S&P Capital IQ

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Aflac Incorporated NYSE:AFL

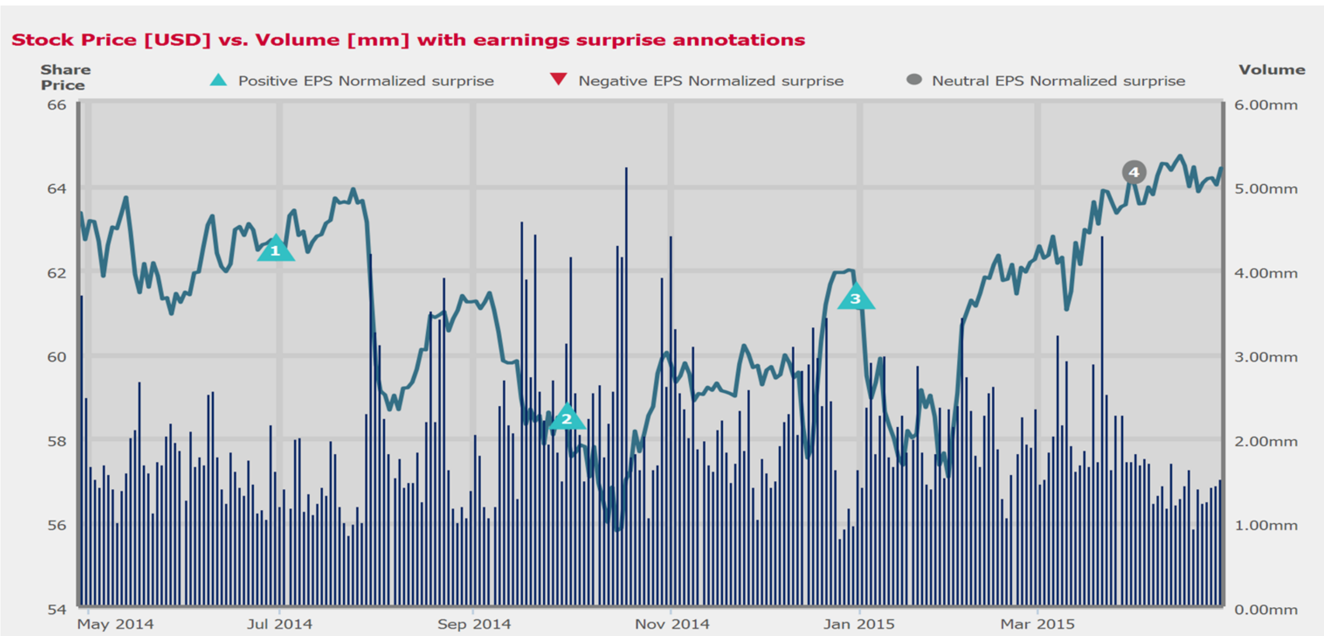
FQ2 2015 Earnings Call Transcripts

Wednesday, July 29, 2015 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.52	1.50	▼(1.32 %)	1.47	5.97	6.32
Revenue (mm)	5242.44	5287.00	▲0.85	5193.87	20846.51	21236.64

Currency: USD
Consensus as of Jul-29-2015 1:03 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	1.59	1.66	▲1 4.40 %
FQ3 2014	1.43	1.51	▲2 5.59 %
FQ4 2014	1.28	1.29	▲3 0.78 %
FQ1 2015	1.54	1.54	●4 0.00 %

Call Participants

EXECUTIVES

Daniel P. Amos
Chairman & CEO

Eric M. Kirsch
Executive VP & Global Chief Investment Officer

Frederick J. Crawford
Executive VP & CFO

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Paul Shelby Amos
Former Director

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Teresa Lynne White
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Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Thomas George Gallagher
Crédit Suisse AG, Research Division

Yaron Joseph Kinar
Deutsche Bank AG, Research Division

Presentation

Operator

Welcome to the Aflac Second Quarter Earnings Conference Call. [Operator Instructions] Please be advised, today's conference is being recorded. I would now like to turn the call over to Ms. Robin Wilkey, Senior Vice President of Aflac Investor and Rating Agency Relations.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Good morning, and welcome to our second quarter call. Joining me this morning from the U.S. is Dan Amos, Chairman and CEO; Kriss Cloninger, President of Aflac Incorporated; Paul Amos, President of Aflac; Fred Crawford, Executive Vice President and CFO of Aflac Incorporated; Teresa White, President of Aflac U.S.; and Eric Kirsch, Executive Vice President and Global Chief Investment Officer. From Tokyo, also joining us today is Hiroshi Yamauchi, President and COO of Aflac Japan.

Before we start, let me remind you that some statements in this teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we can give no assurance that they will prove to be accurate because they're prospective in nature. Actual results do differ materially from those we discuss today.

We encourage you to look at the quarterly release for some of the various risk factors that could materially impact those results. Now I'll turn the program over to Dan, who will begin this morning with some comments about the quarter as well as our operations in both the U.S. and Japan. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, Robin. Good morning, and thank you for joining us today. Let me begin with an update on Aflac Japan, our largest earnings contributor.

I am extremely pleased that the sales of the third quarter products were up a whopping 25.2% for the second quarter and 23.3% year-to-date. In addition to continued strong sales of our cancer insurance, the new medical product we introduced last month has proven to be very attractive in what has become a very competitive market.

From a distribution standpoint, Aflac Japan generated positive sales growth from all of our sales channels, which lets us know we're focused in the right direction. Our goal is to have a presence where consumers want to make their insurance purchase decisions, and these results reflect our success in broadening our reach and our sales opportunities.

Keep in mind that Aflac Japan's fourth quarter sales of third sector products were up 28.5%, thus making this year's fourth quarter a tough comparison. Given strong third sector sales growth in the first half of the year and the positive reception to the enhanced medical product, we now anticipate that sales of third sector products will increase between 7% to 10% for the full year. This is much stronger than our original expectation and impressive, given that [ph] our already leading market share position in the third sector products.

Now let me turn to our U.S. operation. I am encouraged that the second quarter sales improved over the first quarter results. And I believe that the changes we've made to our management infrastructure last year are setting the stage for bigger and better sales opportunities. Additionally, One Day Pay has generated a lot of excitement with our distribution channels, accounts and policyholders. Through the industry-leading claims initiative, we're able to process, approve and pay eligible claims in just one day. This allows us to deliver on our promise to our policyholders, even more meaningfully by getting cash in their hands faster than ever. We continue to estimate that 70% of our policyholders can use One Day Pay for their claims. In 2015, we expect to process nearly 2 million claims within the parameters of this initiative. Along with our strong brand and relevant products, I believe One Day Pay will continue to underscore the value of Aflac's products and ultimately help Aflac sales long term.

At the same time, 2015 continues to be a year of building in Aflac Group. We are making progress with advancing our relationships and our potential business opportunities through insurance brokers and larger case market. As our production through broker and larger employers grows, we anticipate that sales will be driven progressively toward the fourth quarter, which will magnify the seasonal pattern of our sales to a certain extent. We continue to concentrate our efforts on increasing Aflac U.S. sales 3% to 7% for the year.

Having covered operations, let me turn to a topic I know is top of mind with the shareholders, and that's capital deployment. We remain committed to maintaining strong capital ratios on behalf of our policyholders. We continue to believe our capital strength puts us in an excellent position to repatriate approximately JPY 200 billion to the United States for the calendar year 2015, which continues to reinforce our plan to repurchase $1.3 billion of the common stock in 2015 and places us in a good position for the next year as well.

As I've said at the Financial Analyst Briefing in May, we believe that over the next few years, all else equal, we will have opportunities to increase the capital available for deployment. Let me reiterate that our strong bias is, first, to continue with our strong record of dividend growth, followed by repurchasing of our stock and third, disciplined investment in organic growth initiatives.

With the first half of the year complete, I'm pleased with the company's results. We have upwardly revised our target for 2015 operating earnings per diluted share to now be in the range of 4% to 7% on a currency-neutral basis. Historically, the majority of the expenses have skewed more toward the end of the year, however, we have expedited some of the spending in the first half of the year and now believe expenses should lessen in the latter part of the year.

Of note, some of the expense acceleration is driving strong growth rates and [ph] we are experiencing in Japan, and expect to experience in the United States. As always, we are working very hard to achieve our earnings per share objective while also delivering on our promise to our policyholders.

Now let me turn to a topic I know you're eager to hear about. As most of you know, Fred Crawford has joined the Aflac team at the end of June as Executive Vice President and Chief Financial Officer. At our Analyst Meeting in May, I shared how important it was that we bring in someone who not only has a new perspective, but who, as a leader, also enriches our corporate culture. Ultimately, the corporate culture of our organization is a very important factor of leadership because it helps define the company's common goals, objectives and standard of behavior that employees have come to count on.

Throughout Fred's 3 decades of financial leadership experience, he's consistently demonstrated that he possesses the characteristics that we've been looking for, and we believe he is the right man for the job. Let me just say that he's off to a tremendous start at Aflac in terms of overseeing the financial management of the company's operations, including global investments.

As you know, Kriss is continuing his duties as President of the corporation. In addition, he's working closely with Fred as he transitions to Aflac. Fred has also been rolling up his sleeves and I can tell you that he fits right in to Aflac. Fred, we're glad to have you. Now Kriss is going to say a few words about the transition, followed by Fred, who will then turn it back over to Robin. Kriss?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Thanks, Dan. First, let me say I've been both privileged and blessed to have held the CFO responsibility at Aflac for the last 23 years. And I look forward to continuing to serve Aflac and all of its stakeholders, including the investment community, as President of Aflac Incorporated at the pleasure of Dan and the board. I've always wanted to transition my CFO duties at a time when Aflac is financially strong. And today, looking at our capital position and our earnings process -- prospects, I certainly believe that to be the case.

I'm pleased we were able to upwardly revise our EPS guidance for 2015, we've performed at or better than expected for the first 6 months and our outlook for the full year is more favorable than our original estimates. Accordingly, I believe Fred is joining us at a good time and I'm enjoying working with him as he transitions to his new responsibilities. And let me tell you that Dan and I were immediately impressed with Fred during our interview process. We believe his breadth and depth of experience, as well as his exposure to the financial challenges that the industry faces, gives him a perspective that will significantly benefit Aflac. But equally important to us was Fred's history as an active partner with his previous CEOs. I have complete confidence that Fred will capitalize on those experiences and fully meet our expectations of him as Aflac's next CFO.

So with that build up, let me turn it over to Fred for a few comments.

Frederick J. Crawford
Executive VP & CFO

Thanks, Kriss, and thank you, Dan, for the nice comments. Let me start by also thanking the entire management team here at Aflac for welcoming me into the Aflac family, and particularly Dan and Kriss, who have built out a very comprehensive transition plan for me into the new CFO role. It's a real privilege to be here.

Ever since I started with the company nearly a month ago, it's been a whirlwind of meetings and activities directed towards gaining a deep understanding of the operations, our strategy, key initiatives and, of course, the key financial drivers.

I've had an opportunity to spend a productive week in Japan. I also attended a sales force meeting in the U.S. and countless briefing sessions at various -- with various areas of the organization, especially on matters related to driving growth, valuation and efficient capital management.

It's clear to me that here at Aflac, we have a very high-caliber level of people who are dedicated, compassionate and who genuinely love what they do. I've joined the company at a particularly good time, as the strategic planning process is underway and the 2016 financial planning process begins.

I will understandably play a more limited role on this call. But as I immerse myself in operations, investments and the financial details, I look forward to sharing my perspectives with you in the future periods.

I can assure you that under Dan and Kriss' leadership, the team is laser-focused on driving growth, effectively deploying and delivering capital back to our shareholders and leveraging our platform here in the U.S. and Japan. So with that, I'm very excited to be here and I look forward to more opportunities to interact with all of you. And I'll hand it back to Robin. Robin?

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Okay. Thank you, Fred, and welcome. I'd like to go over some second quarter numbers this morning, starting first with Aflac Japan. Beginning with the currency impact for the quarter, the yen weakened against the dollar 15.7%. In reference to top line in yen terms, revenues as reported were flat for the quarter. Excluding the impact of the yen, revenues declined 1.4%.

In terms of the quarterly operating ratios, the benefits to total revenues declined slightly compared to last year, going from 60.6% to 60.5% in the second quarter. Excluding the impact of the weaker yen, the benefit ratio for the quarter would've been 61.3%. Reinsurance had 110 basis points positive impact on the benefit ratio in the quarter.

The expense ratio in the quarter increased to 18.4% from 17.7%. Expenses were, in large part, due to write-offs -- software development costs related to modernization activities, planned increased spending associated with upgrading of our system software in Japan and also promotional expenditures for our new medical product.

The pretax profit margin declined slightly during the quarter, going from 21.7% to 21.1%. Excluding the impact of the yen, the pretax profit margin for the quarter would've been 20.1%. With the retraction of the margin, pretax earnings declined 3.1% in yen terms. Excluding the yen, pretax earnings would've been 8.9% -- would have declined 8.9%.

Now let me turn to Aflac U.S., where total revenues rose 1.9% for the quarter. And looking at the operating ratios, the benefit ratio was 47.7% compared to 48.1%. The primary reason for this improvement was the continued favorable claims experience.

The operating expense ratio increased, going from 31.6% to 32.8%. This increase is the result of increased spending on the U.S. sales strategy as we've discussed before and is in line with our expectation.

Now looking at some of the other items. Noninsurance expense at the corporate level were $38 million compared to $51 million a year ago. This decline reflects the impact of the extinguishment of the debt executed last quarter. Parent company and other expenses were $20 million compared to $19 million in the second quarter of '14.

On an operating basis, the corporate tax rate was 34.6% compared to 34.5% last year.

As reported, operating earnings per diluted share before the yen impact were $1.64 compared to $1.66 a year ago. The weaker yen decreased operating earnings by $0.14 per diluted share for the quarter.

Lastly, let me comment and reiterate some of the statements that Dan made. We have upwardly revised the target for our objectives for 2015 and now expect operating earnings per diluted share to be in the range of 4% to 7%.

For the third quarter, if the yen averages JPY 120 to JPY 125, we would expect operating earnings to be in the range of $1.40 to $1.53 per diluted share. Using the same currency assumptions for the full year, we would expect to report EPS somewhere in the range of $5.88 or $6.17 per diluted share.

Before we take your questions, I'd like to take this opportunity to update everyone on a change to the timing of our earnings guidance practice. After careful consideration, we concluded the best practice would be to provide earnings guidance in December for the following year in the form of a dedicated outlook call. We believe this process better aligns us with the natural time line of our financial planning process. Additionally, this practice also puts us more in line with the guidance disclosure practices of many of our peers.
Now we're ready to take your questions. [Operator Instructions] We will now take the first question, please.

Question and Answer

Operator

[Operator Instructions] The first question is from Yaron Kinar with Deutsche Bank.

Yaron Joseph Kinar
Deutsche Bank AG, Research Division

I wanted to focus on the third sector products and specifically the new guidance. Is the new guidance for the full year 2015 reflecting any changes to your fourth quarter expectations? Or is it mostly driven by the first half results and maybe expectations of stronger sales in the third quarter?

Paul Shelby Amos
Former Director

This is Paul. Let me -- you say that certainly, our first through third quarters -- first 2 in performance, third expected, are running ahead of our expectations. And so that is a considerable portion of the 7% to 10% target. That said, we do believe that we've improved modestly our fourth quarter outlook. Again, we've only had a very short period of time in terms of seeing the medical sales of the new product that's just been launched. And so I think I'll have a better view on how the fourth quarter is going to be as we get to the third quarter call, but I'm extremely optimistic about what's happening. As Dan said in his opening remarks, we're up across all channels. And the 7% to 10% increase in third sector reflects a much improved number over where we thought we would be coming in to 2015.

Yaron Joseph Kinar
Deutsche Bank AG, Research Division

Got it. And then my follow-up, also still staying on this third sector product sales. Are you seeing any changes in the demographics that are buying the new product compared to what's the traditional demographics have been? And also, have you seen -- maybe can you offer some detail as to what portion of cancer products sold are coming from Japan Post?

Paul Shelby Amos
Former Director

Unfortunately, we cannot disclose or we do not disclose how much of the -- the percentage that's coming from Japan Post. What I can tell you, what I said and what Robin has said is that we're up across all channels and that our cancer growth is not driven solely by Japan Post, but instead by all channels. In terms of the demographics, they're somewhat similar to what we've seen in the past. We are targeting younger customers by certain product lines. And we've seen some movement because of that. That said, in the aggregate, I would not tell you that, that move has been significant up to this point.

Operator

The next question is from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I had a question on U.S. sales and -- or recruiting and the producer count. You've made a lot of changes in your sales infrastructure, but we've seen a steady decline in recruiting and the agent count. When do you expect that the change is to start lifting recruiting? And do you expect it in the fourth quarter when its a heavy sales season or would it be more likely in 2016?

Teresa Lynne White
President of Aflac US

This is Teresa. So let me start by talking a little bit about the recruiting number. The recruiting number consists of both broker recruits and career agents. And on the broker side, we've purposefully reduced the number of recruits there because our goal is to strengthen and deepen the relationships that we have with our current brokers. We've hired 120 broker sales professionals, and our goal is to continue to earn the business of each of those brokerage houses and to help them to grow their business. Now -- and many of these are large brokerage houses that we have these relationships with. So we knew that the business would skew toward the latter end of the year and we knew that we needed to start working on deepening relationships with these brokers. So I feel good about that. But that means that, that recruiting number will not be driven upward as steeply. And the decline that you see in that recruited number is driven by -- primarily by the broker recruits. Now from the career perspective, we will continue to work in increasing the number of career recruits. Our goal there was to initially increase the number of district sales coordinators because in our field force, those are the field hierarchy of the coordinators who actually train those new recruits. And we have increased the number of districts by 16%. And so we are now seeing an increase in recruits as well for the second quarter. It's around 3% -- 2.6% is what we're seeing in increase in recruits.

So we have strategies, certainly, to continue to increase recruiting, but our philosophy has changed somewhat on the broker side. We do know that lower recruiting does not mean lower sales at this point in time because the broker business is growing, and we're pleased with that.

Operator

The next question is from Nigel Dally with Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

So my question is for Fred. First, congrats on your new position. One of the key questions we get is how will the financial management of Aflac change, if at all, with you taking over as CFO? So I know it's early, but any priorities that you have, which are perhaps a little different to where Aflac was previously focused?

Frederick J. Crawford
Executive VP & CFO

I think you should expect no -- certainly no sharp changes right or left from me. One, job one, is really focused on understanding Aflac's operations and strategy. My approach has always been the same at the companies I've worked at. My ability to be effective in understanding the financials, and particularly also capital developments, is everything about understanding the operation. So where I've been spending most of my time is just getting a feel for the platform, both here in the U.S. and Japan. I'm very privileged in taking over for one of the most respected CFOs in the industry who has spent a lot of time and years developing great people around him and great practices. I fully expect that I would arrive here and find a very solid financial operations and management, and that's exactly what I've found. So really, where my focus is going to be, is really more contributing to really Aflac's focus on driving growth and taking the company to, like, the next level. I think my observations of Aflac is that the good news is that we're dominant in the markets that we serve. But at the same time, that raises the stakes on driving future growth. And we've got a lot of initiatives underway doing that, and that's where my focus is going to be, is understanding that and helping to interpret those strategies to how it matters to our financials and how it's expected to flow through. So that's where I'm expecting to spend a lot of time. But in terms of the core practices of the company, they're very solid, they're very familiar and I like what I see.

Daniel P. Amos
Chairman & CEO

And I would like to comment as the CEO. Kriss and Fred's thought processes are much the same. They're very thought-provoking in their approach to everything that they do and the mutual respect that the 2 of them have for each other, I've seen over the last month, is only going to make our company stronger, and I am -- I told Fred not to get the big head, but that he was exceeding our expectations and he certainly has been in all the eyes of the people that have worked with him so far.

Operator

The next question is from Randy Binner with FBR Capital Markets.

Randolph Binner
FBR Capital Markets & Co., Research Division

I was hoping to get some update or color on ongoing reinsurance transactions. There's nothing noteworthy there in the quarter. So should we still be thinking about those as coming along and enabling the -- kind of you hitting the higher end of the capital deployment range you gave at the FAB meeting in May?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Randy, Kriss. You're pretty much on target there. At FAB, we indicated a range of deployable capital we expected to see over the next 3 years of somewhere in the neighborhood of $6.3 billion to $7.5 billion. I told you at the low end of the range, I didn't think we'd have to do much in the way of extraordinary capital raises, either through reinsurance or other means, to achieve that level of capital deployment, perhaps some modest level of reinsurance. To get to the $7.5 billion, we might have to do some other things. We've got our ear to the ground in the reinsurance market overall. As you know, we're pursuing ways to achieve cost-effective, cost-efficient ways to reduce sterile capital, particularly in the Aflac Japan operations. We think we did that through our last transaction that ceded [ph] a significant block of business in Japan that allowed us to recover our retrocession from the reinsurer of 90% of the block to minimize the cost of that block and still achieve a significant reserve release in Japan. We're talking with the reinsurance community about additional follow-on opportunities of that nature. We don't have anything in the works at the moment. Nothing to announce, but it's part of our planning process and we're continuing to flesh out the planning around sources and uses of capital. And Fred and I have been having significant discussions, along with Ken Janke, in our planning for the future there. But nothing in the pipeline at the moment. Nothing that you ought to expect to hear about in the near term.

Randolph Binner
FBR Capital Markets & Co., Research Division

As the follow-up would be, given the amount of capital in the reinsurance area in general and kind of the trajectory of the deals you've done, which have gotten -- kind of each one has been better of the 3 major ones, is that still the direction in the conversations you have with the reinsurers, that their -- the terms and conditions and circumstances continue to improve? Is that a fair way to think of it?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

That's our objective, yes. And we continue to explore the market to achieve that objective.

Operator

The next question is from Erik Bass of Citigroup.

Erik James Bass
Citigroup Inc, Research Division

I think, Dan, in your comments you had mentioned for the priorities for capital return you cited dividends, buybacks and organic growth. But can you discuss how you're thinking about M&A and your level of interest in doing something particularly in the U.S.?

Daniel P. Amos
Chairman & CEO

I think that the price of insurance companies are through the roof. And I can't possibly see in anything making any sense at this particular time. The thing I could see are small things that would ultimately enhance our internal growth, but like a CAIC type that makes us broader in our perspective. So in terms of capital, it wouldn't even be a blip on the screen. It wouldn't even require a release. It would be so small, the things we're looking at. So right now is not the time. What we need to do is concentrate on what ultimately enhances shareholder value, and that's growing our business internally, and then doing share repurchase if that makes sense and then also increasing the dividend. So I'm staying in that area.

Erik James Bass
Citigroup Inc, Research Division

That's helpful color. And just one more on the M&A theme. I guess as you're seeing more domestic Japanese companies look abroad for growth and do foreign M&A, is there any change in their competitor behavior or focus on the local market in Japan?

Daniel P. Amos
Chairman & CEO

I'll let Paul take that.

Paul Shelby Amos
Former Director

We closely follow all the Japanese domestics. We see, certainly, sometimes different behavior between those that are mutual companies and those that are stock companies. But in general, they're following their overall strategic long-term plans, allocating certain percentages of revenue they'd like to see outside of Japan. But we don't believe in any way that's fundamentally changing the domestic marketplace.
We do, however, believe that our continued focus on Japan and the efforts that we're making there are allowing us to continue to execute better and better, and I think that's evident in this quarter's numbers as we continue to keep our focus right in Japan and what we think the Japanese consumer needs.

Operator

The next question is from Ryan Krueger with KBW.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

First, can you talk about the key factors that led to your upward revision in 2015 EPS guidance?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Yes, Ryan. I'll cover that. Basically, we got the first 6 months under our belt. Things came in, as I said, at or somewhat better than plan in most particular areas. I always liked to say, we've got a lot of moving parts in this organization. And I have to expect some good variances from plan and some that are maybe not quite as favorable. But net-net, the things that moved from plan netted out to be on track. I will say that we had front-loaded expenses, both in Japan and the U.S., this year relative to where they were in the prior year, at least on a comparative basis. In the U.S., it was all continuing build-out of the change in the sales management model and the like. In Japan, we had planned to do some additional work in our IT areas in terms of building out some of the systems we're working on and the like. And of course, we ended up with that relatively modest write-down of some of the software development costs we had previously incurred. To tell you, there's a lot of moving parts on that software development cost thing. We're going to get a credit from the vendor that participated in doing that software development that will benefit us in subsequent periods, credit somewhere between at least half of the amount of the write-down and we have some optionality in terms of when to take advantage of those credits. But all that being said, we had a good solid first 6 months. We think we'll be on plan or better for Japan and U.S. benefits in the second 6 months. We're ahead of plan, to some extent, in net investment income. And of course, we did the bond transaction to take out the 8% notes that we had outstanding, took them out and the combination of first and second quarter eliminated $850 million of bonds that carried an 8% coupon, replaced them with about $1 billion of debt that carried much lower net affected coupon rates, and that's going to save us about $0.07 a share or a little bit over 1% of increase in EPS during the period. So all those things netted together, I mean, the increase in guidance wasn't huge, but it was an upward revision to indicate that we had a good plan for the year and we have confidence we're going to make it during the second part of the year. Good sales helped that, too. So that's about it from my perspective. I don't know, Dan, if you want to add anything to that, but that's the financial story. I'll let you follow-up if you want to.

Daniel P. Amos
Chairman & CEO

Yes, I think you got it.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

And then just -- and my follow-up is just on the Japan new money rate. It increased meaningfully to 3.76% in the quarter. Can you talk about what drove that and just how meaningful were the cash flows that were invested at that rate?

Eric M. Kirsch
Executive VP & Global Chief Investment Officer

Sure. Absolutely. A big driver of that was, as you'll recollect, I talked about earlier in the year, that most of our cash flows were back-ended in the second half of the year. And one large portion of those cash flows was, again, you'll recollect we had the flash crash of October 15 last year. We sold about $1.2 billion of treasuries, but we opted to put that back into yen or JGBs because we didn't like the dollar opportunity at that time. We planned to bring that back to dollars during '15, but we wanted to be opportunistic. So not knowing exactly when that would be, that was planned for July 1. As you know, during the second quarter, the 10-year started at about 190 or 180 or so, ended the quarter around 240 and early June, hit around 245, 250. We opted to take about 2/3 of that money and allocate it in June, mostly to some investment-grade corporate bonds and a little bit of high-yield. So we were opportunistic in terms of the timing planned for, but we did a little earlier than we had originally put in the budget of July. So that was the big driver of that new money yield. And as I had said last quarter, we expected over the year that this would iron out. The first quarter was just because we focused primarily with the small amount we had on JGBs, but we'd always planned on having a larger dollar allocation. So I hope that helps.

Operator

The next question is from Steven Schwartz with Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Just a couple of follow-ups on previous questions. Teresa, just so I'm clear here, the recruited agent number at the brokers, these are like account managers that you're including in these numbers, some guy working at Aeon?

Teresa Lynne White
President of Aflac US

The recruited numbers are all recruits. So broker recruits as well as career recruits. So if an Aeon, for example, may have producers that are recruits as well. So anyone with a license, and it depends on the state, but anyone with a license they're counted in this recruit number.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. Could you tell us what weekly average producers or monthly average producers, what those comps would look like with regards to just the traditional career agency force?

Teresa Lynne White
President of Aflac US

The numbers that you see actually in the FAB Sup, I would say primarily are the sales force, the career force. One of the things that I've spoken with Robin about is as we skew more toward broker business that we need to relook at how we present this information in the FAB Sup. And the reason I'm saying that is the numbers that are represented here are primarily our sales, our career sales organization numbers. So the weekly average, weekly producers average, monthly producers, and then we have brokers that were contracted as associates. But as we have executed on our new broker strategy, now we've started looking at brokers as a single entity in our systems, but they are not well represented here. So the field force is still very, very important to us and we're continuing to work with them on the less than 100 -- 100 or less accounts. But I don't think that I'm fairly representing the broker community on the FAB Sup and we plan to change that.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then a follow-up for Eric. Eric, if I got the previous answer right. Basically, the point is that it wasn't really new cash flows. This was from premiums or whatever, from the company. This was just selling JGBs and trading those into dollars?

Eric M. Kirsch
Executive VP & Global Chief Investment Officer

Primarily. There's a little bit of new cash flows. So when I speak of new money, it's an accumulation of from operations, maturities, calls, the interest, coupons, things of that nature. But the percentage breakdown is primarily from the JGBs coming back to dollars.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. Any sense of what we should be thinking about for the rest of the year for new money yield?

Eric M. Kirsch
Executive VP & Global Chief Investment Officer

We have a number of things in the pipeline. It will be somewhere, I would say, between where we are now and much higher than 2%.

Operator

Your next question is from John Nadel with Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Dan, I think can probably speak for most of your shareholders when I say I'm really excited to hear that you believe 18x forward earnings is too high a price to pay for insurance company acquisitions.

Daniel P. Amos
Chairman & CEO

Well, let me just say that's from our standpoint, I can't speak on why other people would. But from my standpoint, we can't make it work.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

But it would be a good valuation for Aflac.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Well, yes. It certainly would. The question I have for you is where did -- if you could just level set us on where the parent company cash position ended the quarter? And how much of that JPY 200 billion that you have planned to repatriate for the full year, how much of that was taken through the first half of the year?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Let's see, I've got some of those numbers here, John. Total cash and cash equivalents were right at $1.4 billion, but that was down from almost $2.5 billion at the beginning -- or end of the first quarter because we refinanced and paid off those notes of a little over $1 billion during the quarter. The cash available to shareholders, which we count as the amount of cash we've actually got less a $500 million minimum balance, the cash collateral amount and any debt prefunding activities we got, that's closer to $400 million. And we'll expect that to grow modestly during the third and fourth quarter as we receive additional amounts of repatriation. We actually received JPY 119 billion in July, that wasn't included in that number at the end of the second quarter I gave you. And we've got another JPY 50 billion or so planned to recover or receive during the remainder of 2015. The cash position is pretty good.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Absolutely.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Sufficient to support the share repurchase objectives anyway.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes, understood. And so -- and so I guess that sort of begs the question, what are you looking to see in the back half of the year to give you maybe a little bit more confidence to think about that $1.3 billion for 2015 being a higher number?

Daniel P. Amos
Chairman & CEO

Well, we think about it being at $1.3 billion. That's implicit in the guidance, the revised guidance. So we hadn't really thought about it being a bigger number at this point. But it's certainly possible depending on how things break, that we would consider that if appropriate. But we're not ready to say it's appropriate. We're doing our cash planning, our earnings planning, et cetera, et cetera. And the updated guidance we gave you, which is toward the high end of the original guidance is as far as we're willing to go right at the moment.

Operator

The next question is from Humphrey Lee with Dowling & Partners.

Humphrey Lee
Dowling & Partners Securities, LLC

Just a question about WAYS sales in Japan. It was up 36% in the quarter to JPY 5.6 billion. If I recall correctly, it's the highest level since late 2013. I understand the product is being repriced and you're using it to maintain relationship in your distributions. I'm just kind of wondering what is the return on the repriced WAYS products and what kind of new money do you need to achieve that return?

Paul Shelby Amos
Former Director

Well, this is Paul. Let me start on first sector broadly and say that first sector, as we promised we were going to actively manage, was down again 11.8% in the quarter and down 21.1% year-to-date. We did, as a part of our strategy, reprice and redevelop part of the WAYS product. Our BR [ph] product, really focused on 15-year and longer, first and foremost, to help handle any disintermediation risk. Second of all, to target a potentially younger customer and we've already seen in the first quarter a lower average age of issue as a result. And finally, as we've discussed, or I've discussed at FAB, as an accommodation to our agency sales force, keep in mind, several of our large channels don't even offer first sector generally, whether it's Daido, Dai-ichi or Japan Post. But through and through our bank channel, we continue to monitor and cap sales of first sector products. But as our exclusive agencies depend solely on Aflac for their products, and they continue to do a great job creating cross-selling between first sector sales and third sector sales, we continue to work with them to develop products that we think can meet our needs as well as meet the needs of growing our third sector sales in Japan. I'll turn it back over to these guys to talk about the expected profit margin and the overall rate for interest.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Well, I'll make a brief comment on that. As you know, we've continued to operate in a historically low interest rate environment in Japan. That's led us to being cautious and disciplined relative to our sales practices. At today's interest rates, we're looking at mid-single digit profitability as a percent of premium on the WAYS business produced today if those low interest rates continue on for the full premium period of the policy. As Paul mentioned, we extended the premium period for the new version of WAYS from pretty much a 10-year minimum to a 15-year minimum. That produces over a premium rate in each year we collect a premium. It gives us a longer period of time to yen average or dollar average invested interest rates during the time we receive the cash from the product. And at today's interest rates, again, historic lows. If those persist throughout the premium period of the policy, we expect to come in mid-single digits, which is not really consistent with our company objective. We're optimistic or hopeful that interest rates will improve somewhat over time and we'll get the benefit of investing some of the future cash flows at somewhat higher interest rates, but that remains to be seen. All that being said, we do believe that it's in our corporate interest to maintain the agency relationships with the channel that we've developed to continue to promote the cross-sale of third sector products, which we're pretty good at, and just monitor conditions as we continue to accept business. So it's not a rosy picture at current interest rates, but we're trying to just keep the distribution system afloat at this point.

Daniel P. Amos
Chairman & CEO

I see WAYS a little bit like a contest for salespeople, that you've got to keep whether -- we're trying to find a way to enhance sales of the third sector. The one way that we're enhancing sales is that they feel like they need this WAYS product or a product to have a broad enough portfolio. And so we give up some on profit margin. But whether we had, had a sales contest, it costs us a lot of money to increase third sector whether or not we took a little bit lower profit margin on the life insurance product. It's still -- ultimately, our objective is not to grow WAYS. Our objective is to grow third sector. And the numbers reflect what's going on in Japan, that we are in fact growing third sector and growing it dramatically. No one with the profit margin we've got, with the market share we've got, is expected in a 12-month period to grow over 25%, which is what we're growing right now.

Humphrey Lee
Dowling & Partners Securities, LLC

This is helpful. Just kind of a quick follow-up on that is do you have any kind of sales caps on the WAYS product through your agency channel?

Paul Shelby Amos
Former Director

We encourage certain products of first sector products to be sold at lower levels through our agency channel by either monitoring the production credit we give them or taking away certain elements of the product related to that channel. Specific to the new WAYS BR product, we are focused on helping them and allowing them to sell that 15-year and longer because we believe, as Kriss pointed out, it has some advantageous elements to the overall sales. But as we've cited, we have to be very careful in taking away products from an exclusive provider because they would obviously have the opportunity to become nonexclusive and offer other company's products, which would damage our relationship with them should we determine that we were no longer going to offer any first sector products. But strictly managing products like child endowment and annuity has been something we've been heavily focused on.

Daniel P. Amos
Chairman & CEO

But Paul's answer is yes. And your real question is what if interest rates go lower? And the answer is we can control it if we need to.

Operator

The next question is from Colin Devine with Jefferies.

Colin Wayne Devine
Jefferies LLC, Research Division

It's -- and first, Dan, with respect to your comments about Fred, I didn't realize Fred was quite as old, given how long he's been around this business.

Frederick J. Crawford
Executive VP & CFO

Getting older every day, Colin.

Colin Wayne Devine
Jefferies LLC, Research Division

These markets can do that to you.

Frederick J. Crawford
Executive VP & CFO

Colin, it's not the years, it's the mileage.

Colin Wayne Devine
Jefferies LLC, Research Division

Ain't it the truth. For Dan and Kriss, the growth rate of the premiums in-force has continued to slow in both Japan and the U.S. And how much of a concern is that to you? And I guess, by extension, is that really reflecting what we're seeing with some of the recruiting challenges and what's it going to take to turn this around?

Daniel P. Amos
Chairman & CEO

Well, of course, the sheer size of Japan is a challenge. I believe that the things that we're doing in the United States -- you asked me so I'm going to answer it. Teresa could answer it, but I'm going to answer it, is that I still believe the U.S. has enormous potential. I believe some of the things that we're doing specifically last year at this time for the first 9 months since we've put it in, we're up about 6.7%. That still doesn't excite me too much. I want to see double-digit, but I think we're doing the right thing in that regard. Our specific areas of the country, about 40% of them were up prior to these changes, and now about 60% of them are up. So they're moving in the right direction. So I'm hoping that as we see now national health care or Obamacare pretty well set. Every ruling, every everything, that people have fought is kind of over. Now people will lock in and become used to that it's here to stay, and I think that ultimately broadens our opportunity to grow our business. But we have got to grow new sales, and I make no doubt about that. And so we'll continue to work that way.

Colin Wayne Devine
Jefferies LLC, Research Division

[indiscernible] with respect to Japan, too?

Daniel P. Amos
Chairman & CEO

Okay. Well, I'm going to let...

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

I'll make a few comments on Japan. Colin, I'll say that the financial guys look at increasing profitability more than they look at increasing premiums in-force, and some of that is a discipline we've had input on from the investment community. Over the last several years, 2010, '11 and '12, we wrote a lot of first sector premium. In my opinion, it had good profit margin. I'm convinced we added significantly to the value of the enterprise and grew our profits with first sector products. But we got a lot of pushback from the investment community saying, "We don't want you to grow those large premium policies. Those more investment-oriented products." So it wasn't solely that input that caused us to push back but it was partly that input that caused us to push back some in the first sector. And so we've reemphasized our core business of third sector products that cover the body, instead of being investment-oriented or life insurance-oriented more. And we're concentrating on growing that. And I think redirecting the efforts of our distribution system to third sector is leading to significant increases in growth. Now the fact of the matter is you've got a certain persistency or lapse rate that's just associated with the market and you lose a certain amount of business through lapses. And your net gross based on how much new production you can have that offsets the lapses in-force. And as you get bigger and bigger and bigger in terms of your legacy block, the lapses become bigger and more new business is required. So we've got a balancing act going on, Colin. But our final focus is on enhancing profitability and value of the company for the shareholders. I don't worry quite as much about the metric of premiums in-force as I do profit growth. So I'm going to leave it there and let you push back, if you want.

Colin Wayne Devine
Jefferies LLC, Research Division

For sure. You'd be disappointed if I didn't. So Kriss, if we take that, the pretax margin seems to have pretty much stabled in around 21%. But the ROE has continued to significantly drop over the last 5, 6, 7 years. Where do you see the ROE stabilizing out [ph] for Aflac Japan?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Well, you say it significantly dropped for the last few years to put that into perspective...

Colin Wayne Devine
Jefferies LLC, Research Division

Back in 20 -- yes, 2009, 2010 it was off the charts. I think at about 41%. Pretax, pretax.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Well, I don't know. I hadn't [indiscernible] 41%. Okay. Pretax, maybe you're right. All I know is we're in the far upper right-hand corner of every chart I ever see relative to companies producing ROEs. And right now, on an operating basis, excluding all the unrealized gains and losses and excluding the effect of currency, our ROEs are still in excess of 20%. I think they were like 23.1% or something like that. That was the number. I happen to remember that number because I kind of like those ROEs. That was it for the second quarter on an operating basis. And darn, one thing we determined when we were interviewing CFO candidates is every person we interviewed told us that one thing that attracted us -- them to talking to us was our profitability metrics and our return metrics. Our margin metrics, our ROE metrics, they say, "Gosh, my company sits around and lusts after your metrics," and it's a really attractive situation. So I'm sensitive to what you're saying about ROE declines. And quite frankly, the first sector business, if it produces a mid-single-digit profit margin, that's going to carry a lower ROE, and I admit that but that's not where we want to end up ultimately. But I think we'll maintain the operating ROEs, our internal range is to hit somewhere in the 16% to 24% range. That's what we get paid on. So that's what we're managing for. And quite frankly, 20% is our target, minimum target. And if we don't get that, we get penalized financially. So that's where I'm trying to keep things.

Frederick J. Crawford
Executive VP & CFO

Yes, Colin, I'll give a couple of observations from our perspective. First, we always want to drive those core valuation metrics north, where we can and if we can. But interestingly enough, what I think has also happened over the last several years for Aflac is our cost of equity has come down. As the company has gotten bigger, stronger, stable and quite honestly, I'm looking across the table at Eric Kirsch because Eric has grabbed on to the general account and managed the risk more carefully around the exposures we have. The volatility and prospects of volatility for the company are down -- down considerably. And so I think ROE may have trickled down over time but certainly, cost of equity has also come down, too, where we're still generating the kind of value that you would expect. And I would second that Kriss is talking about, in part, some comments I made when I was first talking with the company.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

All the candidates just made them. It wasn't just you. I was impressed.

Frederick J. Crawford
Executive VP & CFO

Yes, all right. Well, it's true though. But the thing that's interesting about that is it goes back to also Dan's comments on M&A. I mean, the bar is set extremely high here at Aflac because right now, when we buy back our stock, we're effectively buying back into a high returning company at 0 premium. And that's a very valuable thing to do. And when we look at deploying excess capital, build often and wins over buy when you're looking at a premium. And really, what we're excited about is driving more competition for investing organically in our growth model. And that's a very promising thing when you're driving good returns. So it's -- we're in a good position, I think all the way around.

Colin Wayne Devine
Jefferies LLC, Research Division

Just to clarify one thing, Kriss. You mentioned the 16% to 23% ROE range. Were you talking pre- or post-tax?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Post.

Colin Wayne Devine
Jefferies LLC, Research Division

Okay. That's -- clarification is important because we were on pretax.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Yes, that net after-tax income over equity as defined in the financials.

Colin Wayne Devine
Jefferies LLC, Research Division

Yes, yes. No, a few of us might have just had a heart attack there, if you were talking pre-.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

No, no. I don't talk pretax. Well, I guess profit margins are pretax, but ROE is always after-tax, sorry.

Operator

And the next question is from Tom Gallagher with Crédit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

I guess in a similar line of questioning, just wanted to go down the path of earnings growth. And Dan, if I think about what's happening with Japan sales right now, it seems like things have inflected in a positive way, certainly from a pure number standpoint. And I -- if I go back historically, Aflac has had, we'll call it at least a year lag between when sales start to influence earnings. Now I think you have a new wrinkle here, though, in your model, in that you have this first to third sector sales transition, which is clouding that connection. So I guess taking all that together, do you think we have -- we may also see an EPS inflection along with this Japan sales growth inflection, or do you think that's still several years out considering this other transition that's occurring?

Daniel P. Amos
Chairman & CEO

Well, let me just say, let's don't forget that Life sales were down 11%. And you can't break out just WAYS because it's all part of it together, so I want the point that out. But Kriss says he wants to take it. So I'll -- since this the last one, we'll let Kriss take it. And then if you've got any follow up, I'll answer.

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Well, Tom, all I wanted to do was to point that a lot of our costs are step costs in nature. They don't directly vary with the production of the business. They're very similar between first and third sector products. And certainly, some percentage of the costs are in fact variable. But the way we manage costs, particularly within Aflac Japan, is I'll say independent of the source of the production, et cetera, et cetera. Our staffing models are built around certain things. And we don't have a lot of fluctuation in personnel or staffing levels over, say, a 6-month period. We'll adjust depending on trends and the like. But I can pretty much count on the Aflac Japan management team to come in with their expense plan we established at the beginning of the year. And one of the ways I've disciplined that expense plan is by setting the growth in their general operating expenses, generally at about an increase level of about half the increase in the premium income. That's my objective. That's where I always start out with them. And so that adds some discipline to the process. It gives them some variability in the premiums. If premiums vary, I let their expense targets vary. But in general, more of our costs are step in nature and not directly variable. So that tends to lead to some stability of profits regardless of variations in production over a short span of time, which I'd say is 6 months or so.

Daniel P. Amos
Chairman & CEO

As we end this call, I want to say one thing because Aflac Japan is on the other end, because you're all analysts and shareholders. I couldn't be prouder of the job that Aflac Japan is doing. I mean, to realize the market share we have, to realize the profit margin we have and to realize the sales increase we have now pulled for the fourth, first and second quarter is just stellar. And I hope all of you will take note of that and realize because I'll put them up as bragging rights against anybody. There's always in a quarter some good and some bad, and sometimes you have really bad news. Fortunately, we've had very little over our history. But sometimes you really have good news, and I'm here to say we've got good news about Aflac Japan and what's going on and we're proud of them. So with that, we'll turn back to Robin.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Thank you, and I appreciate everybody participating today. If you have any follow-up questions, I'll be in the office, so please give me a call. And thank you for being on the call today.

Operator
Thank you for your participation on today's conference. All parties may now disconnect.