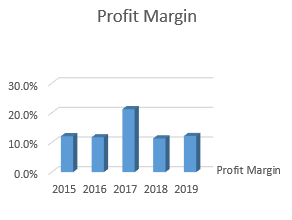
**Financial Analysis**

**Overview:**

Financial Analysis Overview gives us a picture of the financial conditions of Aflac and allows us to analyze the company’s performance, financial position, and operational efficiency.

Table

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**Profit Margin:**

In the calendar year 2019, Aflac Corp had a net profit margin of 12.2%. This margin has fluctuated but stayed positive ever since 2015, with the highest net profit margin occurring in 2017 at 21.2%.

**Revenue and Growth Rate:**

**Chart

Description automatically generated**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 5 years, Aflac has only generated a CAGR of 1.68 % (from $20.87 billion in 2015 to $22.31 billion in 2019).

**Operating Expenses:** Operating expenses of Aflac mainly consist of Operating expenses which was $17,010 million in 2015 jumped to **Chart, line chart

Description automatically generated**$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.

**Dupont Analysis:**

Chart, line chart

Description automatically generatedAflac'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 the five-year period, peaked at 19% in 2017 and fell to a five-year low of 11% last year.

**Solvency and Liquidity**

Chart

Description automatically generatedLife insurance industry is responsible for providing long-term period service, thus, as one of the industry’s leading company, solvency is the vitality and main driving force of Aflac’s operation, meanwhile, Aflac needs to be ready to pay compensation on time, at any time, which implies the strong liquidity is required by each product and service. We think that keeping long-term and short-term debt under reasonable, balanced, and manageable control is one of the most important tasks of Aflac.

* **Graphical user interface, text, application, email

  Description automatically generated**The debt/total equity ratio is 23% in 2019 which shows a decreased trend since which is 28% in 2015, that is not a large number, it is reasonable that Aflac didn’t take a big leverage on its business operation.
* The data from 2017 to 2019 are notable. There are some improvements with the debt situation of Aflac from 2015 to 2017, but the debt/total equity has an increased in 2018, that might result from the dispute about the conversion of Aflac Japan, which is a tax avoidance activity as Aflac Japan transfers to a legal subsidiary, subject to the approval and support of the IRS or Aflac will need to pay the substantial U.S. federal income tax and Aflac need to prepare more reserves for that year. In 2019, as the sales cooperative distributor in Japan, JPC and JPL have suspected of illegal sales under partial scrutiny by Japanese regulators, to deal with this, Aflac has restructured its assets and capital structure in U.S. and Japan, reduced the weight of the debt.
* The Current ratio in Aflac has keep a stable high level around 120% while the Quick ratio in Aflac are also stable but state in a low level, that might because of the Industry characteristics. As the business separate in U.S. and Japan, Aflac's cash needs to be exchanged frequently between the currencies of the two countries, thus the fluctuation of the exchange rate becomes the inherence risk of Aflac. If the yen strengthens significantly, it would heavy the cash pressure to the parent company with cash collateral and potential cash-settlement requirements, thus, in 2018, Aflac has entered the currency exchange forward contract for hedging, to maintain the liquidity.

**Efficiency Analysis:**

* **Receivables Turnover ratio:** receivables turnover ratio which was 28.1% in 2018 increased to 28.9% in 2019. Compared to the past results of Aflac
* **Asset Turnover ratio:** Asset turnover ratio which was 15.50% in 2018 went down to 14.60% in 2019.
* **Working Capital Turnover Ratio:** Working capital turnover ratio decreased from 0.93 to 0.77.

**Valuation**

**Analysis Overview**

Our DCF model target price was $80, which represents 77% upside from AFL’s current price. We use DCF valuation model to calculate a target price for AFL of $164.44. We first made a 3-year free cash flow model, calculated the perpetuity growth rate as 2% and estimated the terminal EBITDA multiple as 12x to calculate the implied share prices.

**DCF Model**

* Weighted Average Cost of Capital:

We calculated the WACC by using the 30-year government bond rate of 2.39% as the risk-free rate. We find that the 5-year average marginal tax rate was 25.7% for Aflac Incorporate. We assumed that the equity risk premium as 8% based on the information Ibbotson's ERP. We assumed the capital structure will not change in the next few years.

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* Project the future free cash flow

Base on our assumption, we forecast the EBIDA of $7,420, $7,356, $7,225 for year 2020E, 2021E, 2022E respectively. Assuming marginal tax rate of 25.7%. The projected UFCF using mid-year discount period to calculate the PV of UFCF.

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* Perpetuity Growth Rate

We assume the perpetuity growth rate is 2%. We are confident that after 5 years, AFL will grow at the terminal growth rate. Using this perpetuity growth rate, we found a terminal value of 104,791 million.

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Margin of safety is 73.7% when using perpetuity growth method, it represents market price is significantly below its intrinsic value.

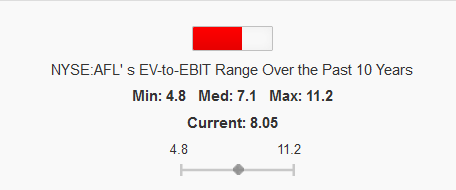
* Terminal EBITDA Multiple

We assume that the EBITDA multiple would stabilize at 12x. Under this assumption, we have the terminal value of 86,695 million.表格

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Margin of safety is 71.6% when using terminal multiple method, it represents market price is significantly below its intrinsic value.

* EV 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.

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描述已自动生成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.

* PE Ratio

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描述已自动生成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 PE Ratio for today is 7.08.