

Equity Research

November 2, 2016

Mark Palmer

(212) 588-6582
mpalmer@btig.com

Giuliano Bologna

(212) 588-6583
gbologna@btig.com

Financials

Voya Financial, Inc.

3Q16 Adj. EPS Miss Cushioned by \$600mm Addition to Buyback Authorization, Expanded Cost Saving Plan

While a variety of external factors such as persistently low interest rates and lower energy prices have weighed on the performance of Voya Financial (VOYA) this year, the one internal decision that may have contributed to weakness in its share price was holding back on \$400mm in excess capital rather than using it for share buybacks, a choice it had disclosed in conjunction with its 4Q15 report on February 10. The intent of that decision may have been to demonstrate prudence amidst the uncertain market conditions that prevailed at that time, but it inadvertently gave rise to investors' speculation about whether the choice had been driven by management's concerns about troubled energy exposures within VOYA's investment book.

VOYA

\$30.38

12 month target

\$50.00

BUY

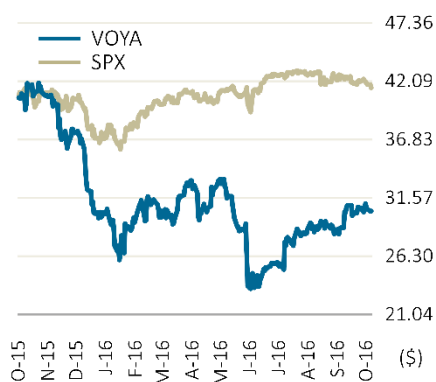
52 week range

\$23.38 - \$41.94

Market Cap (m)

\$6,106

Price Performance



Source: IDC

- ▶ VOYA management has since provided ample disclosure about its energy exposures even as oil and gas prices have rebounded, and this morning management signaled additional confidence in the company's standing when it announced an additional \$600mm in share repurchases in conjunction with the release of its 3Q16 report. Including a planned \$200mm repurchase agreement, the new authorization gave VOYA \$833mm in dry powder for buybacks, much more in line with company's excess capital (\$978mm as of September 30, including the impact of \$150mm in buybacks during 3Q16) than the less emphatic prior version.
- ▶ VOYA's new authorization was part of a somewhat messy 3Q16 report in which the company posted adjusted operating earnings of \$0.79, trailing the consensus estimate of \$0.80 and our estimate of \$0.81. We believe the miss was due in part to many Street analysts using an estimated 3Q16 share count for VOYA lower than what it reported.
- ▶ **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 \$62.06.
- ▶ **Valuation:** Our price target of \$50 is based on 0.80x VOYA's YE16E book value per share (ex. AOCI) of \$62.06.

Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 A	3Q16 A	4Q16 E	FY16 E	FY17 E
BVPS (Ex-AOCI)	54.89	56.33	56.85	57.44	57.44	58.75	59.44	60.07	62.06	62.06	68.78
Operating Income	290	263	137	288	978	170	235	108	262	775	1,027
Oper. Inc. Per Share	0.82	0.78	0.42	0.91	2.93	0.55	0.79	0.79	0.91	3.02	3.76

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

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

- ▶ We believe VOYA shares are very inexpensive at 0.51x the company's book value ex. AOCI of \$60.07 as of September 30, a level at which the company's newly authorized share buybacks would be highly accretive.
- ▶ The \$0.79 print excluded a loss of \$0.47 related to the unlocking of deferred acquisition costs and value of business acquired (DAC/VOBA) related to VOYA's annual review of its actuarial assumptions and models. It was also adjusted downward to account for \$0.05 per share related to prepayment fees and investment income above management's long-term expectations.
- ▶ VOYA in its 3Q16 report announced a higher cost savings target as part of its effort to achieve its 2018 ongoing business adjusted operating return on equity (ROE) of 13.5%-14.5% versus the 12.6% it reported during the quarter. The company now expects to achieve annual run rate cost savings of at least \$100mm in 2018, an increase of at least \$60mm to \$70mm annually from its previously announced plans to save \$30mm to \$40mm by that date.
- ▶ VOYA said the cost savings would be achieved through simplification measures including greater emphasis on less capital-intensive products, further migration to an information technology cloud environment, and operational synergies from the combination of its Individual Life and Annuities businesses. The company said it could incur restructuring expenses associated with the cost-savings plan through 2018, including at least \$30mm in related expenses in 4Q16.
- ▶ VOYA's Closed Block Variable Annuity (CBVA) unit during 3Q16 reported a \$1.06 loss per share, which included a \$0.31 per share loss related to the company's annual review of its actuarial assumptions and models. CBVA had \$6.3bn in estimated available resources as of September 30, \$1.0bn higher than statutory requirements. The company also reported a loss of \$0.75 per share in its Ongoing Business based on the annual review, reflecting the lower level of interest rates.

Income Statement

Voya Financial - Operating Model	Dec-11	Dec-12	Sep-13	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17
\$ millions	2011A	2012A	2013A	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Retirement	441.9	448.6	595.8	517.8	470.6	103.7	140.5	62.9	126.2	433.3	132.2	146.1	113.2	127.5	519.0
Annuities	387.6	102.2	293.8	262.0	243.0	50.7	72.6	113.3	62.3	298.9	68.4	76.2	85.0	65.4	295.0
Investment management	87.5	134.5	178.1	210.3	181.9	22.7	31.8	51.5	42.0	148.0	31.8	32.8	46.4	37.8	148.7
Retirement Solutions	917.0	685.3	1,067.7	990.1	895.5	177.1	244.9	227.7	230.5	880.2	232.4	255.1	244.5	230.6	962.7
Individual life	279.3	196.2	254.8	237.3	172.7	41.1	50.3	(76.2)	97.3	112.5	43.2	52.8	45.3	102.1	243.4
Employee benefits	83.3	109.4	106.1	148.9	146.1	20.8	32.3	41.3	22.4	116.8	36.4	37.1	43.4	24.7	141.6
Insurance Solutions	362.6	305.6	360.9	386.2	318.8	61.9	82.6	(34.9)	119.7	229.3	79.6	90.0	88.6	126.8	385.0
Total ongoing business	1,279.6	990.9	1,428.6	1,376.3	1,214.3	239.0	327.5	192.8	350.2	1,109.5	312.0	345.1	333.2	357.5	1,347.7
Corporate	(230.2)	(182.3)	(210.6)	(170.4)	(259.2)	(73.0)	(94.3)	(77.5)	(88.3)	(333.1)	(74.5)	(87.2)	(73.6)	(85.6)	(320.9)
Closed block institutional spread products	83.2	45.7	50.6	24.7	22.4	3.8	1.9	(6.9)	-	(1.2)	-	-	-	-	-
Closed block other	(13.0)	64.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Closed Blocks	70.2	109.7	50.6	24.7	22.4	3.8	1.9	(6.9)	-	(1.2)	-	-	-	-	-
Operating income	1,119.6	918.3	1,268.6	1,230.6	977.5	169.8	235.1	108.4	261.9	775.2	237.5	257.8	259.6	271.8	1,026.8
Closed block variable annuity	(564.5)	(692.3)	(1,209.3)	(255.2)	(178.3)	46.0	56.5	(328.0)	-	(225.5)	-	-	-	-	-
Net investment gains (losses)	71.8	455.5	212.1	215.1	(83.3)	(60.4)	(24.7)	(65.6)	-	(150.7)	-	-	-	-	-
Net guaranteed benefit hedging gains (losses)	(269.4)	97.2	19.4	(12.8)	(93.9)	93.5	21.2	(53.5)	-	61.2	-	-	-	-	-
Loss related to business exited through reinsurance or divestment	(35.1)	(45.8)	-	(157.3)	(169.3)	1.6	0.5	1.3	-	3.4	-	-	-	-	-
Income (loss) attributable to noncontrolling interests	190.9	138.2	-	237.7	130.3	0.7	(25.5)	11.6	-	(13.2)	-	-	-	-	-
Loss on early extinguishment of debt	-	-	-	-	-	(1.7)	(102.4)	(0.1)	-	(104.2)	-	-	-	-	-
Immediate recognition of actuarial gains (losses)	(157.8)	(165.0)	-	(372.7)	62.7	-	-	-	-	-	-	-	-	-	-
Other adjustments to operating earnings	(77.7)	(100.1)	467.3	(100.2)	(56.1)	(8.2)	(7.6)	(30.0)	-	(45.8)	-	-	-	-	-
Income (loss) before income taxes	277.8	606.0	758.1	785.2	589.6	241.3	153.1	(355.9)	261.9	300.4	237.5	257.8	259.6	271.8	1,026.8
Income taxes	175.0	(5.2)	(32.5)	25.1	45.0	49.0	17.1	(119.4)	65.5	12.2	59.4	64.5	64.9	68.0	256.7
Net income	102.8	611.2	790.6	760.1	544.6	192.3	136.0	(236.5)	196.4	288.2	178.2	193.4	194.7	203.9	770.1
Noncontrolling interests	190.9	138.2	190.1	(1,529.7)	130.3	0.7	(25.5)	11.6	-	(13.2)	-	-	-	-	-
Net income attributable to shareholders	(88.1)	473.0	600.5	2,289.8	414.3	191.6	161.5	(248.1)	196.4	301.4	178.2	193.4	194.7	203.9	770.1
Adjusted diluted Operating Earnings per share	\$3.17	\$2.59	\$3.29	\$3.13	\$2.93	\$0.55	\$0.79	\$0.79	\$0.91	\$3.02	\$0.84	\$0.94	\$0.96	\$1.03	\$3.76
Diluted shares outstanding	230.0	230.0	251.4	255.1	227.5	209.1	203.5	201.0	195.5	202.3	191.5	187.5	183.5	179.5	185.5
Book value Ex-AOCI per share	42.43	44.19	43.65	53.76	57.44	58.75	59.44	60.07	62.06	62.06	63.55	65.20	66.92	68.78	68.78

Source: BTIG Estimates and Company Documents

BTIG Covered Companies Mentioned in this Report

VOYA FINANCIAL, INC. (VOYA, Buy, \$50.00 PT; Current Price: \$30.38; Analyst: Mark.Palmer)

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 (September 30, 2016): 251**

Distribution of BTIG's Research Recommendations (as of September 30, 2016):

BUY: 54.6%; NEUTRAL: 41.8%; SELL: 3.6%

Distribution of BTIG's Investment Banking Services (as of September 30, 2016):

BUY: 78.9%; NEUTRAL: 15.8%; SELL: 5.3%

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, \$50 PT)

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 \$62.06.

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	N/A	Mark Palmer	Neutral
06-Nov-13	33.59	37	Mark Palmer	Buy
09-Jan-14	36.30	N/A	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.