

## Equity Research

February 10, 2016

### Mark Palmer

(212) 588-6582  
mpalmer@btig.com

### Giuliano Bologna

(212) 588-6583  
gbologna@btig.com

## VOYA

12 month target

**\$26.73**

\$50.00

## BUY

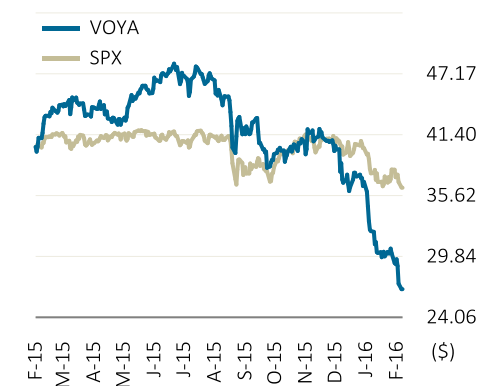
52 week range

\$26.73 - \$48.14

Market Cap (m)

\$5,774

### Price Performance



Source: IDC

## Financials

### Voya Financial, Inc.

#### 4Q15 Earnings Beat Features Return to Favorable Life Mortality, New \$700mm Buyback Authorization

Following a couple of quarterly earnings reports marred by unfavorable mortality due to higher claims severity in its Individual Life unit, Voya Financial (VOYA, Buy, \$50 PT) this morning demonstrated that it had regained its footing in 4Q15 in posting an earnings beat free of any actuarial anomalies. The company also set out to take advantage of the weakness in its shares – the stock was hit hard during the recent market carnage and is down 27.6% YTD – by announcing a new \$700mm share repurchase authorization.

- ▶ With VOYA trading at just 0.47x the company's book value ex. accumulated other comprehensive income (AOCI) as of YE15, those share buybacks will be highly accretive. We believe the new share repurchase authorization highlights a key aspect of the VOYA story: the company's consistent generation of excess capital and willingness to return that capital to shareholders as demonstrated by its \$250mm and \$1.5bn of buybacks in 4Q15 and FY15, respectively.
- ▶ **We are reiterating our Buy recommendation on VOYA and price target of \$50** based on 0.80x the company's FY17E book value ex. AOCI per share of \$68.42 discounted back at 10%. We believe the steep decline in VOYA shares since the beginning of the year has created a remarkable buying opportunity and that the new share repurchase authorization should help to limit additional downside. While Financials shares and insurance companies have been sold aggressively during the recent market rout, VOYA appears to have been particularly hard hit due to its perceived interest-rate sensitivity amidst diminished expectations of Federal Reserve rate increases. However, we think the actual impact of lower-than-expected rates is more than reflected in VOYA's current valuation.
- ▶ **Valuation:** Our price target of \$50 is based on 0.80x VOYA's YE17E book value per share (ex. accumulated other comprehensive income [AOCI]) of \$68.42 discounted back at 10%

## Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 E	2Q16 E	3Q16 E	4Q16 E	FY16 E	FY17 E
BVPS (Ex-AOCI)	52.23	56.33	54.74	55.61	55.61	57.25	56.33	60.57	62.36	60.79	68.42
Operating Income	290	263	137	288	978	267	269	257	288	1,082	1,150
Oper. Inc. Per Share	0.82	0.78	0.42	0.91	2.93	0.82	0.84	0.82	0.94	3.42	3.91

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

**Please Read: Important disclosures and analyst's certification appear in Appendix**

- ▶ VOYA reported 4Q15 adjusted operating earnings per share of \$0.82, beating the consensus estimate (and our estimate) of \$0.79.
- ▶ Importantly, VOYA's Individual Life unit reported favorable mortality experience due to lower frequency after two quarters in which higher claims severity had weighed on its results. The company's mortality ratio had been more than two standard deviations above expected levels in 3Q15, prompting CEO Rod Martin to describe it as "very unusual" and "unlikely to occur over time."
- ▶ The one flaw in an otherwise solid 4Q15 report was a sequential decline in VOYA's adjusted operating ROE for the ongoing business to 12.1% from 12.6%, its second such sequential decline in as many quarters after a long string of quarterly increases. Management, which achieved the ROE target they had set prior to the company's 2012 IPO two years earlier than scheduled, said the company remains on track to achieve its 2018 adjusted operating ROE target of 13.5% to 14.5%.
- ▶ VOYA's book value ex. AOCI per share increased by \$0.59 sequentially during 4Q15 to \$57.44.

## Income Statement

Voya Financial - Operating Model	Dec-11	Dec-12	Sep-13	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Dec-17
\$ millions	2011A	2012A	2013A	2014A	1Q15A	2Q15A	3Q15A	4Q15A	2015A	1Q16E	2Q16E	3Q16E	4Q16E	2016E	2017E
Retirement	441.9	448.6	595.8	517.8	124.5	128.4	80.5	137.2	470.6	125.1	127.1	130.8	130.3	513.4	539.1
Annuities	387.6	102.2	293.8	262.0	68.6	61.0	50.5	62.9	243.0	58.3	61.3	61.9	63.2	244.7	257.0
Investment management	87.5	134.5	178.1	210.3	46.9	47.0	45.6	42.4	181.9	47.4	47.5	47.9	42.6	185.4	194.7
<b>Retirement Solutions</b>	<b>917.0</b>	<b>685.3</b>	<b>1,067.7</b>	<b>990.1</b>	<b>240.0</b>	<b>236.4</b>	<b>176.6</b>	<b>242.5</b>	<b>895.5</b>	<b>230.8</b>	<b>235.9</b>	<b>240.7</b>	<b>236.2</b>	<b>943.5</b>	<b>990.7</b>
Individual life	279.3	196.2	254.8	237.3	43.4	37.7	(10.8)	102.4	172.7	41.2	41.5	41.9	102.9	227.5	238.9
Employee benefits	83.3	109.4	106.1	148.9	40.6	37.7	44.2	23.6	146.1	39.8	41.5	42.0	23.7	147.0	154.3
<b>Insurance Solutions</b>	<b>362.6</b>	<b>305.6</b>	<b>360.9</b>	<b>386.2</b>	<b>84.0</b>	<b>75.4</b>	<b>33.4</b>	<b>126.0</b>	<b>318.8</b>	<b>81.0</b>	<b>82.9</b>	<b>83.9</b>	<b>126.6</b>	<b>374.5</b>	<b>393.2</b>
<b>Total ongoing business</b>	<b>1,279.6</b>	<b>990.9</b>	<b>1,428.6</b>	<b>1,376.3</b>	<b>324.0</b>	<b>311.8</b>	<b>210.0</b>	<b>368.5</b>	<b>1,214.3</b>	<b>311.8</b>	<b>318.8</b>	<b>324.5</b>	<b>362.8</b>	<b>1,318.0</b>	<b>1,383.9</b>
Corporate	(230.2)	(182.3)	(210.6)	(170.4)	(48.2)	(53.3)	(75.6)	(82.1)	(259.2)	(49.2)	(54.4)	(71.8)	(79.4)	(254.7)	(249.6)
Closed block institutional spread products	83.2	45.7	50.6	24.7	13.8	4.0	2.6	2.0	22.4	4.8	4.8	4.8	4.8	19.0	16.2
Closed block other	(13.0)	64.0	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closed Blocks</b>	<b>70.2</b>	<b>109.7</b>	<b>50.6</b>	<b>24.7</b>	<b>13.8</b>	<b>4.0</b>	<b>2.6</b>	<b>2.0</b>	<b>22.4</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>19.0</b>	<b>16.2</b>
<b>Operating income</b>	<b>1,119.6</b>	<b>918.3</b>	<b>1,268.6</b>	<b>1,230.6</b>	<b>289.6</b>	<b>262.5</b>	<b>137.0</b>	<b>288.4</b>	<b>977.5</b>	<b>267.4</b>	<b>269.2</b>	<b>257.5</b>	<b>288.2</b>	<b>1,082.3</b>	<b>1,150.4</b>
Closed block variable annuity	(564.5)	(692.3)	(1,209.3)	(255.2)	(34.4)	180.5	(7.1)	(317.3)	(178.3)	-	-	-	-	-	-
Net investment gains (losses)	71.8	455.5	212.1	215.1	50.4	(9.4)	(64.6)	(59.7)	(83.3)	-	-	-	-	-	-
Net guaranteed benefit hedging gains (losses)	(269.4)	97.2	19.4	(12.8)	(47.2)	24.6	(31.7)	(39.6)	(93.9)	-	-	-	-	-	-
Loss related to business exited through reinsurance or divestiture	(35.1)	(45.8)	-	(157.3)	(15.4)	(33.3)	(16.4)	(104.2)	(169.3)	-	-	-	-	-	-
Income (loss) attributable to noncontrolling interests	190.9	138.2	-	237.7	26.1	81.9	75.9	(53.6)	130.3	-	-	-	-	-	-
Loss on early extinguishment of debt	-	-	-	-	-	(9.9)	-	-	-	-	-	-	-	-	-
Immediate recognition of actuarial gains (losses)	(157.8)	(165.0)	-	(372.7)	-	-	-	62.7	62.7	-	-	-	-	-	-
Other adjustments to operating earnings	(77.7)	(100.1)	467.3	(100.2)	(12.8)	(10.7)	(12.6)	(20.0)	(56.1)	-	-	-	-	-	-
<b>Income (loss) before income taxes</b>	<b>277.8</b>	<b>606.0</b>	<b>758.1</b>	<b>785.2</b>	<b>256.3</b>	<b>486.2</b>	<b>80.5</b>	<b>(243.3)</b>	<b>589.6</b>	<b>267.4</b>	<b>269.2</b>	<b>257.5</b>	<b>288.2</b>	<b>1,082.3</b>	<b>1,150.4</b>
Income taxes	175.0	(5.2)	(32.5)	25.1	44.7	119.1	(35.9)	(82.9)	45.0	66.9	67.3	64.4	72.0	270.6	287.6
<b>Net income</b>	<b>102.8</b>	<b>611.2</b>	<b>790.6</b>	<b>760.1</b>	<b>211.6</b>	<b>367.1</b>	<b>116.4</b>	<b>(160.4)</b>	<b>544.6</b>	<b>200.6</b>	<b>201.9</b>	<b>193.1</b>	<b>216.1</b>	<b>811.7</b>	<b>862.8</b>
Noncontrolling interests	190.9	138.2	190.1	(1,529.7)	26.1	81.9	75.9	(53.6)	130.3	-	-	-	-	-	-
<b>Net income attributable to shareholders</b>	<b>(88.1)</b>	<b>473.0</b>	<b>600.5</b>	<b>2,289.8</b>	<b>185.5</b>	<b>285.2</b>	<b>40.5</b>	<b>(106.8)</b>	<b>414.3</b>	<b>200.6</b>	<b>201.9</b>	<b>193.1</b>	<b>216.1</b>	<b>811.7</b>	<b>862.8</b>
<b>Diluted Operating Earnings per share</b>	<b>\$3.17</b>	<b>\$2.59</b>	<b>\$3.29</b>	<b>\$3.13</b>	<b>\$0.82</b>	<b>\$0.78</b>	<b>\$0.42</b>	<b>\$0.91</b>	<b>\$2.93</b>	<b>\$0.82</b>	<b>\$0.84</b>	<b>\$0.82</b>	<b>\$0.94</b>	<b>\$3.42</b>	<b>\$3.91</b>
Diluted shares outstanding	230.0	230.0	251.4	255.1	240.7	229.8	223.6	216.0	227.5	212.0	208.0	204.0	200.0	206.0	191.3
Book value Ex-AOCI per share	42.43	44.19	43.43	53.76	52.23	56.33	54.74	55.61	55.61	57.04	58.53	60.03	61.71	61.71	68.42

Source: BTIG Research Estimates and Company Documents

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Regulatory Disclosures

#### Analyst Stock Ratings Definitions

**BTIG LLC's ("BTIG") ratings, effective May 10, 2010, are defined as follows:**

**BUY** – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**SELL** – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**NEUTRAL** – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

**NOT RATED** – A stock that is not rated but that is covered by BTIG.

#### Distribution of Ratings and Investment Banking Clients

BTIG must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy", "neutral" or "sell" rating. The said ratings are updated on a quarterly basis. BTIG must also disclose the percentage of subject companies within each of these three categories for whom the member has provided investment banking services within the previous twelve months. **Stocks under coverage as of the end of the most recent calendar quarter (December 31, 2015): 186**

**Distribution of BTIG's Research Recommendations (as of December 31, 2015):**

**BUY: 64.5%; NEUTRAL: 31.7%; SELL: 3.8%**

**Distribution of BTIG's Investment Banking Services (as of December 31, 2015):**

**BUY: 89%; NEUTRAL: 5.5%; SELL: 5.5%**

For purposes of FINRA ratings distribution rules, BTIG's stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

### Company Valuation and Risk Disclosures

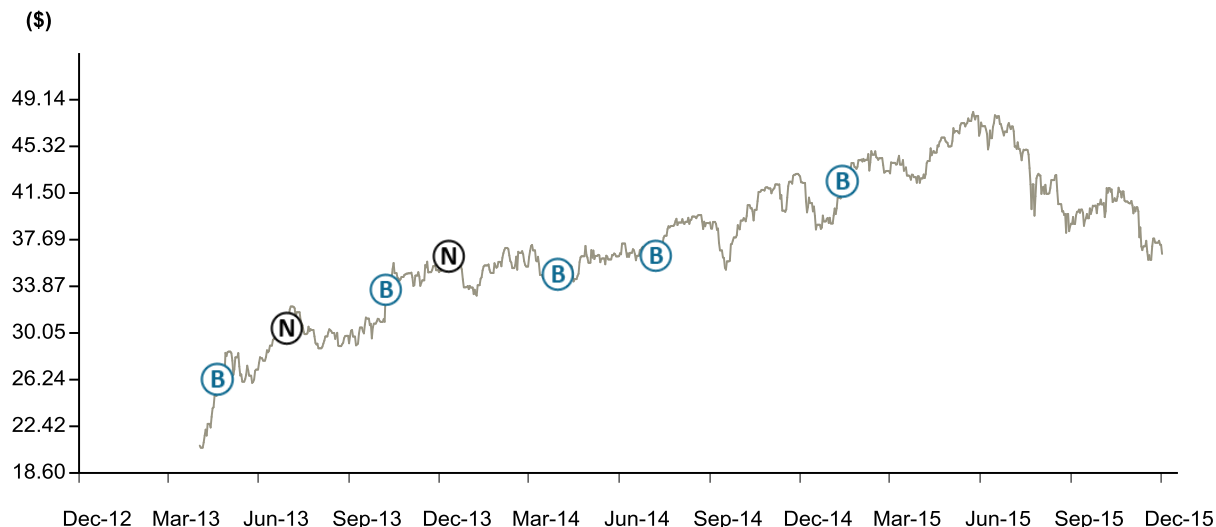
#### Voya Financial, Inc. (VOYA, Buy)

**Valuation:** Our price target of \$50 is based on 0.80x VOYA's YE17E book value per share (ex. accumulated other comprehensive income [AOCI]) of \$68.42 discounted back at 10%

**Risks:** The primary risks to VOYA include a continuation of the current low interest rate environment that could adversely affect the company's profitability; downgrades or potential downgrades of the company's credit ratings that result in a loss of business and affect its operating results; risks to the company's investment portfolio that may diminish the value of its investment returns and the investment returns credited to customers, which could reduce the company's revenues, assets under management (AUM) and operating results; larger-than-expected losses if mortality rates, morbidity rates, persistency rates or other underwriting assumptions differ significantly

from the company's pricing assumptions; the fact that the performance of the company's closed block variable annuity segment depends on assumptions that may not be accurate; and the fact that ING Groep's continued interest in the company as its ultimate parent may result in conflicts of interest that affect its ability to operate and finance its business.

#### Voya Financial, Inc. (VOYA)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
20-May-13	26.26	31	Mark Palmer	Buy
29-Jul-13	30.43		Mark Palmer	Neutral
06-Nov-13	33.59	37	Mark Palmer	Buy
09-Jan-14	36.30		Mark Palmer	Neutral
29-Apr-14	34.83	41	Mark Palmer	Buy
06-Aug-14	36.38	45	Mark Palmer	Buy
11-Feb-15	42.44	50	Mark Palmer	Buy

## Company-Specific Regulatory Disclosures

BTIG LLC expects to receive or intends to seek compensation for investment banking services in the next 3 months from: Voya Financial, Inc. (VOYA)

## Other Disclosures

Additional Information Available Upon Request

## General Disclosures

Research reports produced by BTIG LLC ("BTIG") are published for and intended to be distributed solely to BTIG institutional and corporate clients. Recipients of BTIG reports will not be considered clients of BTIG solely because they may have received such BTIG report.

The equity research analyst(s) responsible for the preparation of this report receives compensation based upon a variety of factors, including the quality and accuracy of research, internal/client feedback, and overall Firm revenues.

BTIG reports are based on public information and BTIG considers the same to be reliable, comprehensive information, but makes no representation or warranty that the reports are accurate or complete. BTIG opinions and information provided in this report are as of the date of the report and may change without notice.

This research report is not an offer to buy or sell or solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. This research report was not drafted specifically for any particular individual or entity and is not a personal recommendation to participate in any particular trading strategy or transaction. Any recipient of this research report should obtain independent advice specific to their personal circumstances before undertaking any investment activity and must make their own independent evaluation of any securities or financial instruments.

Facts, views or opinions presented in this report have not been reviewed by, and may not reflect information known to, employees or other professionals in the "BTIG Group" (BTIG Group includes, but is not limited to, BTIG and its parents, subsidiaries and/or affiliates). BTIG Group employees, including Sales Representatives and Traders, may provide oral or written commentary or advice that may be inconsistent with the opinions and/or views expressed in this research report. BTIG Group employees and/or its affiliates not involved in the preparation of this research report may have investments in securities or derivatives of securities of companies mentioned in this report that are inconsistent with the views discussed in this report.

Investors in securities products bear certain risks in conjunction with those investments. The value of, and income from, any investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors within or beyond the companies control. Recipient of the research reports should be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be undertaken only upon consideration of issues relating to the recipient's overall investment portfolio and objectives (such as diversification by asset class, industry or company) as well as time horizon and liquidity needs. Further, past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. There may be time limitations on the exercise of options or other rights in any securities transactions.

Investing in foreign markets and securities, including ADRs, is subject to additional risks such as currency fluctuation, limited information, political instability, economic risk, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. Non-U.S. reporting issuers of foreign securities, however, may not make regular or complete public disclosure relating to their financial condition or the securities that they issue.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability of any damages of any kind relating to such data. The report or any portion hereof may not be reprinted, sold or redistributed without the written consent of BTIG. This report is intended only for use by the recipient. The recipient acknowledges that all research and analysis in this report are the property of BTIG and agrees to limit the use of all publications received from BTIG within his, or her or its, own company or organization. No rights are given for passing on, transmitting, re transmitting or reselling the information provided.

## Jurisdiction and Dissemination

BTIG is a U.S. broker-dealer and member of FINRA and SIPC.

BTIG Australia Limited ACN 128 554 601, member of ASIC and ASX; BTIG Hong Kong Limited, an Exchange Participant of SEHK and licensed and regulated by the SFC; BTIG Ltd, member of the LSE, authorized and

regulated by the FSA; and BTIG Singapore Pte Ltd, registered and licensed with MAS; are all separate but affiliated entities of BTIG. Unless governing law permits otherwise, you must contact a BTIG entity in your home jurisdiction for further information, or if you want to use our services in effecting a transaction.

Issues and approved for distribution in the UK and EEA by BTIG Ltd. to eligible counterparties and professional clients only. Issued and distributed in Australia to “wholesale clients” only by BTIG Australia Limited. In Singapore and Hong Kong, further information may be obtained from BTIG Singapore Pte Ltd and BTIG Hong Kong Limited, respectively.