

Voya

2024 guidance falls below expectations; 4Q23 EPS miss

Reiterate Rating: BUY | PO: 81.00 USD | Price: 71.77 USD

4Q23 operating EPS of \$1.63

Voya's 4Q23 result fell short of our forecast of \$1.75 and Street consensus of \$1.80. The miss compared with our numbers was largely due to benefits in voluntary and supplemental products running much higher than our forecast and considerably higher than 9M23 (a \$0.20/sh EPS variance). This was partly offset by a favorable compensation accrual adjustment in Corporate, boosting EPS by \$0.15/sh. Variable investment income was notably weak in the quarter (\$0.34/sh below run-rate), though the majority of this shortfall was captured in our forecast.

Mixed net flows across platform

Group retirement (Wealth Solutions) net flows of \$13.0bn ran ahead of our forecast of \$12.1bn. This included \$5.6bn of positive net flows in Full Service (vs. our \$5.2bn forecast) and \$7.4bn in recordkeeping-only (vs. \$6.9bn). In Investment Management, \$5.4bn of outflows exceeded our \$2.9bn forecast and spanned both Institutional and Retail. However, strong 4Q23 markets led to the significantly higher total assets under management at \$287bn as of year-end 2023.

Management guides 2024 below consensus

Voya offered 2024 EPS guidance of \$8.25-8.45, below our forecast of \$9.05 and consensus of \$8.85. One of the principal variances with our forecast was an expectation of a \$220-240mn loss in the Corporate segment due to higher costs associated with pension payments and strategic planning and compares with a Corporate loss of \$147mn in 2023. Excluding interest and preferred dividend payments, it implies \$70-90mn (about \$0.65/sh after-tax) of net "other" costs in 2024 vs, about \$12mn in 2023. We are reducing our EPS forecast around this guidance and expect shares to react negatively to this increased spend outside of the operating segments.

Price objective falls from \$83 to \$81; reiterate Buy

The decline in our out-year EPS forecasts causes us to lower our PO though the P/E multiple is largely unchanged. We use a mixed multiple on 2025E EPS: 9x for the Retirement business, 8x for the Investment Management business, and 10x for Employee Benefits. The declining earnings in Corporate are allocated across the three segments, which is the primary source of the decline. While tonight's news is a disappointment, we still believe there is healthy enough upside to our PO to continue recommend Voya shares as Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.32	7.03	8.45	10.25	12.65
GAAP EPS	4.30	5.44	7.47	9.78	12.13
EPS Change (YoY)	-12.3%	-4.0%	20.2%	21.3%	23.4%
Consensus EPS (Bloomberg)			8.85	10.07	11.24
DPS	0.80	1.20	1.62	1.66	1.70
Valuation (Dec)					
P/E	9.8x	10.2x	8.5x	7.0x	5.7x
GAAP P/E	16.7x	13.2x	9.6x	7.3x	5.9x
Dividend Yield	1.1%	1.7%	2.3%	2.3%	2.4%

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Timestamp: 06 February 2024 07:58PM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	83.00	81.00
2024E EPS	9.05	8.45
2025E EPS	10.80	10.25
2026E EPS	13.20	12.65

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Stock Data

Price	71.77 USD
Price Objective	81.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	62.79 USD - 78.11 USD
Mkt Val (mn) / Shares Out (mn)	7,498 USD / 104.5
Free Float	99.2%
Average Daily Value (mn)	42.52 USD
BofA Ticker / Exchange	VOYA / NYS
Bloomberg / Reuters	VOYA US / VOYAN
ROE (2024E)	17.5%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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iQprofileSM Voya

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	1,762	2,130	2,330	2,466	2,637
Net Investment Income	815	891	935	980	1,041
Total Revenue	3,534	3,982	4,307	4,524	4,808
Total Cost of Benefits and Claims	NA	NA	NA	NA	NA
S,G & A (Including Commissions)	(2,240)	(2,686)	(2,836)	(2,964)	(3,095)
Total Operating Expenses	(2,506)	(2,933)	(3,071)	(3,214)	(3,205)
Pre-Tax Operating Earnings	1,028	1,049	1,237	1,310	1,603
Income Tax Expense	5	51	(181)	(206)	(230)
Operating Earnings After Tax	806	764	863	964	1,079
Net Income (Reported)	474	591	763	920	1,035
Diluted Shares	110	109	102	94	85
Operating Earnings Per Share	7.32	7.03	8.45	10.25	12.65
Net Income (Reported) Per Share	4.30	5.44	7.47	9.78	12.13

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	40,029	37,537	NA	NA	NA
Total Assets	146,606	157,085	158,258	158,977	159,304
Reserves	NA	NA	NA	NA	NA
LT Debt	2,094	2,097	2,097	2,497	2,497
Total Liabilities	141,609	151,032	150,851	150,644	150,414
Total Equity	4,997	6,053	7,408	8,333	8,890
Total Equity (Ex FAS 115)	8,052	8,453	8,508	8,633	8,790
Book Value per Share (Reported)	34.53	40.71	58.25	74.58	90.30
Book Value per Share (Ex FAS 115)	66.02	64.01	69.81	78.03	89.02

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	20.2x	18.4x	18.6x	18.5x	18.3x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	-3.0%	20.9%	9.4%	5.8%	7.0%
Net Investment Income	35.3%	9.3%	4.9%	4.8%	6.2%
Total Revenue	-8.2%	12.7%	8.2%	5.0%	6.3%
Operating Earnings per Share	-12.3%	-4.0%	20.2%	21.3%	23.4%
Asset	-14.4%	7.1%	0.7%	0.5%	0.2%
Reported Book Value per Share	-54.8%	17.9%	43.1%	28.0%	21.1%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	16.9%	20.9%	17.5%	16.1%	16.0%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	0.5%	0.5%	0.5%	0.6%	0.7%
Operating Margin	22.8%	19.2%	20.0%	21.3%	22.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	20.6%	19.9%	19.8%	22.4%	22.1%
Net Income % Operating Income	58.8%	77.3%	88.4%	95.4%	95.9%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Life

Company Description

Voya Financial is a diversified financial services company in the U.S. and operates through the following segments: Retirement, Investment Management and Employee Benefits. Voya sold its closed block variable and ongoing fixed annuity business in 2018 and its sell its individual life business and other non-core assets to Resolution Life in 4Q20. The company has focused on capital return to shareholders through share repurchases and instituting a dividend beginning in 2Q23.

Investment Rationale

Retirement and Investment Management have delivered positive fund flow trends, while Employee Benefits has delivered positive sales growth. Our Buy recommendation is predicated on upside being achieved as Voya is likely to be one of the more easily understood business models in a broader market that has largely disregarded financial services businesses. Further, a significant appetite for share repurchases also has the potential to tilt an imbalance of buyers over sellers.

Stock Data

Average Daily Volume

592,387

Quarterly Earnings Estimates

	2023	2024
Q1	1.44A	1.76E
Q2	2.21A	2.11E
Q3	1.74A	2.32E
Q4	1.63A	2.27E

Price objective basis & risk

Voya (VOYA)

Our price objective of \$81 is based on a mixed-multiple sum-of-the-parts methodology consistent with the differentiated businesses in which Voya operates. We use a 2025E P/E multiple of 9x for the Retirement business, 8x for the Investment Management business, and 10x for Employee Benefits. These are equal to the average P/E multiples of appropriate peer groups equivalent to the values of Voya's businesses. Additionally, Voya's notable excess capital position, high free cash flow conversion (90%+) and its sizable deferred tax asset combine for material upside potential compared with the current stock price.

Risks to our price objective are lower capital returns to shareholders than we expect and capital markets volatility weighing on AUM levels and fund flows.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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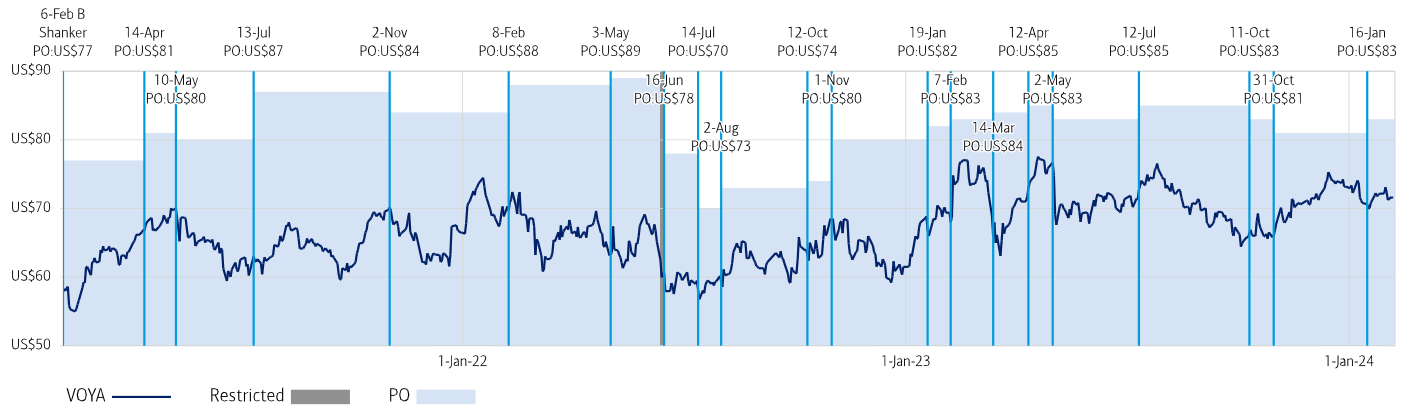
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Important Disclosures

Voya (VOYA) Price Chart



VOYA — Restricted PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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