

## Equity Research

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## Financials

### Voya Financial, Inc.

#### Hedge Fund Woes in 1Q16 Amidst Market Swoon Temporarily Interrupt VOYA's Self-Help Story

We had believed that Voya Financial's (VOYA, Buy, \$50) renewed focus on the sort of granular, self-help actions that had served it and its shareholders well during its first two years as a public company would drive the narrative in 2016, beginning with the 1Q16 report it released this morning.

- ▶ While we continue to think that will be the case as the year plays out, VOYA's 1Q16 results were dragged down by its exposure to alternative investments: hedge funds and private equity firms. Hedge funds in particular suffered their worst start to the year in seven years in the midst of the broad market pullback during January and early February.
- ▶ VOYA reported 1Q16 earnings per share of \$0.55, significantly less than the consensus estimate of \$0.70, due primarily to alternative investment income that was \$56mm below management's long-term expectations. A lesser portion of the miss was attributable to lower fee income in the company's Investment Management and Retirement units that was also driven by the market volatility during the early part of the year.
- ▶ **We are reiterating our Buy recommendation on VOYA and price target of \$50** based on 0.80x the company's FY16E book value per share ex. accumulated other comprehensive income (AOCI) of \$62.24. We view the company's 1Q16 results as a hiccup caused by a severe bout of market volatility, and we believe the shares are very inexpensive at 0.54x the company's book value ex. AOCI as of March 31.
- ▶ **Valuation:** Our price target of \$50 is based on 0.80x VOYA's YE16E book value per share (ex. accumulated other comprehensive income [AOCI]) of \$62.24.

### VOYA

12 month target

**\$32.01**

\$50.00

### BUY

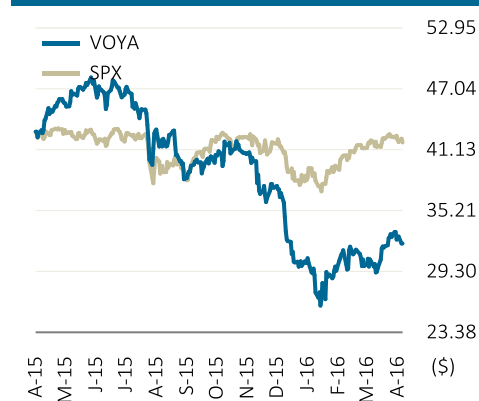
52 week range

\$25.98 - \$48.14

Market Cap (m)

\$6,693

#### Price Performance



Source: IDC

## Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 E	3Q16 E	4Q16 E	FY16 E	FY17 E
BVPS (Ex-AOCI)	52.23	56.33	54.74	55.61	55.61	57.32	59.04	60.58	62.24	62.24	68.70
Operating Income	290	263	137	288	978	170	245	258	270	944	1,046
Oper. Inc. Per Share	0.82	0.78	0.42	0.91	2.93	0.55	0.82	0.88	0.94	3.17	3.80

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

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

- ▶ Outside of the impact of market volatility on VOYA's results there was nothing we could see in the company's 1Q16 report that was of concern. The Individual Life unit, which had been the cause of a couple of earnings misses last year due to an increase in mortality, posted a \$6mm year-over-year improvement in adjusted operating earnings to \$49mm.
- ▶ A significant part of VOYA's story is capital return, and the company during 1Q16 bought back \$220mm in stock, leaving about \$500mm available under its existing share repurchase authorization. Some investors had been concerned when management during VOYA's 4Q15 conference call said they would diverge from their past practice of returning all excess capital to shareholders and would hold back \$400mm while waiting to see how the markets would develop during the year.
- ▶ VOYA clearly did not hold back on share repurchases during 1Q16 as they took advantage of the market-driven weakness in their shares to execute highly-accretive buybacks. We would expect management to continue to do so if the company's shares decline materially today due to the 1Q16 earnings miss, and we believe investors should follow suit and take advantage of what we view as a blip rather than a signal of deeper issues.

## 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	1Q16A	2Q16E	3Q16E	4Q16E	2016E	2017E
Retirement	441.9	448.6	595.8	517.8	124.5	128.4	80.5	137.2	470.6	103.7	125.8	128.8	126.9	485.2	509.5
Annuities	387.6	102.2	293.8	262.0	68.6	61.0	50.5	62.9	243.0	50.7	59.8	60.4	63.2	234.1	245.8
Investment management	87.5	134.5	178.1	210.3	46.9	47.0	45.6	42.4	181.9	22.7	47.5	47.9	42.6	160.7	168.8
<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>177.1</b>	<b>233.1</b>	<b>237.1</b>	<b>232.7</b>	<b>880.0</b>	<b>924.0</b>
Individual life	279.3	196.2	254.8	237.3	43.4	37.7	(10.8)	102.4	172.7	41.1	32.0	32.4	97.3	202.8	212.9
Employee benefits	83.3	109.4	106.1	148.9	40.6	37.7	44.2	23.6	146.1	20.8	33.9	42.0	23.7	120.4	144.4
<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>61.9</b>	<b>66.0</b>	<b>74.4</b>	<b>121.0</b>	<b>323.2</b>	<b>357.3</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>239.0</b>	<b>299.1</b>	<b>311.5</b>	<b>353.7</b>	<b>1,203.3</b>	<b>1,281.4</b>
Corporate	(230.2)	(182.3)	(210.6)	(170.4)	(48.2)	(53.3)	(75.6)	(82.1)	(259.2)	(73.0)	(58.4)	(58.7)	(88.3)	(278.3)	(251.3)
Closed block institutional spread products	83.2	45.7	50.6	24.7	13.8	4.0	2.6	2.0	22.4	3.8	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>3.8</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>169.8</b>	<b>245.4</b>	<b>257.5</b>	<b>270.2</b>	<b>944.0</b>	<b>1,046.3</b>
Closed block variable annuity	(564.5)	(692.3)	(1,209.3)	(255.2)	(34.4)	180.5	(7.1)	(317.3)	(178.3)	46.0	-	-	-	46.0	-
Net investment gains (losses)	71.8	455.5	212.1	215.1	50.4	(9.4)	(64.6)	(59.7)	(83.3)	(60.4)	-	-	-	(60.4)	-
Net guaranteed benefit hedging gains (losses)	(269.4)	97.2	19.4	(12.8)	(47.2)	24.6	(31.7)	(39.6)	(93.9)	93.5	-	-	-	93.5	-
Loss related to business exited through reinsurance or dive	(35.1)	(45.8)	-	(157.3)	(15.4)	(33.3)	(16.4)	(104.2)	(169.3)	1.6	-	-	-	1.6	-
Income (loss) attributable to noncontrolling interests	190.9	138.2	-	237.7	26.1	81.9	75.9	(53.6)	130.3	0.7	-	-	-	0.7	-
Loss on early extinguishment of debt	-	-	-	-	-	(9.9)	-	-	-	(1.7)	-	-	-	(1.7)	-
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)	(8.2)	-	-	-	(8.2)	-
<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>241.3</b>	<b>245.4</b>	<b>257.5</b>	<b>270.2</b>	<b>1,015.5</b>	<b>1,046.3</b>
Income taxes	175.0	(5.2)	(32.5)	25.1	44.7	119.1	(35.9)	(82.9)	45.0	49.0	61.4	64.4	67.6	242.3	261.6
<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>192.3</b>	<b>184.1</b>	<b>193.2</b>	<b>202.7</b>	<b>773.2</b>	<b>784.7</b>
Noncontrolling interests	190.9	138.2	190.1	(1,529.7)	26.1	81.9	75.9	(53.6)	130.3	0.7	-	-	-	0.7	-
<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>191.6</b>	<b>184.1</b>	<b>193.2</b>	<b>202.7</b>	<b>772.5</b>	<b>784.7</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>\$0.55</b>	<b>\$0.82</b>	<b>\$0.88</b>	<b>\$0.94</b>	<b>\$3.17</b>	<b>\$3.80</b>
Diluted shares outstanding	230.0	230.0	251.4	255.1	240.7	229.8	223.6	216.0	227.5	209.1	204.1	200.1	196.1	202.4	187.4
Book value Ex-AOCI per share	42.43	44.19	43.43	53.76	52.23	56.33	54.74	55.61	55.61	57.32	59.04	60.58	62.24	62.24	68.70

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.

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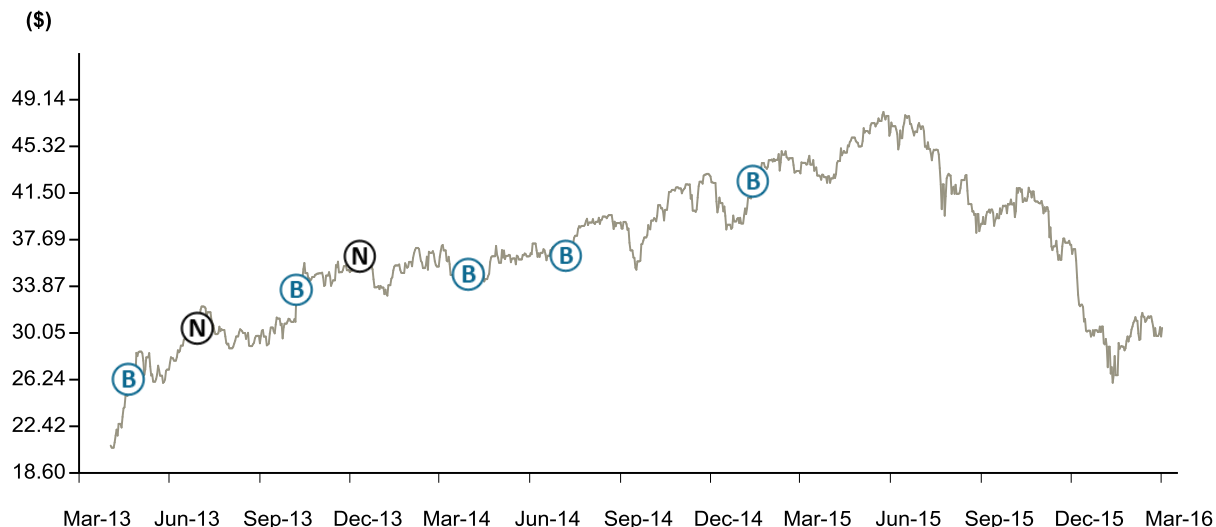
#### Voya Financial, Inc. (VOYA, Buy)

**Valuation:** Our price target of \$50 is based on 0.80x VOYA's YE16E book value per share (ex. accumulated other comprehensive income [AOCI]) of \$62.24

**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

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#### 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

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