



CFA Institute

CFA Institute Research Challenge

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Team F

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Ticker : AFL | Date : 12/29/20
GLCS Sector : Financials
Industry : Insurance
Exchange : NYSE

Recommendation : BUY

Investment Summary

Our recommendation to **Buy** stock in Aflac (AFL) is based on our analysis of external and internal company factors, strong competitive advantage in the market, the company's strengths and future growth opportunities. Aflac is trading below average with a 12-month target price of \$59.25. This represents a 34.90% upside from AFL's current share price of **\$43.92** on **November 29, 2020**. Our conclusion is based on our DCF valuation model and free cash flow model used to calculate a target price for AFL and the perpetuity growth rate of 2%.

High-Quality Customer Satisfaction Customer relationships are imperative for the insurance industry. Aflac has gained the trust of more than 50 million people worldwide under their mantra – it's the "Aflac Way." They offer voluntary insurance policies to additionally protect individuals. Since 2019, in order to meet consumer's needs, Aflac has been developing 'One digital Aflac' before this pandemic and finally simplified end-to-end (from purchase, to enrollment, to service, to claims) digitally enabled experience for customers. Aflac actively focuses to reach out to potential customers and improves current customer relationships. Consequently, Aflac can keep high customer retention.

Economic resilience The insurance market is cyclical and sensitive to economic environments. Jan Hatzius expects U.S. GDP to grow by 3.5% in the first quarter of 2021, citing fallout from record-high case counts, half of the 7% growth previously forecasted. The U.S. Federal Reserve has also lowered the interest rate from 1% to 0% in March. It has been keeping interest rates near zero and indicated that rate would stay low until the economy recovers from the coronavirus pandemic. These two factors may positively impact insurance performance as insurance should be attractive for potential consumers. Even throughout the pandemic Aflac has prevailed and its reported EPS has continuously been higher than the estimated EPS as shown in Figure 2.

Dividend Increase On November 18, 2020, Aflac announced a 17.9% dividend increase in the first quarter of 2021 compared to the last fourth-quarter dividend. This is a \$0.05 increase on the \$0.28 per share, making the dividend \$0.33 per share on March 1, 2021. This is Aflac's thirty-eighth consecutive year of dividend growth. Figure shows this continuous increase in history and what was actually paid.

Figure 3. Annual Cash Dividend per Share

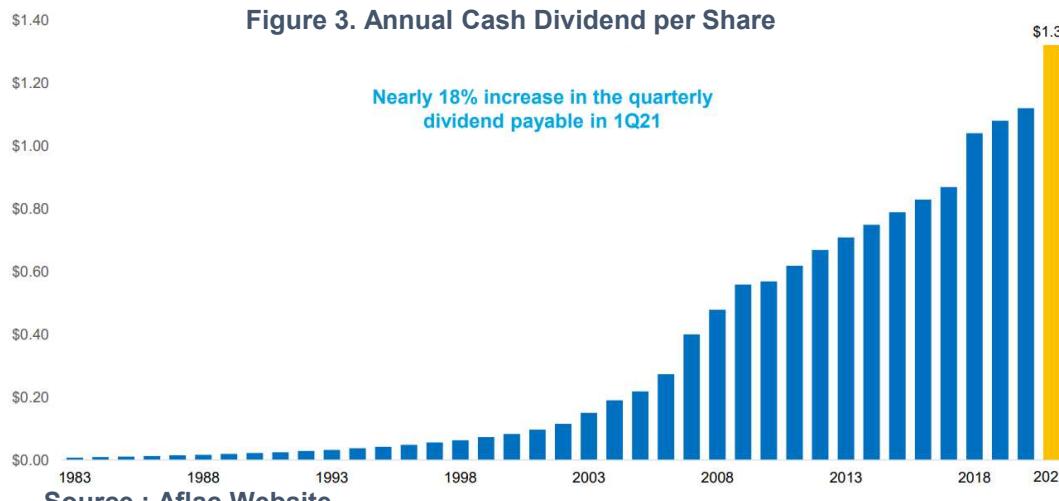
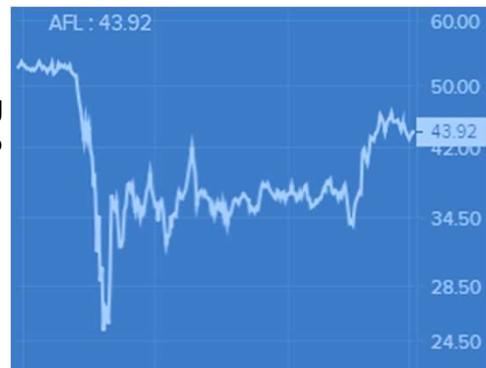


Figure 1. Historical Stock Price for 1 year



Source : Refinitiv & Workplaces

AFL OVERVIEW

Current Price	\$43.92
Target Price	\$59.25
Upside	34.90%
Market Profile	
Shares Outstanding	702.4M
Float	649.9M
Market Cap (USD)	32.04B
52 Week High (USD)	53.46
52 Week Low (USD)	23.07
Beta	0.81
Enterprise Value	34.30B
ROA	21.10%
ROE	19.40%

Source : Yahoo! finance

Figure 2. Earnings Per Share

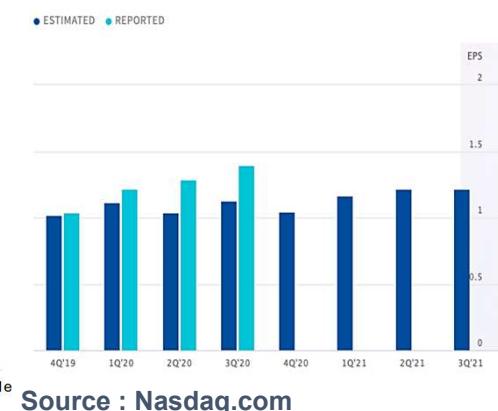


Figure 4. Peer Company

Business Description

Overview & History Aflac Inc. provides supplemental health insurance and life insurance in the two largest insurance markets in the world, the U.S. and Japan, servicing more than 50 million customers worldwide. The company was founded by principal founder John Amos and Bill Amos as American Family Life Insurance Company of Columbus in 1955. Aflac went international in 1974 and began selling insurance in Japan, writing \$25 million in premiums their first year and being the third-largest U.S company to expand to Japan. Aflac is currently ranked No.146 on a Fortune 500 company (in 2020).

Business Model The key driver of Aflac's Revenue is surely supplemental health insurance. Aflac offers insurance products for Cancer, Accident, Short-Term Disability, Critical Illness, Hospital Indemnity, Dental & Vision, Life (Term & Whole). Products are distributed in the individual and group supplemental insurance markets. In addition to its cancer policies, Aflac has broadened its product offerings to include accidents, disability, and long-term-care insurance. And the key driver of expenses is the benefits and claims that Aflac has to pay out for their customers' bills.

Market Strategy The market share of Aflac is being challenged by changing laws in the United States, such as the Affordable Care Act. Laws that give the government more control over insurance will force Aflac to modify its strategy. Regulatory changes have led to companies encroaching upon the Aflac U.S market share. To combat the changing market, Aflac has implemented a One Day PaySM system that enables customers to approve and pay in one day. The company claims this practice enhances its reputation (SEC Fillings). Aflac markets its products through independent distributors, selling most of its policies to consumers at their places of work.

Industry Overview

Insurance industry is driven by the large population size, rapid aging trend, and high savings rate. The demand for life insurance depends on a person's risk assessment of their life. The company is also impacted by other financial services, economics conditions, regulatory oversight, and various trends that affect the industries where it competes.

Macroeconomics This industry is cyclical and closely connected with macroeconomics factors. For financial institutions, macroeconomics variables like GDP, Interest Rate and Savings are extremely significant. In the case of interest rate, if it increases, people prefer the bank to invest their money instead of Non-Banks Public Institutions like Insurance companies. Also, low-interest rates would put much pressure on the profitability of insurers.

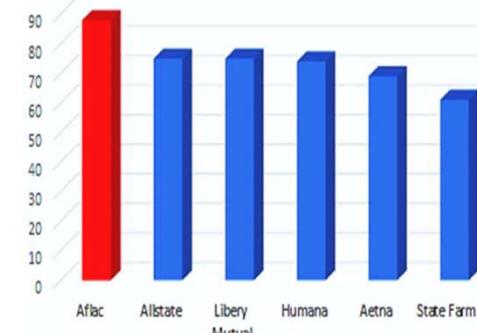
Accessibility Accessibility is becoming more essential to attract new customers and improve retention. In the information age, the convenience and efficiency of digital channels lead to new customer experiences. Also, customers prefer an accessible product that is easy to understand. Aflac has constantly adapting to meet these customer needs and digitization with a One Day PaySM.

Demographics Insurance contract, the core business in the industry, is materially affected by demographics. Customer demographics in the U.S continue to evolve, which is an opportunity for the company to present itself to potential customers that can be new entrants from different customer segments such as the millennial and multicultural targets.

COVID-19 After the outbreak of COVID-19, the performances of life insurance industry in the U.S significant declined due to Social distancing and Lockdowns. In July, when the sales of the individual life insurances have been showing signs of recovery.

According to LIMRA, increased awareness of the importance of life insurance product, simplification of insurance process could bring about a rebound in life insurance. Due to COVID-19, customers felt keenly necessity for life insurance and the limit of face-to-face sales was founded in insurance industry. Most insurers built the digital process to complete plans online to simplify insurance process.

Aflac vs. Competitors - CEO Rating



Source : Refinitiv & Workplaces

Figure 5. Aflac's Strategy plan (2020)
2020 Strategic Planning



Source : Aflac Website

Competitive Positioning

Aflac Japan Aflac Japan has launched a comprehensive and diversified portfolio of products and has a strong competitive advantage in the market. Previously, its position did not change because the number of insurance companies and offerings of stand-alone cancer and medical insurance doubled beginning in 2001.

Diversified and Powerful Distribution Channels On traditional sales channels, count to the end of 2019, there are more than 9,000 sales agencies, with at least 109,000 licensed sales associates employed are representing Aflac Japan. Japanese banks are also regarded as the critical sources of insurance services by Japanese people, and there are nearly 90% of Japan's banks have made the selling agreement with Aflac. Dai-ichi Life and Daido Life are representatives offering Aflac's cancer products via a partnership. The partnership with the Japan Post Group started in 2008 and further strengthened in 2013. There are more than 20,000 postal outlets of Japan Post Co. Ltd. (JPC), and 76 directly managed sales offices of Japan Post Insurance Co., Ltd. (JPI)

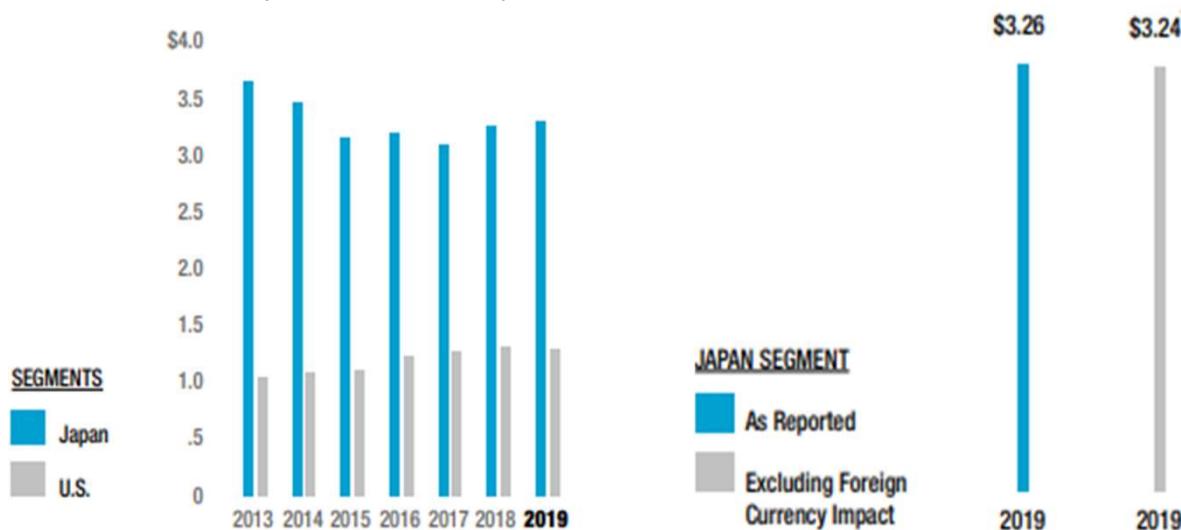
Comprehensive and Complementary Products Aflac Japan has issued three sectors of insurance. The first sector consists of several fundamental life insurance products. As the aging population keeps rising, the Japanese health-care system is under increasing strain. There is a vast spillover of the demand. The third sector is designed to help consumers pay for medical and non-medical costs not covered by Japan's national health insurance. Third sector insurance products are insensitive to interest rates, have stable and robust profitability. With the first sector products as a supplement, which are also profitable, thus, the third sector acts as the critical factor of Aflac Japan's leading position in the Japanese market and business focus of Aflac Japan.

Aflac U.S Since the U.S. had a relatively mature insurance market in an earlier period, the strategy of Aflac U.S. is to offer supplemental insurance products and compete individually. Group supplement insurance market with several companies provides unique policy and sells in a specific manner as its advantage.

Selected Distribution Channels The insurance products of Aflac U.S. are portable. The products are carefully designed this feature and utilize the workplace as the distribution channel for its products. With several employers under 99, Aflac U.S. chooses independent associates and career agents as its sales agent for the small business market. For the mid and large-case market, Aflac U.S. chooses brokers as its sales representative. Targeted sales channels enable Aflac U.S. to reach more potential customers and significantly reduce the amortization of distribution channels.

Policy and Product Features Portable insurance also additionally provides extra financial protection to policyholders. This feature has helped Aflac U.S. to gains more market shares. When it comes to operation policy, Aflac U.S. insists on One Day Pay, which is to process, approve, and pay eligible claims within just one day. This policy has dramatically gained the brand reputation and the trust of many policyholders, which has become a key advantage for Aflac U.S. to compete with other competitors.

Figure 6. Segment Assets
(Dollars, In Billions)



Source : Refinitiv & Workplaces



Environmental

Aflac has a SmartGreen® philosophy, which regularly helps the company finds and improves procedures, policies, and technologies to lead to a more environmentally friendly corporate. The initiative is led by the Aflac Board of Directors Corporate Social Responsibility and Sustainability Committee. Their five focus areas are facilities management, employee engagement, waste management, strategic sourcing and procurement, and business operations. As an eco-friendly business, Aflac's SmartGreen® goals include reductions in energy use, carbon emissions, waste, and taking responsibility for the influence of their employees, building, and more.

Energy Efficiency Aflac has been a leader within the energy efficiency and reduction realm for insurance companies. It is ISO 50001 Energy Management System registered, and it was the first insurance company in the U.S. to do this. Aflac was recertified in 2019, maintaining Energy Star certification for at least 85% and zero non-conformance issues. In 2019, Aflac reduced its total electricity consumption by 3.5% for corporate real estate alone. Aflac U.S. has saved more than \$18 million in energy costs in the past eight years and reduced its electricity consumption by over 50% KWH per square foot.

Social

Aflac is a company that believes in helping others, diversity, and protecting the privacy and confidentiality of information about their customers. Aflac has several organizations, programs, and policies that align with their beliefs. Some of their most notable and community relation programs are My Special Aflac Ducks and Aflac Cancer and Blood Disorders Center. Thousands of children with cancer and blood disorders served, treated, and helped during difficult times with said programs.

Customer Satisfaction Aflac has a high customer retention rate due to its dynamic customer relationship management team who aids the customer problems and concerns, leading to a higher customer satisfaction rate even though “over three years, Aflac has drawn more complaints to state regulators than expected for a company of its size, according to a NerdWallet analysis of data from the National Association of Insurance Commissioners” (Rose).

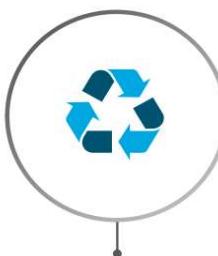
Data Protection and Privacy Aflac has strict security and confidentiality standards regarding their customers and their information. Aflac does not sell or otherwise disclose personal information for purposes unassociated with their products or services for the customers.

Figure 10. Aflac ESG



Aflac Global Investments

A responsible investment process with sustainable investments of \$1.7 billion



Sustainability

A formal pledge to be carbon neutral to include Scope 3 emissions on or before 2040

Figure 7. Aflac U.S and Japan Scope 1 and 2 Emissions in MT

Aflac U.S. and Aflac Japan Scope 1 and 2 Emissions In MT				
YEAR	SCOPE 1	SCOPE 2	TOTAL	CHANGE
2007	7,617	33,795	41,412	
2017	4,038	14,325	18,363	
2018	3,200	13,890	17,090	-24,322
REDUCTION	58.0%	58.9%	58.7%	

Source : Refinitiv & Workplaces

Figure 8. Aflac U.S Scope 1 and 2 Emissions in MT

Aflac U.S. Scope 1 and 2 Emissions In MT				
YEAR	SCOPE 1	SCOPE 2	TOTAL	CHANGE
2007	6,805	29,765	36,570	
2017	3,436	11,718	15,154	
2018	2,653	11,396	14,049	-22,521
REDUCTION	61.0%	61.7%	61.6%	

Source : Refinitiv & Workplaces

Figure 9. Aflac Japan Scope 1 and 2 Emissions in MT

Aflac Japan Scope 1 and 2 Emissions In MT				
YEAR	SCOPE 1	SCOPE 2	TOTAL	CHANGE
2007	812	4,030	4,842	
2017	602	2,607	3,209	
2018	547	2,494	3,041	-1,801
REDUCTION	32.6%	38.1%	37.2%	

Source : Refinitiv & Workplaces

Source : Aflac Website



Social Responsibility

Aflac has donated over \$148 million toward the fight against childhood cancer in the U.S. and Japan

Governance

As an international insurance company, Aflac's main business focus is on two of the largest insurance markets: The United States and Japan. Therefore, either the board of directors or executive management team, there is a certain regional diversity in the composition of members. The board is 91% independent, and Only Dan is affiliated with Aflac. All the other ten members have had or held top position in their organizations. Also, Aflac's Board has 64% diversity, which means Board members can provide different business advice based on years of experience in their respective fields. (See Figure 11).

Corporate responsibility oversight Aflac has three main committees: Audit & Risk Committee, Compensation Committee and Corporate Governance Committee. All three committees are composed of three or more independent directors. The members of the Audit & Risk committee are appointed directly by the board of directors to supervise management, audit, and other aspects of the company's internal control system. Independent directors as the members of three committees can supervise the operation of the whole company in a more fair and objective way based on the interests of the company. Also, Aflac has a comprehensive set of rules that all employees follow, and an anonymous monitoring and reporting system works well against bribery and corruption.

Cybersecurity and data privacy system A dedicated information security team detects and blocks millions of attacks each month to protect policyholders and employees. Additional information on Aflac's environmental, social, and governance can be found in appendix 12.

Financial Analysis

Financial Analysis Overview gives us a picture of Aflac's financial conditions and analyzes the company's performance, financial position, and operational efficiency.

Profitability Firstly, we look at net earnings. It went from \$4,604 in 2017 to \$2,920 in 2018 and decreased from \$2,920 in 2018 to \$3,304 in 2019. It earns less profit in 2019 compared to 2017. To check the profitability, we need another indicator—revenue in the income statement. Basically, total revenues almost stay the same in the current three years. If revenue does not change a lot, net earnings decrease, then the profitability of this stock is considered a decreasing trend. Moreover, another indicator is introduced. If weighted-average common shares per share decrease from 792,042 to 742,414. It also shows the same information that profitability suffers from a decreasing trend. It would not be recommended if profitability decreases.

Profit Margin To measure the ability to operate, we move to cash flow statement. Net cash generated from operating activities decreased from \$6,128 in 2017 to \$6,014 in 2018 and goes down again from \$6,014 in 2018 to \$5,455 in 2019. It still cannot show that the ability to operate is decreasing but the downward trend of net cash would be a negative signal to investors.

Operating Expenses Operating expenses of Aflac mainly consist of Operating costs, which were \$17,010 million in 2015, jumped to \$18,492 million in 2016, and fell to \$17,649 million in 2017. From 2017 to 2019, operating expenses had slightly increased to \$17,862 million.

Figure 11. Government



Figure 12. Profitability Ratios

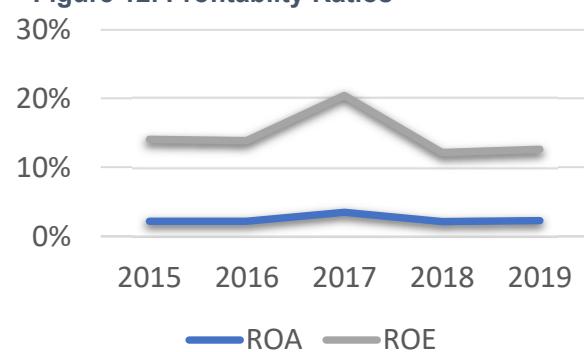


Figure 13. Profit Margin



Revenue and Growth Rate The net revenue of Aflac has not been consistent. The growth rate is -4.0%, 0.4%, 2.5% from 2017 to 2019. It is predicted that the net revenue will be \$22,186, \$22,281 and \$22,448 million from 2020 to 2022. In the past five years, Aflac has only generated a CAGR of 1.68 % (from \$20.87 billion in 2015 to \$22.31 billion in 2019).

Dupont Analysis Aflac's return on assets has been low, roughly 2 % for five years. In 2017, however, profit margins suddenly rose from 11.8% to 21.2%, then returned to normal and stayed at 12%. The asset conversion rate has been falling every year, a bad sign, from 17.6% in 2015 to 14.6%. Financial leverage has been declining in recent years, which indicates that the company has better liquidity. Returns on equity, which fluctuated over five years, peaked at 19% in 2017 and fell to a five-year low of 11% last year.

Liquidity From 2017 to 2019, All three indexes showed an upward trend. Current ratios move from 0.4 in 2017 to 0.5 in 2018, and 0.6 in 2019. Quick ratio began with 0.2 in 2017 then have annual growth of 0.1 to 0.4 in 2019. Cash ratio increased from 0.035 in 2017, 0.042 in 2018, to 0.046 in 2019. The trends are small, but at least they have been rising. This is a positive sign for a company, which means Aflac has more ability to cover all short-term debt and still have cash remaining. However, all these ratios are lower than one, which means although Aflac's liquidity are increasing, it still need to be improved.

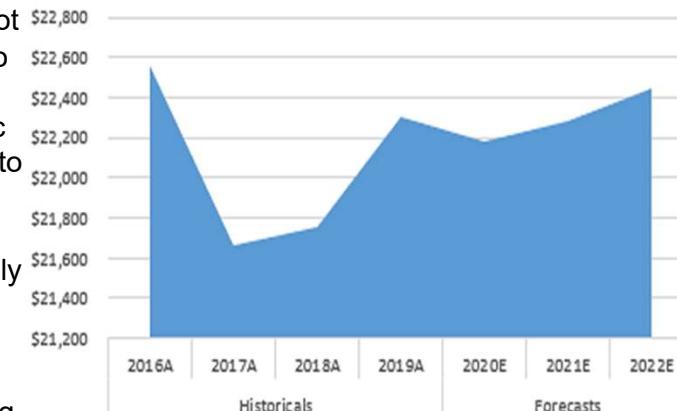
Solvency To measure the short-term solvency, we need the following analysis. In short-term, the debt needed to be paid almost stayed the same (\$103,188 to \$106,554). The good news is that Aflac has more assets held as cash (\$126,243 to \$138,091), which shows the company's ability to pay back the short-term debt increases. Companies with more cash could better overcome cash outflow activities, and it is recommended to short-term investors.

For long-term solvency, total liabilities needed to be paid increases from 2018(\$123,809) to 2019(\$116,944). Total asset increases from \$140,406 in 2018 to \$152,768 in 2019. For long-term solvency, the ratio of asset to liability does not change much. It is the similar pattern in a long period. Overall, long-term solvency is considered to stay the same, but the short-term solvency increases currently. It is a positive signal to those who want to invest in this stock.

Efficiency Analysis

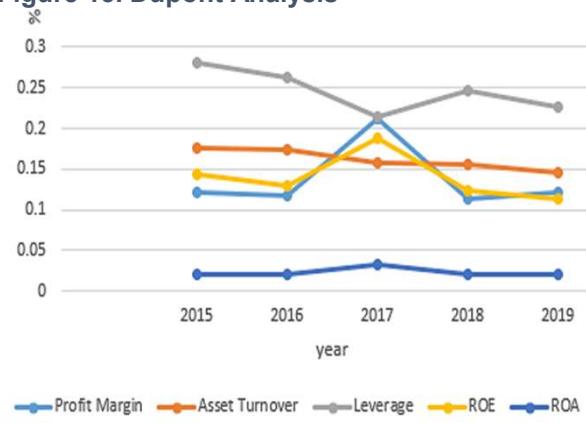
Receivables Turnover Ratio The receivable turnover ratio of Aflac is still lower than industry 22.61. From the figure, we can see this ratio kept falling until it bounced back on March 31, 2020. One possible reason for the decline since June 2019 is that Aflac has loosened its credit policies because of slow customer growth. Aflac wants to boost its sales in this way. The increase in March may be due to fears of a global pandemic, which has spurred demand for health insurance. Although Aflac's receivable turnover ratio shows increase from March 2020, the ratio, which is well below the industry average, still suggests Aflac needs to increase its receivable turnover ratio and get good customers who can pay its debts quickly.

Figure 14. Net Revenue



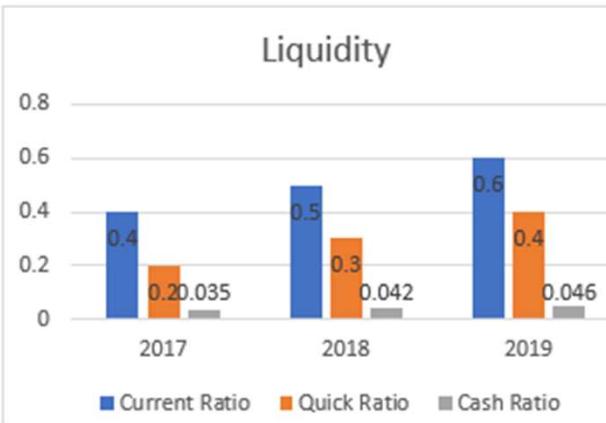
Source : Team Analysis

Figure 15. Dupont Analysis



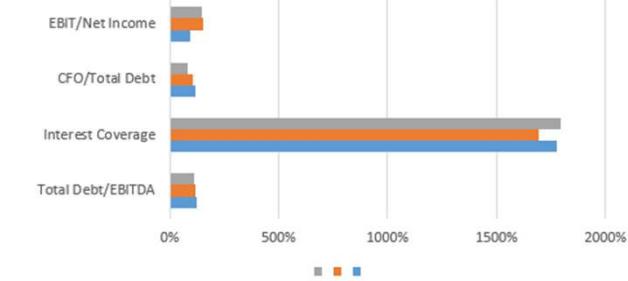
Source : Team Analysis

Figure 16. Liquidity



Source : Team Analysis

Figure 17. Solvency



Source : Team Analysis

Asset Turnover Ratio In 2019, Aflac had a stable asset turnover ratio, but in 2020 it decreased to 0.14 (See Figure 12). Aflac's asset turnover ratio is far lower than the industry ratio 1.26. This is a negative sign of the company, which means the company's management is not using its assets efficiently.

Working Capital Turnover Ratio The working capital turnover ratio decreased from 0.93 to 0.77.

Valuation

DCF Model founds that the target price is \$59.25, which is up 30.85% from current price of \$45.28 on November 28, 2020. To assume today is December 31 in 2019, we think it is normal and reasonable for an insurance company to keep growing at 7% rate. After period 1, the company may step into the second period where the growth rate is not high as before, but it will still grow at 6%. In the last stage, the growth rate of the company decreases to 4%. We relate this assumption to the life cycle of a company in the real world.

WACC concluded that average debt for the current three years is \$5813.33, average equity of the current three years is \$35710.67. The calculated weight of debt is 0.1399 and the calculated weight of equity is 0.86. are calculated, weight of debt is 0.1399 and weight. Based on these calculations, we can conclude that WACC is 7.9%, which means the company should pay back 7.90% of what it earns

Project the Future Free Cash Flow Based on our assumption, we forecast the EBITDA of \$7,420, \$7,356, or \$7,225 thousands for 2020E, 2021E, and 2022E, respectively. We are assuming a marginal tax rate of 25.7%—the projected UFCF using a mid-year discount period to calculate the P.V. of UFCF (Appendix 9).

Perpetuity Growth Rate We assume the perpetuity growth rate is 2%. We are confident that after five years, AFL will grow at the terminal growth rate. Using this perpetuity growth rate, we found a terminal value of 104,791 million. The margin of safety is 73.7% when using the perpetuity growth method; it represents the market price is significantly below its intrinsic value (Appendix 10).

Terminal EBITDA Multiple We assume that the EBITDA multiple would stabilize at 12x. Under this assumption, we have a terminal value of 86,695 million. The margin of safety is 71.6% when using the multiple terminal methods. It represents the market price is significantly below its intrinsic value. E.V. to EBIT as of today, Aflac's Enterprise Value is \$34,069 Million. Aflac's EBIT for the trailing twelve months (TTM) was \$4,238 Million. Therefore, Aflac's EV-to-EBIT for today is 8.04. During the past 13 years, the highest EV-to-EBIT of Aflac was 11.20. The lowest was 4.80. And the median was 7.10. P.E. Ratio Aflac's share price is \$45.28. Aflac's Earnings per Share (Diluted) for the trailing twelve months (TTM) was \$6.40. Therefore, Aflac's P.E. Ratio for today is 7.08 (Appendix 11).

Investment Risks

Economic Risks

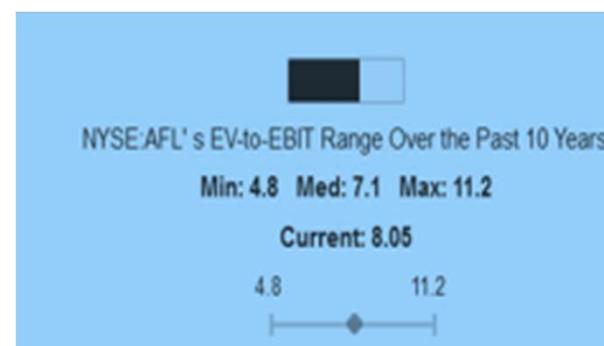
Economic Condition (ER1) The macroeconomic state and trend of the country where the business market is significantly located influence the life insurance industry. In a depressed economy, people focus more on solving immediate problems. As a result of that, people's energy and abilities to plan are weakened.

Figure 18. Asset Turnover Ratio



Source : Mergent Online

Figure 19. Ev to EBIT



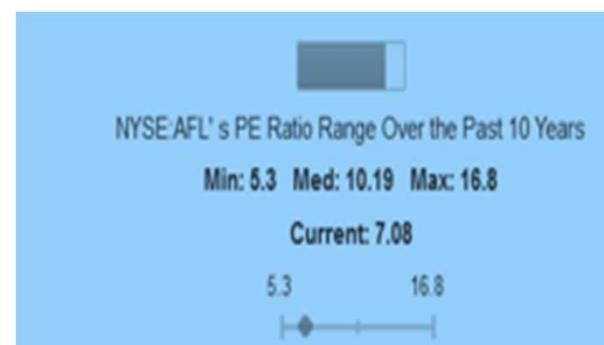
Source : Mergent Online

Figure 20. EBIT For Today



Source : Mergent Online

Figure 21. PE Ratio



Source : Mergent Online

Capital Supply (ER2) Financial operating is one of the primary sources of income for insurance companies, which implies a strong connection between insurance and the financial market. Similarly, the supply of compensation funds for insurance companies also needs the support of the financial market. The risks of insurance companies are tied to the volatility of financial markets.

Business Risks

Sales Networks Deteriorate (BR1) For selling products, Aflac relies heavily on its sales network, which consists of sales associates, sales brokers, distribution partners, and related employees. Aflac needs to keep consolidating its product's competitiveness, including compensation, support services, and financial rating, to retain those high-quality sales sectors. If the product becomes less attractive and commissions shrink, Aflac's sales network will be deteriorated by losing Aflac's sales will struggle, and its revenues will suffer fatally.

Reserve assumptions face a lot of uncertainty (BR2) Even with advanced forecasting technology, uncertainty about the future is bound to exist. There are many factors can apart from the prediction from the reality in the future. Thus, the amount and the time of the compensation and profit cannot be perfect forecasted, as the reserve is proved to be short, there will be a huge impact on the company's reputation, operating results, and financial position.

Demanding requirements for new technology operations (BR3)

Under the pressure of competition, the application of new technology determines the company's survival. Aflac needs to catch up with the latest technology, keep updating the product and enhance the information technology system, which are the crucial factors to maintain the attractiveness of the product and the efficiency of the distribution channel and reduce the operation cost.

The risk of default on fixed-term securities and loan receivable (BR4) Financial operation also takes a considerable part of Aflac's business. Among Aflac's portfolio, there is a mass of debts issued by unsecured issued, which directly binds its assets to global economic volatility, the health of credit markets, and industry trends, exposed to those risks.

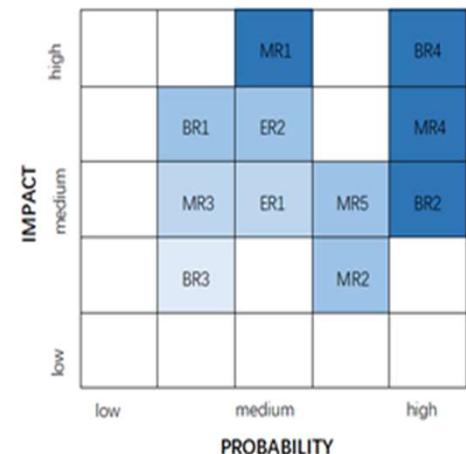
Market Risks

Japan Post Investigation (MR1) An investigation is being held by the Japan Post Group involving several cases with potential violations of laws and regulations or internal rules. This matter was acknowledged in a 2019 and 2020 report discussing possible suggestive sales of products with the company allies JPC and JPI. The investigation was expanded with a goal of being completed by the end of June 2020; before the goal was reached or results were determined, there was a decrease in sales, and it continued into 2020. With sales already decreasing before the results the conclusion of the case against the company allies could potential negative affect the company with more than 20% of its sales in previous years.

Future Policy Benefits, Claims, or Expenses Affecting the Company's Financials (MR2) The Company estimates premium payouts of benefits and claims. Changes in policies, economic factors, and incidence rates all influenced the estimates, and 2020 was an unexpected year with the pandemic and more, which could lead to veers in the actual outcomes from what was estimated. Ultimately affect Aflac's financial reports.

Figure 22. Risk Mitigation

Risk	Solution
ER1	Strengthen the ability to cope with changes, and launch products more in line with people's current needs and capabilities
ER2	Maintain adequate reserves, and make full use of risk hedging to protect funds invested in financial markets
BR1	Maintain product competitiveness and diversify sales channels
BR2	Preparing reserves in excess of projected reserves
BR3	Keep attracting high-tech talents and invest in the development of information technology and product innovation
BR4	Build a diversified investment portfolio and adjust asset allocation according to the actual situation
MR1	Adhere to diversified distribution channels and supervise sales partners
MR2	Adding the uncertain factors to make the adjusted financial statements for reference
MR3	Adjust the interest rate in time according to the actual market situation
MR4	Set up reserves in Japan and the United States with the respective currencies. Exchange when the exchange rates are appropriate
MR5	Adopting different tax avoidance strategies in Japan and the U.S. respectively.



Source : Team Analysis

Figure 23. Weighted-Average Yen/Dollar



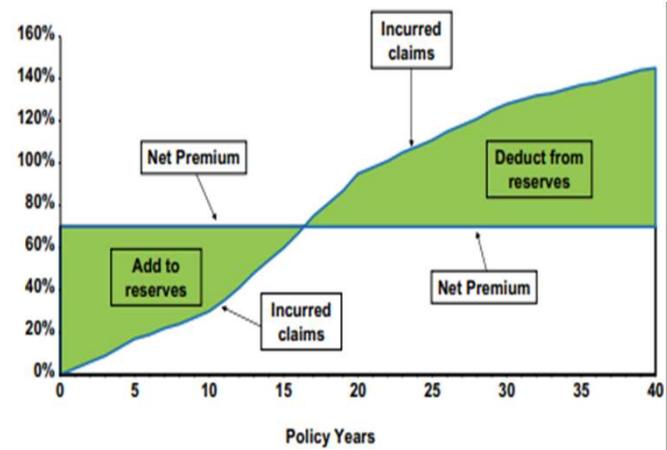
Source : Company Site and Internally calculated weighted-average yen/dollar exchange rates

Interest Rate Risk (MR3) The company deals with a tremendous amount of interest rate risk. Over the past few years, the company has had a low interest rate; this is not necessarily good or bad, but a continuing influence could lead to a less diverse portfolio since Aflac is not making enough in its returns on the investments. Even though the low interest rates could negatively affect the company, so could a higher interest rate. A higher rate could lead to recognition of unrealized gains and losses and adversely affect the financial condition, pricing, operations, liquidity, markets, and more. As stated in the macroeconomic expectations section low-interest rates would put much pressure on the profitability of insurers with the concern of its earnings on returns the price of products and sales could be influenced as well.

Exchange Rate Fluctuation (MR4) The yen/dollar exchange rate a definite and major impact on the company. Fluctuations in yen affect the financial condition of the company use; it opens them up to risk. When there is a decrease in yen's value against the U.S. dollar, less U.S. dollar is reported. A rise equals more dollars reported, negatively impacting reported sales and operating income, more importantly, the company's liquidity, operations, and financial positions. The company manages the currency fluctuation by getting involved in hedging activities and there are regulatory accounting purposes for the difference in the yen and U.S. dollar exchange rate.

Tax Rate Changes (MR5) Being that Aflac is in both the United States and Japan, the tax laws and changes could affect the company. Whether they are changes in the local or federal level, plus the damage that could be done with converting the currencies, all could affect the effective tax rate and earnings.

Figure 24. Claims vs. Reserves



Source : Aflac Website



Appendix

Appendix 1. Balance Sheet

Source: Refinitiv & Team Analysis All figures in millions of U.S. Dollars.	Balance Sheet						Common Size Analysis			
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Assets										
Cash & Cash Equivalents	4,896	4,337	3,491	4,859	4,350	3.2%	3.1%	2.5%	3.7%	3.7%
Receivables - Total	828	851	827	669	705	0.5%	0.6%	0.6%	0.5%	0.6%
Insurance Premium Receivables	828	851	827	669	705	0.5%	0.6%	0.6%	0.5%	0.6%
Investments including Loans - Total	133,195	121,906	120,498	112,707	102,222	87.2%	86.8%	87.8%	86.8%	86.4%
Investment Securities - Available for Sale, Held to Maturity & Held for Trading - Total	122,149	114,200	117,096	111,257	101,928	80.0%	81.3%	85.3%	85.7%	86.2%
Investment Securities - Held for Trading		0	330	1,205	675		0.0%	0.2%	0.9%	0.6%
Investment Securities Available for Sale & Held to Maturity	122,149	114,200	116,766	110,052	101,253	80.0%	81.3%	85.1%	84.8%	85.6%
Investment Securities - Available for Sale - Total	92,064	83,882	85,336	76,702	67,794	60.3%	59.7%	62.2%	59.1%	57.3%
Investments - Other - Total	1,477	7,706	3,402	1,450	294	1.0%	5.5%	2.5%	1.1%	0.3%
Loans - Mortgage, Policy & Other	9,569					6.3%				
Loans - Mortgage/Real Estate	9,569					6.3%				
Property, Plant & Equipment - Net - Total	581	443	434	433	427	0.4%	0.3%	0.3%	0.3%	0.4%
Property, Plant & Equipment - Gross - Total	1,190	1,024	981	942	895	0.8%	0.7%	0.7%	0.7%	0.8%
Property, Plant & Equipment - Accumulated Depreciation & Impairment - Total	609	581	547	509	468	0.4%	0.4%	0.4%	0.4%	0.4%
Deferred Policy Acquisition Costs	10,128	9,875	9,505	8,993	8,511	6.6%	7.0%	6.9%	6.9%	7.2%
Other Assets - Total	3,140	2,994	2,462	2,158	2,041	2.1%	2.1%	1.8%	1.7%	1.7%
Accrued Investment Income	772	773	769	754	768	0.5%	0.6%	0.6%	0.6%	0.7%
Other Assets	2,368	2,221	1,693	1,404	1,273	1.6%	1.6%	1.2%	1.1%	1.1%
Total Assets	152,768	140,406	137,217	129,819	118,256	100.0%	100.0%	100.0%	100.0%	100.0%
% Change		-8%	-2%	-5%	-9%					

Liabilities										
Insurance Reserves - Total	106,554	103,188	99,147	93,726	87,631	69.8%	73.5%	72.3%	72.2%	74.1%
Unearned Premiums - Gross	4,243	5,090	5,959	6,916	7,857	2.8%	3.6%	4.3%	5.3%	6.6%
Policy & Contract Claims - Gross	94,994	90,952	86,249	80,151	73,489	62.2%	64.8%	62.9%	61.7%	62.1%
Policyholders' Funds	7,317	7,146	6,939	6,659	6,285	4.8%	5.1%	5.1%	5.1%	5.3%
Trading Liabilities	586	387	474	1,998		0.4%	0.3%	0.4%	1.5%	
Debt - Total	6,420	5,778	5,289	5,360	4,971	4.2%	4.1%	3.9%	4.1%	4.2%
Short-Term Debt & Current Portion of Long-Term Debt	0	5				0.0%	0.0%			
Current Portion of Long-Term Debt including Capitalized Leases	0	5				0.0%	0.0%			
Current Portion of Long-Term Debt excluding Capitalized Leases	0	0				0.0%	0.0%			
Capitalized Leases - Current Portion		5				0.0%				
Debt - Long-Term - Total	6,420	5,773	5,289	5,360	4,971	4.2%	4.1%	3.9%	4.1%	4.2%
Long-Term Debt excluding Capitalized Leases	6,408	5,765	5,289	5,360	4,971	4.2%	4.1%	3.9%	4.1%	4.2%
Debt - Non-Convertible - Long-Term	6,408	5,765	5,289	5,360	4,971	4.2%	4.1%	3.9%	4.1%	4.2%
Capitalized Lease Obligations - Long-Term	12	8				0.0%	0.0%			
Payables & Accrued Expenses	1,876	1,052	606	526	941	1.2%	0.8%	0.4%	0.4%	0.8%
Other Payables - Total	1,876	1,052	606	526	941	1.2%	0.8%	0.4%	0.4%	0.8%
Operating Lease Liabilities - Long-Term & Short-Term	149					0.1%				
Other Liabilities - Total	8,224	6,539	7,103	7,727	7,005	5.4%	4.7%	5.2%	6.0%	5.9%
Other Liabilities	8,224	6,539	7,103	7,727	7,005	5.4%	4.7%	5.2%	6.0%	5.9%
Total Liabilities	123,809	116,944	112,619	109,337	100,548	81.0%	83.3%	82.1%	84.2%	85.0%
% Change		-6%	-9%	-12%	-19%					

Shareholders' Equity										
Shareholders' Equity - Attributable to Parent Shareholders - Total	28,959	23,462	24,598	20,482	17,708	19.0%	16.7%	17.9%	15.8%	15.0%
Common Equity Attributable to Parent Shareholders	28,959	23,462	24,598	20,482	17,708	19.0%	16.7%	17.9%	15.8%	15.0%
Common Stock - Treasury/Repurchased	14,395	12,789	11,512	10,172	8,819	9.4%	9.1%	8.4%	7.8%	7.5%
Common Equity - Contributed	2,448	2,312	2,187	2,043	1,895	1.6%	1.7%	1.6%	1.6%	1.6%
Common Stock - Issued & Paid	135	135	67	67	67	0.1%	0.1%	0.1%	0.1%	0.1%
Common Stock - Additional Paid in Capital including Option Reserve	2,313	2,177	2,120	1,976	1,828	1.5%	1.6%	1.5%	1.5%	1.6%
Equity - Non-Contributed - Reserves & Retained Earnings	40,906	33,939	33,923	28,611	24,632	26.8%	24.2%	24.7%	22.0%	20.8%
Retained Earnings - Total	34,291	31,788	29,895	25,981	24,007	22.5%	22.6%	21.8%	20.0%	20.3%
Comprehensive Income - Accumulated - Total	6,615	2,151	4,028	2,630	625	4.3%	1.5%	2.9%	2.0%	0.5%
Investments - Unrealized Gain/Loss	8,548	4,234	5,964	4,805	2,986	5.6%	3.0%	4.4%	3.7%	2.5%
Hedging Reserves	(33)	(24)	(23)	(24)	(26)	0.0%	0.0%	0.0%	0.0%	0.0%
Foreign Currency Translation Adjustment - Accumulated	(1,623)	(1,847)	(1,750)	(1,983)	(2,196)	-1.1%	-1.3%	-1.3%	-1.5%	-1.9%
Comprehensive Income - Pension Liabilities	(277)	(212)	(163)	(168)	(139)	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%
Common Equity - Total	28,959	23,462	24,598	20,482	17,708	19.0%	16.7%	17.9%	15.8%	15.0%
Total Shareholders' Equity - including Minority Interest & Hybrid Debt	28,959	23,462	24,598	20,482	17,708	19.0%	16.7%	17.9%	15.8%	15.0%
Total Liabilities & Equity	152,768	140,406	137,217	129,819	118,256	100.0%	100.0%	100.0%	100.0%	100.0%
% Change		-8%	-2%	-5%	-9%					



Appendix

Appendix 2. Income Statement

Year	Income Statement				
	2019	2018	2017	2016	2015
Revenue	22307	21758	21667	22559	20872
Revenue Growth	2.52%	0.42%	-3.95%	8.08%	-8.17%
Cost of Revenue	11942	12000	12181	12919	11746
Gross Profit	10365	9758	9486	9640	9126
Selling, General & Admin	5692	5553	5228	5305	4975
Other Operating Expenses	0	0	0	0	0
Operating Expenses	5692	5553	5228	5305	4975
Operating Income	4673	4205	4258	4335	4151
Interest Expense / Income	228	222	240	268	289
Other Expense / Income	0	0	0	0	0
Pretax Income	4445	3983	4018	4067	3862
Income Tax	1141	1063	-586	1408	1329
Net Income	3304	2920	4604	2659	2533
Shares Outstanding (Basic)	742	770	792	823	861
Shares Outstanding (Diluted)	746	775	798	828	866
Shares Change	-3.53%	-2.83%	-3.75%	-4.45%	-4.55%
EPS (Basic)	4.45	3.79	5.81	3.23	2.94
EPS (Diluted)	4.43	3.77	5.77	3.21	2.93
EPS Growth	17.51%	-34.66%	79.75%	9.74%	-10.00%
Free Cash Flow Per Share	7.35	7.82	7.74	7.28	7.87
Dividend Per Share	1.08	1.04	0.87	0.83	0.79
Dividend Growth	3.85%	19.54%	4.82%	5.06%	5.33%
Gross Margin	46.50%	44.80%	43.80%	42.70%	43.70%
Operating Margin	20.90%	19.30%	19.70%	19.20%	19.90%
Profit Margin	14.80%	13.40%	21.20%	11.80%	12.10%
FCF Margin	24.50%	27.60%	28.30%	26.50%	32.50%
Effective Tax Rate	25.70%	26.70%	-	34.60%	34.40%
EBITDA	4673	4205	4258	4335	4151
EBITDA Margin	20.90%	19.30%	19.70%	19.20%	19.90%
EBIT	4673	4205	4258	4335	4151
EBIT Margin	20.90%	19.30%	19.70%	19.20%	19.90%

The income statement was derived using the top-down method from 2015 to 2019. The report starts first with revenue and then gets into changes in gross margins and EBIT margins. A more detailed quarterly income statement is in appendix 6.

Revenue: Revenue and revenue growth rates have fluctuated from 2015 to 2019. Aflac's growth rate for 2019 is 2.52%, which is higher than in 2018, but it is not the highest of the past few years. The highest growth rate for the past few years was 8.08% in 2016.

EPS: The EPS is one of the items that has had considerable differences in fluctuation over the past years. It changed from -10% in 2015 to 17.51% in 2019 but notable percentages in the years between, including 79.75% in 2017.

Margins: Gross margin reported has stayed over 40% and stayed positive. The EBIT margin for 2019 is 20.90% higher than the consistent 19% range it had been in from 2015- 2018.

Effective Tax Rate: Aflac has consistently decreased since 2015. In 2015, the effective tax rate was 34.40%, and in 2019 it is 25.70%.

Other operating expenses and other expenses/income: Other operating expenses and other expenses/income have stayed at 0 over the years. This may be due to Aflac's unique business.



Appendix

Appendix 3. Statement of Cash Flows

Source: Refinitiv & Team Analysis
All figures in millions of U.S. Dollars.
Operating Cash Flow - Indirect

	Cash Flow Statement				
	2019	2018	2017	2016	2015
Profit/(Loss) - Starting Line - Cash Flow	3,304	2,920	4,604	2,659	2,533
Non-cash Items & Reconciliation Adjustments - Cash Flow	1,775	2,246	1,433	354	849
Other Non-Cash Items & Reconciliation Adjustments - Cash Flow - to Reconcile	358	571	150	231	989
Depreciation, Depletion & Amortization including Impairment - Cash Flow - to Reconcile	1,282	1,245	1,132		
Amortization - Intangible Assets & Deferred Charges - Cash Flow - to Reconcile	1,282	1,245	1,132		
Amortization - Deferred Policy Acquisition Costs - to Reconcile	1,282	1,245	1,132		
Assets Sale - Gain/(Loss) - Cash Flow - to Reconcile	135	430	151	123	-140
Investment & Trading Property - Realized Gain/(Loss) - Cash Flow - to Reconcile	135	430	151	123	-140
Cash Flow from Operating Activities before Changes in Working Capital	5,079	5,166	6,037	3,013	3,382
Working Capital - Increase/(Decrease) - Cash Flow	376	848	91	2,974	3,394
Insurance Receivables Decrease/(Increase) - Cash Flow	-32	-55	-91	42	147
Deferred Policy Acquisition Costs - Decrease/(Increase) - Cash Flow	-1,452	-1,504	-1,468	-306	-241
Insurance Payables including Reinsurance - Increase/(Decrease) - Cash Flow	2,104	2,343	2,890	3,331	3,524
Taxes Payable - Increase/(Decrease) - Cash Flow	-244	64	-1,240	-93	-36
Net Cash Flow from Operating Activities	5,455	6,014	6,128	5,987	6,776
% of changes	-9%	-2%	2%	-12%	

Investing Cash Flow

Investments excluding Loans - Decrease/(Increase) - Cash Flow	-1,378	47	-4,537	-4,615	-1,301
Investment Securities - Unclassified - Sold/(Purchased) - Net - Total - Cash Flow	-1,378	47	-4,537	-4,615	-1,301
Investment Securities - Sold/Matured - Unclassified - Cash Flow	6,556	9,987	7,794	8,472	5,770
Investment Securities - Purchased - Unclassified - Cash Flow	7,934	9,940	12,331	13,087	7,071
Derivative Financial Instruments - Hedging - Sold/(Purchased) - Total - Cash Flow	-9	-241	-621	1,252	-2,119
Investments in Loans - Decrease/(Increase) - Net - Cash Flow	-2,587	-3,912			
Other Investing Cash Flow - Decrease/(Increase)	803	524	-273	-492	-1,477
Net Cash Flow from Investing Activities	-3,171	-3,582	-5,431	-3,855	-4,897
% of changes	-11%	-34%	41%	-21%	

Financing Cash Flow

Dividends Paid - Cash - Total - Cash Flow	771	793	661	658	656
Dividends - Common - Cash Paid	771	793	661	658	656
Stock - Total - Issuance/(Retirement) - Net - Cash Flow	(1,578)	(1,243)	(1,318)	(1,376)	(1,279)
Stock - Issuance/(Retirement) - Net - Excluding Options/Warrants - Cash Flow	(1,578)	(1,243)	(1,318)	(1,376)	(1,279)
Stock - Common - Issuance/(Retirement) - Net - Cash Flow	(1,578)	(1,243)	(1,318)	(1,376)	(1,279)
Stock - Common - Issued/Sold - Cash Flow	49	58	33	46	36
Stock - Common - Repurchased/Retired - Cash Flow	1,627	1,301	1,351	1,422	1,315
Debt - Long-Term & Short-Term - Issuance/(Retirement) - Total - Cash Flow	615	470	(121)	376	(274)
Debt - Issued/(Reduced) - Long-Term - Cash Flow	615	470	(121)	376	(274)
Debt - Issued - Long-Term - Cash Flow	615	1,020	1,040	986	998
Debt - Reduced - Long-Term - Cash Flow	0	550	1,161	610	1,272
Other Financing Cash Flow - Increase/(Decrease)	21	(50)	35	39	22
Net Cash Flow from Financing Activities	(1,713)	(1,616)	(2,065)	(1,619)	(2,187)
% of changes	6%	-22%	28%	-26%	

Foreign Exchange Effects

Foreign Exchange Effects - Cash Flow	-12	30	-	-4	-
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Change in Cash

Net Change in Cash - Total	559	846	(1,368)	509	(308)
Net Cash from Continuing Operations	559	846	(1,368)	509	(308)
Net Cash - Beginning Balance	4,337	3,491	4,859	4,350	4,658
Net Cash - Ending Balance	4,896	4,337	3,491	4,859	4,350

Supplemental

Income Taxes - Paid/(Reimbursed) - Cash Flow - Supplemental	1,384	998	780	1,526	996
Interest Paid - Cash Flow - Supplemental	190	181	196	211	236
Cash Dividends Paid & Common Stock Buyback - Net	2,349	2,036	1,979	2,034	1,935
Common Stock Buyback - Net	1,578	1,243	1,318	1,376	1,279
Depreciation, Depletion & Amortization - Cash Flow	1,282	1,245	1,132		
Free Cash Flow to Equity	6,070	6,484	6,007	6,363	6,502

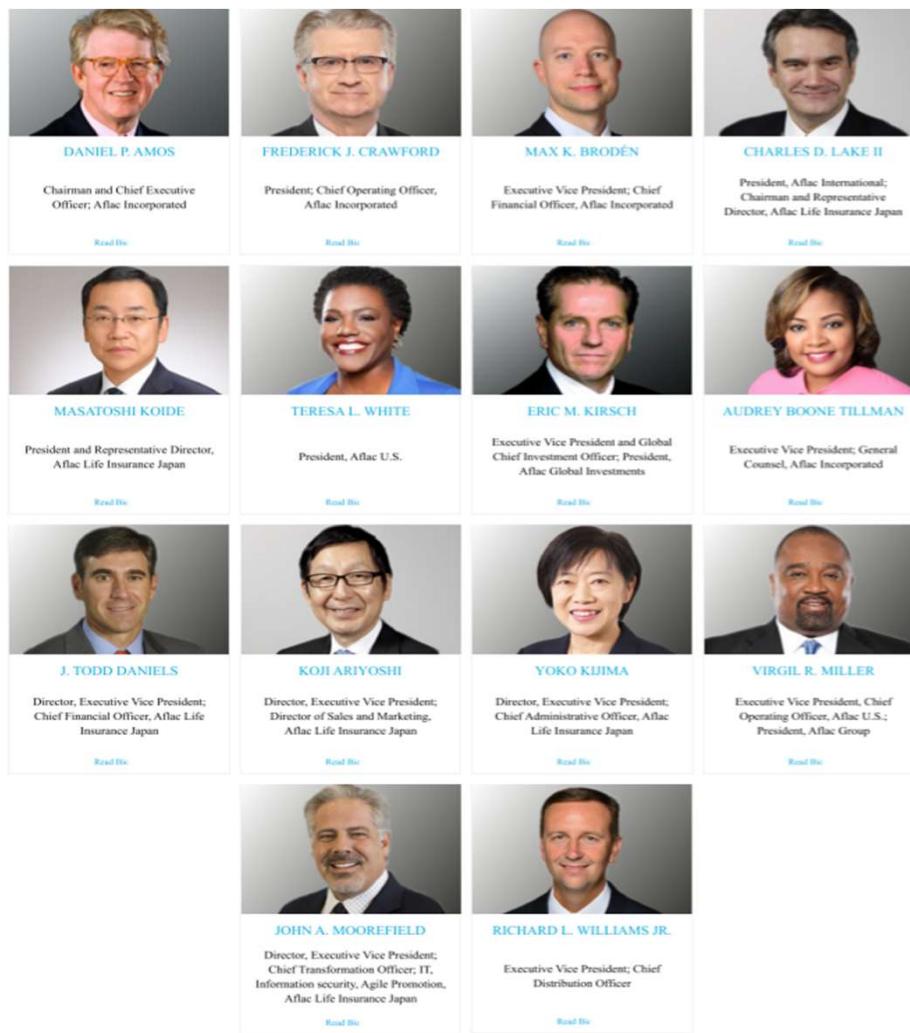
Footnotes

Dividends Provided/Paid - Common	801	801	690	685	682
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Appendix

Appendix 4. Executive Management



Appendix 5. Quarterly Income Statement

Source: Refinitiv, Team Analysis, & Stock Analysis		Quarterly Income Statements																							
Quarter Ended		3/29/20	6/29/20	3/30/20	12/31/19	9/29/19	6/29/19	3/30/19	12/31/18	9/29/18	6/29/18	3/30/18	12/31/17	9/29/17	6/29/17	3/30/17	12/31/16	9/29/16	6/29/16	3/30/16	12/31/15	9/29/15	6/29/15	3/30/15	
Revenue		5663	5407	5162	5663	5576	5511	5457	5126	5977	5589	5464	5424	5506	5428	5509	5555	5716	5437	5451	5519	5640	5397	5226	
Revenue Growth (YoY)		0.0235	-0.0189	-0.0275	0.0931	-0.0074	-0.014	0.0355	-0.0549	0.0129	0.0297	0.0292	-0.0492	-0.0347	-0.0117	-0.0261	0.1196	0.1341	0.0234	0.0431	-0.0354	-0.1213	-0.0944	-0.0774	
Cost of Revenue		2985	2497	2399	2944	3027	2664	2467	2925	3002	3611	3642	3107	3083	3019	3052	3262	3179	3254	3025	2939	2927	2937	2927	2927
Gross Profit		2680	2510	2223	2619	2599	2547	2490	2281	2575	2558	2422	2417	2423	2389	2257	2693	2338	2193	2426	2389	2113	2350	2274	
Selling, General & Admins		1464	1377	1448	1595	1416	1381	1390	1421	1376	1373	1384	1359	1289	1283	1297	1468	1310	1283	1244	1214	1182	1402	1178	
Operating Expenses		1464	1377	1448	1595	1416	1381	1390	1421	1376	1373	1384	1359	1289	1283	1297	1468	1310	1283	1244	1214	1182	1402	1178	
Operating Income		1216	1133	775	1114	1093	1166	1309	780	1159	1185	1038	1058	1134	1106	960	1225	1028	900	1112	1175	931	948	1096	
Interest Expense / Income		63	63	55	57	57	57	58	58	55	54	56	59	59	59	61	62	72	65	66	65	67	74	83	
Other Expense / Income		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Pretax Income		1153	1070	720	1097	1016	1109	1242	722	1146	1131	982	999	1075	1045	898	1153	963	834	1117	1110	164	874	1013	
Income Tax		-130	265	154	276	239	292	314	197	301	299	265	-184	39	312	309	402	334	286	346	389	297	301	350	
Net Income		1046	805	566	781	777	817	928	525	845	832	717	283	716	713	592	751	629	548	731	730	567	573	663	
Shares Outstanding (Basic)		712	718	724	733	740	745	751	760	767	773	779	784	789	793	802	814	817	834	837	859	857	863	875	
Shares Outstanding (Diluted)		714	720	728	737	744	749	756	765	772	778	784	790	795	799	808	819	822	829	842	855	862	869	880	
Shares Change (YoY)		-0.0382	-0.0366	-0.0336	-0.0351	-0.0355	-0.036	-0.0348	-0.031	-0.0276	-0.0251	-0.0296	-0.0361	-0.0344	-0.0374	-0.0421	-0.0428	-0.0472	-0.0459	-0.0424	-0.0478	-0.0499	-0.0462	-0.0393	
EPS (Basic)		3.45	3.13	6.78	3.87	1.86	1.1	1.23	6.9	1.1	1.04	0.92	3.27	0.51	0.9	0.74	0.92	0.77	0.47	0.88	0.86	0.66	0.47	0.76	
EPS (Diluted)		3.44	3.12	6.78	3.86	1.84	1.09	1.23	6.9	1.09	1.07	0.91	3.25	0.9	0.89	0.75	0.92	0.77	0.46	0.87	0.86	0.66	0.46	0.76	
EPS Growth (YoY)		2.3977	0.0275	-0.3459	0.5362	-0.0459	0.0187	0.3316	-0.7977	0.2111	0.2022	0.2466	2.3519	0.1765	0.3485	-0.1609	0.0702	0.1351	0	0.1523	0.0492	-0.3359	-0.2304	-0.0503	
Free Cash Flow Per Share		2.81	1.65	1.95	1.83	2.58	1.09	2.06	1.78	2.41	2.03	1.59	1.95	1.81	1.78	2.19	2.3	1.55	1.85	1.59	2.36	1.94	1.9	1.67	
Dividend Per Share		0.28	0.28	0.28	0.27	0.27	0.27	0.27	0.26	0.26	0.26	0.26	0.25	0.22	0.22	0.22	0.21	0.21	0.21	0.21	0.2	0.2	0.2		
Dividend Growth (YoY)		0.037	0.037	0.037	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385	0.0465	0.0448	0.0468	0.0468	0.0513	0.0513	0.0513	0.0513	0.0513	0.0513	0.0513	0.0513	
Gross Margin		0.473	0.464	0.431	0.467	0.453	0.462	0.476	0.429	0.462	0.458	0.443	0.446	0.44	0.44	0.425	0.452	0.469	0.402	0.445	0.449	0.419	0.444	0.435	
Operating Margin		0.215	0.21	0.15	0.199	0.197	0.212	0.23	0.152	0.215	0.212	0.19	0.195	0.206	0.204	0.181	0.206	0.18	0.166	0.217	0.221	0.185	0.179	0.21	
Profit Margin		0.434	0.149	0.11	0.139	0.14	0.148	0.164	0.102	0.132	0.149	0.131	0.176	0.13	0.131	0.112	0.128	0.11	0.101	0.134	0.137	0.113	0.108	0.127	
FCF Margin		0.353	0.22	0.274	0.213	0.344	0.146	0.273	0.264	0.312	0.281	0.227	0.282	0.26	0.259	0.331	0.314	0.221	0.28	0.264	0.377	0.331	0.311	0.279	
Effective Tax Rate		0.346	0.214	0.261	0.25	0.263	0.253	0.273	0.263	0.264	0.27	0.334	0.318	0.341	0.349	0.347	0.343	0.346	0.342	0.344	0.344	0.344	0.346	0.346	
EBITDA		1216	1133	775	1114	1093	1166	1300	780	1199	1185	1058	1058	1134	1106	960	1225	1028	900	1182	1175	931	948	1096	
EBITDA Margin		0.215	0.21	0.15	0.199	0.197	0.212	0.23	0.152	0.215	0.212	0.19	0.195	0.206	0.204	0.181	0.206	0.18	0.166	0.217	0.221	0.185	0.179	0.21	
EBIT		1216	1133	775	1114	1093	1166	1300	780	1199	1185	1058	1058	1134	1106	960	1225	1028	900	1182	1175	931	948	1096	
EBIT Margin		0.215	0.21	0.15	0.199	0.197	0.212	0.23	0.152	0.215	0.212	0.19	0.195	0.206	0.204	0.181	0.206	0.18	0.166	0.217	0.221	0.185	0.179	0.21	



Appendix

Appendix 6. Aflac Financial Analysis

Aflac Incorporated Financial Analysis

(All figures in millions, except per share data)

Analysis Summary		2015	2016	2017	2018	2019
Performance						
Profit Margin		12.1%	11.8%	21.2%	11.4%	12.2%
Asset Turnover		17.64%	17.38%	15.79%	15.50%	14.60%
Leverage		28.07%	26.17%	21.50%	24.63%	22.68%
ROE		14%	13%	19%	12%	11%
ROA		2%	2%	3%	2%	2%
Liquidity						
Current ratio		118%	119%	122%	120%	123%
Quick ratio		5%	5%	4%	4%	5%
Cash ratio		4%	4%	3%	4%	4%
Solvency						
Total Debt/Asset		4%	4%	4%	4%	4%
Total Debt/Equity		28%	26%	22%	25%	23%
Total Debt/Capital		19%	19%	17%	17%	18%
Total Debt/EBITDA		-	-	122%	121%	110%
Interest Coverage		-	-	17.74	16.95	17.95
CFO/Total Debt		-	-	1.16	1.04	0.83
EBIT/Net Income		-	-	0.92	1.52	1.50
Activity						
Receivables Turnover		29.6	33.7	26.2	28.1	28.9
Asset Turnover		17.64%	17.38%	15.79%	15.50%	14.60%
Working Capital Turnover		1.18	1.10	0.88	0.93	0.77

Appendix 7. DCF Analysis: Assumptions

Key Assumptions

Marginal Tax Rate	25.70 %
First Year Fiscal Year End	2019/12/31
Risk-Free Rate	2.39 %
Equity Risk Premium	8.00 %
Beta	0.81
Cost of Debt (Pre-Tax)	3.69 %



Appendix

Appendix 8. DCF Analysis: WACC Calculation

WACC Calculation

Cost of Equity	8.87 %
Cost of Debt (After-Tax)	2.74 %
Equity / (Debt + Equity)	81.45 %
Debt / (Debt + Equity)	18.55 %
WACC	7.73 %

Appendix 9. DCF Analysis: Project the Future Cash Flow

Cash Flow

Fiscal Year End December	Forecasts		
	2020E Stub	2021E	2022E
Adjusted EBITDA	\$7,420	\$7,356	\$7,225
(-) Stock-Based Compensation	(53.00)	(53.00)	(54.00)
(-) Other Non-GAAP Operating-Related Adjustments	(137)	(136)	(137)
(-) Depreciation and Amortization	(1,269)	(1,248)	(1,235)
Operating Income	\$5,961	\$5,919	\$5,799
(-) Taxes	(1,220)	(1,181)	(1,212)
<i>Marginal Tax Rate %</i>	<i>(25.70)%</i>	<i>(25.70)%</i>	<i>(25.70)%</i>
Net Operating Profit After Tax (NOPAT)	\$4,741	\$4,738	\$4,587
(+) Transaction and Loan Losses	0	0	0
(+) Depreciation and Amortization	1,269	1,248	1,235
(+) Stock-Based Compensation	53.00	53.00	54.00
(+) Deferred Income Taxes	0	0	0
(-) Excess Tax Benefits from Stock-Based Compensation	14.151	14.151	14.418
(-) Gain on Sale of Principal Loans	0	0	0
(+/-) Changes in Operating Working Capital	0	0	0
(-) Capital Expenditures	0	0	0
Unlevered Free Cash Flow	\$6,077	\$6,053	\$5,890
End-of-Year Discount Period	1.0	2.0	3.0
Mid-Year Discount Period	0.5	1.5	2.5
PV of Projected UFCF	\$5,855	\$5,413	\$4,889



Appendix

Appendix 10. DCF Analysis: Perpetuity Growth Method

Perpetuity Growth Method

Terminal Year UFCF	\$5, 890
Perpetuity Growth Rate %	2.00 %
Terminal Value	\$104, 791
PV of Terminal Value	86, 986
(+) PV of Projected UFCF	16, 157
Intrinsic Enterprise Value	\$103, 144
(-) Debt Outstanding	(6, 569)
(+) Cash & Cash Equivalents	4, 896
(+) Short-Term Investments	91, 262
(+) Long-Term Investments	41, 933
Intrinsic Equity Value	\$234, 666
(/) Fully-Diluted Shares Outstanding	1, 427
Intrinsic Value per Share	\$164. 44
<i>Margin of Safety</i>	73. 7 %

Treasury Stock Method

	<u>Ex Px</u>	<u>Amount</u>	
Stock Options Dilution	\$29. 65	29	23. 8
(+) RSU Dilution	\$0. 00	54	54. 0
(+) Basic Shares Outstanding			1, 349. 3
Fully-Diluted Shares Outstanding			1, 427. 1

Appendix 11. DCF Analysis: Terminal EBDTA Model

Terminal Multiple Method

Terminal Year LTM EBITDA	\$7, 225
Terminal EV / LTM EBITDA Multiple	12.0 x
Terminal Value	\$86, 695
PV of Terminal Value	69, 334
(+) PV of Projected UFCF	16, 157
Intrinsic Enterprise Value	\$85, 492
(-) Debt Outstanding	(6, 569)
(+) Cash & Cash Equivalents	4, 896
(+) Short-Term Investments	91, 262
(+) Long-Term Investments	41, 933
Intrinsic Equity Value	\$217, 014
(/) Fully-Diluted Shares Outstanding	1, 427
Intrinsic Value per Share	\$152. 11
<i>Margin of Safety</i>	71. 6 %

Treasury Stock Method

	<u>Ex Px</u>	<u>Amount</u>	
Stock Options Dilution	\$29. 65	29	23. 3
(+) RSU Dilution	\$0. 00	54	54. 0
(+) Basic Shares Outstanding			1, 349. 3
Fully-Diluted Shares Outstanding			1, 426. 7



Appendix

Appendix 12. ESG Additional Information (AFLAC.COM)

Environmental

Waste Management: Aflac has reduced its waste and cost by creating apps and doing more services online. Aflac's apps are called SmartApp® and Aflac SmartClaim® Mobile App. Within the U.S., Aflac waste reduction plan has stopped over 500,000 lbs. of paper waste and over 1 million lbs. of solid waste from going to the landfill, and programs want to increase the amount of use of Forest Stewardship Council-certified paper to 90% by 2025. Aflac Japan has a recycling rate of 65% because of recycling plastics and paper to reused and turn into power.

Water Scarcity: Aflac aids in Flint, Michigan, ongoing water crisis. Aflac is one of the community groups that provide services to help The RL Jones Community Outreach Center and the Greater Flint Holy Temple church through the water crisis, being a water distribution center and delivering food and personal care items.

Social

Human Rights, Labor Standards, And Gender and Diversity: Aflac is a company that is committed to diversity. It was one of the first companies to endorse the Hispanic Promise and has been recognized over ten times by Black Enterprise. At Aflac U.S., almost 50% of new hires are of an ethnic minority background. Aflac U.S. has over a 60% a rate of all employees being women, and Aflac Japan hit its goal of getting at least 30% of their women employees in leadership roles by 2020.

Employee Engagement: Aflac employees are actively involved with community relations and outreach programs, which leads to more environmental and social responsibility in and outside the workplace. Aflac employees, along with their independent contractors, have supported and donated millions. Aflac and its representative have donated more than \$140 million to pediatric cancer research and treatment.

Governance

Business ethics and anti-corruption policies: Aflac has been one of Ethisphere's most influential and ethical organizations for 13 years in a row. At Aflac, their values are the foundation of our trust relationships with our employees, customers, shareholders, business partners, and employees with our suppliers and government regulators. These values include teamwork, respect, fairness, honesty, integrity, and responsibility, in which the company is founded.

Annual employee ethics training: Aflac's anti-fraud team monitors, investigates, and prevents fraudulent claims from being filed within and outside the company. For example, in 2019, Aflac U.S. and Japan provided ethics training to all employees, including more than 10,000 employees and executives, through their e-learning programs, on topics such as Aflac's business conduct and ethics code.

Political contributions transparency: Aflac is committed to good governance and corporate citizenship. The community places trust in the company and Aflac understands the importance of our constituencies having a voice to ensure that their rights and values are protected.



Appendix

Appendix 13. Aflac Incorporated Multiples Valuation

Companies (Identifier)	Closing Price (12/10/2020)	Metrics					Comparable Scale				Final Adjusted Factor
		(Size) Market Cap (In Thousands \$)	(Profitability) 5 years Ave. Net Margin (%)	(Growth) 5 Years CAGR (%)	(Financial Strength) 5 Year Average Liquidity (%)	(Size) Market Cap (25%)	(Profitability) Net Profit Margin (25%)	(Growth) Revenue Growth (25%)	(Financial Strength) Liquidity (25%)		
		Peer Companies				25%	25%	25%	25%		
Life insurance and financial service company											
MFC	\$18.06	35,028	6.91	104.17	4.47	0.23	0.53	0.00	0.14	0.90	
PRU	\$79.96	31,664	8.78	2.93	1.31	0.25	0.42	-0.03	0.49	1.13	
MET	\$47.55	42,793	6.27	-0.67	0.59	0.19	0.59	0.14	1.08	1.99	
Other peer Company in the Industry											
ALL	\$105.42	32,055	7.2	4.86	1.82	0.25	0.51	-0.02	0.35	1.09	
Target Company											
AFL	\$45.35	31,856	14.68	-0.37	2.56					1	
Companies (Identifier)		Price Valuation Multiples									
		P/E FY20E (x)	Growth FY1 (Y to Y %)		PEG FY1 (x)		P/S FY20E (x)		P/CF FY20E (x)		
Peer Companies											
Life insurance and financial service company											
MFC	6.4		18.38		N/A		0.63		2.21		
PRU	8.85		2.12		2.32		0.53		6.05		
MET	4.73		-14.26		4.33		0.68		8.81		
Other peer Company in the Industry											
ALL	7.32		3.89		1.82		0.76		212.85		
Target Company (Identifier)											
AFL	7.09		2.33		N/A		1.51		24.03		
Companies (Identifier)		Price Valuation Multiples									
		P/E FY20E (x)	Growth FY1 (Y to Y %)		PEG FY1 (x)		P/S FY20E (x)		P/CF FY20E (x)		
Category Weight		Peer Companies									
Scale for Adjustment											
75%		Life insurance and financial service company									
0.227		MFC									
0.252		PRU									
0.186		MET									
25%		Other peer Company in the Industry									
0.248		ALL									
Benchmark Values											
HDS											
Value (x)		Projected Price (\$)									
EPS		Weight									
SPS		Weighted Price (\$)									
CFPS		0									
Sum		0									
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