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 tohealth 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)													
		Dece	mber	\$73	3.60	\$29,8	66.88														
l l	1995	1996	1997	1999	2000	2002	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Vet 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 Higi	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	
, 3																					
Dividends Paia	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 \$ (ml	359	149	224	(3)	62	301	114	201	290	328	937	(56)	(52)	151	(71)	485	1,023	1,057	1,194	1,456	
	0.104	2.126	2 421	2.060	4.604	II 6 204	6.646	7.027	0.241	0.705	6 620	0.417	11.056	12.506	15.070	14.620	10.247	17 700	20, 402	10.500	20.500
Shr. Equity (m		2,126	3,431	3,868	4,694	6,394	6,646	7,927			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	#######	#######	#######	#######	#######	#######	#######	######	######
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%
Leverage Ratio	1187%	1177%	859%	958%	793%	705%	767%	711%	717%	748%	1195%	999%	914%	867%	820%	830%	653%	668%	634%	718%	732%

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 Payou 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	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%	4.87%
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%	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	p.							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%	4.87%
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/Equ	ity	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%	

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
Assets.	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.	22,009	20,490	20,000	30,011	55,012	30,707	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	2,700	0,070	1, 100	1,000	0,011	7,200	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, <i>4</i> 59	33,459
	Perpetual debentures	3,700	4,297	3,990	3,985	,	,		,	.,	,	- 1, 100	,	22,122
	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
	Accrued investment income	414	<i>4</i> 56	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
									400 F00	445 446				
Liabilit		38,664	44,318			72,692	75,689				106,687	101,420	100,588	100,588
Liabilit	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
<u>Liabilit</u>	Future policy benefits Unpaid policy claims	29,797 1,753	35,588 2,115	40,841 2,390	45,675 2,455	59,310 3,118	61,501 3,270	72,103 3,719	79,278 3,981	76,463 4,034	69,136 3,763	65,646 3,630	69,687 3,802	69,687 3,802
<u>Liabilit</u>	Future policy benefits Unpaid policy claims Unearned premiums	29,797 1,753 428	35,588 2,115 516	40,841 2,390 645	45,675 2,455 693	59,310 3,118 874	61,501 3,270 926	72,103 3,719 1,197	79,278 3,981 1,704	76,463 4,034 11,904	69,136 3,763 10,642	65,646 3,630 8,626	69,687 3,802 7,857	69,687 3,802 7,857
<u>Liabilit</u>	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds	29,797 1,753 428 748	35,588 2,115 516 1,021	40,841 2,390 645 1,564	45,675 2,455 693 1,853	59,310 3,118 874 2,917	61,501 3,270 926 3,548	72,103 3,719 1,197 5,437	79,278 3,981 1,704 9,630	76,463 4,034 11,904 5,319	69,136 3,763 10,642 5,861	65,646 3,630 8,626 6,031	69,687 3,802 7,857 6,285	69,687 3,802 7,857 6,285
<u>Liabilit</u>	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable	29,797 1,753 428 748 1,312	35,588 2,115 516 1,021 1,409	40,841 2,390 645 1,564 1,426	45,675 2,455 693 1,853 1,465	59,310 3,118 874 2,917 1,721	61,501 3,270 926 3,548 2,599	72,103 3,719 1,197 5,437 3,038	79,278 3,981 1,704 9,630 3,285	76,463 4,034 11,904 5,319 4,352	69,136 3,763 10,642 5,861 4,897	65,646 3,630 8,626 6,031 5,282	69,687 3,802 7,857 6,285 5,011	69,687 3,802 7,857 6,285 5,011
<u>Liabilit</u>	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes	29,797 1,753 428 748 1,312 2,364	35,588 2,115 516 1,021 1,409 2,189	40,841 2,390 645 1,564 1,426 2,462	45,675 2,455 693 1,853 1,465 2,531	59,310 3,118 874 2,917 1,721 1,201	61,501 3,270 926 3,548 2,599 1,653	72,103 3,719 1,197 5,437 3,038 1,969	79,278 3,981 1,704 9,630 3,285 2,613	76,463 4,034 11,904 5,319 4,352 3,858	69,136 3,763 10,642 5,861 4,897 3,718	65,646 3,630 8,626 6,031 5,282 5,293	69,687 3,802 7,857 6,285 5,011 4,340	69,687 3,802 7,857 6,285 5,011 4,340
Liabilit	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat	29,797 1,753 428 748 1,312 2,364 1,049	35,588 2,115 516 1,021 1,409 2,189 374	40,841 2,390 645 1,564 1,426 2,462 807	45,675 2,455 693 1,853 1,465 2,531 808	59,310 3,118 874 2,917 1,721 1,201 1,733	61,501 3,270 926 3,548 2,599 1,653 483	72,103 3,719 1,197 5,437 3,038 1,969 191	79,278 3,981 1,704 9,630 3,285 2,613 838	76,463 4,034 11,904 5,319 4,352 3,858 6,277	69,136 3,763 10,642 5,861 4,897 3,718 5,820	65,646 3,630 8,626 6,031 5,282 5,293 2,193	69,687 3,802 7,857 6,285 5,011 4,340 941	69,687 3,802 7,857 6,285 5,011 4,340 941
<u>Liabilit</u>	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes	29,797 1,753 428 748 1,312 2,364	35,588 2,115 516 1,021 1,409 2,189	40,841 2,390 645 1,564 1,426 2,462	45,675 2,455 693 1,853 1,465 2,531	59,310 3,118 874 2,917 1,721 1,201	61,501 3,270 926 3,548 2,599 1,653	72,103 3,719 1,197 5,437 3,038 1,969	79,278 3,981 1,704 9,630 3,285 2,613	76,463 4,034 11,904 5,319 4,352 3,858	69,136 3,763 10,642 5,861 4,897 3,718	65,646 3,630 8,626 6,031 5,282 5,293	69,687 3,802 7,857 6,285 5,011 4,340	69,687 3,802 7,857 6,285 5,011 4,340
	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat Other	29,797 1,753 428 748 1,312 2,364 1,049 1,213	35,588 2,115 516 1,021 1,409 2,189 374 1,106	40,841 2,390 645 1,564 1,426 2,462 807 1,329	45,675 2,455 693 1,853 1,465 2,531 808 1,530	59,310 3,118 874 2,917 1,721 1,201 1,733 1,818	61,501 3,270 926 3,548 2,599 1,653 483 1,709	72,103 3,719 1,197 5,437 3,038 1,969 191 2,329	79,278 3,981 1,704 9,630 3,285 2,613 838 2,267	76,463 4,034 11,904 5,319 4,352 3,858 6,277 2,909	69,136 3,763 10,642 5,861 4,897 3,718 5,820 2,850	65,646 3,630 8,626 6,031 5,282 5,293 2,193 4,719	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665
	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat Other	29,797 1,753 428 748 1,312 2,364 1,049 1,213	35,588 2,115 516 1,021 1,409 2,189 374 1,106	40,841 2,390 645 1,564 1,426 2,462 807 1,329	45,675 2,455 693 1,853 1,465 2,531 808 1,530	59,310 3,118 874 2,917 1,721 1,201 1,733 1,818	61,501 3,270 926 3,548 2,599 1,653 483 1,709	72,103 3,719 1,197 5,437 3,038 1,969 191 2,329	79,278 3,981 1,704 9,630 3,285 2,613 838 2,267	76,463 4,034 11,904 5,319 4,352 3,858 6,277 2,909	69,136 3,763 10,642 5,861 4,897 3,718 5,820 2,850	65,646 3,630 8,626 6,031 5,282 5,293 2,193 4,719	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665
	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat Other older's Equity: Common Stock	29,797 1,753 428 748 1,312 2,364 1,049 1,213 6,394	35,588 2,115 516 1,021 1,409 2,189 374 1,106 6,646	40,841 2,390 645 1,564 1,426 2,462 807 1,329 8,341	45,675 2,455 693 1,853 1,465 2,531 808 1,530 8,795	59,310 3,118 874 2,917 1,721 1,201 1,733 1,818 6,639	61,501 3,270 926 3,548 2,599 1,653 483 1,709 8,417 66	72,103 3,719 1,197 5,437 3,038 1,969 191 2,329 11,056 66	79,278 3,981 1,704 9,630 3,285 2,613 838 2,267 13,506	76,463 4,034 11,904 5,319 4,352 3,858 6,277 2,909 15,978 67	69,136 3,763 10,642 5,861 4,897 3,718 5,820 2,850 14,631 67	65,646 3,630 8,626 6,031 5,282 5,293 2,193 4,719 18,347	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718
	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat Other older's Equity: Common Stock Additional paid-in capital	29,797 1,753 428 748 1,312 2,364 1,049 1,213 6,394 65 371	35,588 2,115 516 1,021 1,409 2,189 374 1,106 6,646 [] [] [] 65 417	40,841 2,390 645 1,564 1,426 2,462 807 1,329 8,341 66 895	45,675 2,455 693 1,853 1,465 2,531 808 1,530 8,795 66 1,054	59,310 3,118 874 2,917 1,721 1,201 1,733 1,818 6,639 66 1,184	61,501 3,270 926 3,548 2,599 1,653 483 1,709 8,417 66 1,228	72,103 3,719 1,197 5,437 3,038 1,969 191 2,329 11,056 66 1,320	79,278 3,981 1,704 9,630 3,285 2,613 838 2,267 13,506 66 1,408	76,463 4,034 11,904 5,319 4,352 3,858 6,277 2,909 15,978 67 1,505	69,136 3,763 10,642 5,861 4,897 3,718 5,820 2,850 14,631 67 1,655	65,646 3,630 8,626 6,031 5,282 5,293 2,193 4,719 18,347 67 1,711	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718 67 1,828	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718 67 1,828
	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat Other older's Equity: Common Stock Additional paid-in capital Retained earnings	29,797 1,753 428 748 1,312 2,364 1,049 1,213 6,394 65 371 5,244	35,588 2,115 516 1,021 1,409 2,189 374 1,106 6,646 [] [] [] 65 417 5,885	40,841 2,390 645 1,564 1,426 2,462 807 1,329 8,341 66 895 9,304	45,675 2,455 693 1,853 1,465 2,531 808 1,530 8,795 66 1,054 10,637	59,310 3,118 874 2,917 1,721 1,201 1,733 1,818 6,639 66 1,184 11,306	61,501 3,270 926 3,548 2,599 1,653 483 1,709 8,417 66 1,228 12,410	72,103 3,719 1,197 5,437 3,038 1,969 191 2,329 11,056 66 1,320 14,194	79,278 3,981 1,704 9,630 3,285 2,613 838 2,267 13,506 66 1,408 15,583	76,463 4,034 11,904 5,319 4,352 3,858 6,277 2,909 15,978 67 1,505 17,387	69,136 3,763 10,642 5,861 4,897 3,718 5,820 2,850 14,631 67 1,655 19,885	65,646 3,630 8,626 6,031 5,282 5,293 2,193 4,719 18,347 67 1,711 22,156	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718 67 1,828 24,007	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718 67 1,828 24,007
	Future policy benefits Unpaid policy claims Unearned premiums Other policyholders' funds Notes payable Income taxes Payables for return of cash collat Other older's Equity: Common Stock Additional paid-in capital	29,797 1,753 428 748 1,312 2,364 1,049 1,213 6,394 65 371 5,244	35,588 2,115 516 1,021 1,409 2,189 374 1,106 6,646 [] [] [] 65 417	40,841 2,390 645 1,564 1,426 2,462 807 1,329 8,341 66 895	45,675 2,455 693 1,853 1,465 2,531 808 1,530 8,795 66 1,054	59,310 3,118 874 2,917 1,721 1,201 1,733 1,818 6,639 66 1,184	61,501 3,270 926 3,548 2,599 1,653 483 1,709 8,417 66 1,228	72,103 3,719 1,197 5,437 3,038 1,969 191 2,329 11,056 66 1,320	79,278 3,981 1,704 9,630 3,285 2,613 838 2,267 13,506 66 1,408	76,463 4,034 11,904 5,319 4,352 3,858 6,277 2,909 15,978 67 1,505	69,136 3,763 10,642 5,861 4,897 3,718 5,820 2,850 14,631 67 1,655	65,646 3,630 8,626 6,031 5,282 5,293 2,193 4,719 18,347 67 1,711	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718 67 1,828	69,687 3,802 7,857 6,285 5,011 4,340 941 2,665 17,718 67 1,828

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.

Analysis:

Analysis.

Observations:

			Des	cripti	on & A	alys (is of P	rofita	ıbility	(in m	lns):												
	2001		2002		2003					2007		2008	2009	2010	2011	2012		2013	[2014	ı	2015	1
Net Revenues: 5.7%	9,585	· [10,249	·	11,442		· -	-	1	15,339	[16,522	18,227	20,664	21,793	25,332	- -	23,878	- [22,629		20,761	'
Premiums, principally supplementa	-	ins		L			· L	_	•	,	L					,	L	•	_		_		•
5% Aflac Japan	6,217	64.9%	6,373	62.2%	,	64.0%	63.0%	60.9%	60.1%	,	58.9%	10,674	12,178	13,487	15,619	17,151	67.7%	14,982	62.7%	13,861	61.3%		
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%
Net investment income 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%	•	3.3%	505	499	549	588	613	2.4%	632	2.6%	645	2.9%	678	3.3%
Realized investment gains (losses,		0.270	(14)	0.270	(301)	0.270	0.070	2.070	0.270	28	0.070	(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	П	I П		1	12,886		14,534	15,863	16,916	18,919	20,780	Г	18,813	i [17,883	ſ	16,270	
Benefits and claims	-,		-,		-, -			L	1	,	ļ	,	2,222	2,72	-,-	2, 22	_	-,	_	,	L	-, -	1
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		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%
Amortization of deferred policy acq	uisition c	osts																					
Aflac Japan					255	2.5%	2.4%	2.3%	2.3%		2.5%	405	523	597	686	716	3.4%	641	3.4%	649	3.6%	578	
Aflac US					209	2.0%	2.1%	2.1%	2.3%	323	2.5%	370	419	<i>4</i> 33	416	400	1.9%	433	2.3%	459	2.6%	488	3.0%
Insurance commissions Aflac Japan					812	7.00/	7 70/	7.20/	7.00/	850	6.6%	970	1,060	1,103	1,179	1,174	E 60/	944	5.0%	845	4.7%	719	4.4%
Aflac US					334	7.9% 3.3%	7.7% 3.2%	7.3% 3.4%	7.0% 3.6%		3.7%	488	508	534	546	570	5.6% 2.7%	583	3.1%	590	3.3%	585	
Insurance expenses					334	3.376	3.270	3.470	3.0 /0	701	J.1 /0	400	300	004	040	070	2.1 /0	000	3.170	000	3.576	000	3.076
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%		4.7%	657	689	702	749	827	4.0%	848	4.5%	884	4.9%	986	
Other operating expenses	68		125		82	0.8%	0.9%	0.8%	0.7%	88	0.7%						0.0%		0.0%		0.0%		0.0%
	4.070	i r	4.050	·	4 40=			Г	1	0.450	ſ	4 000	0.004	0.740	0.074	4.550	Г	E 00E	. г	4 7 40	ſ	4 404	1
Operating Margin: 10.7%	1,078		1,253	L	1,197		l <u>U</u>			2,453		1,988	2,364	3,748	2,874	4,552		5,065	l	4,746		4,491	
10% Aflac Japan 9% Aflac US	823 346		938 402		1,122 445	12.8%	13.9%	14.6%	15.8%	,		2,250 745	2,800 776	3,289 923	3,855 917	3,890 988	19.5%	3,616 1,042		3,426 1,070	20.7%	3,144 1,093	
9% Atlac US	340		402		445	15.1%	14.9%	14.3%	14.6%	092	15.6%	745	770	923	917	900	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	ı	1,857	Ī	1,618	
21% Interest expense	19		20		22	_		_	-	27		29	72	149	196	261	-	293	-	317	_	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	6.9%	795	7.8%	745	6.5%	9.3%	10.0%	9.8%	1,561	10.2%	1,299	1,554	2,358	1,650	2,855	11.3%	3,114	13.0%	2,889	12.8%	2,873	13.8%
		· -		- 			_	_	_		-						_		- . •		-		•
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%
Share buybacks: Stmt of C. F.								_									_		_	1,177	-	1,279	
Description:																							
Instructions																							
Instructions:																							

Analysis:

Observations:

Description & Analysis of Debt Levels (in mlns):

ummary:

Debt is a four-letter word. Debt causes the years of repayment of capital to equity shareholders to stretch out into the more distant future. Even worse, debt can cause the best business model to become the property of bondholders in a rough economic environment.

Total Debt-Capital:

The measure of total debt to total capital is useful when book value is a good measure of a firm's worth. This is particularly true of traditional businesses where property, plant and equipment are important. Further, it helps to have this ratio in capital intensive businesses with cyclical earnings.

Total Debt: 12,957 Here, deferred income taxes have been excluded. Total Capital: 30,675 Here, deferred income taxes have been excluded.

Ratio:

Long Term Debt-Cap.: The measure of long term debt to total capital is useful when total debt is distorted by the high presence of current assets being financed by current liabilities. Again, the measure works best within a traditional industry setting. The ratio helps position the equity shareholders.

> 5,011 Here, the current liabilities have been excluded. L. T. Debt: L. T. Capital: 22,729 Here, the current liabilities have been excluded.

Ratio:

Net Income Payback: The measure of how quickly total debt is repaid by net income is a conservative measure, as it includes debt such as current liabilities, that are financed by current assets and excludes some sources of cash, such as noncash amortization numbers.

> **Total Debt:** 12,957 Net Income: 2,670 Years Payback: 4.9 L.T. Debt: 5,011 2,670 Net Income: Years Payback: 1.9

ddback Net Inc. Payb. The measure of how quickly debt is repaid by addback net income is a good measure, as it starts with GAAP net income and adds back expenses on an after-tax basis that are clearly discretionary, such as business acquisitions to better analyze the strength of the repayment stream.

> L.T. Debt: Net Income:

Addback: Merger charges, writedowns above the line, dep. Amort below the line less capex

Years Payback:

Interpretations:

Description & Analysis of Pension Issues(in mlns):

Summary:

Corporate defined benefit or "pension" plans are a major obligation of companies. Because of the actuarial changes involved, obligations can move significantly. As a result, corporations have steadily moved toward defined contribution plans as they froze or terminated pension plans. These obligations are measured in two ways: accumulated and projected. As the name implies, projected is what is likely and a greater number than accumulated. This obligation is typicac in three categories: US, non-US and post-retirement. There are assets which are set up to fund these plans. The difference is the funded status. This number provides an indication of the additional potential obligation of the company and is included in the balance sheet - typicac in "other assets" and "other liabilities." That may not be the accurate value of the obligation in the event that assumptions are unreasonable. Because pensions are funded over time, it is less likely to have an immediate funding need that cripples the company or its earnings. Rather than focus on these assumptions, we estimate the size of plan's underfunding relative to the market value of the company. The greatest financial risk involves companies which are small relative to these funding requirements. For our purposes, we set this limit at 25% for the total underfunded as a percentage of market capitalization.

Year		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Pension Pla	Yes	Yes								
	Frozen:	No	No								
	Taft-Hartle	No	No								
	Underfund	Yes	Yes								
	Amount:	504	518								
	Market Cap	29,867	29,867								
	Ratio:	1.69%	1.73%								

Description & Analysis of Stock Options (in mlns):

Summary:

Stock options are a difficult form of compensation to assess. Heavy use of stock options creates stock issuance and a demand for stock repurchasing in some industries. This can be dilutive to shareholders if no repurchasing occurs or can absorb cash flows in the event that repurchasing occurs to offset issuance. Uses "share-based incentive" language

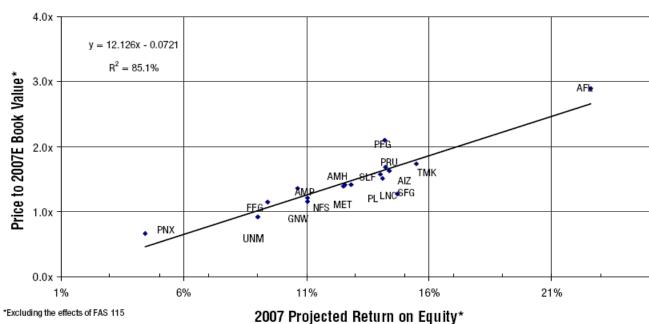
FASB ASC 718	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
After tax	<i>E</i> . 28.00	27.00								
Net prof	<i>ts:</i> 2,797.00	2,670.00								
%	1.00%	1.01%								
Cash ne	<i>of</i> 1,177.00	1,279.00								
Net shar	2 r 1,022.93	1,057.10								
Differen	e 154.07	221.91								
% of New	<i>pr</i> 5.51%	8.31%								

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:** Prem/Equity Co. Assets **ROA** Leverage AFL 129,819 2.17% 94% 634% Market Statistics: Divd. Yld. P/APS Company P/B P/E AFL 10.6 2.58% 1.5 23.0%

U.S. Life Insurance Industry

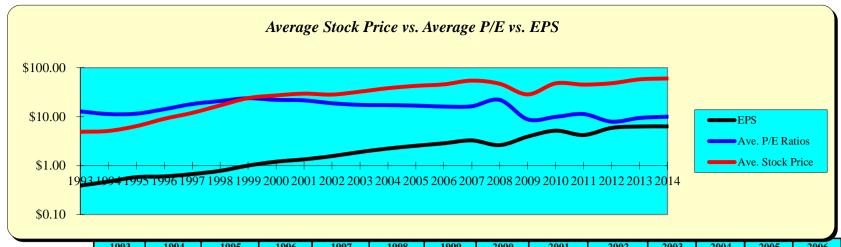


Qualitative Characteristics

	Positives:	Negatives:
Product/Service:		
Pricing Power:		Limited ability to raise; cyclical insurance prices
Durability:	annual	
Brand Appeal:	High recognition	
Unique Importance:		limited uniqueness
Role Of Media:		
Toll Bridge:		No
Global Opportunity	Yes	
Competition	Lowest cost in Japan	Yes
Economic Risk:		Yes, cyclical
Government Role		High involvement
Role Of Technology:	Yes	
Supply/Demand:		commoditized product; professional skills
Financial:	<u></u>	<u> </u>
Business Model:	Limited risk	
High Capital Reinv.:	Low	
Effective As Public:	Yes	
Ownership:	Amos family	
Growth:		Slowing
Concentration:		Occasional blow-up; Parmalat
Management:		
Characteristics:	Sound	
Proxy Information:		Highly compensated and stacked for mgmt.

Core Analysis

Positives:



	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/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/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:

If we set the sell at the ave. Twenty-two year high P/APS,

the price implied is:

Price/Asset Ratio: used -

Twenty-two year average low P/A Twenty-two year average high P/ #REF!

If we set the purchase at the ave. Twenty-two year low P/A,

If we set the sell at the ave. Twenty-two year high P/A,

the price implied is:

\$67.70

\$104.94

the price implied is: #REF!

#REF!

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

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

Purchaseat14%

Total F.Value

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

Capital "charge" appr
4 202

\$49.40

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

apital	"charge"	approach	
apitai	onargo	approdon	

4,202	ebt
0.12	required return
0.02	growth rate (not on EPS basis)
8.0	% 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	

\$25.55 \$227.18

\$61.28

History of Buys/Sells

AFL 3/4/2013 3/7/2013 9754.96 \$ 50.03 1.5

Discussion of Buys/Sells

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). What:

AFL had significant outperformance against the SP during the 90s and 00s, but has been at or below performance since 2007.

It appears that we end up purchasing financial Tier III "equity bonds" at low P/Es - which often indicated slow growth. So what:

In order to outpeform 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.

^{*}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.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Assets	\$118,296.00	\$120,661.92	\$123,075.16	\$125,536.66	\$128,047.39	\$130,608.34	\$133,220.51	\$135,884.92	\$138,602.62	\$141,374.67	\$144,202.16	##########	#########	#########	#########
APS	\$267.37	\$283.00	\$299.56	\$317.08	\$335.62	\$355.26	\$376.03	\$398.03	\$421.31	\$445.95	\$472.04	\$499.65	\$528.87	\$559.80	\$592.55
Earnings (mln)	\$2,797.00	\$2,852.94	\$2,910.00	\$2,968.20	\$3,027.56	\$3,088.11	\$3,149.88	\$3,212.87	\$3,277.13	\$3,342.67	\$3,409.53	\$3,477.72	\$3,547.27	\$3,618.22	\$3,690.58
EPS	\$6.32	\$6.69	\$7.08	\$7.50	\$7.94	\$8.40	\$8.89	\$9.41	\$9.96	\$10.54	\$11.16	\$11.81	\$12.50	\$13.24	\$14.01
Operating EPS	\$6.32	\$6.69	\$7.08	\$7.50	\$7.94	\$8.40	\$8.89	\$9.41	\$9.96	\$10.54	\$11.16	\$11.81	\$12.50	\$13.24	\$14.01
Shares Outstdg.	442.45	426.36	410.86	395.92	381.52	367.65	354.28	341.39	328.98	317.02	305.49	294.38	283.68	273.36	263.42
Buyback \$ (mln)	\$1,118.80	\$1,141.18	\$1,164.00	\$1,187.28	\$1,211.03	\$1,235.25	\$1,259.95	\$1,285.15	\$1,310.85	\$1,337.07	\$1,363.81	\$1,391.09	\$1,418.91	\$1,447.29	\$1,476.23
#ShresBuyback	16,089,091	15,504,033	14,940,250	14,396,968	13,873,442	13,368,953	12,882,810	12,414,344	11,962,913	11,527,898	11,108,702	10,704,749	#########	9,940,377	9,578,909
Ave. P/E Ratio	11.00														