## Voya Financial, Inc.
## NYSE: VOYA
## Recommendation: BUY

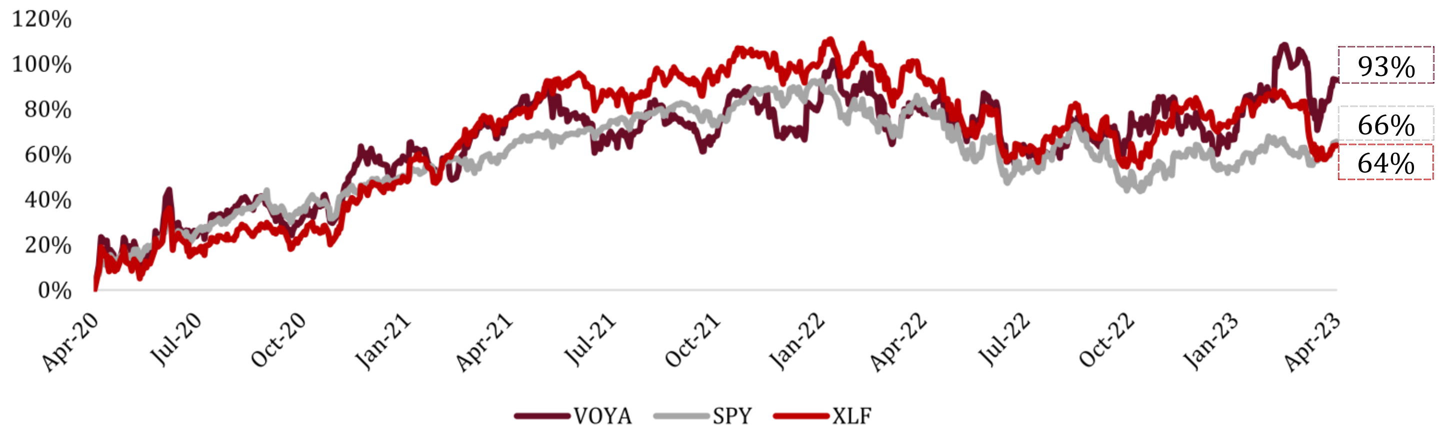
### Company Data

| | |
|---|---|
| Price............................ | $71.23 |
| Market Cap.................. | $6.92Bn |
| Adj. OPM....................... | 15.3% |
| P/E.............................. | 8.88x |
| Price Target (+div)....... | $102.85 |
| Upside.......................... | 44.4% |

### Investment Thesis

We are recommending a **BUY** on Voya Financial, Inc. (VOYA). We have calculated an upside of **44.4%** using a dividend discount model with relatively conservative assumptions. VOYA is an optimal holding for the MEF Financials portfolio due to its diversified exposure to both Wealth & Investment management as well as Insurance, with a low-risk business mix and clear path to share price upside. Voya's diversified business model promotes optimal cross-selling capabilities that increase customer retention and financial visibility. Among other things, share price appreciation will be realized as investors re-rate VOYA's P/E multiple following divestitures from the capital-intensive insurance business, with a higher focus on the high-margin cash flow generating Wealth and Investment management segments.

### Three-Year Performance



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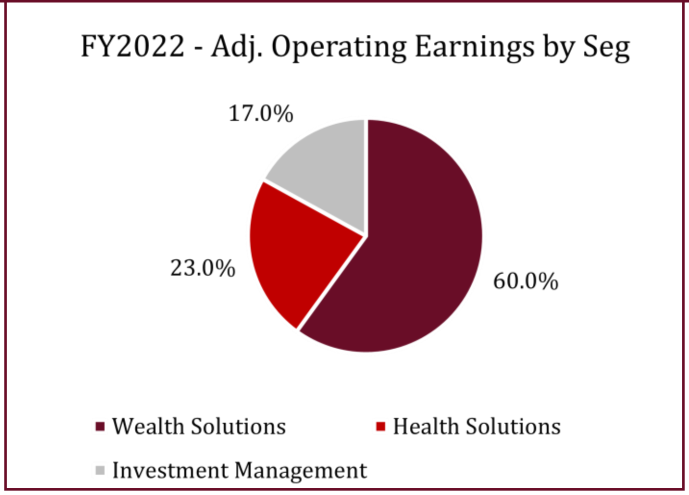
### Business Overview

Voya Financial provides retirement planning, investment, and insurance services to individuals, workplace participants and institutions in the US. The company breaks its revenues down into three operating segments: wealth solutions, health solutions, and investment management.

Wealth solutions is the company's wealth management segment that primarily provides retirement plan products and administrative services to employers, both in the public and private sector. Within this segment, Voya also provides individual retirement accounts and financial guidance and advisory services. Voya's individual wealth solutions are provided to individuals within the institutions that are retirement product participants. AUM of wealth solutions at the end of FY22 was $474.3B. Of this, $451.7B is in retirement plans, and $22.6B is mainly composed of individual IRA accounts and some brokerage accounts. Voya's wealth management segment makes money primarily on fee income. These fees come from asset and participant-based recordkeeping and advisory fees.

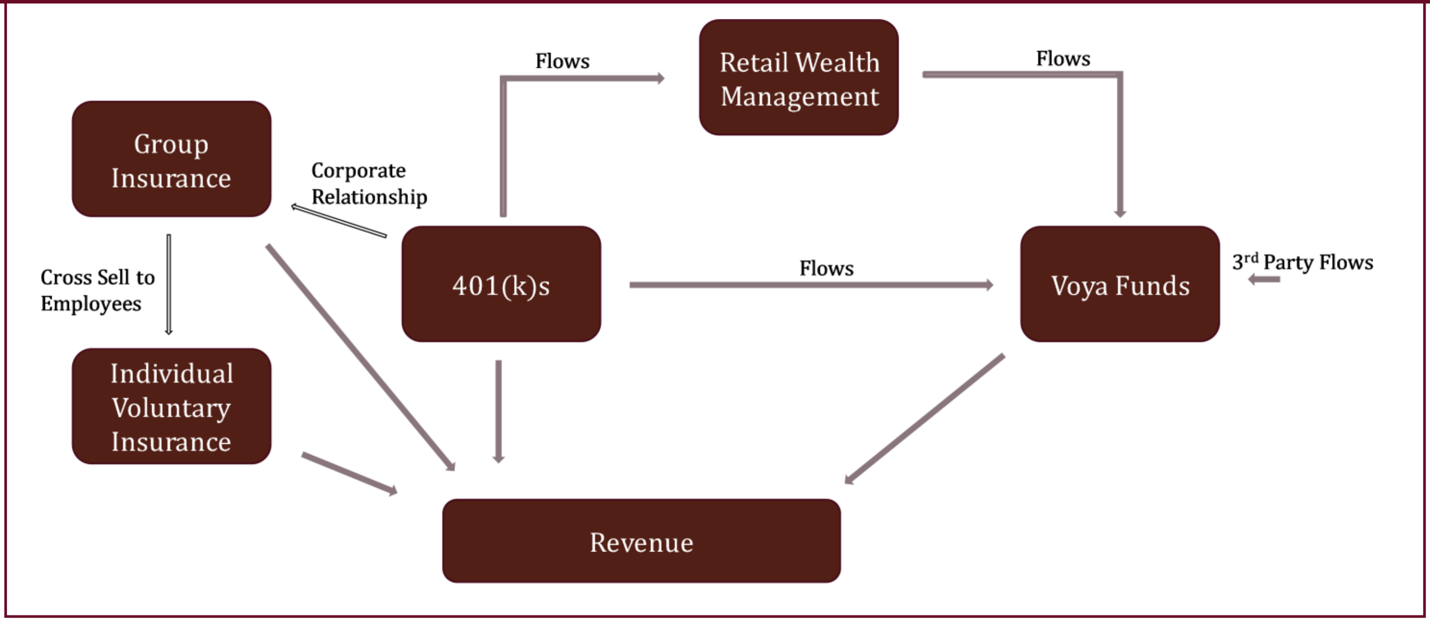
Fig 1: Segment Breakdown



Voya's second operating segment in health solutions. Within this segment, Voya offers employers and individuals stop-loss insurance, voluntary benefits insurance, group life and disability insurance, health account solutions, leave management, and decision support products and services. This segment makes money through premiums, fees, investment income, mortality and morbidity, and other charges. Voya's is among the largest underwriters of stop-loss coverage in the US, ranking fourth among third-party carriers on a premium basis. They are also a top 15 provider of group life insurance.

Lastly, within the investment management business, Voya offers domestic and international fixed income, equity, multi-asset and alternative investment solutions, across several market sectors and investment styles, through both actively and passively managed products. In July of 2022, Voya acquired AllianzGI, taking on the company's assets, teams, and most importantly its international scale and distribution of its investment products. The investment management business makes money on fees calculated as a percentage of AUM.

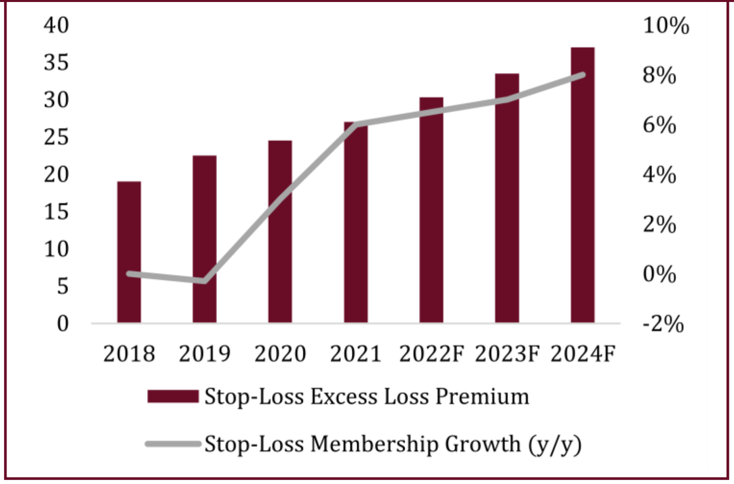
Fig 2: Voya's Business Model Integration



**Wealth & Investment Management Industry Overview**

The corporate wealth planning and retirement industry encompasses a broad range of financial services and products designed to help companies plan for their employees' financial future. Some of the key areas of focus within the industry include retirement planning, investment management, estate planning, insurance planning, and tax planning. One of the most prominent trends within wealth management is the

Fig 3: Stop-Loss Excess Premiums + Membership Growth



personalization of products and advice. Deloitte identified 9 new “mentalities” of the ”Re-Wired” investor, and among them were a search for bespoke, personalized, and digital advice, as well as a higher demand for alternative asset classes such as Private Equity, Hedge Funds, commodities and FX exposure. This bodes well for wealth management firms that also have investment management products, specifically in such alternative asset classes, and can cross-sell and offer those products digitally, in a personalized manner, to their WM customers. What's more, high net-worth households (HNWH) are expected to grow at a CAGR of 7.0% to 52 million by 2026, which should increase the demand for Wealth Management services. What's more, a growing Environmental and Social awareness has investment managers to not only incorporate ESG into their investment products, but also cultivate ESG principles within the firms. According to PwC, 81% of institutional investors in the US plan to increase their allocations to ESG products over the next two years. Fueled by the Inflation Reduction Act, which commits $390 billion to fight climate change, PwC projects ESG AUM to more than double, from $4.5 trillion in 2021, to $10.5 trillion in 2026.

## Health Insurance Industry Overview

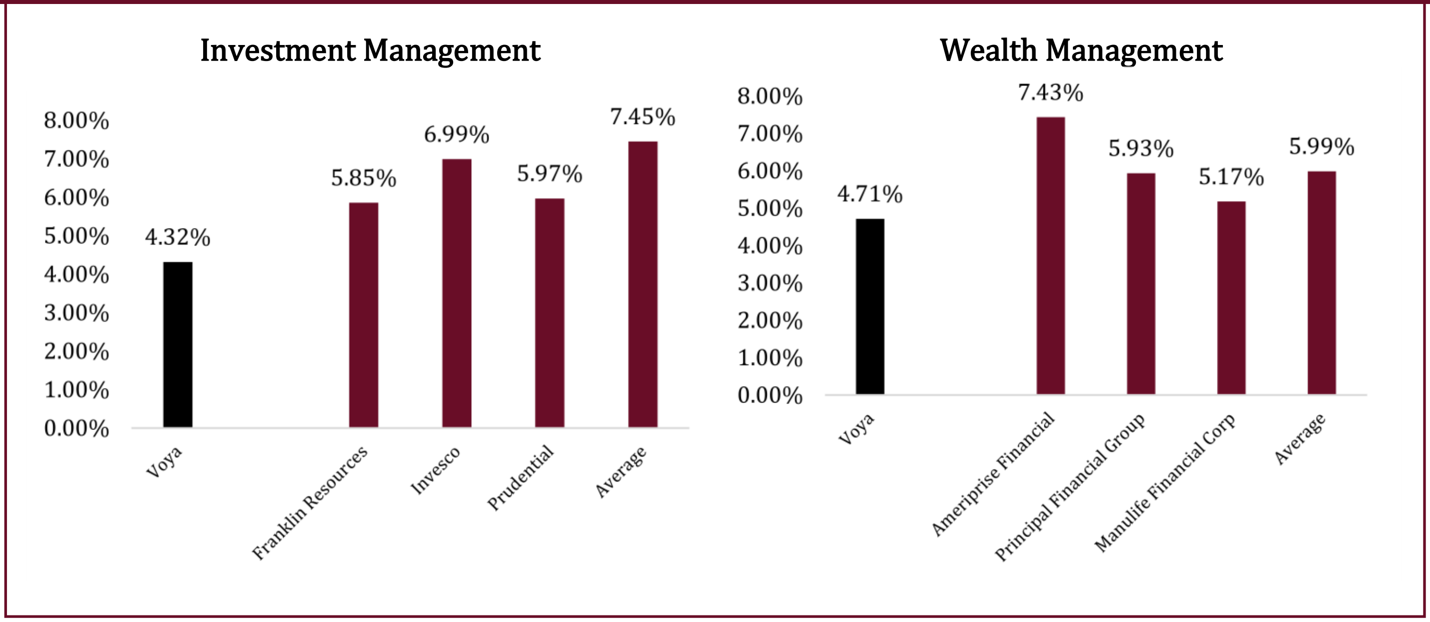
Globally, the health insurance industry encompasses a wide variety of different sub-sectors and has a broad depth of coverage. A big trend in the industry over the past few years has been an increased demand for self-insurance, which refers to employers that assume the financial risk for providing healthcare benefits to their employees instead of purchasing a traditional health insurance plan. Most self-insured employers buy a high-deductible stop-loss policy to reimburse them for unexpected large claims that could destroy their financials (Voya's primary insurance product). Specifically focusing on stop-loss health insurance, 2022 saw a 9.8% increase in stop-loss premiums, up from 2021's 8% growth, and the stop-loss sub-segment seems to be one of the highest growing within commercial health insurance. What's more, there has been a growing demand for voluntary insurance among employees in the United States. Voluntary insurance generally refers to insurance coverage that offers specific voluntary enrollment options to members of certain companies, groups, and organizations. In layman's terms, through voluntary insurance, employees can enroll in coverage at rates significantly lower than what they would pay for in an individual health plan. According to a recent Willis Towers Watson survey, nearly all employers (94%) find voluntary benefits important to their talent and total rewards strategies over the next three years. Back in 2018, just 36% of employers felt that way.

## Stickier Customer Reducing AUM Volatility

Voya's Wealth and Investment management businesses work very much hand in hand. What we like most about these businesses is the nature of their customers: Voya works with people saving for retirement. These customers are significantly less likely to withdraw their money or sell out of positions than someone who's purely investing in a brokerage account. This also means flows are limited on the downside during market turmoil, which has held true this far for Voya when compared to other active managers. To touch more on the consistency of Voya's net AUM flows, the main reason for such consistency is that the company benefits from salary deferrals. Salary deferrals are when an employee elects to defer a portion of their monthly salary to their retirement account. This creates predictability and a recurring nature in terms of capital inflows as compared to other managers who don't act in such a way.

To prove Voya's AUM is more consistent, we split their wealth and investment management businesses up, and compared the AUM changes quarter to quarter over the past 2 years to comparable companies in wealth and investment management. We chose to compare on a two-year basis because Voya completed the sale of its life insurance business in January of 2021, signaling what we believe to be the transition to a greater focus on wealth and investment management. To derive a number that can tell us which company has more or less variability in its AUM, we calculated the standard deviation of the quarter-to-quarter percent changes of these comparables in both categories. To normalize for organic AUM growth, we took the average growth of comparables in that same quarter to account for unusual spikes in AUM due to M&A activity. To illustrate what we mean by this, when Voya acquired Allianz Global Investors in July of 2022, its AUM jumped by nearly $100 billion, which highlights the importance of averaging. As a result, in Q3 2022, investment management AUM was up 28%; however, we modeled a -6.3% decrease in AUM, on par with competitors in investment management. The same was also done with Ameriprise Financial who made a similar acquisition in October of 2021.

**Fig 4: Standard Deviation of AUM Changes Over Past 8 Quarters**



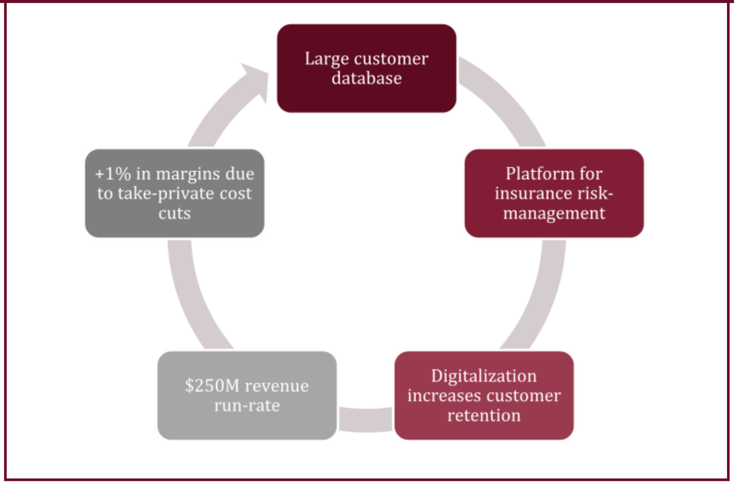
Looking at the outcome of this data, it shows that Voya has a standard deviation that is 46bps below the second lowest comparable in wealth management and 153bps lower than the second lowest in investment management. When the comparable companies AUM changes are grouped together, Voya's standard deviation is 127bps lower than the total fluctuation of wealth management comps, and 317bps lower than that of investment management. What this shows us is that Voya is more reliable from an AUM standpoint, and less prone to outflows compared to its peers in both wealth and investment management as a result of the nature of its clients. The downside to this is that net flows for Voya are below all comparables as a percent of AUM. However, we value consistency more than large volatile net flows such as the ones we see with peers.

## Capitalizing on Voluntary Benefits and Stop-Loss Growth

Even though we like the fact that Voya is shifting away from life insurance, which is further developed in thesis 3, we still think that its Health Solutions segment has differentiating factors that give Voya a competitive advantage over other pure-play SMID cap insurance companies. Zooming in on Health Solutions, Voya offers five distinct types of coverage: stop loss, voluntary benefits, group life, disability, and health account solutions. What we find particularly attractive, and what sets Voya apart from its SMID cap insurance comps, is the voluntary benefits program. As was previously mentioned in the industry overview, Voluntary benefits are supplemental benefits offered by an employer that employees can choose to enroll in. These benefits are optional, meaning that employees can choose to sign up for them or not, and typically require the employee to pay the full premium or a portion of it. Examples of voluntary benefits include life insurance, disability insurance, accident insurance, critical illness insurance, legal insurance, pet insurance, and identity theft protection. These benefits are usually offered in addition to core benefits, such as health insurance, dental insurance, and vision insurance. As bad as the Covid pandemic was, it has benefited voluntary benefits providers tremendously and will continue to do so in the future. For instance, 43% of voluntary benefits brokers cite the pandemic as a catalyst that has driven more employees to opt into employer protection. On top of that, 60% of employees cite benefits as an important factor when considering joining an organization and 50% of those working within an organization say that benefits are an important reason to stay. Comparing VOYA to SMID cap life insurance peers, Voya, Unum, and CNO are the only three that offer voluntary benefits. However, CNO is outsized by both Voya and Unum, and although Unum's voluntary benefit premiums are larger on an absolute basis, Voya's exposure to voluntary benefits as a percentage of total premiums is higher as shown in Figure 9.

Continuing, Voya recently acquired Benefitfocus, a provider of a cloud-based platform for health care and benefits administration, for $570M on January 23rd, 2023, in an all-cash deal. This acquisition will provide a platform that will substantially synergize with Voya's voluntary benefits offers. Benefitfocus offers a platform that allows employers to monitor employee engagement with company benefits, as well as easily offer and price their existing benefits to employees. It also increases the transparency of benefit agreements to the employees, which will increase customer engagement and provide a more personalized experience. Lastly, Benefitfocus owns a large database of consumer preferences, which could be easily transferable to Voya's Wealth business, further accelerating cross-selling synergies. Overall, we believe the integration of this platform will be a key catalyst for boosting Voya's voluntary benefits offerings, as well as capitalize on the ongoing trend of digitization within the insurance industry. What's more, it will further increase Voya's exposure to voluntary benefits, which has already grown from 18% in 2019 to 25% in 2022.

Fig 5: Benefitfocus Synergies

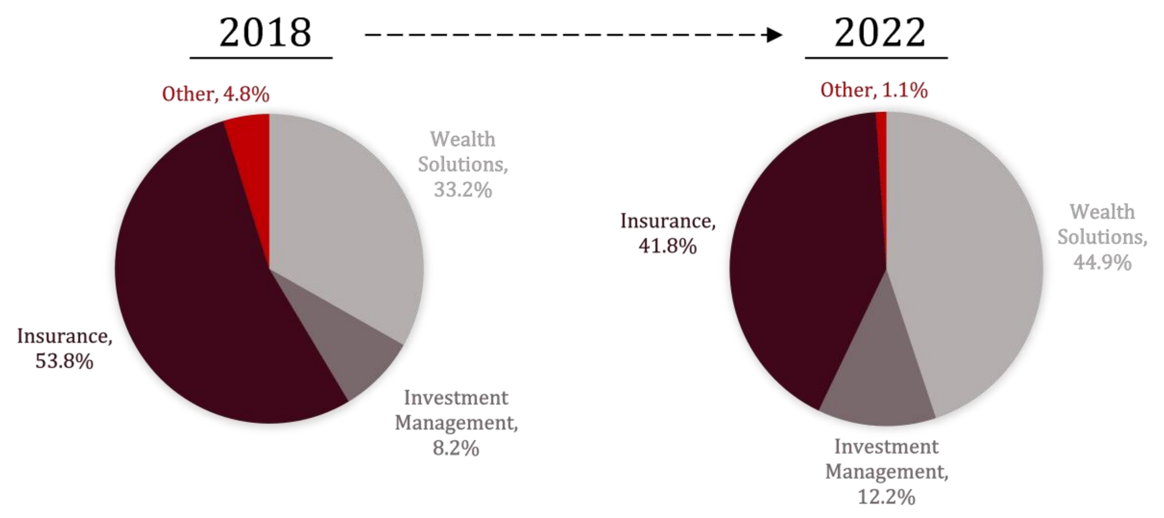


Lastly, Voya's exposure to Stop-Loss insurance is an additional factor that differentiates it from other insurers within our investable universe. Once again, Unum is the only other SMID cap peer that offers this type of product, but Voya's platform sets it apart. Stop loss insurance is a critical component of self-funded employer healthcare plans, as it provides a safety net for employers who assume the financial risk of providing healthcare benefits to their employees. Voya's exposure to stop loss differentiates it from other competitors in the marketplace by providing a unique value proposition to employers looking for a reliable and experienced provider of stop loss insurance. Voya's stop loss offerings include both specific and aggregate stop loss coverage, which provide protection against both individual high-cost claims and overall claims costs that exceed pre-determined thresholds. Voya's stop loss solutions also offer flexibility in plan design and customization to meet the specific needs of individual employers, which increases customer satisfaction and retention. Lastly, management has guided a 10-13% CAGR for Stop Loss in-force premiums until 2024, fueled by this fast-growing industry and product.

**Multiple Re-rate Due to Business Mix Shift**

Voya started out as a pure-play insurance business under the name Wisconsin National Life Insurance Company in 1975. Throughout its life, the company went through several acquisitions, mergers, and rebrands, but it was only in 2008, through the acquisition of CitiStreet, that it entered the wealth management industry. Ever since then, the company has been divesting from insurance and focusing more on the Wealth/Investment management side of their business. For instance, in 2010, Voya sold its reinsurance business and in the same year bought an investment management corporation. Further divestitures happened in 2018, with the sale of most of its annuity businesses, as well as in 2021, when it sold all its individual life insurance businesses. The main rationale behind these transactions is that shifting away from the capital-intensive insurance segment and towards Wealth and Investment management will drive margin expansion and a more sustainable growth profile, as well as benefit from the cross-selling opportunities that were previously mentioned in this report. The problem is that these divestitures take time to be fully realized, which is why the company has yet to see its multiples increase substantially.

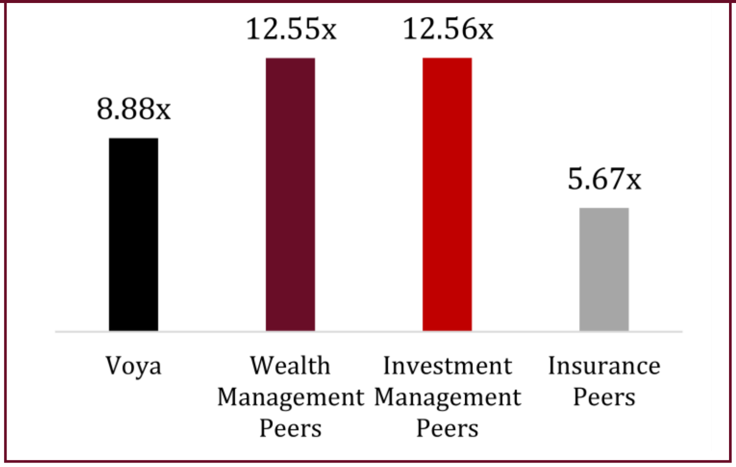
Fig 6: Divesting from Insurance



*Net Revenue breakdown by segment

However, all the transactions that had to be done in order to complete this business shift were effectively completed across 2021 and 2022. What's more, in 2022 Voya acquired AllianzGI, Czech Asset Management, and Tygh Capital Management, three companies within the Wealth/Investment management segment. Focusing on AllianzGI specifically, the acquisition will give Voya access to an international scale of distribution partnerships, triple its non-US client base to nearly 30% of total customers, and increase AUM by $100 billion. These synergies will likely take time to be realized, which is why the multiple has yet to be re-rated, although management expects an immediate 6-8% cash accretion to its adjusted operating EPS, even without accounting for synergies. Lastly, VOYA's new CEO Heather Lavallee, who recently took charge in January of 2023, plans to increase the company's exposure to investments, transforming Voya into a

Fig 7: Adjusted P/E



"global provider of attractive, sought-after asset classes to institutional and retail clients". All these factors combined create an opportune time to buy VOYA: while the stock has traded closer to insurance peers, which usually trade around 6x on a P/E basis, the company itself is shifting its operations towards the Wealth/Investment management space where companies trade, on average, at 12x P/E, double that of insurance companies, as is seen on figure 7. This is especially important since, while Voya has increased exposure to its Wealth/Investment management business from 65% in 2019 to 76% as of 4Q22, highlighting their divestitures from insurance, Voya's P/E multiple has actually decreased from a 2019 average of 11.4x to a post-pandemic average of 8.6x, as is seen on figure 8. On top of that, Voya's investment management business saw a substantial 560 bps adjusted operating margin increase throughout 2022, highlighting the immediate positive impact of the acquisitions. And while margins have decreased slightly for the Wealth and Health Solutions businesses, this is understandable given that 2021 was an extraordinary year, and margins are still higher when compared to pre-pandemic levels. On top of that, we believe these margins will bounce back following the synergies achieved through the Benefitfocus acquisition, as Voya will leverage its technology to achieve an estimated $250 million revenue run rate while decreasing corporate expenses leading to a guided 1% plus margin expansion throughout 2023. In addition, stranded costs from past transactions were increasingly reduced throughout 2022, which will also likely boost margins moving forward.

In short, while the market is valuing Voya as if it was still the 1970s life insurance business, the company has increasingly shifted towards a higher-margin, higher-multiple Wealth and Investment management business model, and as the recent acquisitions and divestitures come into effect, along with a new CEO who plans to accelerate this transition, we expect a multiple re-rate which will drive share price appreciation.

## Catalysts

### Business Oriented

1. <u>Large Excess Capital Position Leading to Buybacks/M&A Activity</u>
   Even after accounting for the all-cash Benefitfocus acquisition in early 2023, Voya stands in a comfortable excess cash position of an estimated $300M. With that in mind, and considering its strong cash generation abilities, it is probable that Voya will either engage in more M&A activity throughout 2023 or return capital to shareholders through stock buybacks, both being beneficial for the stock price. Management has stated an intent to wait until the second half of the year and analyze the macroenvironment before doing so, but we believe they are being conservative, and may engage in M&A/buybacks earlier than expected which would be a catalyst for the stock.

2. <u>High Short Interest Leading to Short Squeeze</u>
   VOYA currently sits on a 23.73% short interest. However, Bloomberg has calculated a Squeeze Risk Score of 88 for Voya, which means that the stock has a substantial risk of a short squeeze event. Roughly speaking, a short squeeze is a situation in which the price of a stock rises to such an extent that investors who have sold short purchase the stock in order to limit their losses, causing the price to rise further.

**Industry Oriented**

1. Changes in Regulations Regarding ESG
   Voya is one of the leading companies within both Insurance and Investments, especially when it comes to ESG. The company ranked first among Insurance peers with a Governance score of 7.84. What's more, its Environmental score was above peer median, although its social score was slightly below after a 6.51% decline throughout 2021. Government changes in regulations regarding ESG would likely benefit Voya more than its peers, which would be a catalyst for the stock.

Risks

**Business Oriented**

1. Failure to Integrate Recent Acquisitions
   As was previously mentioned, over the last four quarters Voya engaged in several M&A transactions that had both a financial and strategic rationale behind them. Evidently, especially considering the immediate cash and earnings accretion that came with those deals, the stock price reacted positively. If the company were to fail in integrating such businesses into its platform, the stock price could react negatively due to earnings misses. Nevertheless, we believe the market is underestimating the total potential of accretion and synergies that these transactions will generate, and we are confident that management will be successful in those integrations.

2. Recent Change in Management Team
   Voya recently underwent several key changes in their management team including a new CEO, Heather Lavallee, new CFO, Don Templin, and new CIO for IM, Matt Toms. With every change in management come several risks, including instability and conflicts of strategy within the corporation. In spite of that, the new management team has been with the company for several years, and the transition seems to have been well thought out and planned well in advance, which could be a mitigant to such risks.

**Industry Oriented**

1. Changes in Tax Dynamics
   Currently, Voya effectively doesn't pay income taxes due to unrealized losses and the regulation regarding insurance companies. Notwithstanding, there are concerns regarding how the Inflation Reduction Act, which would put forth a corporate minimum tax, would impact Voya's tax situation. As of now, management does not expect that they will have to pay taxes going forward, but it is still a risk, nonetheless.

2. Interest Rates
   Although interest rates may seem like an obvious risk to any company in the Financials sector, the impacts of rates on Voya are somewhat complicated. On the one hand, higher rates usually positively impact Voya's Wealth Solutions business since more investors look to allocate their capital in Voya's fixed income products. What's more, high rates can be beneficial for Voya's Investment Management business since they invest in many fixed income securities. On the other hand, though, a tighter economic environment could lead to lower returns on Voya's investment products, which could in turn decrease the demand for these products. As the impacts are mixed, fluctuations in rates are always a risk for Voya.

# Comparable Company Analysis

| Market Data | | | | Valuation | | | Financial Performance | | | Growth | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tier | Company Name | Ticker | Market Cap ($B) | P/E | P/E 5yr Average | P/TBV | OM | ROE | Dividend Yield | Dil. EPS Growth 5yr CAGR | TTM Revenue Growth |
| **Investment Management** | **Voya Financial** | **VOYA** | **6,580** | **8.88x** | **8.87x** | **1.87x** | **7.10%** | **7.84%** | **1.18%** | **39.29%** | **44.78%** |
| 1 | BlackRock | BLK | 97,510 | 19.14x | 19.55x | 23.55x | 37.68% | 13.73% | 3.05% | 5.54% | -7.75% |
| 1 | Franklin Resources | BEN | 13,150 | 10.62x | 7.69x | 23.12x | 9.86% | 8.65% | 4.45% | -13.67% | -7.35% |
| 1 | Invesco | IVZ | 6,840 | 9.49x | 8.44x | - | 22.51% | 6.03% | 4.98% | -13.03% | -12.26% |
| 1 | Schwab | SCHW | 98,120 | 14.48x | 23.55x | 16.40x | 47.26% | 18.20% | 1.67% | 18.76% | 17.43% |
| 1 | State Street | STT | 24,680 | 9.60x | 9.89x | 1.76x | 28.18% | 10.95% | 3.35% | 13.00% | 13.82% |
| 1 | T Rowe Price | TROW | 24,620 | 17.41x | 13.60x | 4.42x | 16.61% | 17.04% | 4.40% | -6.66% | -15.43% |
| **Mean** | | | **44,153** | **13.46x** | **13.79x** | **13.85x** | **27.02%** | **12.43%** | **3.65%** | **0.66%** | **-1.92%** |
| **Median** | | | **24,650** | **12.55x** | **11.75x** | **16.40x** | **25.35%** | **12.34%** | **3.88%** | **-0.56%** | **-7.55%** |
| **Wealth Management** | **Voya Financial** | **VOYA** | **6,580** | **8.88x** | **8.87x** | **1.87x** | **7.10%** | **7.84%** | **1.18%** | **39.29%** | **44.78%** |
| 2 | Ameriprise Financial | AMP | 30,640 | 14.13x | 12.17x | 14.45x | 18.57% | 55.04% | 1.71% | -2.55% | 6.72% |
| 2 | Columbia Financial | CLBK | 2,000 | 21.47x | 23.87x | 2.17x | 40.10% | 8.08% | - | - | 10.06% |
| 2 | JP Morgan | JPM | 367,650 | 10.10x | 9.69x | 1.73x | 38.32% | 13.69% | 3.20% | 17.97% | 21.69% |
| 2 | Morgan Stanley | MS | 141,200 | 13.09x | 11.42x | 2.06x | 21.92% | 11.09% | 3.60% | 4.97% | 7.88% |
| 2 | Raymond James | RJF | 19,190 | 12.03x | 14.10x | 2.46x | 23.40% | 17.08% | 1.62% | 16.93% | 10.02% |
| 2 | Stifel Financial | SF | 6,060 | 9.87x | 9.22x | 1.88x | 20.84% | 13.90% | 2.22% | 6.35% | -3.98% |
| **Mean** | | | **94,457** | **13.45x** | **13.41x** | **4.13x** | **27.19%** | **19.81%** | **2.47%** | **8.73%** | **8.73%** |
| **Median** | | | **24,915** | **12.56x** | **11.80x** | **2.12x** | **22.66%** | **13.80%** | **2.22%** | **6.35%** | **8.95%** |
| **Health Insurance** | **Voya Financial** | **VOYA** | **6,580** | **8.88x** | **8.87x** | **1.87x** | **7.10%** | **7.84%** | **1.18%** | **39.29%** | **44.78%** |
| 3 | Brighthouse Financial | BHF | 2,800 | 7.43x | 5.52x | 0.67x | -283.04% | -1.06% | - | 49.92% | -13.18% |
| 3 | CNO Financial Group | CNOFG | 2,410 | 5.34x | 6.33x | 1.72x | 10.60% | 11.92% | 2.65% | 2.82% | -10.32% |
| 3 | Corebridge Financial | CRBG | 9,430 | 5.07x | - | 1.17x | -15.56% | - | 4.74% | - | - |
| 3 | Equitable Holdings | EQH | 8,530 | 5.50x | 5.64x | - | -45.78% | 33.92% | 3.39% | 2.45% | -10.04% |
| 3 | Primerica | PRI | 5,950 | 14.20x | 11.98x | 4.25x | 25.38% | 19.49% | 1.42% | 17.18% | 0.69% |
| 3 | Unum Group | UNM | 7,500 | 5.84x | 6.01x | 0.85x | 13.58% | 12.75% | 3.39% | 5.80% | 0.58% |
| **Mean** | | | **6,103** | **7.23x** | **7.10x** | **1.73x** | **-49.14%** | **15.40%** | **3.12%** | **15.63%** | **-6.45%** |
| **Median** | | | **6,725** | **5.67x** | **6.01x** | **1.17x** | **-2.48%** | **12.75%** | **3.39%** | **5.80%** | **-10.04%** |
| **High** | | | **367,650** | **21.47x** | **23.87x** | **23.55x** | **47.26%** | **55.04%** | **4.98%** | **49.92%** | **44.78%** |
| **Low** | | | **2,000** | **5.07x** | **5.52x** | **0.67x** | **-283.04%** | **-1.06%** | **1.18%** | **-13.67%** | **-15.43%** |

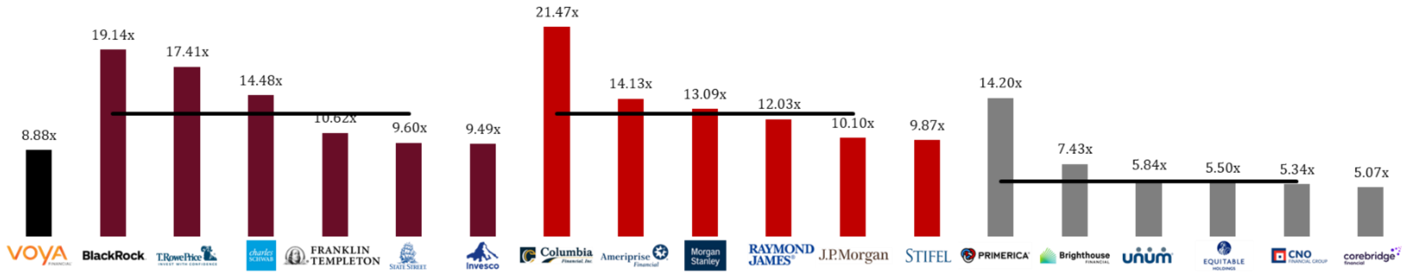
## Comparable Company Analysis Commentary

Voya operates in three distinct sectors: investment management, wealth management, and insurancehich is how we decided to form each tier of comparable companies. Starting with Investment Management, we categorized this as including any company that offers investment products, either to institutional or individual investors. These products can range from ETFs to mutual funds. In the Wealth Management tier, these are companies that offer wealth management services such as retirement planning and financial advisory. Lastly, the Health Insurance tier contains SMID cap health insurance providers.

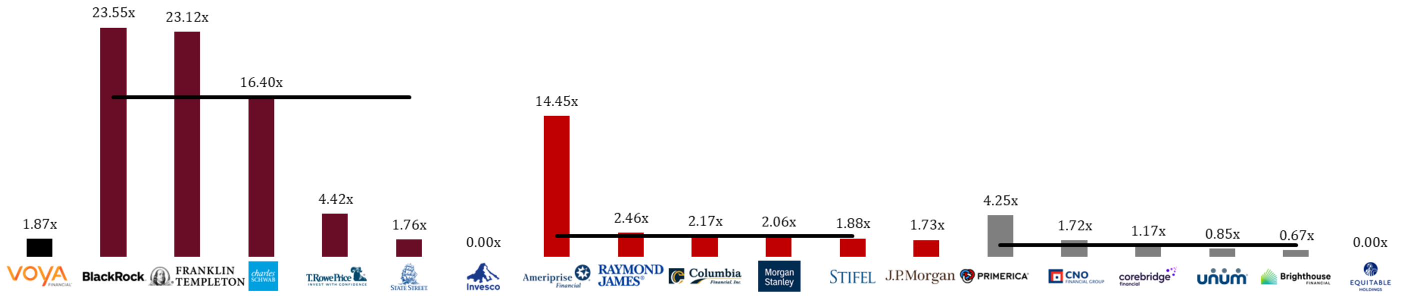
We split up the metrics into three sections: valuation, financial performance, and growth. For valuation, we used P/E, 5-year average P/E, and P/TBV. Voya trades below competitors in investment and wealth management across the board, however, it trades above the median for insurance companies. Under financial performance, Voya underperforms. This is a result of unrealized losses on investments as well as effects of divestitures. When these metrics are adjusted/normalized, Voya’s performance increases drastically. Lastly, we looked at growth on an EPS and revenue basis and Voya still performs significantly better than peers in all three tiers.

## Benchmarking

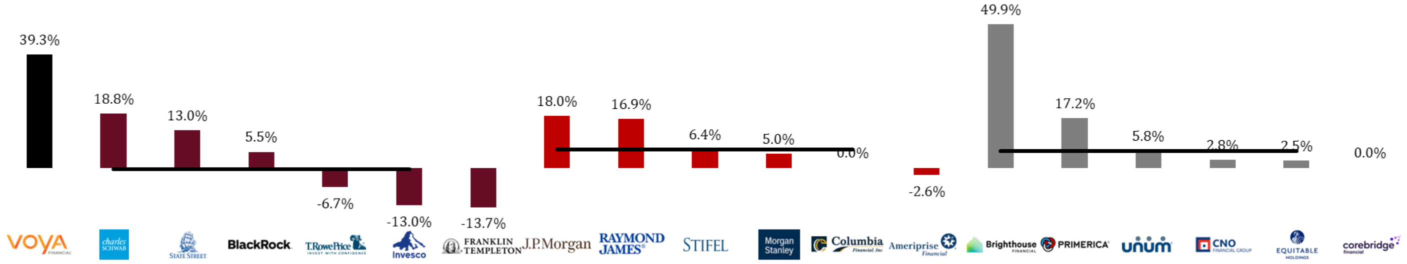
### Adjusted P/E



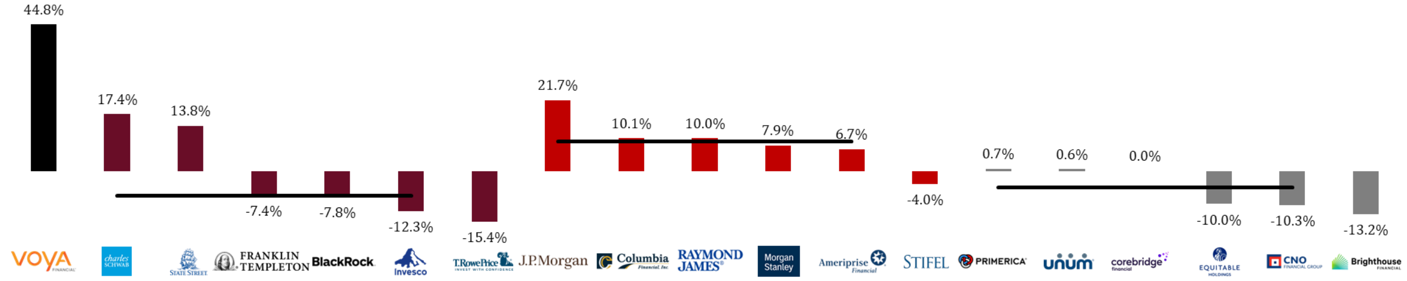
### P/TBV



### TTM EPS Growth



### TTM Revenue Growth



## Valuation – Dividend Discount Model

| General Assumptions | |
|---|---|
| Share Price as of Last Close | $71.23 |
| Latest Closing Share Price Date | 4/4/2023 |
| P/E Mutliple | 10.0x |
| Basic shares outstanding | 97.0 |
| Diluted shares outstanding | 107.0 |

| CAPM | |
|---|---|
| Beta | 0.95 |
| Risk Free Rate | 3.34% |
| Expected Market Returns | 9% |
| **Calculated CAPM** | **8.72%** |
| Bloomberg CAPM | 9.09% |

| Dividend Build (quarterly) | Adj. Net Income | Dividend Payout Ratio | Dividends |
|---|---|---|---|
| **1Q21** | 273 | 12% | 34 |
| **2Q21** | 353 | 7% | 24 |
| **3Q21** | 388 | 9% | 33 |
| **4Q21** | 278 | 9% | 25 |
| **1Q22** | 209 | 17% | 35 |
| **2Q22** | 223 | 11% | 24 |
| **3Q22** | 311 | 12% | 36 |
| **4Q22** | 226 | 11% | 24 |
| **Average** | | **10.8%** | |

| Dividend Discount Model | FY2023E | FY2024E | FY2025E | FY2026E | FY2027E |
|---|---|---|---|---|---|
| Net Income | 1,275 | 1,358 | 1,418 | 1,480 | 1,545 |
| P/E Multiple | 10.0x | 10.0x | 10.0x | 10.0x | 10.0x |
| Equity Value | 12,745 | 13,582 | 14,176 | 14,799 | 15,453 |
| Diluted Shares Outstanding | 107.0 | 107.0 | 107.0 | 107.0 | 107.0 |
| Share Price | 119.12 | 126.94 | 132.49 | 138.31 | 144.42 |
| | | | | | |
| Dividends | 1.29 | 1.37 | 1.43 | 1.49 | 1.56 |
| Time until Dividends | 0.7 | 1.7 | 2.7 | 3.7 | 4.7 |
| PV of Dividends | 1.21 | 1.19 | 1.14 | 1.09 | 1.05 |
| Sum of PV of Dividends | 1.21 | 2.40 | 3.53 | 4.63 | 5.68 |
| Discounted Share Price + Dividend | 113.17 | 112.14 | 108.89 | 105.80 | 102.85 |
| | | | | | |
| **Upside (downside)** | **59%** | **57%** | **53%** | **49%** | **44%** |

## Sensitivity Tables for DDM

P/E Multiple

| CAPM | 7.0x | 7.5x | 8.0x | 8.5x | 9.0x | 9.5x | 10.0x | 10.5x | 11.0x | 11.5x | 12.0x | 12.5x | 13.0x |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **6.7%** | 13% | 20% | 27% | 35% | 42% | 50% | 57% | 65% | 72% | 80% | 87% | 94% | 102% |
| **7.2%** | 10% | 17% | 25% | 32% | 39% | 47% | 54% | 61% | 68% | 76% | 83% | 90% | 98% |
| **7.7%** | 8% | 15% | 22% | 29% | 36% | 43% | 51% | 58% | 65% | 72% | 79% | 86% | 93% |
| **8.2%** | 6% | 13% | 20% | 27% | 33% | 40% | 47% | 54% | 61% | 68% | 75% | 82% | 89% |
| **8.7%** | 3% | 10% | 17% | 24% | 31% | 37% | 44% | 51% | 58% | 65% | 72% | 78% | 85% |
| **9.2%** | 1% | 8% | 15% | 21% | 28% | 35% | 41% | 48% | 55% | 61% | 68% | 75% | 81% |
| **9.7%** | -1% | 6% | 12% | 19% | 25% | 32% | 38% | 45% | 51% | 58% | 64% | 71% | 77% |
| **10.2%** | -3% | 4% | 10% | 16% | 23% | 29% | 35% | 42% | 48% | 55% | 61% | 67% | 74% |
| **10.7%** | -5% | 1% | 8% | 14% | 20% | 26% | 33% | 39% | 45% | 51% | 58% | 64% | 70% |

P/E Multiple

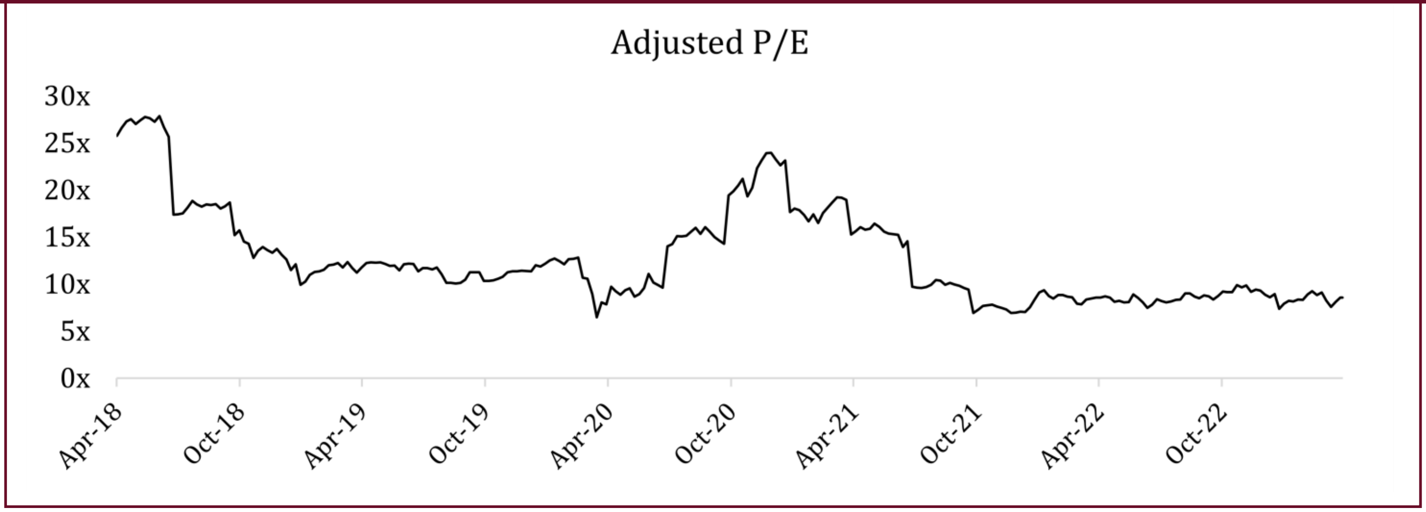
| CAPM | 7.0x | 7.5x | 8.0x | 8.5x | 9.0x | 9.5x | 10.0x | 10.5x | 11.0x | 11.5x | 12.0x | 12.5x | 13.0x |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **6.7%** | $80.25 | $85.55 | $90.86 | $96.16 | $101.47 | $106.77 | $112.08 | $117.39 | $122.69 | $128.00 | $133.30 | $138.61 | $143.91 |
| **7.2%** | $78.54 | $83.73 | $88.92 | $94.11 | $99.30 | $104.49 | $109.68 | $114.87 | $120.06 | $125.25 | $130.44 | $135.63 | $140.82 |
| **7.7%** | $76.89 | $81.96 | $87.04 | $92.11 | $97.19 | $102.27 | $107.34 | $112.42 | $117.49 | $122.57 | $127.65 | $132.72 | $137.80 |
| **8.2%** | $75.27 | $80.24 | $85.20 | $90.17 | $95.13 | $100.10 | $105.06 | $110.03 | $115.00 | $119.96 | $124.93 | $129.89 | $134.86 |
| **8.7%** | $73.70 | $78.55 | $83.41 | $88.27 | $93.13 | $97.99 | $102.85 | $107.71 | $112.56 | $117.42 | $122.28 | $127.14 | $132.00 |
| **9.2%** | $72.16 | $76.92 | $81.67 | $86.42 | $91.18 | $95.93 | $100.69 | $105.44 | $110.19 | $114.95 | $119.70 | $124.46 | $129.21 |
| **9.7%** | $70.67 | $75.32 | $79.97 | $84.63 | $89.28 | $93.93 | $98.58 | $103.23 | $107.89 | $112.54 | $117.19 | $121.84 | $126.49 |
| **10.2%** | $69.21 | $73.77 | $78.32 | $82.87 | $87.43 | $91.98 | $96.53 | $101.08 | $105.64 | $110.19 | $114.74 | $119.30 | $123.85 |
| **10.7%** | $67.80 | $72.25 | $76.71 | $81.16 | $85.62 | $90.08 | $94.53 | $98.99 | $103.45 | $107.90 | $112.36 | $116.81 | $121.27 |

### Model Commentary

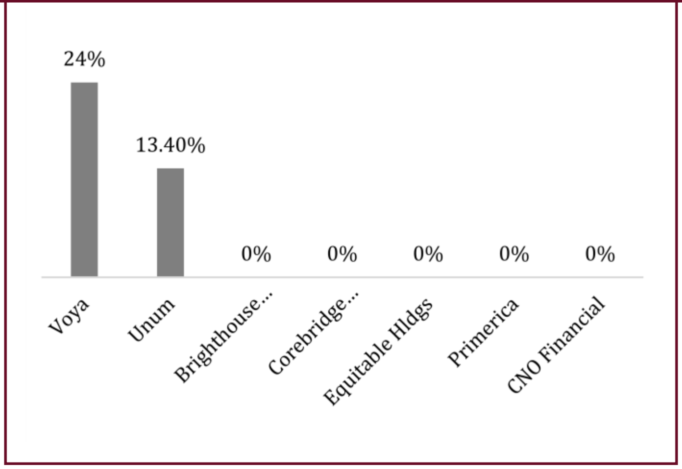
Using a dividend discount model as our form of intrinsic valuation, we have arrived at an estimated upside of 44.4% over a 5-year holding period, indicating a price target of $102.85 per share (including PV of dividends). We utilized an 8.72% discount rate, calculated utilizing the Capital Asset Pricing Model (CAPM), just shy of Bloomberg's 9.09% CAPM. This upside has been calculated using relatively conservative future assumptions. In our base case we estimate that Wealth Solutions revenues will grow at a 3% CAGR until 2024, which is management's guidance based on past AUM flows. We also assumed a slight decrease in the final three projected years (2025, 2026, and 2027) for conservative purposes. In the Health Solutions segment, we assumed an 8.5% CAGR until 2024, which is management's guidance based on the cross-selling capabilities that will arise from the Benefitfocus acquisition, as well as the fast-growing voluntary benefits industry that will transpire into revenue growth for Voya. We also assumed a slight decrease in the final three projected years (2025, 2026, and 2027) for conservative purposes. Lastly, in the Investment Management segment, we assumed a 6% CAGR until 2024, which is management's guidance based on the revenue synergies that will be achieved following the AllianzGI, TCM, and CAM acquisitions We also assumed a slight decrease in the final three projected years (2025, 2026, and 2027) for conservative purposes. Our predicted consolidated revenue growth rates over the first two projected years still come in shy of Bloomberg and JPMorgan estimates by a significant amount. From a margin perspective we assume slight margin improvement due to soon-to-be realized revenue and cost synergies following 2022's M&A activities, which is also included in management's guidance.

# Appendix

## Fig 8: Multiple Performance



## Fig 9: Exposure to Voluntary Benefits



## Fig 10: Sum-of-The-Parts Valuation