S&P Capital IQ

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American Financial Group, Inc. NYSE:AFG

FQ4 2015 Earnings Call Transcripts

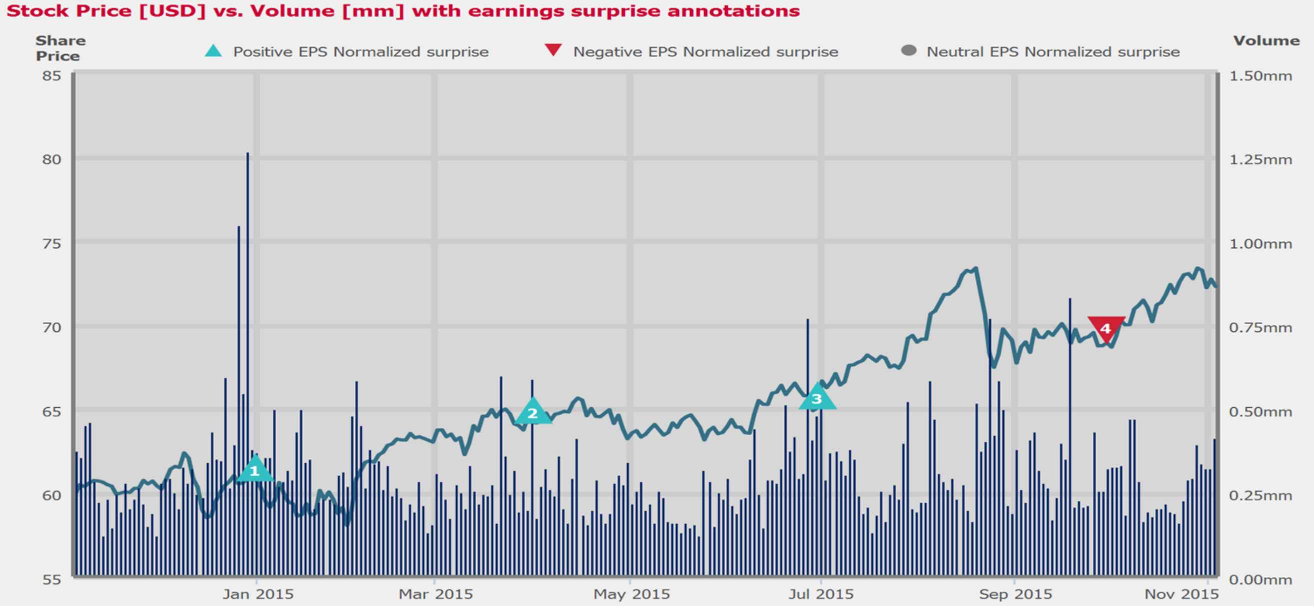
Wednesday, February 03, 2016 4:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.60	1.52	▼(5.00 %)	1.19	5.52	5.44
Revenue (mm)	1083.10	1120.00	▲3.41	1113.04	4423.85	4224.00

Currency: USD
Consensus as of Feb-03-2016 1:30 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	1.29	1.35	▲1 4.65 %
FQ1 2015	1.12	1.25	▲2 11.61 %
FQ2 2015	1.19	1.28	▲3 7.56 %
FQ3 2015	1.50	1.38	▼4 (8.00 %)

Call Participants

EXECUTIVES

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Diane P. Weidner
Assistant Vice President of Investors Relations

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

ANALYSTS

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the American Financial Group 2015 Fourth Quarter and Full Year Results Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded. I would now like to turn the conference over to Diane Weidner, Assistant Vice President, Investor Relations. Ma'am, you may begin.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you. Good morning, and welcome to American Financial Group's Fourth Quarter 2015 Earnings Results Conference Call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Jeff Consolino, AFG's Chief Financial Officer. If you are viewing the webcast from our website, you can follow along with the slide presentation if you like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements and are based on estimates, assumptions and projections, which management believes are reasonable but, by their nature, subject to risks and uncertainties. The factors, which could cause actual results and/or financial conditions to differ materially from those suggested by such forward-looking statements include, but are not limited to, those discussed or identified from time to time in AFG's filings with the Securities and Exchange Commission, including the annual report on Form 10-K and quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure, which sets aside significant items that are generally not considered to be part of ongoing operations such as net realized gains and losses, discontinued operations and certain nonrecurring items. AFG believes this non-GAAP measure is a useful tool for analysts and investors in analyzing ongoing operating trends and will be discussed for various periods during this call. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

If you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. Thus, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Good morning. We released our 2015 fourth quarter results yesterday afternoon. I am assuming that our participants have reviewed our earnings release and the investor supplement posted on our website. Strong Specialty Property and Casualty underwriting profitability and record annuity core operating earnings in the fourth quarter resulted in AFG core earnings per share of $1.52, a 13% increase from the fourth quarter of last year. These results set new AFG records for quarterly and full year core operating earnings per share. We're also pleased to report record annuity earnings and record premiums for the year in our Annuity segment. Craig and I thank God, our great management team and great employees for helping to achieve these results.

Annualized core operating return on equity was 12.7% for the 2015 fourth quarter compared to 11.7% for the fourth quarter of 2014. Net earnings per diluted share were $1.45, including a gain of $0.11 per share on the sale of an apartment property, which was more than offset by an additional $0.03 per share loss recorded upon the closing of the sale of a long-term care business and $0.15 per share related to realized losses on the sale of securities. We also focused on returning capital to shareholders over the course of the year.

Turning to Slide 4, you'll see a few highlights. Last year, we paid $178 million in dividends during the year, representing $90 million in regular common stock dividends and an $88 million special dividend paid in December of 2015. Our quarterly dividend was increased by 12% to an annual rate of $1.12 per share beginning in October of 2015. We repurchased $126 million of AFG's common shares during 2015 at an average price of $64.52.

Recent volatility in the equity markets created additional opportunities to repurchase AFG common stock. Year-to-date through February 1, 2016, AFG repurchased 956,000 shares for $65 million at an average price per share of $67.72. Share repurchases, particularly when executed at attractive valuations, are an important and effective component of our capital management strategy.

Craig and I are pleased with the results. AFG's 5-year total annualized shareholder return, representing growth in share price plus dividends, was approximately 21%. This substantially exceeds the total return performance of the S&P 500, the S&P Property and Casualty Index and the S&P Life and Health Index over the same period of time.

We have established our 2016 core operating earnings guidance for AFG in the range of $5.35 to $5.75 per share. Craig and I will each discuss our guidance for each segment of our business while you're in the call.

Now let's take a closer look at AFG results this quarter. Please turn with me to slides 5 and 6 of the webcast, which included an overview of results in our Specialty Property and Casualty operations. Beginning on Slide 5, you'll see that gross and net written premiums were up 4% and 3%, respectively, in the 2015 fourth quarter compared to the same quarter a year earlier. Although the marketplace has become more competitive, we're still finding opportunities to grow our Specialty Property and Casualty businesses. Fourth quarter underwriting profit was up 27% year-over-year, reflecting strong performance by the majority of our 32 businesses that comprise our Specialty Property and Casualty Group. Fourth quarter 2015 combined ratio of 91 improved 1.6 points when compared to the 2014 fourth quarter and included 0.4 points of favorable prior year reserve development and 0.8 points in cat losses. Overall, renewal pricing in our Specialty Property and Casualty Group increased less than 1% in the fourth quarter and continue to be impacted by price softening in our Workers' Comp businesses. We continue to focus on price adequacy, however, and achieved increases in about half of our P&C businesses during the fourth quarter. We're getting rate increases in excess of loss cost trends in those businesses where we need it most, specifically in commercial auto and our non-crop agricultural businesses. In other businesses where we're reaching our profitability targets, we've been a bit more flexible with pricing.

Full year 2015 return on equity for our Specialty Property and Casualty insurance group was very strong. Particularly pleased with the performance of the businesses within our Specialty Financial and Specialty Casualty groups.

On Monday of this week, we welcomed Pat Stoik as Senior Vice President within great American's Property and Casualty Group. Pat has over 30 years of underwriting and brokerage experience, most recently with Chubb, where he held numerous leadership positions managing a global portfolio of business. Pat will assume reporting responsibilities for our Property & Inland Marine, Ocean Marine and Specialty Equipment Services divisions as well as Great American's international division, which focuses on equipment leasing and specialty affinity programs for clients outside of the United States. We're excited about the experience he brings to our leadership team.

Now I'd like to turn to Slide 6 to review a few highlights from each of our Specialty Property and Casualty businesses. Our Property and Transportation Group reported fourth quarter underwriting profitability that was 55% higher than the prior year period. Higher accident year profitability in our transportation and agricultural operations was partially offset by adverse prior year reserve development in our National Interstate subsidiary as well as lower profitability in our Property & Inland Marine and Ocean Marine operations. We're pleased that favorable crop yields and commodity price declines remained well within average deductibles, which contributed to a successful crop insurance year.

Growth in gross written premiums in this group exceeded growth in net written premiums because of additional sessions of crop premiums in the fourth quarter. Overall renewal rates in this group increased

2% in the fourth quarter 2015, including a 4% increase in National Interstate's renewal rates. The average renewal rate increase for this group during 2015 was about 4%.

Fourth quarter underwriting profitability in our Specialty Casualty Group was 39% higher than the prior year period. I'm especially pleased with the profitability within our workers' compensation, targeted markets, executive liability and excess and surplus lines businesses during the quarter. These improved results helped to offset underwriting losses within our Marketform operations. Underwriting profit margins were strong in nearly all businesses within this group during last year. Majority of businesses in this group reported modest growth in the fourth quarter, particularly our excess and surplus businesses. The growth was partially offset by lower premiums in our general liability business, primarily the result of competitive market conditions, our re-underwriting efforts within our Florida homebuilders market and the slowdown within the energy sector. Renewal pricing for this group decreased by 2% in the fourth quarter, including a decrease of approximately 6% in our workers' compensation businesses. Excluding comp, renewal pricing in this group was up about 1% on average for the quarter.

Our Specialty Financial Group reported excellent profitability this quarter. Nearly all businesses in this group continued to achieve excellent underwriting margins during 2015, with an overall combined operating ratio of 88.7 for the fourth quarter of 2015 and 83.1 for the full year of 2015. And gross and net written premiums were up 12% and 16%, respectively, in the 2015 fourth quarter when compared to last year's quarter, reflecting growth in our financial institutions business. Renewal pricing in this group was up about 1% on average for the fourth quarter and was flat for the full year.

Now please turn to Slide 7 for some review of our 2016 outlook for the Specialty Property and Casualty operations. We're targeting an overall combined ratio between 92% and 94% for our Specialty Property and Casualty Group and estimate that growth in net written premiums will be in the range of 2% to 6%.

Looking at each of the groups. We expect growth in net written premiums of between 4% and 8% in our Property and Transportation Group in 2016. Our guidance for the combined ratio for this group is in the range of 93% to 97%. Net written premiums in our Specialty Casualty Group are expected to increase between 1% and 5%, and our 2016 combined ratio guidance for this group is in the range of 92% to 94%. We expect net written premium in our Specialty Financial Group to grow between 3% and 7% during 2016. The outlook for the combined ratio for this group is in the range of 84% to 88%. We expect our Property and Casualty investment income to grow by 4%, and we expect overall Property and Casualty renewal pricing to be flat to up 1%. Our assumptions include continued rate increases in our Property and Transportation Group, slightly lower pricing in our Specialty Casualty Group and rates that are flat in the Specialty Financial Group.

And now I'd like to turn the discussion over to Craig to review the results in our Annuity segment and AFG's investment performance.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Thank you, Carl. I'll start with a review of our annuity results for the fourth quarter beginning on Slide 8. The Annuity segment reported a record $101 million in core pretax operating earnings in the 2015 fourth quarter, an increase of 19% from the $85 million reported in the fourth quarter of 2014. Variances from expectations of certain items such as projected interest rates, hedge costs and surrenders as well as changes in the stock market have an impact on the accounting for fixed-indexed annuities. Although these accounting adjustments have been recognized through AFG's reported core earnings, many of these adjustments are not economic in nature but rather impact the timing of reported results.

In the fourth quarter of 2015, increases in the stock market resulted in a favorable impact on annuity earnings. Conversely, in the fourth quarter of 2014, the favorable impact of the increase in the stock market was more than offset by a decrease in longer-term interest rates resulting in an unfavorable impact on earnings. Annuity earnings before the impact of fair value accounting were a record $96 million during the fourth quarter, a 3% increase from the comparable 2014 period.

AFG's fourth quarter 2015 earnings continue to benefit from growth in annuity assets as well as the ability to maintain strong net interest spreads as shown on Slide 9. AFG's quarterly average annuity investments and reserves both grew approximately 13% year-over-year. The benefit of this growth was partially offset by the impact of lower investment yields.

In the fourth quarter of 2015 and 2014, AFG conducted detailed reviews unlocking of the major actuarial assumptions underlying its annuity operations. The review resulted in a positive unlocking of $10 million in the fourth quarter of 2015, reflecting higher than previously projected net interest spreads as well as the impact of higher assets under management and expense discipline. In the fourth quarter of 2014, the positive unlocking amount was $1 million.

Annuity premiums grew 14% year-over-year in the fourth quarter. Full year 2015 premiums were $4.1 billion and established a new record for AFG. Additional information can also be found in AFG's Quarterly Investor Supplement posted on our website.

Now please turn to Slide 10 for a summary of the 2016 outlook for the Annuity segment. We expect averaged fixed annuity investments and average fixed annuity reserves to grow in the range of 10% to 12% in 2016. The decrease in interest rates in January is likely to put downward pressure on core annuity earnings in the first quarter due to fair value accounting for fixed-indexed annuities. For the full year 2016, we expect reported core pretax annuity operating earnings to be in the range of $350 million to $360 million compared to the $331 million reported for the full year of 2015. For the full year of 2016, we estimate that our net spread earned, which is the basis for GAAP reported earnings, will be 110 to 125 basis points compared to the 126 basis points achieved for the full year of 2015. This estimate reflects the January 2016 decrease in interest rates. Excluding the impact of fair value accounting, we estimate that our net spread earned in 2016 will be 5 to 15 basis points lower than in 2015, reflecting the impact that low interest rates are expected to have on our investment portfolio.

You'll also see on Slide 10 that we estimate that full year 2016 annuity premiums will grow by 4% to 8% from the record $4.1 billion achieved in 2015. Significant changes in interest rates and/or the stock market from our expectations could lead to additional positive or negative impacts on the Annuity segment's results.

AFG's runoff long-term care and life segment reported core pretax operating earnings of less than $1 million in the fourth quarter of 2015 compared to a loss of $7 million in the fourth quarter of 2014. As previously announced, AFG completed the sale of the legal entities containing substantially all of its runoff long-term care insurance business in certain life and annuity blocks to HC2 Holdings on December 24, 2015.

There's a great deal of interest in the fiduciary rule proposed by the Department of Labor. The Department of Labor recently sent the final regulation to the Office of Management and Budget, which should complete its review within 60 to 90 days. When issued, the final rule is anticipated to take effect before the end of this year. We've outlined a few key points on Slide 11. Based on the proposal, all carriers will experience some impact, particularly with regard to additional compliance-related cost. We believe the rule will have a greater impact on life companies with a captive agent distribution, life companies that primarily sell variable annuities and life companies that sell high commission, fixed annuity products. We believe our business model makes us less vulnerable to the rule than many of our competitors. Our fixed-indexed annuity products have a simpler product design with shorter surrender charge periods, lower commissions and trail commission options, plus our distribution channels include financial institutions, broker dealers and registered investment advisers.

Please turn to Slide 12 for a few highlights regarding our $38 billion investment portfolio. AFG recorded fourth quarter 2015 net realized losses of $14 million after tax and after deferred acquisition costs compared to net realized gains of $5 million in the comparable prior year period. As of December 31, 2015, unrealized gains on fixed maturities were $278 million after tax, after DAC, and unrealized gains on equities were $54 million after tax. As you'll see on Slide 13, our portfolio continues to be high quality, with 89% of our fixed maturity portfolio rated investment grade and 97% with an NAIC designation of 1 or 2, its highest 2 categories. We provided additional detailed information on the various segments of our investment portfolio in the Quarterly Investor Supplement on our website.

I will now turn the discussion over to Jeff, who will wrap up our comments with an overview of our consolidated fourth quarter 2015 results and share a few comments about capital and liquidity.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Thank you, Craig. Slide 14 recaps AFG's fourth quarter consolidated results by segment. Core net operating earnings per share in the quarter were $1.52, up $0.17 from Q4 2014's $1.35. That $1.52 is based on core net operating earnings in the quarter of $136 million, an increase of $14 million from the 2014 fourth quarter. You can see a more detailed view of the components on Page 4 of our Quarterly Investor Supplement.

P&C segment core pretax operating earnings improved by $22 million year-over-year. This is due to P&C underwriting profit improving by $21 million, a decrease slightly in P&C net investment income of $1 million and P&C other expenses decreasing by $2 million.

As for the other components of AFG's core net operating earnings, Craig previously covered our Annuity segment earnings, which were $16 million higher year-over-year. Result in our runoff long-term care and life segment improved by $7 million to breakeven.

Interest expense of parent holding company decreased by $3 million after we called for redemption $132 million of a 7% debt in September 2015 and issued $150 million of 6% hybrid debt in mid-November 2015. Finally, other expense was $13 million higher than what we reported in the 2014 fourth quarter.

As we said on the call a year ago, last year's quarter was not indicative of a run rate for this line item. We do believe that the $90 million full year amount for this line item, not depicted on Slide 14, is generally representative of a full year run rate going forward.

Turning to Slide 15. You'll see a reconciliation of core net operating earnings to net earnings of $129 million and diluted earnings per share of $1.45. After-tax realized losses and an additional loss based on the purchase agreement closing adjustments for the sale of the long-term care business were partially offset by a gain on the sale of an apartment property.

As indicated on Slide 16, AFG's adjusted book value per share was $49.33 as of December 31, 2015. Adjusted tangible book value per share was $46.49 at December 31, 2015. Our excess capital stood at approximately $950 million at December 31, 2015. The sale of our runoff long-term care insurance business is expected to add an additional $100 million in excess capital in the first half of 2016.

We returned $124 million to our shareholders through dividends and share repurchases during the quarter, including our $1 per share fourth quarter 2015 special dividend. We plan to continue returning excess capital to our shareholders through the course of 2016 as indicated by our significant buyback activity in Q1 2016. This, of course, is subject to market conditions. Approximately 2.1 million shares remain under our repurchase authorization as of February 1, 2016.

On Slide 17, you'll find a single-page summary of our 2016 core earnings guidance. As a reminder, AFG's expected 2016 core operating results exclude noncore items such as realized investment gains and losses and other significant items that may not be indicative of ongoing operations.
Now we'd like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Greg Peters with Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

I think in your -- well, I know in your opening remarks, you talked about non-crop agricultural and commercial auto, in particular in National Interstate. Can you provide some color about exactly what you mean by non-crop agricultural? And then on National Interstate, with the prior period reserve development continuing there, which was a surprise, how can you be comfortable that the current accident year prospects are adequate?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, Greg. I can address the non-crop ag. It's an agricultural farm package type of business, equine mortality, horse farm package types of businesses in that, where we've been taking -- trying to improve the results there and getting pricing increases. That's what that refers to. I'll maybe let Jeff, he's Chairman of National Interstate, address your question on that.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

National Interstate, for those of you who haven't been looking for it put out a pre-announcement press release preannouncing their preliminary fourth quarter and full year 2015 results last night, roughly contemporaneously with the AFG release. For those of you listening in the call who haven't seen that, I'd encourage you to track it down. Greg, your question was about confidence in the 2015 accident year pick, if I remember correctly. And no question, the commercial auto line has been a particularly troubled line of business for the industry as a whole. The industry has an underwritten to a calendar year combined ratio of below 100 since 2010. And given the pretty well-publicized reserve additions by some pretty big competitors in 2015, 2015 is not shaping up as a great year for the industry either. In the release, the National Interstate made -- they do talk about the appropriate rate increases that management has sought and obtained on new and renewal business. If you compound those, since 2013, which is the point at which management started taking more urgent action to address the profitability of the business, cumulative rate increase over that period is north of 20%. The prescription that management is following, which we support, is obtaining appropriate rate increases on the business, re-underwriting the business and looking to improve accident year margins as a consequence of those actions. That pre-announcement shows a 98% 2015 accident year pick. One would hope with the rate increases that they're moving in a positive direction but, clearly, there's more work to be done to establish National Interstate at the level of profitability that's more consistent with their historical record.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

This is a follow-up. In your comments, you talked about some moving parts on the balance sheet with debt and interest expense. I think, long-term debt at year-end was just over $1 billion, which compares with $880 million in the third quarter. How is that going to look when we see the first quarter results because I think you mentioned some redemptions, et cetera? And then secondly, and not coincidentally dovetailing in with your comments in National Interstate, could you talk about M&A in the marketplace and what kind of opportunities you're seeing there?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

This is Jeff. Let me take the capital structure points and then I'll turn it back to Carl and Craig with respect to M&A. Greg, I'm looking in our investor supplement, where we have a cap table on Page 19. The number you identified as total long-term debt, which is $1.20 billion at year-end, includes $300 million of hybrid securities, which are treated as non-debt capital by many of the rating agencies. So the way we think about our debt ratios, we have about a 13% debt-to-capital ratio, excluding the hybrids, with $720 million of non-hybrid debt on our balance sheet. In terms of the movement from September 30, we did call for a redemption, an outstanding 7% bond that was $132 million principal amount as of September 30, that came off our balance sheet subsequent to then. We then issued in mid-November $150 million of 6% hybrids. And so if you think about taking out 7% debt with 6% debt, that's a little bit of a wash in terms of interest expense and maybe a slight savings, but less than $1 million going forward. So that's how I think about our interest expense line as we move into 2016. Carl, I don't know if you want to take M&A?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, Craig. We continue to see a steady stream of good opportunities. And we're -- so I mean, that's the bottom line. We're probably a bit of tougher buyers. Something not only has to be accretive, but we have to feel that when we acquire something, that it has an opportunity to earn a double-digit return on equity long term. So when others are more -- have an opinion or a direction different than that or more competitive than we are, we're less successful on given properties. Where everything comes together, we're successful.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Carl, have you seen any sensitivity or change in sensitivity from sellers, considering just the recent market? And I know the stock market doesn't necessarily reflect property casualty prices. But clearly, there's -- looks to be some pricing headwinds in some lines of business, and I'm wondering if that's bleeding over into seller expectations in M&A.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes. I think, probably, in general, and Jeff can comment, too, but I think you're right. I think, both with regards to public companies, as the management teams and investors have seen stock prices fall as well as a very competitive market. I think that has changed, some owners and some, whether they're private or public, their opinion about things. So I think it probably will create more opportunities for us.

Operator

Our next question is from Paul Newsome with Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Does the DOL situation create a potential for M&A in any way? Will there be books to be sold if you look at selling things?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

This is Craig, Paul. I guess that's a possibility. Frankly, our organic growth is so strong that we really haven't been interested in M&A. We've kind of rather design products ourselves and have risk characteristics that we're comfortable with or, generally, we have much simpler products than a lot of our competitors. And so frankly, with us being able to grow like we have been able to the last couple of years, we really haven't been looking for acquisition opportunities.

Operator

Our next question is from Ryan Byrnes with Janney.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Just had a question on the investment portfolio. It looks like you guys swapped out some non-investment-grade stuff for some BBB exposure. Just wanted to see if that was in response to getting to selling the long-term care block or if that was just a change in philosophy?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

I'd have to reconcile that. We didn't -- there wasn't any major conscious move to change the mix of the portfolio. I'd say that. We have not been a buyer of high yield recently. We just -- although spreads have lightened up a bit, if you exclude energy from the high yield universe, frankly, we still don't think that there's a tremendous amount of value there, so we have not been big buyers of high yield.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

And can you maybe just explain -- expound on your energy exposure?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Sure. At year-end, our exposure to high-yield energy was $150 million at book and $130 million at market. So a $20 million unrealized loss pretax, $13 million after-tax on our high-yield energy exposure. If we look at common stock investments or equity investments, at year-end, we had $111 million invested with about a $5 million unrealized loss.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay, great. And just a quick question on looking at how you guys think about excess capital. I think you have about $190 million of cash at the holding company and a little over $800 million at -- that's allowable dividend out of the subsidiaries. Again, that kind of suggests about $1 billion. Just trying to figure out how the $950 million number is -- just want to figure out how you guys are getting there.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Ryan, this is Jeff Consolino. Thanks for the question. We define excess capital as parent company cash plus excess capital in our operating subsidiaries plus financial leverage up to 22% debt-to-capital. And so there's a piece of that, that is borrowing potential, which would generate cash for us. And we still back that 22% based on the belief that the rating agencies would like to see us at 25% or lower debt to total capital. So if you go through the calculation of parent cash plus potential additional leverage plus some measure of excess capital at the insurance subsidiaries, that's how you get to the $950 million. That last piece, you wouldn't be able to calculate directly, but that's a calculation that we make ourselves.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay, that's great. And then if I could just sneak one more in. Just had a question on the combined ratio guidance within the Property and Transportation. It's currently for 2016, I think, it's 93 to 97, and that 97 kind of matches where we were in 2015. Just wanted to figure out where the improvement comes from. I would imagine the crop was pretty strong this year and it's very difficult to think what that will be next year -- or sorry, in 2016. So is that coming from the transportation segment? Or am I missing something?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

No. It's our hope that part of that improvement comes from the pricing activity and the efforts at National Interstate, which is a pretty substantial business and then in some of the non-crop ag businesses that we've been taking price in that we've been hoping to get some improvement also. I think also we're hoping our Ocean Marine business, we've had a problem with the customs bond book of business that we've been working through, we're hoping that maybe that's not as big a factor with that business going forward.

Operator

[Operator Instructions] Our next question is from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. The first is -- and you can correct me if I'm wrong, it does look like your excess capital rose in the fourth quarter versus September. Is that accurate?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Jay, this is Jeff. Yes, our excess capital rose at year-end relative to September 30.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And what drove that, Jeff?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Well, the total movement, we reported about $700 million at September 30 and now we're at approximately $950 million. The biggest movement was that hybrid debt offering that I was referring to when I answered the earlier question. That hybrid debt offering brought us approximately $150 million of additional capital. So you take that out of the $250 million increase, the other $100 million is normal earnings less capital management plus changes in subsidiary-required capital. But the biggest piece of that step-up is the hybrid offering.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That makes sense. And then separately, I guess, related, when you're looking at 2016 and you're issuing guidance, based on your premium growth rate assumptions that you talked about, it doesn't look like you assume that you use much, if any, of the excess capital. Is that fair?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

We assume some opportunistic level of share repurchase in that guidance. But outside of that, that's probably accurate. And there's no assumptions with regards to any special dividends, that type of thing. So outside of some estimate on share repurchase, that's accurate.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And then last question. It looks like a good experience hire from Chubb. Given the, call it, disruption at Chubb, given what's happening at your other major competitors scaling back, if you will, is it fair to think you must be assuming -- you must be seeing an increase in resumes coming over to trans [indiscernible]. In other words, is there a bigger opportunity to hire these kind of talented, experienced people?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, for sure. I think it definitely offers more opportunities.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

And Jay, this is Jeff. My perspective here is that our company is consistently managed, has a long-term view of what constitutes success, is rated A+ by A.M. Best and invests a lot of opportunity and authority with the employees here. And so the attractiveness of this platform isn't necessarily limited to 1 deal here or there. There are a lot of organizations that are going through change, and I think we found pretty consistently that executives and underwriters in the industry view us as a favorable destination given our ratings and our management style and the consistency of the ownership.

Operator

I'm showing no further questions at this time. I'd like to turn the call back over to Diane Weidner for closing remarks.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you, Shannon, and thank you all for joining us this morning. We look forward to talking to you when we report our next quarter's results. This concludes our call for today.

Operator
Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.