

AFLAC (NYSE) - AFL

Company Description:

Columbus, Georgia-based Aflac Incorporated is the world's largest underwriter of supplemental cancer insurance, most of which is sold through trade and employee organizations in Japan. Also sells life, Medicare supplement, accident, and long-term convalescent care policies. The company is authorized to conduct insurance business in 50 states and Japan. Japanese operations, concentrated in supplemental cancer insurance, accounted for roughly 71% of revenues and profits. Has about 10,200 employees Off.& dir. own about 3.0% of common shares outstanding; 15% of voting. Chrmn. & CEO: Daniel P. Amos. Pres.: Kriss Cloninger www.aflac.com.

Basic Description:

Net profits have grown consistently over the past ten years until 2010 and have slowed since then. Further, AFL has a high level of consistency in its underwriting. As a result, the stock price volatility has been much more muted, indicating that earlier stock price movements were related to growth estimates. P/E ratios have also dropped considerably, reflecting these slower growth rate estimates. In addition to a dividend of over 20% of profits, AFL uses share repurchases regularly, averaging over 20%. Life and health insurance companies typically use long-tail float to cover underwriting losses; AFL's model has a shorter tail with better underwriting ratios. Increasingly low rates have made underwriting profits even more important. AFL has retained earnings to build equity (surplus), decreasing leverage ratios. In 2008, AFL was forced to bring assets on balance sheet while capital shrunk with investment losses. So, returns on assets have risen with better underwriting ratios, but returns on equity have come down as leverage has reduced with lower asset/surplus ratios. Premium to asset ratios indicate a declining growth rate. Either growth needs to resume or share repurchasing needs to increase to address excess surplus. VL excludes certain non-recurring gains and expenses.

Profitability Description:

AFL operates within two segments: AFL Japan and AFL US. Both segments have increased underwriting margins, even on a combined ratio basis. However, even taking out the impact of a weakening yen, growth is difficult. Due to successful penetration in Japan (1 of 4 households), AFL Japan has difficulty increased at a slowing rate. In the US, AFL US has no growth with difficulty gaining increased presence in the marketplace, despite brand recognition. Thus far, the changes in US healthcare have not shown for increased revenues. It does appear that AFL has gotten more conservative in pricing its life insurance or interest sensitive products. In addition, the balance sheet continues to show a reduction of perpetual preferreds and subordinated debt, but an increase in low rated debt - perhaps. a case of reaching for yield. The interest sensitive products in Japan continue to earn less than required with the deficit made up from profitable underwriting.

Core Advantage Description:

As a result of specialization, AFL has been able to build on the core competence of a high volume, low premium, limited liability approach to health insurance. AFL has specific limits to its risks, an unusual characteristic in the medical insurance field. AFL has created a culture attuned to its product line, from the back office to the front office. High volume and low costs are supreme. In addition, AFL has been able to take advantage of its periodic opportunities. Who could have imagined a small insurance company in south Georgia becoming Japan's largest life insurer?

Investment Thesis:

AFL has a history of overcoming challenges. In this environment, there are three: a weak yen, a mature Japanese market and a relevancy challenge in the US market. ACM assumes a 2% profits growth rate with share buybacks giving 6% EPS growth over the next decade with a strengthening yen (from today's levels), a 2% growth in Japan from a large base, a 2% growth rate from improved relevancy in the US and a terminal P/E of 14. Likely dividends are included.

Purchase Description:

ACM considers AFL a buy at 58 (ave of capl growth and e.g) and a sell at 84 (float fair value) as a Tier III "equity bond" financial purchase.

	FY End			Stock Price		Market Value (in mlns)															
	December			\$73.60		\$29,866.88															
	1995	1996	1997	1999	2000	2002	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Profit (mln)	349.1	357.7	373.8	550.0	657.0	823.8	986.0	1,292.0	1,433.0	1,616.0	1,254.0	1,833.0	2,427.0	1,964.0	2,750.0	2,889.0	2,797.0	2,670.0	2,812.0	2,575.0	2,555.0
EPS	\$0.58	\$0.60	\$0.85	\$1.00	\$1.20	\$1.56	\$1.52	\$2.92	\$2.95	\$3.31	\$2.62	\$3.19	\$4.99	\$4.21	\$6.13	\$6.87	\$6.66	\$6.08	\$6.93	\$6.69	\$6.91
Operating EPS	\$0.58	\$0.60	\$0.67	\$1.00	\$1.20	\$1.56	\$1.89	\$2.54	\$2.85	\$3.27	\$2.62	\$3.91	\$5.17	\$4.21	\$5.88	\$6.29	\$6.32	\$6.29	\$6.93	\$6.69	\$6.91

Ave. P/E Ratio	11.5	14.2	18.1	23.8	22.0	18.8	17.4	16.8	16.1	16.3	22.0	8.8	9.9	11.3	7.9	9.4	10.0	10.0	10.0		
Yrly Price Low	5.3	7.1	9.4	19.5	16.8	23.1	28.0	35.5	42.0	45.2	27.0	10.0	39.9	31.5	38.1	48.0	54.0	51.0	54.0	66.0	
Yrly Price High	7.5	11.0	14.5	28.4	37.5	33.4	36.9	49.7	49.4	63.9	67.0	47.0	56.1	58.9	58.3	67.7	66.7	66.0	74.5	74.0	

Dividends Paid	45	55	59	80	90	118	153	220	271	389	448	525	535	574	627	652	664	671	674	670	673
Dividends PS	\$0.08	\$0.10	\$0.11	\$0.15	\$0.17	\$0.23	\$0.30	\$0.44	\$0.55	\$0.80	\$0.96	\$1.12	\$1.14	\$1.23	\$1.34	\$1.42	\$1.50	\$1.58	\$1.66	\$1.74	\$1.82
Ave. Div. Yld.	1.25%	1.10%	0.92%	0.63%	0.63%	0.81%	0.92%	1.03%	1.20%	1.47%	2.04%	3.93%	2.38%	2.72%	2.78%	2.45%	2.49%	2.70%	2.58%	2.49%	

Shares Outstdg	568.0	551.5	532.8	531.5	529.2	514.4	510.9	498.9	492.6	486.5	466.6	468.6	469.7	466.3	467.8	459.4	442.5	424.4	405.8	385.0	370.0
Buyback \$ (mln)	359	149	224	(3)	62	301	114	201	290	328	937	(56)	(52)	151	(71)	485	1,023	1,057	1,194	1,456	

Shr. Equity (m)	2,134	2,126	3,431	3,868	4,694	6,394	6,646	7,927	8,341	8,795	6,639	8,417	11,056	13,506	15,978	14,620	18,347	17,708	20,482	19,500	20,500
Book Value PS	\$3.76	\$3.85	\$6.44	\$7.28	\$8.87	\$12.43	\$13.01	\$15.89	\$16.93	\$18.08	\$14.23	\$17.96	\$23.54	\$28.96	\$34.16	\$31.82	\$41.47	\$41.73	\$50.47	\$50.65	\$55.41

Assets (mln)	25,338	25,023	29,454	37,041	37,232	45,058	50,964	56,361	59,805	65,805	79,331	84,106	#####	#####	#####	#####	#####	#####	#####	#####	#####	#####
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Return On Eq.	16.36%	16.83%	10.90%	14.22%	14.00%	12.88%	14.84%	16.30%	17.18%	18.37%	18.89%	21.78%	21.95%	14.54%	17.21%	19.76%	15.24%	15.08%	13.73%	13.21%	12.46%
Return On Ass	1.38%	1.43%	1.27%	1.48%	1.76%	1.83%	1.93%	2.29%	2.40%	2.46%	1.58%	2.18%	2.40%	1.68%	2.10%	2.38%	2.34%	2.26%	2.17%	1.84%	1.70%

1.93%

Leverage Ratio	1187%	1177%	859%	958%	793%	705%	767%	711%	717%	748%	1195%	999%	914%	867%	820%	830%	653%	668%	634%	718%	732%
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Description: low premium, high volume; fixed benefits, fixed risk; low interest rates have created sizeable unrealized gain on bonds
incredible dominance in the cancer insurance sector in Japan; insures 1 of 4 there

Instructions:

Analysis: problem of regulatory issues in medical insurance; decline in sales; decline in new agents

Observations: Operating earnings exclude the impact of the yen and the impact of realized gains and losses.

Investment Characteristics

Earnings Analysis:

Use Of Earnings Analysis:

Growth Rate % #####

Avg Div Payout 22.8%

Quality %: 101%

Avg Stk Buyba 21.9%

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Premium (mln)	6,071	5,910	5,874	5,943	7,264	8,239	8,061	8,595	9,921	11,302	11,990	12,314	12,973	14,947	16,621	18,073	20,362	22,148	20,135	19,072	17,570	19,225	19,500	19,900
Benefit/Claims	5,034	4,896	4,833	4,877	5,885	6,618	6,303	6,589	7,529	8,482	8,890	9,016	9,285	10,499	11,308	12,106	13,749	15,330	13,813	12,937	11,746	12,919	14,000	15,000
Gross Underw P	1,037	1,015	1,041	1,066	1,379	1,621	1,758	2,006	2,392	2,820	3,100	3,298	3,688	4,448	5,313	5,967	6,613	6,818	6,322	6,135	5,824	6,306	5,500	4,900
Underw Yld	4.1%	4.1%	3.5%	3.4%	3.7%	4.4%	4.6%	4.5%	4.7%	4.8%	5.5%	5.5%	5.6%	5.6%	6.3%	5.9%	5.6%	5.2%	5.2%	5.1%	4.9%	4.9%	3.9%	3.3%
Inv. Inc. (mln)	1,025	1,022	1,078	1,138	1,369	1,550	1,550	1,614	1,787	1,957	2,071	2,171	2,333	2,578	2,765	3,007	3,280	3,473	3,293	3,319	3,135	3,278	3,350	3,420
YldonAssets	4.0%	4.1%	3.7%	3.6%	3.7%	4.2%	4.1%	3.6%	3.5%	3.3%	3.7%	3.6%	3.5%	3.2%	3.3%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.5%	2.4%	2.3%

4.87%

3.38%

Asset Analysis:

Asset Analysis (last 5 yrs.):

Growth Rate % #####

Growth Rate % 2.08%

Growth Rate P #####

Growth Rate P 4.96%

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Non claim Exp							2,147	2,291	2,717	3,029	3,257	3,337	3,601	4,035	4,556	4,810	5,169	5,450	5,000	4,946	4,692	5,000	5,000	5,000
Yld on Exp.							5.7%	5.1%	5.3%	5.1%	5.8%	5.6%	5.5%	5.1%	5.4%	4.8%	4.4%	4.2%	4.1%	4.1%	4.0%	3.9%	3.6%	3.3%
Tax Rate	41.9%	41.7%	37.4%	35.0%	35.7%	35.1%	36.4%	34.6%	35.4%	34.8%	33.4%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.3%	34.5%	34.5%	34.5%	34.5%
Prem/Equity	284%	278%	171%	158%	188%	176%	149%	134%	149%	149%	151%	148%	148%	225%	197%	163%	151%	139%	138%	104%	99.2%	93.9%	100.0%	97.1%

4.87%

Description: AFL has outstanding earnings growth of the highest quality. About 40% of the earnings have been repaid to shareholders with the remaining 60% reinvested in the growth of the business.

Instructions:

Analysis: The assets have grown at a slower rate with about two percentage points coming from the share repurchases. Much of the difference in the growth rate in assets and earnings is by the declining tax rate.

Observations:

Balance Sheet (in millions):

	2002	2003	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Assets:	7.7%	45,058	50,964	59,805	65,805	79,331	84,106	101,039	117,102	131,094	121,307	119,767	118,296	118,296
Fixed maturities		22,659	26,495	28,805	30,511	35,012	36,781	43,100	42,222	51,466	53,227	61,407	60,795	60,795
Fixed - consolidated v.i.e.								5,255	5,350	5,787	4,843	4,166	4,554	4,554
Perpetual debentures		2,730	3,349	4,408	4,095	8,047	7,263	5,974	5,149	3,728	2,479	2,240	1,719	1,719
Perpetual - consolidated v.i.e.								1,538	1,290	863	705	429	228	228
Equity securities		258	73	25	22	27	24	23	25	23	21	28	498	498
Fixed maturities		8,394	8,752	13,483	16,819	24,436	26,687	30,084	47,009	54,137	44,178	34,159	33,459	33,459
Perpetual debentures		3,700	4,297	3,990	3,985									
Other investments		27	33	58	61	87	114	135	168	174	463	254	294	294
Cash and cash equivalents		1,379	1,052	1,203	1,563	941	2,323	2,121	2,249	2,041	2,543	4,658	4,350	4,350
Receivables, primarily premiums		435	547	535	732	920	764	661	680	976	1,165	842	705	705
Receivables for security transact		0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued investment income		414	456	538	561	650	649	738	802	842	798	762	768	768
Deferred policy acquisition costs		4,277	5,044	6,025	6,654	8,237	8,533	9,734	10,654	9,658	8,798	8,273	8,511	8,511
Property and equipment		482	518	458	496	597	593	620	617	564	481	429	427	427
Other assets		303	348	277	306	377	375	1,056	887	835	1,606	2,120	1,988	1,988
Liabilities:	7.6%	38,664	44,318	51,464	57,010	72,692	75,689	89,983	103,596	115,116	106,687	101,420	100,588	100,588
Future policy benefits		29,797	35,588	40,841	45,675	59,310	61,501	72,103	79,278	76,463	69,136	65,646	69,687	69,687
Unpaid policy claims		1,753	2,115	2,390	2,455	3,118	3,270	3,719	3,981	4,034	3,763	3,630	3,802	3,802
Unearned premiums		428	516	645	693	874	926	1,197	1,704	11,904	10,642	8,626	7,857	7,857
Other policyholders' funds		748	1,021	1,564	1,853	2,917	3,548	5,437	9,630	5,319	5,861	6,031	6,285	6,285
Notes payable		1,312	1,409	1,426	1,465	1,721	2,599	3,038	3,285	4,352	4,897	5,282	5,011	5,011
Income taxes		2,364	2,189	2,462	2,531	1,201	1,653	1,969	2,613	3,858	3,718	5,293	4,340	4,340
Payables for return of cash collat		1,049	374	807	808	1,733	483	191	838	6,277	5,820	2,193	941	941
Other		1,213	1,106	1,329	1,530	1,818	1,709	2,329	2,267	2,909	2,850	4,719	2,665	2,665
Shareholder's Equity:	8.2%	6,394	6,646	8,341	8,795	6,639	8,417	11,056	13,506	15,978	14,631	18,347	17,718	17,718
Common Stock		65	65	66	66	66	66	66	66	67	67	67	67	67
Additional paid-in capital		371	417	895	1,054	1,184	1,228	1,320	1,408	1,505	1,655	1,711	1,828	1,828
Retained earnings		5,244	5,885	9,304	10,637	11,306	12,410	14,194	15,583	17,387	19,885	22,156	24,007	24,007
Accumulated other comprehensi		2,630	2,493	1,426	934	-582	29	862	2,090	2,715	-563	1,979	635	635
Less treasury stock, at cost		-1,916	-2,214	-3,350	-3,896	-5,335	-5,316	-5,386	-5,641	-5,696	-6,413	-7,566	-8,819	-8,819

Description: The balance sheet shows steady growth in assets, liabilities and equity; all of which are related to the rate of premium growth. There are some unusual categories: perpetual debentures and payables for return of cash collateral.

Instructions:

Analysis:

Observations:

Description & Analysis of Profitability (in mlns):

	2001	2002	2003				2007	2008	2009	2010	2011	2012	2013	2014	2015									
Net Revenues:	5.7%	9,585	10,249	11,442			15,339	16,522	18,227	20,664	21,793	25,332	23,878	22,629	20,761									
<i>Premiums, principally supplemental health ins</i>																								
5% Aflac Japan		6,217	64.9%	6,373	62.2%	7,326	64.0%	63.0%	60.9%	60.1%	9,037	58.9%	10,674	12,178	13,487	15,619	17,151	67.7%	14,982	62.7%	13,861	61.3%	12,046	58.0%
8% Aflac US		1,844	19.2%	2,221	21.7%	2,594	22.7%	22.1%	22.6%	24.4%	3,936	25.7%	4,272	4,444	4,586	4,743	4,996	19.7%	5,153	21.6%	5,211	23.0%	5,347	25.8%
<i>Net investment income</i>																								
5% Aflac Japan		1,234	12.9%	1,276	12.4%	1,421	12.4%	11.7%	11.4%	11.6%	1,801	11.7%	2,053	2,265	2,453	2,688	2,845	11.2%	2,651	11.1%	2,662	11.8%	2,436	11.7%
6% Aflac US		303	3.2%	331	3.2%	362	3.2%	3.0%	2.9%	3.2%	500	3.3%	505	499	549	588	613	2.4%	632	2.6%	645	2.9%	678	3.3%
Realized investment gains (losses)		(31)		(14)		(301)					28		(1,007)	(1,212)	(459)	(1,901)	(349)	-1.4%	399	1.7%	215	1.0%	215	1.0%
6% Other income		18		62		40					37		25	53	48	56	76		61		35		39	
Internal Costs:	4.7%	8,507	8,996	10,245			12,886	14,534	15,863	16,916	18,919	20,780	18,813	17,883	16,270									
<i>Benefits and claims</i>																								
4% Aflac Japan		5,170	60.8%	5,231	58.1%	5,943	58.0%	58.0%	56.8%	55.4%	6,935	53.8%	7,972	8,746	9,553	11,037	12,496	60.1%	10,924	58.1%	10,084	56.4%	8,705	53.5%
7% Aflac US		1,132	13.3%	1,359	15.1%	1,585	15.5%	15.7%	16.4%	17.6%	2,350	18.2%	2,527	2,561	2,553	2,713	2,834	13.6%	2,889	15.4%	2,853	16.0%	2,873	17.7%
<i>Amortization of deferred policy acquisition costs</i>																								
Aflac Japan				255	2.5%	2.4%	2.3%	2.3%	318	2.5%	405	523	597	686	716	3.4%	641	3.4%	649	3.6%	578	3.6%		
Aflac US				209	2.0%	2.1%	2.1%	2.3%	323	2.5%	370	419	433	416	400	1.9%	433	2.3%	459	2.6%	488	3.0%		
<i>Insurance commissions</i>																								
Aflac Japan				812	7.9%	7.7%	7.3%	7.0%	850	6.6%	970	1,060	1,103	1,179	1,174	5.6%	944	5.0%	845	4.7%	719	4.4%		
Aflac US				334	3.3%	3.2%	3.4%	3.6%	481	3.7%	488	508	534	546	570	2.7%	583	3.1%	590	3.3%	585	3.6%		
<i>Insurance expenses</i>																								
Aflac Japan				633	6.2%	6.3%	6.8%	6.7%	941	7.3%	1,145	1,357	1,441	1,593	1,763	8.5%	1,551	8.2%	1,519	8.5%	1,336	8.2%		
Aflac US				392	3.8%	3.7%	4.1%	4.4%	600	4.7%	657	689	702	749	827	4.0%	848	4.5%	884	4.9%	986	6.1%		
Other operating expenses		68		125		82	0.8%	0.9%	0.8%	0.7%	88	0.7%				0.0%		0.0%		0.0%				
Operating Margin:	10.7%	1,078	1,253	1,197			2,453	1,988	2,364	3,748	2,874	4,552	5,065	4,746	4,491									
10% Aflac Japan		823		938		1,122	12.8%	13.9%	14.6%	15.8%	1,819	16.8%	2,250	2,800	3,289	3,855	3,890	19.5%	3,616	20.5%	3,426	20.7%	3,144	21.7%
9% Aflac US		346		402		445	15.1%	14.9%	14.3%	14.6%	692	15.6%	745	776	923	917	988	17.6%	1,042	18.0%	1,070	18.3%	1,093	18.1%
External Costs:	10.2%	413	458	452			892	689	810	1,390	1,224	1,697	1,951	1,857	1,618									
21% Interest expense		19		20		22		27		29	72	149	196	261	289									
9% Taxes: % of EBT		394	37.2%	438	35.5%	430	36.6%	29.1%	34.1%	35.4%	865	35.7%	660	738	1241	1028	1436	33.5%	1658	34.7%	1540	34.8%	1329	31.6%
Earnings:	11.0%	665	795	745			1,561	1,299	1,554	2,358	1,650	2,855	3,114	2,889	2,873									
Dividend Paid/% of Earnings:		100	15.0%	118	14.9%	153	20.6%	15.5%	15.3%	19.0%	389	24.9%	448	525	535	574	627	22.0%	652	20.9%	664	23.0%	671	23.3%
Common Stock/% of Earnings:		121	18.3%	301	37.9%	114	15.3%	22.6%	14.0%	20.3%	328	21.0%	937	(56)	(52)	151	(71)	-2.5%	485	15.6%	1,023	35.4%	1,057	36.8%
<i>Share buybacks: Stmt of C. F.</i>																								
Description:																								
Instructions:																								
Analysis:																								
Observations:																								

Industry Overview

AFL is in the business of providing fixed benefit supplemental insurance products in two markets: Japan and the U.S. There is not a direct comparable, although AFL is appropriately in the life and health insurance category. Confirming AFL's unique status is its extraordinarily high price to book ratios which reflect AFL's extraordinary ROE.

Industry Comparisons

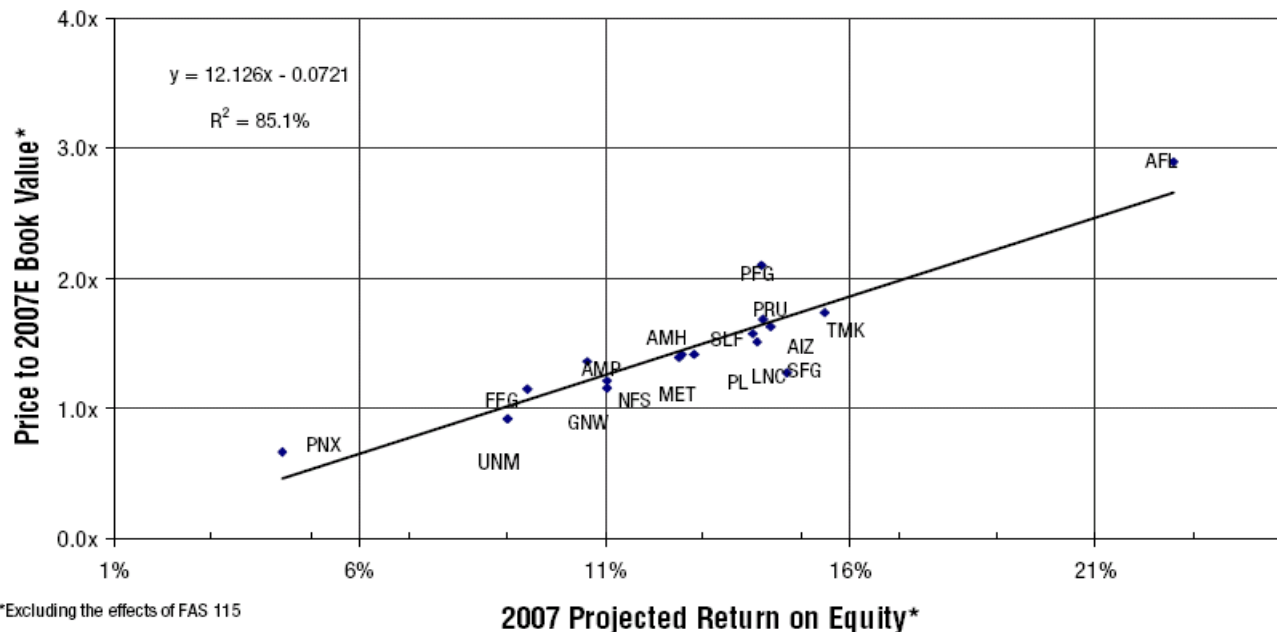
Operating Statistics:

Co.	Assets	ROA	Leverage	Prem/Equity
AFL	129,819	2.17%	634%	94%

Market Statistics:

Company	P/B	P/E	Divd. Yld.	P/APS
AFL	1.5	10.6	2.58%	23.0%

U.S. Life Insurance Industry



Qualitative Characteristics

Positives:

Negatives:

Product/Service:

Pricing Power:	
Durability:	annual
Brand Appeal:	High recognition
Unique Importance:	
Role Of Media:	
Toll Bridge:	
Global Opportunity	Yes
Competition	Lowest cost in Japan
Economic Risk:	
Government Role	
Role Of Technology:	Yes
Supply/Demand:	

Limited ability to raise; cyclical insurance prices
limited uniqueness
No
Yes
Yes, cyclical
High involvement
commoditized product; professional skills

Financial:

Business Model:	Limited risk
High Capital Reinv.:	Low
Effective As Public:	Yes
Ownership:	Amos family
Growth:	
Concentration:	

Slowing
Occasional blow-up; Parmalat

Management:

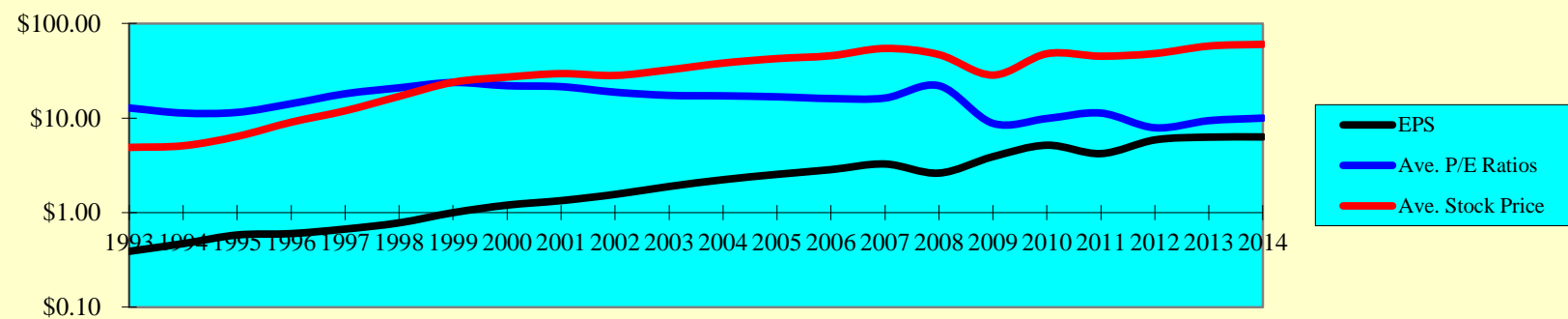
Characteristics:	Sound
Proxy Information:	

Highly compensated and stacked for mgmt.

Core Analysis

Positives:

Average Stock Price vs. Average P/E vs. EPS



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EPS	\$0.39	\$0.47	\$0.58	\$0.60	\$0.67	\$0.78	\$1.00	\$1.20	\$1.34	\$1.56	\$1.89	\$2.23	\$2.54	\$2.85	\$3.27	\$2.62	\$3.91	\$5.17	\$4.21	\$5.88	\$6.29	\$6.32	\$6.29
Ave. P/E Ratios	12.80	11.30	11.50	14.20	18.10	20.90	23.80	22.00	21.50	18.80	17.40	17.20	16.80	16.10	16.30	22.00	8.80	9.90	11.30	7.90	9.40	10.00	10.00
Ave. Stock Price	4.90	5.10	6.40	9.05	11.95	17.00	23.95	27.15	29.55	28.25	32.45	38.20	42.60	45.70	54.55	47.00	28.50	48.00	45.20	48.20	57.85	60.35	58.50

Price/Earnings Ratio: used - **\$6.93**
 Twenty-two year average low **11.6**
 Twenty-two year average high **18.2**
 If we set the purchase at the ave. Twenty-two year low P/E
 the price implied is: **\$80.39**
 If we set the sell at the ave. Twenty-two year high P/E,
 the price implied is: **\$125.80**

Price/AssetsPS Ratio: used - **\$319.91**
 Twenty-two year average low P/A **0.21**
 Twenty-two year average high P// **0.33**
 If we set the purchase at the ave. Twenty-two year low P/APS,
 the price implied is: **\$67.70**
 If we set the sell at the ave. Twenty-two year high P/APS,
 the price implied is: **\$104.94**

Price/Book Ratio: used - **\$50.47**
 Twenty-two year average low **1.70**
 Twenty-two year average high **2.70**
 If we set the purchase at the ave. Twenty-two year low P/B
 the price implied is: **\$85.76**
 If we set the sell at the ave. Twenty-two year high P/B,
 the price implied is: **\$136.26**

Price/Asset Ratio: used - **#REF!**
 Twenty-two year average low P/A **#REF!**
 Twenty-two year average high P// **#REF!**
 If we set the purchase at the ave. Twenty-two year low P/A,
 the price implied is: **#REF!**
 If we set the sell at the ave. Twenty-two year high P/A,
 the price implied is: **#REF!**

Initial Rate of Investment	
Current Price	\$73.60
Current EPS	\$6.93
Initial ROI	9.42%

Relative Value to Investment In T-Bonds	
Current EPS	\$6.93
T-Bond Rate	4.00%
Relative Value	\$173.24

Valuation as an Equity Bond:	
Current BV	\$50.47
Current ROE	13.73%
Retained %	55.29%
Net BV Growth	7.59%
BV in Year 10	\$104.90
EPS in Year 10	\$14.40
Valueat14P/E	\$201.63
Total Dividends	\$25.55
Total F. Value	\$227.18
Purchaseat14%	\$61.28

Valuation on Earnings Growth:	
Current EPS	\$6.93
EPS in Year 10	\$12.41
Ave. P/E Ratio	15.62
Valueat14.P/E	\$199.29
Price Return	8.97%
Dividend Return	2.58%
Total Return	11.55%
Purchaseat14%	\$53.76
Sellat7.5%	\$96.69

Capital "charge" approach

4,202	ebt
0.12	required return
0.02	growth rate (not on EPS basis)
0.8	% not required
0.104	denominator
40,404	ev
0	debt
40,404	equity value
406	shares
99.57	share value
59.74	buy at 60%
119.48	sell at 120%

Float Valuation Framework:

Warren Buffett has written extensively on the concept of "float" for insurance companies. It is difficult to value, but the attempt should be made since it is arguably one of the greatest assets of a well-run insurance company. For the table I have calculated float, which is generated in amounts equalling premium volume, by adding net loss reserves, loss adjustment reserves, funds held under reinsurance assumed and unearned premium reserves, and then subtracting insurance-related receivables, prepaid acquisition costs, prepaid taxes and deferred charges applicable to assumed reinsurance.

First start with the p/c float component:	\$72,835	
Next, make a growth assumption for float growth:	2.00%	*
Create a future value of p/c float comp. in 10 years:	\$88,785	
Next, make an investment return assumption for 10 years:	2.50%	**
Calculate the cost of float based on assumed combined ratio:	-0.40%	***
Total return on float:	2.90%	
Tax burden on float:	1.00%	****
After tax return on float:	1.90%	
Income on float for year 11:	\$1,686	
Discount Rate:	8.00%	
Growth Rate:	2.00%	
Capitalization Factor:	6.00%	
Value of float at the end of year 10:	\$28,108	
Present Value at RFR of 6%:	\$15,695	
Value of Insurance Equity:	\$17,718	
Total Value:	\$33,413	
Per Share:	\$82.34	\$49.40

*This represents expected average growth rate for the industry.

**This represents 10 year U.S. Government Agency. History of returns has been higher.

***Current combined ratio is less than 100% as well as average.

****Float would typically have lower ratio as investment in expansion is lower. However I have chosen more conservative measure.

History of Buys/Sells

by	AFL	3/4/2013	3/7/2013	195.00	9754.96	\$ 50.03	1.5
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Discussion of Buys/Sells

What: The return of the first purchase of AFL (bought 3/4/2013 to present) was 20% and SP 36% for an underperformance of 16% (nearly 3 years). AFL had significant outperformance against the SP during the 90s and 00s, but has been at or below performance since 2007.

So what: It appears that we end up purchasing financial Tier III "equity bonds" at low P/Es - which often indicated slow growth. In order to outperform with a cyclical financial, we need to purchase after crises. Prior to the latest cycle, AFL had a rare characteristic - high ROE and ROA growth rates due to creating/gaining market share.

Now what: Our discipline can capture "equity bond" companies (esp. financials) on bad news with an ability to take advantage of declines. AFL has moved from a "growth" stock to a "value" stock, but has yet to accelerate repurchasing and/or move into new markets.

Takeaway: We must have adequate downturns to incrementally improve our position on a slow growth equity bond.

Takeaway: as a company moves from "growth" to "value," enough time needs to pass for company to shift capl allocation, e.g. increase share repurchasing.

Takeaway: it is difficult to gain superior returns from slow growth/low P/E stock unless aggressive repurchase and/or acquisition activity heats up.

