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# FINAL TRANSCRIPT

## Voya Financial Inc at Bank of America Merrill Lynch Insurance Conference

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## CORPORATE PARTICIPANTS

**Mike Smith** *Voya Financial, Inc. - Chief Financial Officer*

## PRESENTATION

**Unidentified Analyst**

We have Voya up next. I'm pleased to introduce Mike Smith, Chief Financial Officer of Voya. Mike became CFO in 2016 in November. He's held several other leadership roles prior to his current position, including CEO of the Insurance Solutions segment, Chief Risk Officer. Additionally, Mike had also had oversight of the legacy Variable Annuity business. So you got rid of the hat. That's why you did the deal, right? You wanted less responsibility?

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Less hats.

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**Unidentified Analyst**

But I'm sure we'll get into some of that detail today and obviously, the good 2017 results. Mike?

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Thank you. Good morning, everyone. I'm just going to have a few minutes of opening comments, and then we'll go right to Q&A. Maybe start with just a quick recap of what's transpired over the last couple of months, where we announced what we view as a transformative transaction for Voya with the planned sale in the second or third quarter closing of our VA and Annuities business. And we think that positions us as a simpler, growth-oriented, capital-light company in businesses with strong returns. And we think that story is one that we can deliver significant shareholder returns. We can deliver significant customer value and significant growth. And so we're really excited about where we're going in the next several years.

So the new Voya, ex these businesses, has significant cash flow generation of $600 million to $700 million per year. Most of our operating earnings come from high-return, high-growth businesses - Retirement, Investment Management and Employee Benefits. Over the last 5 years, we've seen our assets under management grow in both our Retirement and Investment Management. Retirement's grown 9% since 2012 on an annualized basis. Investment Management has grown 10%. Our Employee Benefits premiums have grown around 8%. So we're honest on a significant amount of growth looking backwards, and we think we can only go better and stronger from here.

We have a number of new offerings in the Investment Management space. CLOs, we've got significant flows coming in. In the Retirement business in our small to mid-segment, we've had I think 17 consecutive quarters of positive net flows. And in Employee Benefits, we're doing quite well in the Voluntary space. Significant growth and strong performance there.

The quarter, we just had our call yesterday. And so some of you were maybe busy with the conference here so just a couple of key items from the quarter. We announced operating earnings of $0.87 after our alternative prepays in excess of expectations that sort of normalized to $0.81. That compares to a year-ago quarter of $0.52. And those numbers are different from what we reported in the past because we've moved our Annuities and CBVA blocks to discontinued operations, all right? And that also produced some GAAP effects as well. We had record deposits in Retirement. We had double-digit AUM growth for both Retirement and Investment Management. We have a strong balance sheet. We have done, since IPO, $3.8 billion of share repurchases. Our excess capital reported yesterday is $738 million. Our RBC ratios, 476%. And deferred tax assets present value, we update that every year, is $1.4 billion. We have a significant deferred tax asset stemming from largely the Variable Annuity business through the crisis. Even in the face of tax reform, the present value of our deferred tax assets only went down from $1.6 billion to $1.4 billion. And while the tax rate reduction would have otherwise significantly reduced it, there were some offsets in the form of changes in the alternative minimum tax rules as well as accelerated taxable earning with the elimination of the expected losses from the VA business, in particular.

So as I look forward, I am encouraged by the track record of the management team. At IPO, we started out with an ambition to achieve a 12% return on our Ongoing Business from where we were, which was south of 8%. We did that 2 years early. We then, in 2015, announced a further ROE improvement to get to 13.5% to 14.5% by 2018. We achieved over 16% in 2017. We have a significant amount of work ahead to close the transaction, but we are confident that it will close. We have a number of actions. We're certainly working diligently to make sure that happens. We're working closely with the regulators to get approval from them, and we're working on getting the new company stood up. But we're also focused on growth, and we're not going to get distracted from the fundamental growth story that we have in Retirement, Investment Management, Employee Benefits. Those folks are largely walled off and separate from all the effort that's going on to close the deal, and I think we've got great prospects ahead for them as well.

And finally, I'll just close with the way we're thinking about the company going forward post the transaction in the form of our target EPS. What we guided to yesterday is we expect by the middle of '19 to be in a range of $1.30 to $1.40 quarterly earnings per share, and that would be basically 12 months post-close. So that's how we're focusing our efforts going forward in terms of removing stranded costs, growing the business and improving our overall EPS.

So with that, I'll open the floor to questions.

## QUESTIONS AND ANSWERS

**Unidentified Analyst**

Yes. I dominated the conversation with Matt. I apologize. So if you do have questions, raise your hand. We've got one in the back there.

**Unidentified Analyst**

Yes. You said that you have a strong balance sheet. It seems that leverage is a little bit elevated relative to peers. Could you tell us the plan in terms of capital allocation? And if you're comfortable with that level or you're going to take it down over time. But maybe give us a 3-year view.

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

So as part of the transaction, we announced changes to a couple of key capital measures. We think of 3 things: First, our RBC target of 425. That did not change. Second, our holding company liquidity. At IPO, we set a very conservative level of liquidity holdings of 2 years' worth of holding company expenses, which is a little over $400 million at the time. We lowered that to 12 months of liquidity requirement. And then the third change was we increased our target leverage ratio from 25% to 30%. And both of those changes were made because we feel the new business mix going forward allows us more flexibility. CBVA, in particular, created a high degree of uncertainty at IPO. I think we did a lot of work to ease that, but there was still a degree of volatility that could come with it. So that's the framework. I think looking forward, our intention right now is to manage to the 30% debt-to-cap ratio that we set as a target. We may fluctuate under that from time to time, but that's where we intend to stay.

**Unidentified Analyst**

Where was the ratio at year-end?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Pro forma for the activity that happened at the end of the year, we had a hybrid offering a few weeks ago, and we've got some maturities coming up in the next week or so. Pro forma, it was 29.9%.

**Unidentified Analyst**

On the transaction, what are the risks that it does not close?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Well, first and foremost is we need regulatory approval from the key regulators in a couple of states: Iowa in particular, which is the domiciliary regulator of the company that's that's going to be sold; as well as Arizona, which is the owner of the captives that are involved. There are other approvals as well. But like I said, that's the primary one. We, Voya, have a very strong and positive relationship with the Iowa regulator. We had really good conversations with them and with the folks from Apollo and Athene as we were preparing to announce the transaction. I think we've gotten nothing but positive feedback from them as well, so we're on the right track as it relates to regulatory. We are committed to delivering with the VA business assets at a level of CTE 95. That is the measure that we have been targeting with our hedging for the last several years, and so we need to continue to have hedged performance, consistent with what we've seen for a while. So we're pretty confident that, that will continue. To the extent that there is breakage on either side, there are limits within the agreement that could be triggered and one side or the other would have the ability to walk away. But the reality is this was a win for all the parties involved. Certainly, it was perceived that way on announcement. All parties' stocks reacted favorably, and I think it's in all of our interest to try and close the deal as efficiently and quickly as possible. So I'm comfortable that we're well on track to achieving all that.

**Unidentified Analyst**

You mentioned your hedges. Obviously, we've had a lot of volatility in financial markets. Can you give us a sense of how your hedges have performed?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

So maybe the easiest way to say it is we've been through worse with the same hedge program, right? Yes, it's been choppy, but the strategies employed and the methods that we've used have been well tested. Nothing has changed appreciably other than reacting to the change in environment, right? But we aren't making bets. We've got a very disciplined process, where we insulate ourselves from market movements as it relates to the movements in CTE 95. So we're comfortable that that's continuing to perform. Nothing unprecedented in the last couple of weeks, that's for sure.

**Unidentified Analyst**

I'm definitely not an expert on hedging, but does the volatility potentially increase the cost of your hedging program?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Yes. There is rebalancing cost. And so the more churn that you have, that creates some additional cost. But we also have put in positions to help offset that. There's a question in the back. Yes?

**Unidentified Analyst**

So pro forma for closing the deal, how would you characterize your equity exposure, your volatility to stock market and interest rates?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Yes. So maybe the best way to give the guidance on equities is pretax but after deferred acquisition costs or after DAC. Our sensitivity to equity market movements is $4 million in earnings per 1% change in the S&P. From an interest rate perspective, it's a little harder to give good guidance because it happens over time. I mean, the way that interest rates affect our earnings are on the basis of how it influences the portfolio yield. The recent increase in rates, with spreads largely staying the same, will slow the rate of deterioration relative to where we had been because we're putting money to work at a higher rate and it's replacing assets that are leaving the portfolio with a somewhat higher level. So that degree of drag will be less than it's been in the past if rates persist. But I don't have a particular guidance to give you with the x percent change in interest rates costs in earnings. It's not that simple.

**Unidentified Analyst**

Just curious. On the deal, on the fixed annuity book that you're selling and the move in the 10-year and by the time it closes, who knows where it will be, but does that affect the price that ultimately will be paid?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Not directly, no. It'll influence, to some extent, through the CTE 95 calculation. Interest rates do have an impact there as well as the hedging, but there's no direct mechanism in the price that will change with interest rates.

**Unidentified Analyst**

Mike, post the sale, can you talk about your business mix as it evolves? Is there some sort of target out there or goal you're heading towards?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

So the immediate goal is the earnings per share goal that I talked about earlier, right, of achieving $1.30 to $1.40 by mid-'19, assuming the deal closes mid-'18. Beyond that, I think we're working toward an Investor Day in the back half of the year, where I think we'll be will be able to articulate a clearer picture of exactly where we see ourselves heading. But broadly, you're going to be focusing on the Employee Benefits, on Investment Management and Retirement. Those are all capital-efficient, growth opportunities for us with solid returns and in some cases, very high returns. You can expect us to emphasize growth there. And in particular, trying to drive EPS growth is how we're going to be thinking of ourselves.

**Unidentified Analyst**

The Individual Life business, I guess you're doing a strategic review. What are the things you're looking at as you drill down into that business?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

So the reason for the strategic review is a direct consequence of the transaction, where in 2016, we combined the Life and Annuities business management teams to find cost efficiencies, to lever distribution practices and so on. So with the exit of the Annuities business, it's a logical time for us to ask, okay, does it continue to make sense to sell Individual Life products in these markets given the exit of that other piece? But also, the strategic fit that has. And does it meet our our focus on capital-light, high-return, high-growth businesses? As well as benefits from diversification. There is a favorable RBC effect from having a life block. Rating agencies like the life business. So we need to consider all of that as we think about do we continue to sell. And if we don't continue to sell, what do we do with the block? Do we sell parts of it? Do we run it off? Do we sell the whole thing? That's all got to be considered over the next few months. We're very focused in the end of 2017 on the VA business, and the Annuities business. We set aside the life decision for later when we can focus on it more. We have a team doing that right now.

**Unidentified Analyst**

On capital management -- if you see a hand back there, let me know.

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

I will.

**Unidentified Analyst**

On capital management, I think the market seems to be expecting a healthy amount of buybacks in 2018. Tactically, how do you accomplish that? Is it more than just buying in the open market?

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

We've tended to favor using share repurchase agreements, and I think you can expect us to continue to do that. We entered into a $500 million ASR at the end of last year shortly after we announced the transaction, and so that $500 million will close some time in the first quarter. You can expect us to do more in the second quarter. And then that will complete the $1 billion that we said we would do by the middle of 2018, and that's based on existing excess capital. Going forward after that, we'll take the proceeds from the transaction and use that for additional share repurchases, and that was estimated at $500 million back in December, and we're still at that number at this point in time. We have authorization for all of that from our board through 2018. We have $1 billion of remaining authorization available.

**Unidentified Analyst**

I wanted to ask about the Investment Management business, which you guys have been growing nicely. But certainly, you hear about the pressures that this business is under, moving to passive management, as an example. How is that business positioned now? And you talked about some new products. It might be a chance for you to talk a bit more about those.

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Yes. Look, I think the things that we're focused on and that we've delivered consistent performance in are things that are not readily ETF-able or not readily indexable. There are things like our senior loans team, like our mortgage structures, commercial real estate and commercial mortgages. I think we have a lot of capabilities there that we can demonstrate strong performance and continue to get a reasonable fee and margin accordingly.

**Unidentified Analyst**

Other questions? I've got a couple more.

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

There's one more in the back.

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**Unidentified Analyst**

Oh, good.

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**Unidentified Analyst**

Just to be -- I want to try and make sure I've got it straight. Do you consider your major competitors -- well, I guess I'll leave it up to you. Who would you consider your major competitors now given the trade?

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Yes. It varies from market to market. I think from a comp standpoint, you're trying to think about who to compare us to. We like to talk about Principal and Ameriprise, too, that we think are relatively consistent with us, Principal in particular. But in each space, Stop Loss for example, has a set of good competitors that is neither one of those, for example. But in the retirement space, Principal is certainly a competitor. Fidelity and Vanguard, TL, all of those are people we run into in the investment. You all know who all the investment folks are, right? Was there a question back there? Yes.

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**Unidentified Analyst**

Yes, over here. Just following up on the capital management. I know you've focused a lot on buybacks. Do you plan to increase the dividend over time?

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

I think as we go forward, there will likely be a time where it makes sense to consider a change in the way we've approached dividends. That's not now. We're very focused on the repurchases that we've guided to. And so through the balance of 2018, you shouldn't expect a change there. I do think when we get to Investor Day, we may very well have a better sense of where we want to go. We can give some maybe clearer articulation of where that happens. But I think it's fair to think that at some point, we would want to increase the dividend from where we are now.

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**Unidentified Analyst**

I wanted to ask about the Retirement business. You're in a bunch of different segments, small, midsize, large. Is there an area that you're focused on for growth in that business?

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Well, I think we're trying to grow all of them. And we think we have capabilities that span in a way that differentiates us from other competitors, where we have scale and capabilities in all of the major segments. From the very largest record-keeping only, to very small corporate plans, to K-12, 403(b) plans, to higher education and health care and government, right? So we are trying to build on those capabilities to drive growth across. I think where we've seen more recently has been in the small to mid-corporate, where we've had positive net flows for I think the last 17 quarters in a row and 24 out of the last 26 or something like that. So we're seeing meaningful progress there, but we're not emphasizing anyone over the other. We're looking at opportunities to drive growth across the whole product line.

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**Unidentified Analyst**

And as far as the cross-enterprise initiatives, like Insurance, obviously, is separate, but if we look at Retirement, Investment Management, Benefits, you've been trying to find more synergies, if you will. Give us an update on how that's going.

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**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Yes. I think we're making good progress there. I think back to where we were 5 or 6 years ago. There were high walls built between some of our businesses, and we've broken them down gradually over time and now to the point where our proprietary target date funds are, I believe, offered in a majority of our new plans, right, in the small to mid-corporate segment, for example. So making good progress there. A lot of I think distribution collaboration to find leads for other businesses. We've got a team whose job it is to actually manage our relationships across distribution and foster those kinds of interactions and leverage our presence with key distribution partners. We used to talk about if the retirement rep was talking to one of our distribution partners, they wouldn't talk about what we had done on the investment side. Now we talk about it in its totality, and it helps drive our position to a higher level on their platforms.

**Unidentified Analyst**

Another hot topic, tax reform. The question we've been asking a lot of the companies, how much of the benefit is shared to shareholders or goes to customers? And I know it might vary by business, but give us a sense of what you guys are thinking.

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

So we haven't made any changes to our pricing so far. I think with any business, we'll continue to monitor what our competitors do and be focused mainly on delivering value to customers, continuing to help them achieve the outcomes that they're looking for and do that at a fair price and a fair return. So how that will evolve over time is unclear. There's a lot of business we have on the books that is priced and locked in and doesn't change, some of the longer-term contracts. Others will evolve over time, and we'll react to the market and where the market goes. So hard to predict how that's going to emerge. Ultimately, we want to get a fair return, and we will.

**Unidentified Analyst**

Great. Any other questions? I've exhausted mine. Mike, fantastic.

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Thank you.

**Unidentified Analyst**

Thanks for spending time with us.

**Mike Smith** ***Voya Financial, Inc. - Chief Financial Officer***

Thank you.