S&P Capital IQ

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Aflac Incorporated NYSE:AFL

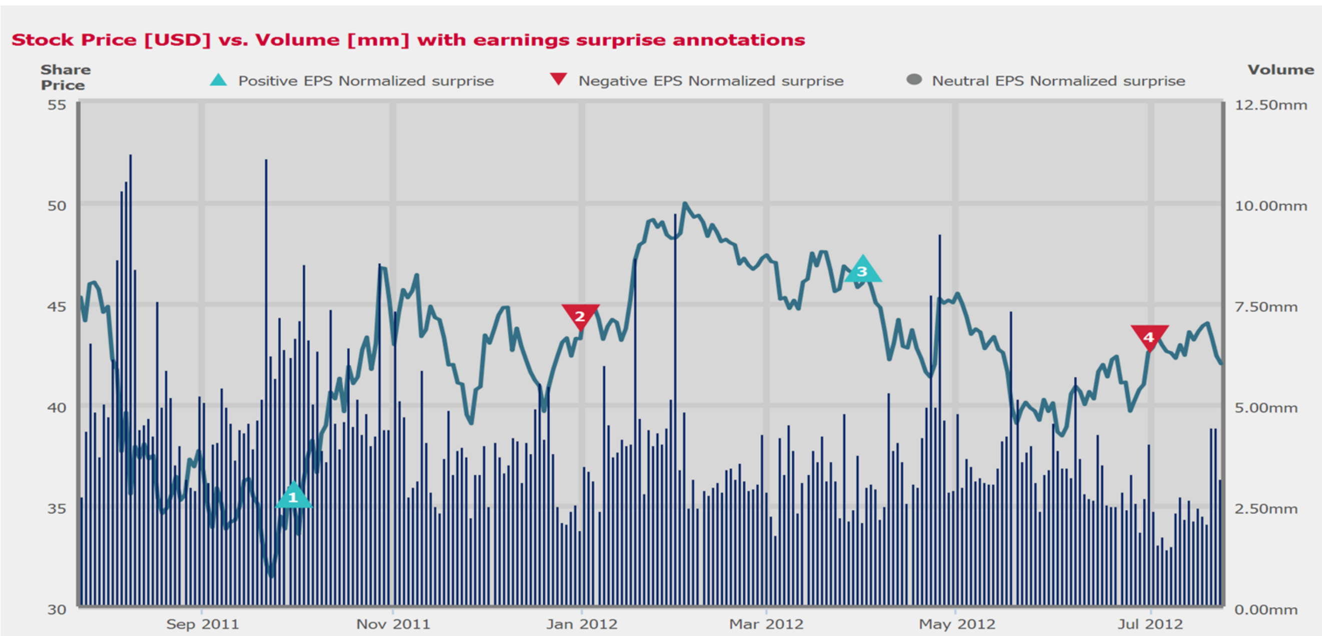
FQ3 2012 Earnings Call Transcripts

Wednesday, October 24, 2012 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.66	1.77	▲6.63	1.51	6.58	6.94
Revenue (mm)	6558.44	6847.00	▲4.40	6693.57	25690.57	27535.02

Currency: USD
Consensus as of Oct-24-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	1.60	1.66	▲3.75 %
FQ4 2011	1.51	1.48	▼(1.99 %)
FQ1 2012	1.65	1.74	▲5.45 %
FQ2 2012	1.62	1.61	▼(0.62 %)

Call Participants

EXECUTIVES

Daniel P. Amos
Chairman & CEO

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Global Chief Investment Officer and Executive VP

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Kriss Cloninger
President & Director

Paul Shelby Amos
Former Director

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

Tohru Tonoike
Vice Chairman of Aflac Japan

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Presentation

Operator

Welcome to the Aflac Third 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 third quarter call. Joining me this morning is Dan Amos, Chairman and CEO; Kriss Cloninger, President and CFO; Paul Amos, President of Aflac and COO of U.S. Operations; Ken Janke, Executive Vice President and Deputy CFO; Eric Kirsch, Executive Vice President, Chief Global and Investment Officer; and Toru Tonoike, President and COO of Aflac Japan, is joining us today from Tokyo.

Before we begin, let me remind you that some statements in the teleconference are forward-looking within the meaning of the federal securities law. Although we believe these statements are reasonable, we can give no assurance that they will prove to be accurate because they are prospective in nature. Actual results could differ materially from those we discussed today. We encourage you to look at our quarterly release for some of the various risk factors that can materially impact our results.

Now, I'll turn to program over to Dan, who will begin this morning with some comments about the quarter in our operations in Japan and the United States. I will then follow up with a few financial highlights for the quarter in the first 9 months, and then we will be glad to take your questions. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, Robin. And good morning, everyone. Let me begin with a review of AFLAC Japan, our largest earnings contributor. We were again pleased with AFLAC Japan's strong financial performance and phenomenal sales momentum that continued into the third quarter. Following 2 years of tremendous sales growth, new annualized premiums, sales rose 31.7% to JPY 55.7 billion in the third quarter. These results significantly surpassed our expectations again, and marked the fifth straight quarter of record sales production. For the first 9 months of the year, AFLAC Japan's total annualized premium sales in yen rose 43.4%.

Record sales growth, combined with continued strong persistency, contributed to AFLAC Japan's double-digit increase in premium income for the third quarter. Premium income increased 10.7% to JPY 346 billion. Revenue growth was also strong in the quarter, rising 10% to JPY 404 billion. Pretax earnings were JPY 78 billion, down 1.4%; and for the 9 months, pretax earnings were JPY 238 billion, up 1.4%.

The bank channel generated JPY 26.9 billion in sales, which represented an increase of 85.3% over the third quarter of 2011. The bank channel accounted for 48.6% of AFLAC Japan's total new sales in the quarter.

From a product perspective, WAYS, our unique hybrid whole-life product, continued as our top seller in the third quarter, generating an increase of 108% over 2011, and accounted for 50% of the total third quarter sales. Our sales management team has done an excellent job ensuring the transition from 5-pay WAYS to 10-pay WAYS has gone smoothly through all distribution channels. Additionally, sales of 10-pay WAYS in the quarter was much stronger than we originally anticipated.

Sales for the medical category was also strong, rising 11.7% in the third quarter and benefiting from July's introduction of the revised nonstandard medical product.

Given the current low interest rate environment, we continue to employ strategies to enhance the profitability of our child endowments and WAYS products. In the third quarter, all distribution channels stopped selling 5-pay WAYS. Beginning this week, we lowered the interest rate credit from 0.5% -- from

1% to 0.5% for discounted advance premium or DAP. This credit essentially increases the total premium paid. The profitability of WAYS and child endowment will be enhanced in April of 2013 when we lower the assumed interest rate for new product pricing.

Considering AFLAC Japan's very strong sales results for the 9 months, we think sales could be challenged for the remainder of the year. We anticipate the additional sales growth hurdles in the fourth quarter will come from consumers' response to the lower credit given for the DAP. And as a result, we expect sales to be in the range of flat to up 15% for the quarter. Taking all that into account, we now expect 2012 Aflac Japan sales to rise 30% to 35% year-over-year.

But let me say that even before the fourth quarter began, my mind had already shifted to 2013, and the challenges we faced following 5 straight quarters of record-breaking sales results. I want to point out that the bank channel represents a larger portion of our business, so projecting future sales results becomes more challenging. Also, we won't gain insight into 2013 bank sales strategies until closer to the start of AFLAC -- of Japan's fiscal year, which starts April 1.

Although marketing plans for Aflac Japan are being finalized for 2013, we already see some challenges on the horizon. We know that Aflac's brand is strong throughout Japan, and this enhances the appeal for our products. For the last 2 years, as all of you know, our sales has been spectacular due to the WAYS and child endowment products, particularly through banks. During that time, investment yields have been lower, thus putting pressure on the profitability of these products. As I've said earlier, we started implementing adjustments to improve profitability, including the reduction in DAP that went into effect early this week. More importantly, in 2013 with the rate increase going into effect on new policies due to lower assumed interest rates, I think you're likely to see sales slow down, but generate higher profitability, which would create higher profit margins for Aflac Japan going forward.

Now let me turn to the U.S. operations. From a financial perspective, Aflac U.S. continued to perform very well this year. Although new sales growth has been constrained, our top line growth has been consistently strong through the year, and large part reflecting an improved persistency with each quarter. We believe there are a couple of reasons for this improvement. First, with the economic uncertainty over the last several years, workers have been reluctant to switch jobs and people are more likely to keep the benefits they currently have. Secondly, we've enhanced communication with the policyholders at important touch points, and we know this has resulted in better policy retention. I also think we've done a good job in managing the U.S. operation, including budgets and people resources. Our benefit and expense ratios are lower than a year ago, resulting in stronger pretax operating earnings. Aflac U.S. revenues grew 5.2% for the quarter and 5.2% for the first 9 months. Pretax earnings were up 21.5% for the quarter and 11.5% for the first 9 months. Premium income increased 5.2% for the quarter and 5.3% for the first 9 months. Aflac U.S. annualized premium sales declined 1.5% for the quarter; however, for the 9 months of the year, sales growth was positive with total new annualized premium sales rising 1.5%.

We continue to see the economic landscape in the U.S. as challenging, especially for small business segment, where more than 90% of our products are sold. Although the most recent government data shows that unemployment rates improved slightly, small business continue to hold back on hiring. The National Federation of Independent Businesses, which focuses on small business owners, reported this month that fewer jobs were created in September than in the 2 previous months. Additionally, the percentage of small business owners, who plan to create new jobs in the future, is historically at weak level.

We have continued to make structural changes to our marketing and sales area to maximize our future growth. While these changes have been more disruptive in the short term than we originally anticipated, we believe this will enhance our long-term results.

With the election less than 2 weeks away, many business owners are reluctant to make changes in their benefit programs until there is greater clarity in the U.S. economy outlook. With the uncertainty in 9 months of results, I think it's likely that Aflac sales for 2012 will be roughly flat.

Having updated you on our operations, let me give you some details related to our Global Investment division. For the last several years, our primary focus has been on investment risk management while investing our significant cash flows in assets of relatively higher quality and liquidity. As you know, we made considerable progress in proactively derisking our portfolio over the last 4 years to enhance the strength of our balance sheet. In the process, we've significantly reduced our exposure to perpetual securities, peripheral European sovereign debt and financials, especially in Europe. In fact, we reduced our exposure in these categories by $1.4 billion during the quarter, and $3.8 billion year-to-date, which further improved the overall quality of the portfolio. Impairments were relatively small in the quarter; however, the European market still represents an area of potential risk and we remain cautious. But I am convinced we are much better positioned to accommodate that volatility as a result of the derisking efforts.

As we have stated for many years, our greatest investment challenge has been to invest Aflac's significant cash flows at reasonable investment yields. Our recently employed U.S. corporate bond program has been effective means of enhancing our new money yields in Japan. You'll recall that our initial objective was to invest JPY 200 billion, or about $2.5 billion, in U.S. dollar denominated, publicly-traded corporate bonds and unhedged currency risk. We completed that pilot program in the third quarter and are very pleased with the results it generated. In the third quarter, the new money yield on the corporate bond program was 3.6%. Aflac Japan's total new money yield for the quarter was 2.76%. These yields do not reflect hedging cost for the program, which was 41 basis points.

Based on the success of this program and market conditions, we plan to invest 2/3 of Aflac Japan's fourth quarter cash flow. This successful investment program allows Aflac Japan to surpass our budget in new money yield for 2012 of 2.05%. It also enhances the profitability of our more interest-sensitive products and benefits next year's investment income growth.

Finally, I'm pleased with the continued progress in the transformation of our Global Investment division. We continue to grow our investment team, build new infrastructure support, develop new investment strategies with the elements of our recently completed strategic asset allocation projects. We believe these efforts will improve the risk return profile for our balance sheet and further our objective as a world-class investment operation.

Now, I'll turn to Aflac's consolidated financial performance. Operating earnings per diluted share were better than expected, rising 7.3% to $1.77 for the quarter. There was no impact from foreign currency in the third quarter. It's important to note that even without a lower effective tax rate, operating earnings per share would have been right in line with our objective and guidance. For the 9 months, operating earnings per diluted share rose 5% before the effect of the yen. Net earnings in the third quarter of 2012 included after-tax realized investment gains of $186 million or $0.39 per diluted share compared with after-tax losses of $34 million or $0.08 per diluted share in the third quarter of 2011. I am pleased the investment strategies we've implemented have improved the quality of investment portfolio and benefited the bottom line.

I'm also pleased that our capital ratios remain strong, which demonstrates our commitment to maintaining financial strength and flexibility. Although we've not yet finalized our statutory financial statements, we estimate that the RBC ratio was between 575 and 600 at the end of September. We expect Aflac Japan's solvency margin ratio remain at the high-end or above our 500 to 600 target.

Given the strength of our capital ratios and our parent company's liquidity, we believe we can allocate up to $100 million toward the purchase of our shares in the fourth quarter. Purchasing shares later this quarter won't have much impact on 2012 earnings per share growth, but it will benefit us in 2013. I'll also stress that we've been prudent. In any decision we make, we'll certainly taking into account challenges within the macroeconomic environment, especially as it relates to Europe.

As we have frequently discussed, profit repatriation went into primary source for funding share repurchase. You may remember from our second quarter call in the Tokyo Analyst Meeting that we expect profit repatriation to be around JPY 65 billion for 2013. We still believe that's a reasonable estimate assuming that we have no additional investment losses that would reduce Aflac Japan's operating income. Next year's profit repatriation could provide us with significant amount of capital that could be deployed with share repurchase.

I was very pleased that the Board of Directors approved the 6.1% increase in the quarterly cash dividend effective with the fourth quarter payment. This marks the 30th consecutive year we've increased cash dividend to the shareholders. We continue to believe that we are well-positioned to achieve our stated earnings objectives of 3% to 6% increase in operating earnings per diluted share, excluding the impact of foreign currency.

In the second quarter, we have guided toward the low end of the range. However, reflecting the lower annual effective tax rate, we now expect operating earnings for 2012 to be better. If the yen average is JPY 80 to the $1 for the last 3 months of the year, we expect reported operating earnings for the fourth quarter to be in the range of $1.46 to $1.51 per diluted share.

Under the same exchange rate assumptions, we expect the full year operating earnings to be $6.58 to $6.63 per diluted share, which would be roughly a 4% to 5% increase on a currency-neutral basis. We believe this is reasonable and achievable. Importantly, we continue to believe that 2013's operating earnings per share will increase 4% to 7% on a currency-neutral basis.

In addition to operating earnings growth, we also focused on producing industry-leading return on equities. On an operating basis, the third quarter ROE was 25.2%. For 2012 and 2013, we continue to believe it's reasonable to see operating ROE in the area of 22% to 26%. We remain focused on our vision of being the leading provider of voluntary insurance in the United States and the #1 provider of supplemental insurance in Japan. In both segments, I am confident in our brand, the fundamental needs of our products, and more importantly, the success of Aflac. Overall, I believe we had the best quarter since 2008.

Robin?

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

Thank you, Dan. Now let me start with a few financial highlights. First with Japan. Beginning with the top line in yen terms, revenues were up 10.0% for the quarter, which is the first time we've had double-digit growth in revenues since 1997. Investment income was up 3.7%, and the persistency rate improved in the quarter. The annualized rate including annuities for the first 9 months of 2011 was 94.8% compared with 94.4% a year ago.

In terms of operating ratios for the quarter, the benefit ratio to total premiums increased over last year as a result of the impact of first sector products, primarily the WAYS product. It was 73.1% in the quarter compared to 70.0% a year ago. The expense ratio for the quarter was 18.1%, down from 18.8% in the third quarter of 2011, reflecting the lower commission cost associated with strong sales of first-sector products, primarily WAYS. Reflecting the higher benefit ratio, the pretax profit margin decreased from 21.6% to 19.3% in the quarter. Pretax earnings decreased 1.4% in yen terms for the quarter.

Now let me turn to Aflac U.S. Total revenues rose 5.2% for the quarter. The persistency rate continued to improve in the quarter. Annualized rate for the 9 months was a record 76.9%, up from 75.9% a year ago. In looking at the operating ratios for the quarter, the benefit ratio to total premiums decreased over the last year, going from 56.8% in the quarter, compared to 59.1% a year ago.

The lower benefit ratio for the quarter is largely the result of lower paid and incurred claims experienced during the quarter. The operating expense ratio decreased slightly going from 31.5% a year ago to 31.2%.

Benefiting from lower benefits and expense ratios, the profit margin expanded to 18.4% compared to 16.0% a year ago. As a result, pretax operating margins increased 21.5% for the quarter.

Now, let me turn to investment activity for the quarter, starting with Aflac Japan. For the third quarter, approximately $2.5 billion of new cash flow was invested in the corporate bond program for a gross yield of 3.6%, and a hedge cost of 41 basis points. The yield, net of hedge cost, was 3.19%. For the quarter, total new money cash flow invested in Japan was $5.2 billion. The gross total new money yield for that cash flow was 2.76%. The yield for the total new money, net of hedging, was 2.56%. That gives you the hedging cost for the total portfolio of 20 basis points.

The weighted average duration of the forward contracts executed this quarter is 5 months and range from 3 to 6 months. During the quarter, approximately 55% of the corporate bond purchases have a maturity of 8 to 10 years, and 45% have a maturity of 18 to 30 years.

Approximately 44% of new cash flow was invested in JGBs in the quarter for an average yield of 1.72%.

The portfolio yield at the end of the quarter was 2.8%, down 26 basis points from the end of June, and 58 basis points lower than a year ago. According to Bloomberg, 20-year JGBs during the quarter were 78 basis points, a 6-basis points decrease from June.

Additionally, to enhance our investment income, this quarter we executed on a 6-month securities lending program, involving approximately $6.5 billion of assets from the Japan portfolio. All of these assets were JGBs.

Now let me turn to U.S. investments. The new money yields for the quarter was 3.94%, a decline of 43 basis points from June 30, and 183 basis points from a year ago. The yield on the portfolio at the end of September was 6.51%, down 8 basis points from the second quarter, and 21 basis points from a year ago.

Turning to some other items in the quarter. Noninsurance interest expense in the third quarter was $45 million compared to $44 million a year ago. Total company pretax operating margins decreased, reflecting the increase of the benefit ratio in Japan caused by the increased sales of the ordinary line of business. Parent company and other expenses increased only slightly from $14 million to $15 million in the third quarter.

Also in this quarter, the company revised its estimate of the full year effective tax rate, resulting in an increase of operating earnings of $17.5 million or $0.04 per diluted share. The company also recognized a tax benefit of $29.5 million or $0.06 per share, primarily from a favorable outcome of a routine tax exam for the years 2008 and '09. The total impact of these items was $47 or $0.10 per diluted share.

Going forward, we expect the effective tax rate for the remainder of the year and 2013 to be somewhere between the range of 34.0% to 34.5%, assuming FSA earned premium is flat year-over-year. The pretax margin went from 19.4% to 18.2%, and on an operating basis, the tax rate was 31.3% compared to 32.6% a year ago. Net earnings per diluted share for the quarter were $2.16 compared to $1.57 in 2011.

Lastly, let me comment on our earnings outlook for '12. As you heard, we raised our outlook for '12 to increase operating earnings per diluted share. If operating earnings per share increased between 3% and 6% in the fourth quarter and the yen average is 80% for the remainder of the year, we would expect operating EPS to be between $1.46 and $1.51. That compares with current first-call estimates of $1.53. This estimate reflects our plans to substantially increase IT expenses and expenditures related to marketing and advertising in the fourth quarter. Additionally, if you back out the $0.10 operating earnings benefited from the tax items during the quarter, reported operating earnings per diluted share were at $1.67, which would be right in line with our guidance, as Dan said. Using the same foreign currency as such and we would expect full year operating earnings to be somewhere in the range of $6.58 to $6.63 per diluted share.
Now, we're going to be glad to take your questions. To be fair to everybody, please limit yourself to one question, and only one follow-up that relates to your initial question. We're ready to begin, please.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Nigel Dally of Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

My question is on capital. With the JPY 65 billion repatriation estimate, are you expecting to retain any of that capital in your U.S. sub or should all of that make its way to the parent? Also, you discussed an initiative to monetize some of the deferred tax assets in the U.S. that you may have invested out, [ph] can we also get an update as to where you stand on that initiative?

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Nigel, this is Ken. Right now, as we've mentioned, the JPY 65 billion, we still believe, is a reasonable estimate for next year's profit repatriation. We currently anticipate returning to our normal dividend policy for Aflac U.S. up to the parent company to support the quarterly cash dividend payment and other parent company obligations. In terms of funding the share repurchase activities that we've anticipate for 2013, I think the combination of, and our ability to further dividend upstream, plus the liquidity that we have on hand, would enable us to do that. We were sitting at approximately $950 million of cash at the parent company level at the end of September after dividend payments and $100 million of repatriations in the fourth quarter -- or excuse me, repurchase in the fourth quarter, will probably around $785 million of cash at the end of the year. As far as the DTAs go, we have generated gains this year. Unfortunately, the gains that we've generated have gone against the taxable losses that we've incurred as part of the derisking activities and selling assets at a loss. We're still looking at, actually, a couple strategies that we think will help address the DTA issue going forward, but we still have a little more work to do on those.

Operator

Our next question is from Jeff Schuman of KBW.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

I was wondering if you could update us on the current marginal profitability of WAYS, because you changed the rate on DAP. You've implemented the new money strategy. You discontinued 5-pay WAYS. There's several things going under that should enhance the marginal profitability, but I was wondering if you could give us a read there, please.

Daniel P. Amos
Chairman & CEO

It definitely has. I'm going to get Kriss to cover that.

Kriss Cloninger
President & Director

Okay. Jeff, I'd kind of lead you back to what we reviewed at the Analyst Meeting in September in Tokyo, the information we laid out on the presentation at that time showed what the impact on profitability would be on the current core products, with current core pricing -- current core product pricing, if we were able to achieve an increase in, say, interest assumption on investment assets from, say, 2% to -- 2% to 2.25% or 2.5%. And those charts showed that at 2% interest new money, we'd have a profit margin on WAYS that range from 8 to 12. If we achieved an increase to 2.25%, then I think we'd expect that margin to go up to 13 to 17. And if we could get 2.5%, we'd go up to 17 to 21 expected profit as a percent of premium over the life of the contract. So with the new investment program, we've had some real positive impact on our ability to enhance new money yields. That being said, for the short term, some of that increase in new money yields is going to be offset. And I mentioned this in Tokyo again to try moderate the excitement a little bit, some of that increase in new money yields is going to fund the increase in investment expenses for personnel and infrastructure, et cetera, associated with the new investment team, and that'll dampen things for, say, 6 months to a year a bit. But it is a long-term improvement in profitability, and that will be important. Now, we did, October 22, decrease the credit and interest rate on the discounted advance premium from 1% to 0.5%. That basically gives us an extra 50 basis points on the funds held under that program. And the funds held under that program basically represent half the total premium ever collected on the contract, because we collect total premiums due during the contract on day 1. And just for example, on the 10-pay WAYS, we'd collect first full 10 premiums. We would apply the first premium to the policy the day we collected it. So on balance, we'd have 9 premiums on deposit for the next 9 years; on average, we'd have 4.5 premiums on deposit and an extra 50 basis points, which gives us roughly an extra 2.25% of premium profit over the life of that particular contract. So things are headed in the right direction is all I can tell you.

Daniel P. Amos
Chairman & CEO

And then in April, we'll have the --

Kriss Cloninger
President & Director

You'll have the potential repricing when the standard interest rates decline to 1%, and we'll definitely have repricing activity. At that time, we'll try to watch what competition is doing. We don't want to give ourselves a competitive disadvantage in the market. But I believe that clearly, the premium rate changes associated with the decline and the assumed valuation interest rate in Japan for reserves will tend to increase premium rates, and that will take effect on April 1, 2013.

Daniel P. Amos
Chairman & CEO

And I want to make one comment about our sales force. I am so impressed with Aflac Japan's sales force to -- especially the bank channel, to adapt to these things. To say, "Nu-uh, we're not going to take profit margins at these ranges. We want higher profit margins. And we're stopping 5-pay WAYS. We're doing discount advance premiums. " And of course, the sidebar is, what a great job our investment team has come up with the higher interest rates. And then also in April, we're going to see these things. It has been a wonderful job, on Toru's part and that management team, for what they've done to adapt. Because this is a change. We never used to have to do it like this, and now we're going to vary to make sure we make our profits and do the things we need to do.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's all helpful and obviously, the new money re-piece [ph] is kind of a moving target, dynamically. But kind of all in at this point, it sounds like maybe current margins are more kind of mid-teens up from more like 10% earlier, is that just kind of a fair return [ph]?

Kriss Cloninger
President & Director

They are [indiscernible].

Daniel P. Amos
Chairman & CEO

They are there before the investment expenses, they're there now.

Operator

Our next question comes from Jimmy Bhullar of JPMC.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I had a question on the Japan new money yield. Obviously, it picked up a decent amount. I think it was around 1.97 last quarter, 2.76 in Japan this quarter. Assuming a stable environment from here, what's your expectation for the new money yield? Obviously, you're still shifting your investment allocation and that should help, but credit spreads have come in as well over the past few months. So just, like either more specific, or just directionally, do you expect it to improve from here or decline a little bit?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

If the...

Daniel P. Amos
Chairman & CEO

This is Eric.

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

If the market stays stable in terms of current interest rates in the U.S. and Japan, spread levels around where they are, on an absolute basis, we would expect our yields to go up. Because as we disclosed, our plans right now, subject to market conditions, are to invest about 2/3 of fourth quarter cash flow in a similarly-structured corporate bond program hedged back to yen. So because the proportion of our new money would go to that program, based on current market conditions, the yield would go up versus last quarter whose, of course, yields had gone up from the prior quarter because we're investing 1/3 in that corporate program. So by and large, we would expect it to go up. Current forecast would be about, and this after a hedging cost of around 2 60 or so. But again, market rates can change, spreads change. So that's just a rough estimate based on what we know today.

Operator

Our next question is from Mark Finkelstein of Evercore Partners.

A. Mark Finkelstein
Evercore ISI, Research Division

I want to talk about just the core kind of Cancer and medical sales in Japan. Sales were down about 3% to 4% year-over-year, flattish sequentially. You did have the product introduction of Gentle EVER, which usually does provide some form of a sales surge. And I guess I'm just curious about what is the outlook for sales in those products? And can you give some background or color on the competitive landscape?

Daniel P. Amos
Chairman & CEO

Toru, do you want to take that? Do you want me to? How do you want to do this?

Tohru Tonoike
Vice Chairman of Aflac Japan

Yes, I'll take that. Yes, you're right. The sales of the Cancer and the medical combined is -- has declined during the third quarter a little bit. But this is better than the second quarter, you may have noticed. The second quarter, it was down by 8.7%. Now, the third quarter was down by 3.6%. This increase is because of the good -- very good sales of the new Gentle EVER, which we introduced this quarter. So with that very strong sales of this new product, and also that we are planning to introduce some promotion majors in the coming fourth quarter to enhance the sales of the both Cancer and medical. So we are rather hopeful that we would see the better sales of these 2 products combined in the fourth quarter.

Daniel P. Amos

Chairman & CEO

And Gentle EVER accounted for 30% of EVER sales in the quarter.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. I guess my follow-up would be, you're expecting sales to be flat to 15% in Japan. Is there any color you can give specifically on kind of the Cancer medical component? And whether you expect that to be up, flattish -- what's the outlook?

Daniel P. Amos
Chairman & CEO

Toru?

Tohru Tonoike
Vice Chairman of Aflac Japan

Yes. I think I cannot give you the specific numbers as to the -- our expected sales of the Cancer and the medical combined. But we are trying to move that sales up to the flat, or hopefully, positive into the fourth quarter, but it depends on how successful our promotion will be.

Daniel P. Amos
Chairman & CEO

Yes. I want to remind you that one thing that gives you a harder picture to follow is just remembering that WAYS is 9x more than the price of the medical product -- than the medical products, and even endowment is 3x more. So the number of policy sales look better. And remember that our Cancer product is 20% cheaper than it was because the changes we had in it. So actual policy sales look a little better than the premium sales numbers do.

Operator

Our next question comes from Suneet Kamath of UBS.

Suneet Laxman L. Kamath
UBS Investment Bank, Research Division

Just had a question, I guess for Eric, on the new investment strategy. I think the way that you described it in Tokyo was -- I'll simplify, to a bit of a trade-off between greater liquidity versus a higher rollover risk in terms of the hedges. So I guess I'm just curious, given that you're investing so far, 10 years plus, are you worried about this rollover risk on these currency forwards that are much shorter in duration?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

The way I would phrase it is it's a matter of risk management and a matter of having a macro view of the economy, short-term interest rates. So it is something that we have to look at very carefully, and there are variety of different hedging strategies we can employ over time. So today, am I worried? No. I don't think -- I think there is very little risk from a macro perspective, that U.S. interest rates go up any time or that Japan short-term interest rates change. Over the long term, those dynamics will change, and we will adjust our hedging strategies appropriately. And as you recollect in Japan, we talked about over time using forwards, cross-currency swaps. We could use longer rolling forwards. I'd also keep in mind that when we employ these strategies, we stress test them against our capital ratios and take a number of factors into account. I'd also say over time, we may not always buy in corporate hedge, we may buy other asset classes that are yen-denominated, et cetera. So it is absolutely something that's important, but it's another risk factor amongst many, and you'll see our program continue to develop and become more sophisticated as the amount of assets we deploy, and it continued to grow.

Suneet Laxman L. Kamath

UBS Investment Bank, Research Division

And then, I guess my follow-up is just in terms of the accounting for this, I think you're taking the mark-to-market of the hedge through net income, so presumably, we might see some more volatility in realized investment gains and losses. So I just want to make sure that that is an accurate statement. And then I guess related, how does this impact your statutory results in terms of cash flow testing? Again, you're getting this cash, it's in dollars, and you have -- you're hedging the yen. But when you do your cash flow testing, how are you sort of factoring in potential changes and cost of hedges and those sorts of things?

Kriss Cloninger
President & Director

I'll start out with it. The accounting that we will be utilizing, consistent with GAAP, will take the change in the fair value of the hedges through net realized gains and losses. And the cost of the hedging will be reflected in that line item of the financial statement. That being said, that will be the accounting presentation. The economic evaluation of the profitability of the business, in my mind, will have to be a net of the anticipated cost and the actual cost of the hedging. So I don't want you to get confused to say, "Well, these guys aren't looking at the economics or looking at the accounting. " Because I'm not going to worry about geography when I'm evaluating economic profitability, and I'll just say that. Now, we'll have to reflect the potential implication of the hedging activities and our cash flow analysis that we use for both the actuarial evaluation of reserve adequacy on both U.S. statutory and on an FSA reporting basis. And that will involve using the same type of stochastic processes that we currently use in evaluating cash flows, cash flow adequacy and the like. So all that will be baked into the normal cash flow testing process we go through, effective this year end.

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Suneet, I'd add just a couple of things. This is Ken. First, I think one of the ways you can think about this, in the way that we're hedging using forwards as opposed to cross-currency swaps is that the system looks similar to the reversible currency securities, you'll recall, that we had purchased for many years, meaning that we're not hedging the coupon. We're collecting the coupons in dollars and we'll have the flexibility to either reinvest in dollars, or convert those coupons to yen and reinvest in yen. What we're really hedging is the balance sheet risk. So that the securities, the book value of those securities, their marked value don't fluctuate with currency changes. They'll fluctuate with credit changes, interest rate changes, but we're protecting it from currency changes. And the reason we're doing that is really because of the solvency margin ratio in Japan. And interestingly enough, the treatment of these securities, on an FSA basis, is actually favorable compared with buying straight yen-denominated, privately-issued securities that we used to buy.

Suneet Laxman L. Kamath
UBS Investment Bank, Research Division

Understood. I get the focus on the economics. But just based on what Kriss was saying about the cost of the hedges being below the line, I mean, aren't you effectively overstating your operating earnings if you're getting the benefit of the strategy through net investment income, but you're carrying the cost of the hedge below the line?

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Well again, we're not hedging the coupons. We are hedging the balance sheet, really, not the coupons. But again, to your point, and as we discussed when we think about value -- to the extent that these securities are going to support policy liabilities -- in particular, WAYS -- we think economically. And when we run our cash flow test internally, we're going to consider the cost of the hedge.

Kriss Cloninger
President & Director

Let me just say, we recognize what the GAAP reporting requirements are, but we are also recognizing the operating earnings as we define them are a non-GAAP financial measure. And we may have some internal discussions about what the most appropriate presentation of hedging cost in relation to operating earnings is. For the current year, we've chosen not to change anything. But we may have some internal discussions, and we'll let you know what our conclusions are.

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

And Suneet, as we talked last night, we are looking -- with next quarter, the amount was not very meaningful this quarter, but breaking out those different derivatives by line item also seems to be exactly what the number was.

Operator

Our next question comes from John Nadel of Sterne Agee.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

I'm curious for a little bit more detail, perhaps, on the securities lending program that you've initiated. I understand you guys mentioned this $6.5 billion program, and you're lending entirely JGBs. I was just wondering what you're buying with the cash collateral. Any duration mismatch you might be taking since it's such a short-term program, I think you mentioned 6 months, and what tick up in yield that's providing?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Yes. The collateral is actually matched from a maturity standpoint. So it's very short duration, it's also back at JGBs. It's a very small pickup. My recollection is around maybe 10 basis points or so -- 30 or so? I'm sorry, 30 or so on the whole program. So this is an opportunity for us. As you know, we've got a lot of JGBs, and a good portion of those sit in ultra [ph] maturity. So when we have opportunities to enhance income, by not really taking on much more risk, that's just extra gravy, if you will, for us. So this was a good opportunity and we're able utilize of those HTM JGBs in this fashion.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

So just a quick follow-up, I'm not sure if I followed. What are you buying with the proceeds, Eric?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Basically, short-term JGBs, with the collateral.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay. Okay. And then just -- I don't want to belabor the point too much on the currency hedging. Just a quick question as to how much capacity do you think is out there. How big can your U.S. corporates investing, swapping into yen, how big can that program get over time?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure. Well, let me take that from 2 ways. As you recollect -- and I went over this in Japan -- we did a strategic asset allocation program with Goldman Sachs. And from an asset allocation perspective, and this program looked over a 3-year rolling period. So for the next 3 years, we could see the U.S. corporate program being -- and this includes growth of our -- assumes growth of our balance sheet -- being up to about 20% or 25% of total assets. From the standpoint of capacity of the forwards markets, that's really not an issue. The currency forwards market is the most liquid, largest market, one of the largest markets in the world. So there's more than adequate capacity. Of course, we also have to manage our counterparty risk. And in that regard, as you may recollect, we've initiated this program with 3 Japan mega banks as counterparties, but we're expanding our use of iz-biz [ph] so we can expand the list of counterparties as the program grows. So if there would be any limit, it would just be the credit quality of our counterparties. But we don't see that as being a problem over the next 3 years as the program grows, as long as we continue to grow all list of counterparties.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

And then if I could just sneak one last one in and real quick. Any interest in allocating investment dollars into high-yield or below investment grade securities? I noticed the impact, the pickup in below-investment grade this quarter, but it seems like that was all downgrade-driven. Anything you can provide there?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure. A couple of things on that. That's correct. Anything that lead -- that shows up as an increase in date was because of downgrades. Again, tying back to the asset allocation strategy, high-yield would be an asset class; that is part of our asset allocation strategy. So that would be buying the true high-yield asset class as opposed to downgrades. In the short-term, we're not planning on allocating to that asset class. As you recollect, we're still building our team and capability. We anticipate having that capability mid-year next year, but then we'll still have to make the decision tactically. We'll look at spreads in that market, whether or not it's a good time to allocate money to high-yield. So over time, the answer is yes. When exactly we would do it? That will be based on market conditions. And one other thing, just to mention for clarity, going back to the hedging. The cost, right now, of our hedging, which, as Dan mentioned, it was 41 basis points. That is a very, very low cost, which has primarily been driven by the low U.S. interest rates and the low Japan interest rates. We don't expect that cost to stay that low forever. We know historically it's been higher, so we're in the low point in cost, but it also makes it attractive to use these types of forwards at the same time. So over time, these costs will increase from an investment perspective. We're always going to look at all of our investment alternatives and we'll look at them net of hedging cost versus JGBs, versus high-yield or other asset classes. So it'll be a dynamic position over time based on market conditions, but I think it's worth pointing out that those hedging costs most likely will increase versus decrease over time, given that they're all at all time lows.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Is it fair to say that in historical periods, when those hedging costs are higher, that new money yields are also higher?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Not necessarily, because the hedging cost per forwards is based on short-term rate differentials. And we don't go out and buy short-term paper; we but longer-term paper, 10 to 30 years. So it really depends on the shape of the yield curve. So we could be in an environment where short-term rates in the U.S. go up; that would cause the cost of the hedges to go up, but the long end of yield curve may not go up. So there's not necessarily a correlation between those 2 things.

Daniel P. Amos
Chairman & CEO

But I think it's reasonable to say that we've been looking at hedging cost being 1% versus 41%. And if it doesn't make sense at 1%, then we're not looking at it at all.

Operator

Our next question comes from Ryan Krueger of Dowling & Partners.

Ryan Joel Krueger
Dowling & Partners Securities, LLC

I was curious, now that you've successfully completed the initial dollar-denominated program, have you given any further consideration to extending this to some of your existing, available for sale JGB holdings? Because it seems, Eric, that you're not all that concerned about the capacity for hedges. And correct me if I'm wrong, but if seems like if you were to do this, it would create a number of desired outcomes, which I think would include increasing returns on the existing portfolio, as well as creating some gains in Japan, that I would think would increase your profit repatriation potential. So I was just curious if you had some update or thoughts on that?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure. Over time, yes. We would consider all of our assets that are available for sale and say, is there a better opportunity for them, whether it's JGBs or something else. Of course, we have to consider liquidity and duration and capital ratios when we do that. Relative to gains, we did, as you already know, manage during the quarter, because when we're sitting on large gains in our FSA JGBs, we did realize some of those gains as we tried to proactively manage our gains and losses. Nevertheless, we reinvested it to JGBs, primarily because during the quarter, we had put a cap in the third quarter on how much we were going to put into the corporate bond program. So we were already targeted to be at that cap. As we look at the fourth quarter, we have a pretty good target for the amount of corporates, and that's a healthy target and a healthy dose of higher yields for the program. So we don't feel compelled right now that we need to make that swap. But that's available to us, depending on market conditions, which we could do at some point in time, and that'll be a relative value decision. But right now, we're pretty happy with the amount of money we're going to target in the fourth quarter, so we don't see a need to target even more.

Kriss Cloninger
President & Director

I don't know if Eric would totally agree with this, but let me just throw it out. And that is, from my perspective, we wouldn't allocate 75% of the cash flow of any quarter to this corporate bond program on a long-term basis. And the way I look at it is, we're repositioning a part of the current portfolio as part of that 75%, and even though we're not liquidating it, but let's just say, new money-wise, we're putting 30% in to the new program, and another 45% we're converting to corporates as kind of in lieu doing gains and losses, et cetera, and putting it in there. So as we just build the blocks, in my mind, I kind of look at it like we are repositioning a part of the current portfolio away from JGBs, even though it's all new money.

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Yes. No, I think that's an excellent point, because as you all know, prior to the initiation of this program, if I could put in these terms, we overallocated to JGBs because we didn't really have many alternatives based on our old investment strategy, since we had stopped buying private placements almost entirely. So in essence, we overallocated to JGBs at the beginning of the year, but now that we have the flexibility to do the corporate program, there's just the higher percentage going in there as a way to fine tune the overall allocations. To Kriss's point as well, as we continue to build out our capabilities -- again, go back to the Japan presentation -- I've put on the board different asset classes we will buy over time. So you should expect to see, and I think it will probably start to even out second part of next year, certainly into 2014, where we'll be buying some JGBs, some investment-grade corporates hedge, some emerging markets high-yield, including some alternatives on the Board. So you'll see it even out over time, but right now, you're seeing those adjustments be disproportionate, in essence, because of the high amount to JGBs earlier this year.

Operator

Our next question is from Steven Schwartz of Raymond James.

Steven David Schwartz

Raymond James & Associates, Inc., Research Division

Something completely different, if Paul is still around. U.S., probably the guidance that Dan alluded to for the fourth quarter, which was just flat. Dan also referenced some disruption in distribution. I'm assuming that Dan is talking about what you're trying to do in the large group market. I was hoping maybe you could fill that out and tell us what's going on there?

Paul Shelby Amos
Former Director

Sure. As Dan mentioned and as I've mentioned, my goal is to manage this business for the long-term, not just for the short term. So while 13 weeks of business is important, I'm really trying to manage our growth for not only 2012, but '13, '14 and beyond. So in this past summer, the disruption that Dan is talking about is the combination of our sales and marketing strategy departments all into one, bringing in external leadership to help run sales, and then making sure our field force understands exactly what we're trying to do. Less so, about any disruption from the broker market and what specifically is happening in the broker market. And in terms of sales, we have seen, as we've stepped in the fourth quarter enrollments, specifically with our smaller accounts, more of a decline in sentiment and purchasing than we originally expected. When we came out in a recent release, and even Kriss's comments, at the mini FAB in Tokyo, we commented that we thought we would be still within the range. The reason decline has to do with what we expect sales to be based on what we're seeing come out of our small-business enrollments that Dan directly highlighted between small-business sentiment, as well as what we believe is apprehension around the election, taxes and a multitude of other items by small business owners. As I've said all along, we continue to build on our broker strategy to be a hedge against the small business, any negative downturn in small business and our ability to write business in there. While that market continues to grow and grow well for us, we are seeing -- still seeing great success with our broker market and broker growth. At this point, the size of our field force in our core market, which continues to be our key focus, is so grossly proportionately larger than just any downturn in that small-business market -- especially in the fourth quarter -- will have a negative effect on our ability to produce sales increases. So overall, I'm very optimistic for the long-term. We're putting in an incredible training program beginning in January. I think we're doing all the right things, from a management standpoint, to make sure that long-term sales go well. But in the short-term, we are seeing the adverse effect of both the economy, as well as apprehension in the small-business market.

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

Okay. So if I may, when we see fourth quarter results, while we're going to see small -- your basic business down, we will see large group up year-over-year?

Paul Shelby Amos
Former Director

I'm not focusing it on group versus individual, I'm focusing in on broker versus our core field [ph] [indiscernible]

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

Yes, [indiscernible]. Corporate versus [indiscernible].

Paul Shelby Amos
Former Director

And the reason I do that is, I'm platform-agnostic. Whether an account chooses group products or individual products makes no difference to me. But what I am trying to do is manage our distinct distribution channels. And one thing I do want to point out too is we've seen great success with our field force partnering with brokers actually help them enroll their accounts. So I am very happy with our ability to succeed there, and yes, I do expect to see continued growth in the broker market. I expect to see some struggles with our career market. But as I said, based on the training program and the things we're putting in place, I expect us to be able to move forward in a positive manner throughout '13 and beyond.

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

Okay. Are you guys looking -- and this is -- I've heard some things. Are you guys looking at the individual market performance, and I'm talking about the true individual market you're selling to individuals as individuals. There has been some thought that supplemental health products could really, really shoot up in 2014 and beyond due to ObamaCare. I'm wondering if that's something you might look at?

Paul Shelby Amos
Former Director

Yes. We've always had direct products. In fact, that's -- we've offered direct pricing in the United States for many years. Our agents have always found that the ability to sell at the worksite not only provides us a better actuarial risk, but it provide the ability for the agent to be more productive because they can sell to a larger volume of people in a shorter period of time. And as well, as I think Americans in general, are used to purchasing their products at the worksite. That said, we do expect the combination of both ObamaCare PAC or whatever you want to call it, as well as the millennial generation being 50% of the workforce by 2016, to have some impact on how people choose to purchase insurance. Yes, it's my job, as well as our sales and marketing teams to make sure that we're staying ahead and looking at all possible alternatives. But we still believe, Steven, that the best market for us is the worksite businesses with 100 employees or less. And all of the other alternatives, including the broker market as well as the direct market, represent places for us to get incremental growth. But again, for us, we are going to focus in on America's smallest businesses and the opportunity for us to be successful there.

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

We're at the top of the hour, so we'll take one more question, please.

Operator

Our final question comes from Tom Gallagher of Credit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Ken, I just wanted to come back to you on something you had mentioned before, I think, in response to Nigel's question. The -- so, if the plan for -- going forward here, is that dividends from the U.S. is going to fund the common dividend, is it safe to assume -- and you're still on track with $800 million or so in terms of U.S. dollars repatriation coming from Japan -- is it fair to say all or the vast majority of that would go toward the buyback? Is that the right way to think about that for '13?

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Well, I think we -- a couple of things. Number one, we've said that we anticipate funding our share repurchase activities with profit repatriation so that JPY 65 billion translates into a little over $800 million. We would expect to have more dividend capacity on a U.S. statutory basis next year than we had this year, just given where we are with realized investment losses on a statutory basis. So as we think about next year, again, we want to maintain some prudence and we're going to be very cognizant of the world around us if additional losses emerge. But assuming that we have a relatively benign environment, thinking that we can buy somewhere within that -- we've indicated $300 million to $900 million in Kriss's speech in May -- we'd be at the high-end of the range if we felt comfortable deploying all of that. But yes, that would be available if we felt that was the right thing to do. And again, in the meantime, we have ample liquidity at the parent company. You'll recall that we did not dividend from the life company to the parent company all this year. We really relied on parent company liquidity to meet our corporate needs.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. That's very clear. And then just a follow-up for Kriss on the Japan margins. So 17% to 20% -- 21% pretax margins on WAYS, if you get it 2.5% new money yield. And Kriss, those are without the price increases, either the October or the planned one for next year?

Kriss Cloninger
President & Director

Yes, that's right. They'd be, in order of magnitude, 8% to 10% higher under repricing.

Thomas George Gallagher
Crédit Suisse AG, Research Division

So, okay. And then I know you had mentioned the 6 month -- or 6 to 12 months negative impact of the spend on the new investment structure. But if I think about that range that you've given out, and I look at the 19 3 margin that you had this quarter -- fair to say that if Eric keeps getting what he is getting, that we're actually going to see start to see a reversal and margins go up here. Or certainly, not going down. I just want to get some context. And then as a follow-up, the -- why is it only a 6 to 12-months spend? I thought most of the costs were going to be ongoing? Or is there some big onetime elements to those...

Kriss Cloninger
President & Director

No, the cost will be ongoing, Tom. What I'm saying is that if I look at the incremental yield on the amount we invested, say, for the first 6 months of the program. Say, I get an extra 100 basis points on $5 billion to $6 billion, that's $50 million to $60 million. That probably meets or exceeds the cost of the build out. So the $50 million to $60 million of additional investment income on the investments we made over the last 3 months and the next 3 months are probably sufficient to fund the going forward, the extra infrastructure, personnel cost, et cetera, et cetera. So in my mind, the way I'm compartmentalizing it, I'm saying, "Well, if I don't count any in additional profit associated with the first 6 months of investment. Now, we're going forward, then I've covered the total cost of the program in the P&L, and any incremental yield I'd get after the first 6 months is going to go to the bottom line, et cetera, et cetera. " That may not be the way you or anybody else thinks about it, but that's the way I've compartmentalized it. I will point out though that the current margin is right in the middle of the range that I gave you at FAB in May. All the ratios are in line with those numbers I gave you. I'll say that the expense ratio for the third quarter was at the low-end of the range, the benefit ratio was at the high-end of the range, but we had a lot of WAYS sales in the third quarter or in the second quarter. So I might anticipate that those would have been a little higher. Year-to-date, we're right in the middle of things. 2012 year-to-date, the margin's 20.1, and I had estimated a range in margin of 18.5 to 20.5, so actually that's way above the middle of the range of 19.5. So I'm comfortable with the numbers we've quoted you, and the margins are moving in the right direction. I'm just trying to be conservative in saying, "Don't get too excited, overly excited." I've got some additional cost to cover out of these additional incremental yields. So don't just expect the EPS to explode in the next 3 months. But over the next year, yes, I think it's going to really help us and going forward is going to help us a lot. That, plus the repricing, plus the other marketing adjustments we've made in our profits, our product strategy. Dan, did you want to comment?

Daniel P. Amos
Chairman & CEO

Yes. The only thing I would say is that if you take where we are today and look at where we were a year ago, it's a totally different -- a way of looking at what's going on. I mean, we are in a position where every day, profits -- margins and profits are going up. And I think we're well-positioned to have a great fourth quarter and 2013, and I couldn't be more excited about the future and what's really been an ability our company to withstanding what went on with the financial crisis and now move look forward and really see some growth going ahead.

Robin Y. Wilkey

Former Senior Vice President of Investor & Rating Agency Relations

Okay, thank you. And we're going to close it down now. If anybody wants to call with any further questions, Tom and Daniel, my colleague and I will be the office and we'll be glad to take your calls. And thank you, all, again, for joining us today. Bye-bye.

Operator

This concludes today's presentation. Thank you for your participation. You may now disconnect.