life. We are aligned around purpose and culture, and there is an exciting opportunity to work together to expand access to oral health care to all Americans while continuing to build a great business.

With that, I'm going to hand it off to Manjit to provide some more detail on the financial aspects of this transaction.

Manjit Singh Sun Life - Executive VP & CFO

Thank you, Dan, and good morning, everyone. This is an exciting day for Sun Life and DentaQuest, and I'm pleased to outline some of the key financial metrics for the acquisition.

Turning to Slide 11, the purchase price for the transaction is US \$2.475 billion, which we intend to finance through a combination of cash and debt. The transaction will be immediately accretive to both underlying earnings per share and return on equity. On a full year basis for 2022, the transaction will be C \$0.17 accretive to underlying earnings per share and 42 basis points accretive to underlying return on equity.

By 2024, when we expect expense synergies to be fully realized, underlying EPS accretion increases to C \$0.24 per share and 50 basis points for underlying ROE. The EPS accretion numbers I quoted include a drag of approximately C \$0.10 per share for amortization of intangibles. We expect to achieve run rate cost synergies of approximately US \$60 million by the end of 2024 and are forecasting total transaction and integration costs of approximately US \$250 million.

This transaction will strengthen our U.S. business. It adds significant scale to employee benefits, contributes even more diversification by entering into the government programs space and increases our focus on capital-light health businesses. The acquisition of DentaQuest will add approximately US \$100 million to U.S. underlying net income in the first full year after closing. It will also increase the contribution of the U.S. business to Sun Life's total underlying net income from 16% at the end of 2020 to over 19%.

Our pro forma capital position, reflecting last week's redemption of C \$725 million in preferred shares as well as this transaction, remains strong, including over C \$1 billion of cash at the holding company, a financial leverage ratio of 27.6% and SLF LICAT ratio of 137%. In addition, DentaQuest is a capital-light re-priceable business with stable underwriting and will generate strong cash flow. Together, this provides us with continued capital strength and flexibility.

Let me end by summarizing some of the key takeaways on Slide 12. The acquisition of DentaQuest significantly advances our strategy to grow scale in the U.S. Group Benefits business. DentaQuest business is very well aligned with our Purpose and advances our sustainability strategy.

The DentaQuest team has a proven track record of driving strong growth in the dental space, and the U.S. Sun Life team is experienced at successfully integrating new businesses. This gives us confidence in executing on this transaction, and the acquisition will be immediately accretive to underlying earnings and will generate strong cash flow. DentaQuest is a great addition to the stable of capital-light businesses at Sun Life and will contribute to our strong ROE. We are confident that our focus on disciplined capital deployment, combined with our track record of organic growth across all of our 4 pillars, will continue to drive significant value for our shareholders.

I'll now turn things back to Yaniv for the Q&A portion of the call.

Yaniv Bitton Sun Life - VP, Head of IR & Capital Markets

Thank you, Manjit. (Operator Instructions) I will now ask Lovely to poll the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Gabriel Dechaine with National Bank.

Gabriel Dechaine National Bank Financial, Inc., Research Division - Analyst

One question here on the market, I guess. How fragmented it is? And does it matter that -- shall I be wowed, I guess, that you're the #2 player? Or is this a small market share and you have to make more acquisitions to actually gain double-digit market share or something like that?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Yes, Gabriel. It's Dan. I think as with all parts of the U.S. health and benefits ecosystem, there are a lot of competitors. It's quite different than, for example, the Canadian market that is rarely competitive. So #2 position based on membership is significant but does not necessarily give us massive market share. But I would say 33 million members is very large number and will give us a lot of flexibility to maneuver in the future, make additional investments and really have substantial scale in the market.

Gabriel Dechaine National Bank Financial, Inc., Research Division - Analyst

Okay. And then my second question and I'll requeue, but the business has been expanding via acquisition for a number of years now. I don't think this is entirely surprising. You've talked about being attracted to the dental market for quite some time now.

Are there any other product gaps or desirable areas of expansion for you in that U.S. group benefits market? I'm not expecting another deal in the next few months or anything like that but just down the road to get a sense of what you're trying to build and where you could be active next.

Daniel Fishbein Sun Life - President of Sun Life U.S.

Well, I think, as we've said, there were a couple of areas we've been particularly interested in recently. One was to broaden our capabilities in stop-loss beyond the core product, and I think we've done that recently with the acquisition of PinnacleCare. Although we've also mentioned the pharmacy space in stop-loss so I think we'll continue looking at that, including not just M&A but partnerships.

And the other thing that we've been mentioning for quite a while is the need for additional scale in our group business, and this clearly accomplishes that. So I think we've now checked that box off with the scale that we'll now have. So as we always say, we're always active and look at things as they become available. But I think we're very well along in answering -- filling in the blanks that we had identified for the U.S. business.

Operator

Your next question comes from the line of Humphrey Lee with Dowling & Partners.

Humphrey Lee Dowling & Partners Securities, LLC - Research Analyst

I guess my first question is for Dan. Just to think about how this business kind of fits into your existing platform. As your earlier kind of response to the question, you talked about this acquisition would strengthen the U.S. benefits scale. But as I just think about the government program and the commercial program, like can you just talk about like what -- where do you see kind of overlaps or strategic fit that can help you expand to the scale that you're looking for?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure, Humphrey. Great question. So we will operate dental through DentaQuest as its own business. So the leadership team at DentaQuest will take that on, including the existing Sun Life commercial dental business. So there are some very obvious synergies and overlapping capabilities, whether it's government programs or commercial: systems, claims processing, member or customer service, care management and claim management as well. So all of those capabilities, now that we'll be able to deliver those on a very large scale, will directly benefit the competitiveness of our commercial business.

And also, specifically in the commercial business, both companies had capabilities and gaps to fill in, and the combination is really compelling. So we have a strong national commercial network. We're probably in a virtual tie for having the largest national commercial network. And we have national distribution, but we didn't really have some of the scale advantages so that created some economic challenges in pricing.

And DentaQuest has very strong overall dental capabilities, a strong commercial business with 4 million members, but they only did commercial business in a handful of States. And what they didn't have is the national commercial network and the national sales team which we have. So when we put those together, we think the result is a much more competitive, stronger commercial business. And we have high hopes for what that can do. And then on top of that, obviously, the big focus here is government programs, which we think by itself is a great market, and we plan to continue emphasizing and growing that market as well.

Humphrey Lee Dowling & Partners Securities, LLC - Research Analyst

So it sounds like it's more on the back office side and the -- I guess, on the administration side because I would think the distribution for the 2 channels would be quite different. So is there anything that you can leverage between the 2? Or is it just going to be more of separate businesses in that regard?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Well, as I said, we have a national sales team that sells all the products, including dental. And they did not have the national sales team. We have the national commercial dental provider network which they did not have.

They have great capabilities. I think it's broader than back office. These are the capabilities around care management, care delivery that can really be leveraged across any dental product in addition to those operational and systems functions and overall, just very strong capabilities and knowledge around dental. DentaQuest brings 2,400 employees who do just about nothing but dental. They're dental experts, and that capability will benefit us in a big way as well.

Operator

Our next question comes from the line of David Motemaden with Evercore ISI.

David Motemaden Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst

I just had a question in terms of the business' performance and how you're thinking about it as you think about the accretion. I think in 2020, a lot of the dental businesses had a strong earnings year just as a result of the pandemic and people less likely to utilize their dental benefits.

How big of a boost was that to DentaQuest's results in 2020? And how are you treating that going forward? And how do you reflect that in the 13.7x multiple that you guys are paying for this deal?

Daniel Fishbein Sun Life - President of Sun Life U.S.

So all of the impact of the favorability in 2020 due to lower utilization was removed from our models and from all of the statistics that you're seeing. And we did that in a couple of ways. We restated 2020, and we also trended everything from 2019. We also would comment that current utilization is very close to being back to prior levels. So -- but the short answer is those items -- the 2020 impact was completely removed.

David Motemaden Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst

Got it. That's helpful. And then, I guess, Dan, maybe a question for you. In the past, I think you guys have a 10% earnings growth target for the U.S. Group Benefits business and a 7% after-tax profit margin.

Just wondering how this deal impacts how we should be thinking about those growth rates and the margin going forward? Does it enhance those? Does it help maintain it? I guess how should we be thinking about that going forward?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Clearly, from a growth rate perspective, if you look at their recent historical growth and the expectations we have for the business, this will be supportive of those growth objectives. I'm going to turn it over to Manjit for any comments on the margin expectations.

Manjit Singh Sun Life - Executive VP & CFO

Yes. On the margin side, obviously, we're bringing all these businesses together, so once we go through the integration and close, we'll look at all of our margin guidance that we provide and come back to you. But as I think Dan sort of said, the important thing is that this is a very attractive business. It has very high earnings growth rates. It's capital-light, generates very strong cash flows and ROE. So I think it will be a great addition to the U.S. business overall.

Operator

Our next question comes from the line of Meny Grauman with Scotiabank.

Meny Grauman Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

First question, just wanted to know, does Sun Life currently have any government business? Or is it effectively 0 in the United States right now?

Daniel Fishbein Sun Life - President of Sun Life U.S.

So in the U.S., we do not currently do any meaningful business with these kinds of government programs. Of course, we have some government sponsors for employee benefit plans, including some pretty significant ones. But as far as participating in Medicaid and Medicare and ACA exchanges, this is new for us with this transaction.

Meny Grauman Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

Got it. And then in terms of the margin, going back to that, how does the margin profile look in the government business, that -- especially that Medicare -- or sorry, that Medicaid business versus the commercial? What's the difference in margins between the 2 types of businesses?

Daniel Fishbein Sun Life - President of Sun Life U.S.

So generally, the margins in dental really just across the board are more modest than in some of the other products. But since the capital needed for dental is so much more limited, the return on equity is much higher.

Meny Grauman Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

And so you're saying -- so the distinction is not really material between government and commercial in the dental space specifically?

Daniel Fishbein Sun Life - President of Sun Life U.S.

That's correct. We've studied that quite carefully. And generally, the range of margins is quite similar between commercial and government.

Operator

Our next question comes from the line of Doug Young with Desjardins Capital.

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Maybe just more on the capital and structure. But you're injecting US \$250 million into the business. I guess my question is, is that all that's required for DentaQuest or is that on top of the existing capital base? And what does that take the LICAT for that business to be?

And I think this transaction was done at the holdco, not at the opco level. So structurally, just kind of triangulating all of those, hoping just to get a little color. And then I've got a follow-up.

Manjit Singh *Sun Life - Executive VP & CFO*

Okay. Doug, it's Manjit. So I'll address your questions. The first question you had was on the structure of the capital -- transaction. You're correct, it will be -- this transaction will be recorded or be a part of the holdco. It will not have any impact on SLA.

And then I think your second question was on the capital for this business. The US \$250 million is the capital that we think we will need for the whole business. The acquisition does not come with any capital inside the business.

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And why was it done at the holdco not the opco level? Is there a particular reason?

Manjit Singh *Sun Life - Executive VP & CFO*

We looked at sort of the structuring, Doug, in terms of when we acquire these things and what the most beneficial structure for us would be. And for the U.S., this is a more beneficial structure, for us to have it at the holdco.

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And just a further clarification. Manjit, did you say this business in the first full year post close will generate earnings of US \$100 million? Is that right? Did I catch that in the remarks?

Manjit Singh *Sun Life - Executive VP & CFO*

That is -- for the U.S. BG, that's what -- for the U.S. business segment, that will generate US \$100 million, correct.

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And that's on a Canadian dollar basis, and that's including the amortization of intangibles?

Manjit Singh *Sun Life - Executive VP & CFO*

So that is on a U.S. dollar basis, but it does include the amortization of intangibles.

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. And then just a follow-up.

Kevin Strain *Sun Life - President and CEO*

Doug, it's Kevin Strain. That's an annualized number, too, right? So it will depend on when the transaction closes.

Doug Young *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Yes. Okay. I just want to make sure.

And then second, just, I guess, for Dan. I think 2 things that I noticed and that really weren't really kind of fleshed out too much is what are the potential revenue synergies from this transaction? And I think you talked a bit about some tech benefits from DentaQuest and maybe the 2 kind of fit together, but just hoping to get a better sense of those 2 items.

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure. Now first of all, obviously, in the government programs space, there is a very good revenue growth trajectory. But there's 2 areas we're looking at in particular for revenue synergies. One is the comments I made earlier about ending up with a much stronger commercial dental business. And we think our sales of commercial dental will go up significantly when we put those capabilities together through our existing national sales distribution team that works with brokers to sell to employers across the country.

The second area is that DentaQuest has a very strong white label business with health plans, both regional and national health plans. Most of those relationships have started or start with the government program that they, in a sense, subcontract to the health plan to deliver for them. But we've seen a steady pace of those expanding to include other products over time, including commercial dental.

And we think the fact that we bring a broader product portfolio to the table beyond just dental will accelerate that trend of being able to expand those relationships or enter into new relationships with those health plans to offer products. So there are 2 pretty significant areas there where we see revenue synergy opportunity.

Doug Young Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

And this is not in any of your numbers for 2024? Like I assume it's not in the immediate, but for 2024, the synergies, like that doesn't include anything from revenue synergies? Or does it?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Our growth projections primarily are based on the growth of the core business. So yes, there could be upside to that as we realize some of the revenue synergies.

Manjit Singh Sun Life - Executive VP & CFO

Yes. Doug, we did not factor in any revenue synergies into the accretion numbers we provided.

Operator

Your next question comes from the line of Tom MacKinnon with BMO Capital.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

On Slide 6, we talk about a 6% growth in U.S. dental government programs. And then on Slide 8, you've got DentaQuest with revenue growth CAGR of 14%. Now the DentaQuest is from 2018 to 2021, that's the 14%. But Slide 6 has an industry growth of just growing 6% from 2020 to 2025.

So can you help me understand what it is that -- was the industry growth faster from 2018 to 2021 and now it's slated to slow? Or what has been driving DentaQuest's revenue growth to be substantially greater than the industry? I mean, I think you mentioned expansion of programs and winning some contracts, but maybe just a little bit more color on why this #2 player here would be growing at twice the rate of the market.

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure, Tom. It's quite simply that DentaQuest has been outgrowing their peers quite significantly. So -- and part of that is their overall strength and some of that is the mix of business that they're participating in as well.

So they've had a very high win rate for new bids, new large contract bids and a very high level of retention of existing contracts, way beyond what we typically see in the commercial business. But they're very strong in the government programs space. So when new States or -- put out programs or new programs or expansions, they win a quite high percentage of them.

They've also been growing quite nicely in the Medicare Advantage space. Most Medicare Advantage plans, those are the private health insurance plans that are offered as an option to Medicare beneficiaries, include additional benefits. And one of the most popular additional benefits is dental. And DentaQuest has been winning a lot of relationships with Medicare Advantage plans to be the component that delivers that dental benefit.

And then as I mentioned, they've entered into some private label partnerships, including on the commercial side, that has expanded their membership as well. So they've just been performing really well on all cylinders and outperforming the growth rate of the market.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

When you talk about winning -- a good win rate on new bids, is this -- are these offered at the state level? Is that what they are, is just States come up with a bidding process for their plans? And how often is that done? Or is there -- maybe just explain about who is actually -- where are you getting these proposals? Or where are you sending your proposals to? Is it primarily States then? Or is it -- are any cities involved? Just a little bit more color there.

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure. So it's really from 2 places. As you noted, mostly it's State Medicaid agencies, authorities offering private Medicaid dental programs, typically on a choice basis. They'll typically offer 2 or more plans to the beneficiaries. And they bid these periodically under State procurement standards, usually for multiyear contracts because it's a very big process to select and install these programs. Often, these programs come with extensions where the State can decide to add some more years to the program, and they function on a cycle based on the particular procurement laws and regulations of the State.

There's also -- as you noted, there's been a trajectory of the States expanding enrollment. Medicaid programs have been growing in the U.S. So there are more populations being added, and enrollment in those populations has been growing.

The other type of procurement, as I mentioned, are the health plans. The individual health plans across the country that might be looking for a partner. In many cases for Medicaid, in some States, the health plan is also asked to deliver the dental benefits. And in some cases, it's for Medicare Advantage programs, and DentaQuest also has a high win rate on those programs.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

Okay. That's great. And I assume that from -- revenue growth from 14% was comparable to the member growth over that time period as well?

Daniel Fishbein Sun Life - President of Sun Life U.S.

I don't know 100% the answer to that, but directionally yes. I mean the reason why I caveat that a little bit is some of these programs are insured programs and some are administrative services only. So the mix matters. But on that latter part, there's also been a trend of States to convert prior administrative services only programs to fully insured. So that's an additional source of growth for DentaQuest.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

Great. And the final one is on the synergies. US \$60 million by -- pretax by 2024. How should we think about the progression of that? Do you expect like half of that number in the first full year?

Manjit Singh Sun Life - Executive VP & CFO

I'll take that. So Doug, it's Manjit. Yes, that's about what we expect. About -- sorry, Tom. So about half of that in the first year and then progressing to 2024 after that.

Operator

Our next question comes from the line of Scott Chan with Canaccord Genuity.

Scott Chan Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst

Maybe just going back to the revenue CAGR from 2018 to 2021. How would have COVID-19 impacted that in, say, 2020 and 2021 versus 2018 and '19? Just trying to get a sense if it's been uneven during that 4-year period.

Daniel Fishbein Sun Life - President of Sun Life U.S.

Well, obviously, it's not been 100% even but it has been relatively consistent. Interestingly, COVID, of course, had a significant impact on dental utilization, which, as I mentioned earlier, we've normalized for. But the States did continue their regular bid processes as well as

health plans. And in fact, even during COVID, DentaQuest has won some really great new relationships. So the general trajectory did continue in '20 and '21.

Scott Chan *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

And would you be modeling in double-digit revenue growth based on your 2022 and 2024 EPS and ROE targets?

Daniel Fishbein *Sun Life - President of Sun Life U.S.*

We modeled in a continuation of revenue growth that's significant but not necessarily as high as the recent actuals just to be a bit on the conservative side.

Scott Chan *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

And just lastly, just based on the targets for 2022 and 2024, what are the largest maybe risks or biggest factors that could impact those targets that we should watch for?

Daniel Fishbein *Sun Life - President of Sun Life U.S.*

Yes. I think that the -- obviously, there's always risk of other competitors making stronger bids or fewer States putting programs out to bid or even a loss of existing programs. However, and we've looked at all of those, we don't think those are significant risks.

The track record here of retaining programs has been great. The relationships that DentaQuest has with its partners are very strong. They're delivering the service that they need to deliver. They have advantage over their competitors due to scale and expertise and some of the unique capabilities they can deploy.

One of the biggest challenges that States have in Medicaid dental programs is access to dentists. Underserved populations often can't find dentists who are willing to participate in Medicaid programs. And DentaQuest has really done a great job of finding, in very creative ways, approaches that expand access to previously underserved populations.

The States really value that, perhaps more than anything. And that's an added factor that increases the stickiness of these programs over time. So the risks are things that you would typically think of, but we don't think there are particularly big risks here.

Kevin Strain *Sun Life - President and CEO*

It's Kevin. I was just going to add that we are bringing some significant digital capabilities that we have across the business and the investments we've made in Maxwell Health and digital in the U.S. So that's going to be an added factor.

And of course, in this case, there is no core transformation from an existing platform to, say, our platform that you've seen in a lot of acquisitions that Dan discussed earlier, right? So the clients are going to be on the same core platform.

We'll be bringing new capabilities. We've got the same management team. So there's a lot of confidence in terms of being able to retain the clients.

Operator

Our next question comes from the line of Lemar Persaud with Cormark Securities.

Lemar Persaud *Cormark Securities Inc., Research Division - Research Analyst*

I'm wondering if you could just talk a bit about how the deal came about. Like was it a competitive bidding process? Or was it more of a long-term relationship between the 2 parties?

Daniel Fishbein *Sun Life - President of Sun Life U.S.*

So this was a competitive bidding process. So our looking at this was certainly opportunistic, but it was a competitive process with significant interest.

Lemar Persaud Cormark Securities Inc., Research Division - Research Analyst

Okay. And then the next question I have is I'm wondering if you could just break down the cost synergies, the US \$60 million there. So it sounds like it's not systems consolidation. So what could they be? And then secondly, like how confident are you in achieving the US \$60 million?

Manjit Singh Sun Life - Executive VP & CFO

Lemar, it's Manjit. So to give you a flavor of some of the things that we think we'll get cost synergies on. As Dan mentioned, there's opportunities for operational efficiencies. We -- and Kevin mentioned we have some capabilities that we can bring to them on things like IVR and phone channel.

They have a great system where they can help us in some of our operational processes. They have a great claims management system. We also will be, as Dan mentioned, converting our commercial platform on to their platform so that's going to generate some savings on our systems as well as some normal things like third-party vendors and things like that. So that would be sort of the flavor of the cost synergies.

Lemar Persaud Cormark Securities Inc., Research Division - Research Analyst

Okay. And you'd say it's fairly certain that you'll achieve that US \$60 million.

Manjit Singh Sun Life - Executive VP & CFO

Yes, we're pretty confident of the US \$60 million.

Daniel Fishbein Sun Life - President of Sun Life U.S.

Yes. And I would add, for a transaction of this size, that's not a huge expense synergy. This is much more a growth story. But that also gives us higher confidence in achieving the synergies.

Operator

Our next question comes from the line of Darko Mihelic with RBC Capital Markets.

Darko Mihelic RBC Capital Markets, Research Division - MD & Equity Analyst

A few questions here. The thing that comes to mind is that CareQuest is a non-profit organization selling something to you that you're going to make profitable, I guess. But without diving into why CareQuest is selling, the question does come up with respect to how important is it to these government organizations to have a nonprofit championing DentaQuest? What's the relationship going to look like going forward?

US \$60 million, you're right, Dan, doesn't sound like a big number, probably shouldn't be, worry about cultural fit. Can you talk to just all of these issues with respect to buying something from a non-profit and how you're going to sort of, I guess, work with CareQuest going forward, if at all?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure, good morning. So DentaQuest is a for-profit entity and has been for many years. And it's DentaQuest itself that has the relationships with the States and other partners. CareQuest has been a supporting organization, but the relationships with the States are not really with CareQuest. And the States have obviously been working with a for-profit DentaQuest for many years. And in fact, they've been quite profitable.

CareQuest though is a really great aspect of this transaction and relationship. So they have become a powerful force in the U.S. for advocating for and supporting access to oral health care for all. And with the transaction, they'll obviously have substantially more resources to advance that mission.

We have agreed with CareQuest to continue working very closely together. And in fact, we will have an agreement in place to support that. And really, the 2 organizations are complementary with DentaQuest being the business providing great service and products and

benefits to people, and CareQuest continuing to find creative ways through care expansion, through technology and advocacy to increase access to oral health care to all Americans, especially underserved communities. So we're really excited about working with CareQuest going forward, we've gotten to know them through this process, and excited about the resources that they'll have at their disposal from the transaction going forward to advance that mission.

Darko Mihelic RBC Capital Markets, Research Division - MD & Equity Analyst

And I can recall, historically speaking with many members of Sun Life, really dealing with Medicaid was difficult, the exchanges. What's happened to change your view that now dealing with health care exchanges is actually something that you can get engaged in, in a profitable manner?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure. So Medicaid and health care exchanges are 2 different things. Medicaid is the U.S. program that provides health insurance and other benefits to the poor. The ACA exchanges are relatively modest in size and membership, about 10 million or 11 million. Medicaid is 74 million. The ACA exchanges were established to serve primarily the individual health insurance market in the U.S., and also provide dental benefits.

So I think what you're probably recalling is some conversations some years back that there had been a lot of expectation that ACA exchanges might become something much, much bigger than they did. And some of the challenges, they were expectations by some observers that the ACA exchanges would actually become a way that group benefits would be delivered, especially to small businesses. And that never really played out because most businesses want to continue to manage their own benefit plans rather than, in a sense, subbing that out to a government entity.

Medicaid, especially on the dental side, as we studied this and really understood this especially through this transaction but also previously, is a good market. It tends to -- as I mentioned, dental has modest margins but low capital requirements so a great ROE. Because the margins are modest and because the needs of the States are much broader than just delivering the benefits, it's also around access, these programs tend to have very stable margins. And their margins, even though they're modest, that really work for us because of the ROE.

So -- and also, these programs tend to be very stable and long lasting. Unlike the commercial member market where there can be 25% churn every year and you have to sell 25% of your entire book of business just to get back to even, in these government programs markets, the relationships tend to last a long time because they're very complicated and difficult to put in place and there's a lot of potential disruption to the membership if you move them. So the churn rate in these programs is actually much lower. So a combination of the stability of relationships and the relatively stable and meaningful margins actually makes it a very attractive business for us and for others.

Darko Mihelic RBC Capital Markets, Research Division - MD & Equity Analyst

That's very helpful. One quick follow-up for Manjit, just the size of the intangibles. What are you amortizing actually? And how is this coming to be? And...

Manjit Singh Sun Life - Executive VP & CFO

Yes. So there's sort of 2 main elements of the intangibles, Darko. One is sort of the system that Dan mentioned, the Windward system, which is a very advanced system that has a lot of value. The other portion of the intangibles is really related to the long-standing relationships and contracts that are in place.

Operator

Our next question comes from the line of Paul Holden with CIBC.

Paul Holden CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

I'll just ask a quick one on the amortization of intangibles. One of your peers has decided to exclude that from the core or underlying EPS. Have you given that any thought? Because, clearly, cash accretion on this deal is significantly higher than the underlying EPS accretion. So any thought to changing the definition of underlying?

Manjit Singh Sun Life - Executive VP & CFO

Paul, it's Manjit. So this amortization of intangibles historically has not been a big item for us. But given our recent expansion of our businesses to higher-growth, capital-light businesses in U.S. health care as well as SLC, obviously, this is a more meaningful number. We're not planning to make any changes to our disclosures ahead of IFRS 17.

But as part of IFRS 17, our overall financial disclosures will change. So we'll consider -- we'll look at this again as part of that process. And as you mentioned, some of our peers do exclude this, so we provided the number for you so you have that information.

Operator

We have a follow-up question with Gabriel Dechaine with National Bank.

Gabriel Dechaine National Bank Financial, Inc., Research Division - Analyst

The -- I guess they call it the infrastructure plan, whatever, the one that has US \$3.5 trillion price tag attached to it. There's a big component in there to expand the dental coverage to all Medicare recipients. Is that something that -- who knows if the bill passes, but that could be very attractive for you with DentaQuest, correct?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Yes. I mean it's a great point. And in fact, the human infrastructure plan or sometimes called the Build Back Better plan has 3 elements that could be relevant here. First of all, an expansion, as you mentioned, of dental benefits to all Medicare beneficiaries, which would inject a lot of additional funding into that benefit; but also, a significant expansion of Medicaid, especially into the States that have so far resisted adding to Medicaid enrollment under some of the prior expansion plans; and then also significant permanent funding for increased subsidies for the Affordable Care Act exchanges.

So those 3, if they -- if all 3 were enacted, would result in a substantial increase in size in the market, and we have not modeled any of that into our projections. Now as you said, it's not clear what's going to pass, and there's a lot of discussion in Washington about scaling some of that back. But any of that, that finds its way into the final package would be potential upside over time to the size of the market.

Gabriel Dechaine National Bank Financial, Inc., Research Division - Analyst

And DentaQuest is predominantly Medicaid, not Medicare? Is that correct?

Daniel Fishbein Sun Life - President of Sun Life U.S.

DentaQuest is -- their biggest program is Medicaid, but they do have a significant Medicare Advantage business that has been growing at a significant pace.

Operator

Our next question comes from the line of Mario Mendonca with TD Securities.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

Perhaps, Manjit, the estimated transaction- and integration-related costs of US \$250 million, that number surprised me in 2 ways. One, it's rather large relative to the synergies of only US \$60 million. And secondly, I think you told us that the business -- or clients would not be migrated off of DentaQuest system into Sun Life but it would be run as 2 separate systems. What then is the US \$250 million for if it's not for that type of integration?

Manjit Singh Sun Life - Executive VP & CFO

Mario, so I would say about half of that is related to deal costs, advisory fees, debt issuance costs, other transactions -- other costs as well as retention. So about half of that is deal cost and retention. So those don't really drive any synergies.

The remainder is going to be around the IT. There will be some integration of some of our systems, as Dan mentioned, as well as some alignment of capabilities that we currently have in place. And then in addition to that, we'll do some branding -- brand spend. And obviously, we'll incur some costs of the actual integration itself as well as some other corporate stuff like leases and so forth. So that would be the other half of it, and that last half is what's going to drive the synergies.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

So really, maybe the thing I should be comparing is the US \$60 million to half of the US \$250 million. It does sort of strike me. It's been my experience in looking at these over the years that the synergies usually bear some relationship to the actual cost spend. Are -- these US \$60 million in synergies, is this very much the low end that you're targeting?

Manjit Singh Sun Life - Executive VP & CFO

Well, I think it's a reasonable target, Mario. Obviously, as we get into the integration, there might be additional opportunities that arise, but I think we're being reasonable in terms of the expectations we're setting today.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

A somewhat different type of question. I can think of few businesses in life insurance where scale matters more, maybe wealth management. But certainly, group benefits, this is where it really matters -- where scale matters. So where I'm getting at, and this is probably appropriate for Dan, now that you've got this business, it's double the size, does this change Sun Life's capacity to price or ability to lower pricing and maybe attract market share for the business as a whole, not just for dental but stop-loss, health care, everything? Does this put Sun Life in a better footing in that respect?

Daniel Fishbein Sun Life - President of Sun Life U.S.

So I think the short answer is yes. I mean this makes -- maybe not so much to stop-loss but more to our other Group Benefits businesses, this makes a major contribution to giving us the scale that we've been saying we need and therefore should make us more efficient overall, absolutely. Does it make a tremendous difference? I think it's more an important incremental difference, but it certainly gives us a lot more scale than we had before, which should really be helpful to our overall level of competitiveness.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

So some of this falls to the bottom line in terms of a better margin. Some of it could actually go towards attracting new business. I guess maybe that's the right way to look at it?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Yes. And in fact, that's the way we did our modeling. So we definitely, especially in commercial dental, are anticipating increased sales and some of that is quite clearly supported by more competitive pricing, and that's in the model.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

Okay. Final question. I know this isn't a reserve-heavy business, DentaQuest dental business. I appreciate that you made that point clear. But when I heard you talk about how DentaQuest has been -- really their win rate has been up significantly in what I consider to be a competitive business, my immediate thought is, "Well, why? What's causing them to win all this business?"

What I'm getting at is how do you satisfy yourself in a business that I understand is reserve-light, that you're not going to have any surprises down the road from a reserving perspective, that the profitability is what they're targeting? How do you satisfy yourself in a business like this, particularly one where...

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure. A couple of thoughts on that. So first of all, these are competitive processes, and the States establish acceptable bidding ranges. And DentaQuest has an advantage because of their size, right? So they can deliver the services more efficiently. So that's -- so they're not -- they don't have a need to discount or underprice the business. They have a built-in advantage that enables them to price quite competitively. But we've also looked at their historical performance, and these contracts have run at a very stable level. They tend to earn margins that are in a quite narrow band, and loss ratios that are in a quite stable and predictable band.

The other thing about the reserves, this is -- dental has caps on benefits, right? There's a certain amount per year in dental benefits. So you just don't get the big swings that you can get in some other businesses where you can have small numbers of potentially very large claims. So that contributes to a lot of stability in the business.

Operator

Our next question comes from the line of Humphrey Lee with Dowling & Partners.

Humphrey Lee Dowling & Partners Securities, LLC - Research Analyst

My follow-up question is more focused on the revenue on the commercial side. So you talked about moving some of the Sun Life platform to the DentaQuest. How should we think about kind of the risk of any kind of potential shock lapse on your legacy business?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Yes. That's a great question, Humphrey, because we always are concerned about any sort of disruption. So as we do the integration planning, which, of course, it hasn't started yet, it's just starting now, we anticipate doing that at a very measured pace, doing it over time, as we've done with other transactions like the Assurant transaction, where we ended up with actually quite low shock lapse. We will time any transitions to coincide with renewal dates for clients so that there's a minimum amount of disruption.

The Windward system is a very flexible system. So while there may be a systems conversion, we don't think there'll be a need for product or benefit changes as part of that. So hopefully, that's something that will be largely in the background and relatively seamless to our clients, except that they'll probably get a higher level of service after we put their membership on a stronger system. I'd also point out that of the 34 million combined members here, only 1 million are the Sun Life commercial members.

Humphrey Lee Dowling & Partners Securities, LLC - Research Analyst

Got it. And then in terms of kind of the commercial opportunities, you talked about laying on Sun Life national distribution would help the DentaQuest platform. But I guess -- since you're relying on your existing distribution, I guess, what -- from a commercial opportunity side, like what does DentaQuest help to enhance the Sun Life offering?

Daniel Fishbein Sun Life - President of Sun Life U.S.

Sure. So they bring a lot of stronger capabilities in dental overall. As I mentioned earlier, we have 2 things though that are very important that they didn't have, which is a very strong national commercial dental provider network and an existing national sales team. There's no additional expense there. We already have a team that knows how to sell these products.

But they bring -- as a previous question noted, they give us the ability to price more competitively. When you do a better job on claim management, on things like fraud detection, care management, all of those kinds of things, plus a more efficient operating cost, that can make a difference in pricing. And commercial dental is very price-sensitive. 2 or 3 percentage points can make the difference between selling business and not selling business.

So those just overall stronger capabilities in the core components of the dental business, combined with our nationwide network and national sales team, creates a very powerful combination. Right now, today, DentaQuest does great work on commercial dental in 4 States, but they've not had the ability to take those capabilities to the rest of the country. We give them that capability, and they give us the capability to be more competitive.

Humphrey Lee Dowling & Partners Securities, LLC - Research Analyst

Understood. So it's more of a combination of your national geographic footprint with a lower-cost provider essentially.

Daniel Fishbein Sun Life - President of Sun Life U.S.

I think -- yes. I think all -- they give us better capabilities, better cost structure. We bring the national capabilities, absolutely.

Operator

Our next question comes from David Motemaden with Evercore ISI.

David Motemaden Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst

I just had one more question just on the profitability of the business. Given it's Medicaid, are there any MLRs or maximum profitability levels that this business is subject to?

Daniel Fishbein Sun Life - President of Sun Life U.S.

So different States handle that differently, but some of the States absolutely do manage this within allowable ranges in some cases of MLRs, in some cases of margins. And that's one of the things that has contributed to the stability of the business. And in fact, in some ways, that's been beneficial because you can have a great deal of predictability as to what those margins will be. As -- you may not be able to far exceed them, but you're also very likely going to stay within those ranges. And of course, DentaQuest only participates in contracts where those are -- margins are acceptable for their returns.

Operator

We have no further questions at this time. I will turn things to Mr. Bitton for closing remarks.

Yaniv Bitton Sun Life - VP, Head of IR & Capital Markets

I would like to thank all of our participants today. And if there are any additional questions, we will be available after the call. Should you wish to listen to the rebroadcast, it will be available on our website later today.

I will now turn it back to Kevin Strain for closing remarks.

Kevin Strain Sun Life - President and CEO

Thanks, everybody, for attending the call. And I think this has been a great discussion, and we really appreciate the questions.

The U.S. Group Benefits business is obviously an important growth business for Sun Life and aligned with our Purpose and strategy, and we're really pleased to announce this transaction, which builds on the scale and capabilities as we've talked about today. And I think you can tell from Dan's answers and Manjit's answers how detailed we've come to understand this business and how excited we are about adding it to our overall Sun Life Group Benefits business in the U.S.

And at the end of the transaction, we're still left with a strong capital position with flexibility in our leverage ratios. And we can -- and this is a capital-light business that generates cash and generates capital. So we're well positioned for growth across our pillars. This builds the U.S. Group Benefits, which is an important pillar for us.

But we're excited to be having this transaction. And I think you can tell from the discussion that we've made -- remain committed to our financial discipline, and the transaction builds on all 3 of our MTOs: adding to our earnings per share growth, adding to our ROE, and adding to our cash flow. So it's an exciting transaction for Sun Life, and I have a lot of confidence in the ability of the team to implement with the strength of Dan's team, with the analysis we've done and with the fit of the DentaQuest team that's going to be joining us and the strength of their management team.

So exciting times. I'd like to thank everybody for your questions, and we are available if there are more questions later. Thanks a lot, operator.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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