

# Q2 2025 Earnings Call

## Company Participants

- Aengus Kelly, Chief Executive Officer & Executive Director
- Joseph McGinley, Head of Investor Relations
- Peter Juhas, Chief Financial Officer

## Other Participants

- Catherine O'Brien, Goldman Sachs
- Hillary Cacanando, Deutsche Bank
- Jamie Baker, J.P. Morgan
- Kristine T. Liwag, Morgan Stanley
- Moshe Orenbuch, TD Cowen
- Ronald J. Epstein, Bank of America
- Terry Ma, Barclays

## Operator

Good day everyone, and welcome to AerCap's Q2, 2025 Financial Results. Today's conference is being recorded, and a transcript will be available following the call on the company's website.

At this time, I would like to turn the conference over to Joseph McGinley, Head of Investor Relations. Please go ahead sir.

## Joseph McGinley {[BIO 17672898](#) <GO>}

Thank you, Operator, and hello, everyone. Welcome to our second quarter 2025 conference call. With me today is our Chief Executive Officer, Aengus Kelly, and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call.

Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated August 30, 2025. A copy of the earnings release and conference call presentation are available on our website at [aercap.com](http://aercap.com). This call is open to the public and is being webcast simultaneously at [aercap.com](http://aercap.com) and will be archived for replay. We will shortly run through our earnings presentation and will allow time at the end for Q&A. As a reminder, I would ask that analysts limit themselves to one question and one follow-up.

I will now turn the call over to Aengus Kelly.

## Aengus Kelly {[BIO 2460371](#) <GO>}

Thank you for joining us for our second quarter 2025 earnings call. We are pleased to report a record

quarter of earnings generating GAAP net income of \$1.3 billion and earnings per share of

\$7.09. This reflects strong execution and demand for our assets as well as the successful outcome in our contingent and possessed insurance case in the Commercial Court in London in June.

Adjusted net income was \$502 million and adjusted EPS was \$2.83. Given these strong results and our improved outlook for the year ahead, we have increased our 2025 full-year adjusted EPS guidance again today.

Global passenger traffic continues to grow, led by APAC and the Middle East. In the U.S., domestic traffic declined after slower growth in April, but international traffic performed better, demonstrating the resilience of long haul demand. This phenomenon of international growth outpacing domestic growth is a trend that we've seen throughout the year and around the world.

On the aircraft side, we continue to see strong demand from our customers, despite the uncertainty regarding tariffs and trade. This is evidenced by our 99% utilization rate and 97% extension rate in the second quarter. These high levels of utilization and extension rates have persisted over recent years, resulting in more options on placements and stronger returns overall. In fact, across the 30 extensions we completed in Q2, the new leases signed were on average higher than their previous lease, despite being older aircraft now.

The resilience of international travel means the broad-based demand for widebodies continues. This was shown by the lease agreements we signed for 777s and A330 CLs with carriers in Asia, the Middle East, and Europe in Q2. Furthermore, as a result of the deals we have signed or have in the pipeline in Q3, we have only two widebodies available for lease between now and the end of 2026, out of a fleet of more than 250 owned widebodies.

On the narrowbody side, we see similar trends. We signed lease agreements with 12 different carriers in the quarter, including six A320neo placements from our order book with a carrier in the Middle East. We extended 26 used aircraft, with an average age of 16 years, that are on lease to carriers predominantly in Europe and Asia.

There has been a lot of focus on the OEM supply shortages over the last number of years, which, of course, have been helpful for lease rates and sales pricing. These delays have also resulted in fewer opportunities for organic growth via sale leasebacks. That dynamic is beginning to change, and deals are beginning to present themselves. Of course, they have to meet our return targets, but I am confident that as OEMs ramp up deliveries over the next few years, AerCap will be well positioned to take advantage of these opportunities given the combined strength of our balance sheets and customer relationships.

Spare engine demand remains particularly robust today, given the challenges with new technology aircraft in particular, keeping utilization levels high. Our engine platforms are focused on supporting their OEM airline and MRO customers. Spare engine support is a key part of AerCap's overall proposition to customers, and our portfolio of over 1,200 spare engines, 90% of which are new technology, mean AerCap is well positioned to do so.

On new deliveries, our organic growth strategy continues with the purchase of 31 new LEAP engines across the SES and AerCap platforms, taking total deliveries for the year-to-date to 84. A further 46 LEAPs are expected to deliver through the end of this year. We also delivered 36 engines to various airline customers in Q2 alone under commercial lease agreements. So, overall, activity remains robust across the platforms.

Finally, we are set to expand our MRO support capability with an engine leasing partnership with Air France-KLM, announced at the Paris Air Show, which we hope to finalize later in the year. This mutually beneficial partnership provides spare engine support for customers of Air France-KLM's MRO operation and quicker MRO slots for our own fleet.

Turning to milestone, overall, the helicopter landscape remains reasonably robust. Global fleet utilization remains high, aided by continued OEM production discipline and supply chain constraints, which, like the aircraft industry, are likely to persist for some time.

From an AerCap fleet perspective, we continue to adopt a balanced portfolio management strategy, investing in new technology helicopters at accretive returns while divesting of midlife and out-of-production types.

During the quarter, we continued to see a high percentage of helicopters of varying types extending with their existing operators. This included deals with operators in the U.S., South Korea, India, and the U.K.

So, in summary, this was another great quarter for AerCap, with earnings and cash flows remaining strong throughout the business.

We continue to deploy your capital effectively with the purchase of approximately \$3 billion of new equipment, and the repurchase of over \$1 billion of stock year-to-date. In addition, we expect to spend another \$3 billion on new equipment through the end of 2025 and have a further \$800 million in share repurchase authorizations outstanding.

Going forward, this means that AerCap is in an exceptional position to provide unique support to our customers and strong returns to our shareholders.

With that, I'll now hand the call over to Pete to review the financials and the outlook for 2025.

**Peter Juhas** {[BIO 16582554](#) <GO>}

Thanks, Gus. Good morning, everyone. Our GAAP net income for the second quarter was a record \$1,259 million or \$7.09 per share. This included net recoveries related to the Ukraine conflict of \$973 million or \$5.48 per share. This reflects the award we received and the favorable decision by the London Commercial Court in June.

The impact of purchase accounting adjustments was \$82 million for the quarter, or \$0.46 per share. The net tax effect of both of these items was \$134 million, or \$0.75 per share. As a result, our adjusted net income for the second quarter was \$502 million, or \$2.83 per share.

Besides the insurance award, there were two main items that affected our results for the second quarter. First, we had a tax provision release of \$41 million, and second, our SG&A expense was higher than normal due to higher stock-based compensation expense, which was driven by some upfront recognition of expenses.

Going forward, we expect stock-based compensation expense to return to a more normal run rate of around \$30 million a quarter.

Turning to sales, our net gain on sale of assets was \$57 million. We sold 18 of our owned assets during the quarter for total sales revenue of \$374 million. That resulted in an unlevered gain on sale margin of 18%, which is equivalent to a multiple of 1.7x book value. The sales volume was a little lower than

normal during the second quarter, mainly due to timing of deals closing.

As of June 30, we had \$470 million of assets held for sale, and I currently expect our sales to be around \$2.5 billion for the full-year.

Our liquidity position continues to be very strong. As of June 30, our total sources of liquidity were approximately \$22 billion. That includes \$2.7 billion of cash and \$12 billion of revolvers and other committed facilities, as well as expected sales and operating cash flow.

Our sources-to-uses coverage ratio at the end of the quarter was 1.9x, which amounts to excess cash coverage of around \$10 billion. Our leverage ratio was 2.2 to 1, down from 2.4 to 1 last quarter. That decrease was primarily driven by the favorable insurance judgment that we received in June.

Our operating cash flow is approximately \$1.3 billion for the second quarter, and our average cost of debt remained the same at 4.1%.

We bought back 4.7 million shares during the quarter for a total of \$445 million. That takes us to over \$1 billion of share repurchases so far this year. We currently have around \$800 million of available capacity remaining in our existing share repurchase authorization.

Turning now to guidance, in February, we projected adjusted earnings per share at \$8.50 to \$9.50 for the full-year 2025, not including any gains on sale. And on our last earnings call, given the strong performance in the first quarter, we raised our guidance to the top half of that range. As Gus mentioned, today we're raising our full-year 2025 adjusted EPS guidance to approximately

\$11.60. That includes the \$1.10 of gains on sale that we had in the first half of the year, but it doesn't include any gains on sale for the second half of the year.

In the first half, the outperformance relative to guidance was driven by higher lease revenue, including net maintenance contribution, and we would expect lease revenue to continued to be strong in the second half of the year. We also had some benefits from higher other income in the first quarter, as well as the tax release in the second quarter.

So that results in full-year guidance of \$11.60. This reflects our strong performance year-to-date and our positive outlook for the rest of the year.

So in closing, we're coming off another strong quarter for AerCap in terms of earnings and EPS and, of course, the favorable decision in our insurance case. We continue to be in a position of strength with a strong balance sheet, low leverage, and strong liquidity. We're confident about the outlook for the business, as you can see from our increase in full-year guidance and our repurchases of over \$1 billion of stock so far this year.

And with that, operator, we'll open up the call for Q&A.

## Questions And Answers

(Question And Answer)

## Operator

Thank you. (Operator Instructions) We will take our first question from Terry Ma with Barclays.

### Q - Terry Ma {BIO 17247903 <GO>}

Hi. Thank you. Good morning. Maybe just to start off with a partnership with Air France-KLM, is there any way you can maybe size that opportunity and talk about how much excess capital you can deploy into that. We can take a step back, maybe just update us on how you're thinking about capital allocation. You guys continue to be under levered relative to target, so maybe just talk about deployment of that capital overall.

### A - Aengus Kelly {BIO 2460371 <GO>}

Sure, let me start with the Air France-KLM joint venture. This opens up another broad customer base to our engine business and the great advantage for Air France-KLM as they move into the LEAP overhaul business is that they have a partner now that has experience of moving hundreds of LEAP engines around the world on time and on spec for the existing OEM CFM. That's very important.

As regards to how big it will grow, we'll have to see over time. Initially, it'll be a small amount, but like all these investments, these are long-term in nature like the business is and something we're looking to regarding the long term.

I'll let Pete answer the question on the capital allocation.

### A - Peter Juhas {BIO 16582554 <GO>}

Sure, thanks, Gus. So, Terry, in terms of capital allocation, so far this year we've deployed a little over \$1 billion for share buybacks. We've also bought \$3 billion of aircraft, as Gus mentioned, and we've got another \$3 billion of buybacks of CapEx later this year, as well as the remaining \$800 million in our program.

And as we look at it, look, we always look at all different alternatives for deploying excess capital. We are seeing some what we think will be attractive opportunities with some of the airlines now. Now that you're starting to see more aircraft delivering in their order books, we think there will be opportunities there. We also think that there will be opportunities on the engine side to deploy more capital there, and of course, share repurchases continue to be attractive. So, I'd say those will be the main avenues as we look out today in terms of deployment of excess capital for the remainder of the year.

### Q - Terry Ma {BIO 17247903 <GO>}

Got it. That's helpful. And then, I guess, as a follow-up, I think leasing expenses ex the maintenance amortization expense was, in the \$60 million range this quarter. It's been kind of below average the last two quarters. Kind of what's the outlook for that for the remainder of the year? Thank you.

### A - Peter Juhas {BIO 16582554 <GO>}

Yes. So, leasing expenses have been lower. They were also lower in the first quarter. They came down a bit more in the second quarter, Mainly, that has been due to the high level of extensions and fewer transitions that we've been seeing. As you saw, our extension rate in the quarter was 97%. So, that's almost a record

high. And what the impact of that is, it's reducing the amount of leasing expenses that we have. So, I think that will continue to trend at lower levels than we had originally expected because of those factors.

## Operator

Any further questions, Mr. Ma?

## Q - Terry Ma {BIO 17247903 <GO>}

No. That's it. Thank you.

## Operator

We will take our next question from Moshe Orenbuch with TD Cowen.

## Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks. I apologize because I missed a bit at the beginning, but the increase in your H2, your second half or full year kind of CapEx, does that already encompass your expectation for potentially higher sale leasebacks or is that something that would be kind of additive to it?

## A - Peter Juhas {BIO 16582554 <GO>}

No. That \$3 billion that we mentioned, Moshe, is just what we've contracted to date. So that's just from the order book. So any incremental things that we do would be additive to that number.

## Q - Moshe Orenbuch {BIO 1497419 <GO>}

Got it. And I guess, I mean, how should we sort of think about the potential for that number to be higher than \$3 billion versus kind of lower at this stage, like kind of that upside downside, if you will?

## A - Peter Juhas {BIO 16582554 <GO>}

Well, we're starting to see the OEMs pick up their pace of deliveries. I mean, you saw Boeing's results the other day. So I think that we are seeing production rates increase, albeit off a relatively low base. So I think as a starting point, that \$6 billion for the year is a reasonable one for us just on in terms of our order book and what's currently contracted. And then things can be additive from there. And one of the benefits that you get if you're doing sale leasebacks or in particular engine deals is that allows for more rapid deployment of capital than, say if you were doing an OEM order where you're going to get those a new order, you're going to get those aircraft in the 2030s. So that is one of the benefits of those, two. How much will it be this year? Hard to know. But, we do have excess capital available and we would like to deploy it.

## Q - Moshe Orenbuch {BIO 1497419 <GO>}

Got it. And maybe since you did bring up the engine business is, could you talk about how much -- what's the possible amount of capital you could deploy in that, where, I mean, you can kind of pick the period to discuss and just, talk about how important that could be for your account. Thanks.

**A - Peter Juhas** {[BIO 16582554 <GO>](#)}

Well, we did \$5 billion of engine orders last year and that's \$10 billion since we did the GECAS acquisition. So that gives you some idea of how large these can be. And as I said, in contrast to just an order on a aircraft from an order book, engines can deliver in some cases weeks after we've concluded that contract, because if you think about it, these are spare engines that are immediately needed. That's why we are doing these purchases, so they can be immediately put into the spare engine pools for the OEMs. And so that can lead to rapid deployment of capital. So it can be quite large.

**Q - Moshe Orenbuch** {[BIO 1497419 <GO>](#)}

Thanks very much.

**Operator**

We'll take our next question from Catherine OBrien with Goldman Sachs.

**Q - Catherine O'Brien**

Hey, good morning, everyone. Thanks for the time. Maybe just a follow-up on the capital allocation question. Leverage is running well below target. It sounds like you have potentially new opportunities in the sale-leaseback market. But how do you think about the relative attractiveness of those sale-leaseback opportunities versus maybe deploying more capital engines versus buying back your cap shares? Is the lack of a re-up on the buyback just that you still have \$800 million left? Just would love to know how you're thinking about ranking those opportunities.

**A - Peter Juhas** {[BIO 16582554 <GO>](#)}

Yes, that's the rationale, Katie, in terms of the buyback at the moment. We have a little over \$800 million remaining. And so we'd like to utilize that first. So that's why we're not announcing a new authorization at the moment. But as you note, our leverage ratio is low. It's 2.2 to 1. A lot of that is because we got the judgment in June on our insurance case. And those funds just came in at the end of June and early July. So that decreased the leverage ratio by about 20 basis points from 2.4 to 2.2.

So when we think about the opportunities, for sure, share buybacks are one of them. But we also think between some of these sale-leaseback opportunities with airlines, some of the engine deals that we're considering, I think all of those are in the mix. We'll look at each individually. But I think some combination of those things is the most likely deployment of excess capital this year.

I think beyond that, things like M&A and new orders of aircraft are probably behind that at the moment.

**Q - Catherine O'Brien**

Okay, great. Thanks. And maybe just for my follow-up, an 18% gain on sale is nearly double your historical average. So it's definitely not trying to poke at that. But there's been a lot of focus from investors across the aviation industry on what Boeing starting to get their act together in production could mean. And that 18% is a little bit lower than the last couple of quarters. Is there



any difference in the types or ages of assets you call it this quarter versus the last two or three? Just trying to see if there's any read-through to demand for aircraft in the secondary market or if this is just really like a normal fluctuation based on the types of assets you sold. Thanks.

**A - Peter Juhas** {[BIO 16582554 <GO>](#)}

Sure. I really think it's a normal fluctuation.

**A - Aengus Kelly** {[BIO 2460371 <GO>](#)}

Katie, I was just going to say there that this is just a normal fluctuation. There's nothing more to see there. In terms of demand, it's still extremely strong. Look, the real evidence of that is the extension rates. You can see that we extended an all-time high of 97% of the aircraft. That's what speaks to the strength in the market. Whether Boeing are making 34, 36, or 38 airplanes is not going to affect that demand.

**Q - Catherine O'Brien**

Okay, great. I thought that was the answer. Thank you.

## Operator

We will take our next question from Ron Epstein with Bank of America.

**Q - Ronald J. Epstein** {[BIO 4430430 <GO>](#)}

Hey, yes. Good morning, guys. Maybe the first one for Pete. When we met up at the air show, we had a pretty in-depth discussion with you on tariffs. Given how things have sort of moved around, how are you thinking about it now? And, how is the tariff environment kind of impacting the business?

**A - Peter Juhas** {[BIO 16582554 <GO>](#)}

Sure. Thanks, Ron. So we've seen a very limited impact of tariffs on our business so far. As you know we've been strong advocates for the zero-for-zero tariff regime around the world. We were very glad to see that, to see the announcements between the U.S., and the U.K., and then the U.S., and the EU that came over the weekend. I believe those remove a lot of the uncertainty around tariffs for aviation. So that's very helpful. And what we'd like to see, I think those are a good precedent for other deals that could be done around the world. So that's very helpful.

Look, that being said, all this has moved very quickly, but if those can serve as a precedent and we get back to the 0 for 0 regime, I think that's best for aviation. It's helpful for the industry overall. And as I said, so we've seen very minimal impact, and we hope that a lot of this is behind us now.

**Q - Ronald J. Epstein** {[BIO 4430430 <GO>](#)}

Got it, got it. And then maybe just a broader question. When you think about the return profile on an engine versus the return profile on an airframe, kind of at a high level, how do you guys think about that? I mean, what's better for you all, an airframe or an engine?

**A - Aengus Kelly** {[BIO 2460371 <GO>](#)}

Ron, I wouldn't say one is better than the other. There's different aspects to them. The engine initially has a lower lease yield because no one is paying for seats, lavatories, all that buyer



furnished equipment. However, over time, the aircraft depreciates faster than the engine because you have to depreciate those components that are specific to the first lessee. So you get a higher lease rate at the start on aircraft, but you have a shallower depreciation curve over the long term on the engines.

The key point of investing in anything in aviation is that you are buying the right assets for its remaining economic life, be that 5 years or 25 years, and you're buying it at the right price and you know the value of the assets when you buy it. And AerCap has demonstrated that in this industry for 20 plus years that no one has that judgment better than this company.

**Q - Ronald J. Epstein** {[BIO 4430430](#) <GO>}

Got it. Got it. And then maybe just one last one. With demand for widebodies clearly picking up, do you think you need to, how I say, build out your backlog on widebody orders, your skyline more so?

**A - Aengus Kelly** {[BIO 2460371](#) <GO>}

Definitely not. I will build my skyline when it makes money for my shareholders. I have no interest in buying any asset at all if it doesn't make adequate return for shareholders in AerCap. I still believe the cheapest widebodies in the world are available on the New York Stock Exchange under the ticker Alpha Echo Romeo.

**Q - Ronald J. Epstein** {[BIO 4430430](#) <GO>}

Okay. All right. Thanks, guys. Have a good one.

**Operator**

We will take our next question from Jamie Baker with J.P. Morgan.

**Q - Jamie Baker** {[BIO 3406456](#) <GO>}

Oh, thanks for the time. So, Gus, do you think we are at peak returns, and if not, when do we get there? And the reason we're asking is, lease rates obviously haven't, fully kept up with the cost of debt, and we're starting to wonder whether competing capital may be one of the reasons, could less disciplined capital be chasing deals lower? And look, we're just thinking out loud, but, some of the recent deals from United, that was business away from AerCap. So, we're just trying to, we're just wondering what the read-through might be.

**A - Aengus Kelly** {[BIO 2460371](#) <GO>}

Sure, Jamie, I mean, look, I can't speak to anyone else in the industry, but I'll hand it over to Pete in a second, but you can see over a very long period of time that we are, AerCap is able to pass on the cost of interest, and we've done that for this year as well, as you'll see. Interest expense is up 5%, and the lease revenue matches it.

But, look, from my perspective, I've always said to you that we target that return of 8% to 10% over the treasury rate, and that's what this company has always returned in every, in all markets, that's what it's averaged in that zone exactly. So, this business is extremely stable if you're good at it and you're in it for the long term. If you're one of the tourists, then, yes, you can have, you can put money to work, whether you'll make any, whether you'll be successful at it or not is another matter.

We've exhibited great restraint when it comes to deploying capital, and from our perspective, how we allocate capital, be it buying our own shares, which, as I just said to Ron, I believe the cheapest aircraft are available every day on the New York Stock Exchange under our ticker, and, you won't see us, you're right, yes, of course, some deals trade away from us, but that's where we exercise discipline, and, you've seen us for 20 years through all markets exercise that discipline and we'll continue to do that.

**Q - Jamie Baker {BIO 3406456 <GO>}**

Okay, I appreciate that. And then maybe for Pete, you're nicely below the, 2.7 debt equity target. You touched on that in your prepared remarks. So what's more likely from here, running it back up to the target or maybe tightening that target and pushing for low A ratings? Thanks in advance.

**A - Peter Juhas {BIO 16582554 <GO>}**

Yes, Jamie. So I think that we will run it closer to the target. I'd expect it to get up to, get closer to 2.7, whether that's 2.4, 2.5, somewhere in that ballpark. We're not intending to lower that target because fundamentally, I think we're in a good place for the rating agencies now. Look, if we can get to A- ratings, that would be great. But ultimately, we're focused on what is the most beneficial for our shareholders? How can we create the highest return for our shareholders? And so if you think about, would we need to do that by lowering the leverage target over, a long period and putting in place higher liquidity and other things like that? There's a cost to that, obviously. I think where we are today, having come up from low BBB- ratings a couple of years ago to where we are today at BBB+, across the board, that's a very strong performance. Sure, we'd like to go higher. But I think fundamentally, there are a lot of opportunities for us to deploy capital and we'll look to do that.

**Q - Jamie Baker {BIO 3406456 <GO>}**

Okay. Thanks to you both. Appreciate it.

**A - Peter Juhas {BIO 16582554 <GO>}**

Sure.

**Operator**

We'll take our next question from Kristine Liwag with Morgan Stanley.

**Q - Kristine T. Liwag {BIO 21935865 <GO>}**

Hey, good morning, everyone. And maybe, Gus following up on your comments on AerCap success for the past 20 years, I mean, we've seen all the numbers. And at this point, I mean, you are the largest aircraft lessor in the entire world. So congratulations on that success. But, I guess when we look for growth, and Wall Street's always looking for the incremental growth, as you continue to deliver that strong return, and the business continues to delever, and we'll look at your forward order book and purchase and leasebacks, it kind of decelerates starting 2027. I mean, how do we think about the size of AerCap in the next five years, or even, I mean, 20 years, maybe a little too far out, but maybe the next three to five years? How big could you be? And are you getting to the point on return that you're too big that getting that outsized, 8% to 10% consistently over the treasury rate may be getting harder? And if that's the case, where do you see incremental growth?

**A - Aengus Kelly {BIO 2460371 <GO>}**

Thanks, Kristine. Well, look, from our perspective, this is a growing industry, aviation. Every 20 years, it doubles in size. And aircraft leasing is doubling within that itself. So it's continuing to grow every year. So I'm not worried about growth over the long term. It always comes. And indeed, if you just look at the amount of CapEx we contracted in 2024, it was \$6 billion plus that we managed to contract that wasn't there at the beginning of the year.

So I'm not concerned about where the order book is. I'd be extraordinarily concerned if I was ordering airplanes that were going to have a negative effect to my shareholders and we followed the GAAP model of growth at any price. That's something we'll never do.

The objective of this company is to create value for our shareholders. And that means growing profitability. And that does not necessarily mean growing revenue. Of course, we have grown revenue tremendously. We've grown the balance sheet tremendously, but at the right times. And I'm very confident that given the growth industry, AerCap's position in the industry, the relationships we have, the influence we have, that profitable growth opportunities will come our way. And in any event, as I said earlier on in the call twice, I certainly believe that the best value aircraft in the world are available under the ticker Alpha Echo Romeo down on the NYSC.

#### **Q - Kristine T. Liwag {[BIO 21935865](#) <GO>}**

Thanks, Gus. And maybe Pete, as a follow-up, look, we have seen a modest compression in the annualized net spread over the past few years as interest expense has been ticking up. Are there, with the balance sheet continuing to improve and leverage going down, are there different ways in which you could further reduce costs of interest? And when would you expect the annualized net spread to start expanding again?

#### **A - Peter Juhas {[BIO 16582554](#) <GO>}**

Yes, thanks, Kristine. So the net spread will be expanding. I'd expect it to be going up from here kind of on a sequential level quarterly, and then into the next few years as well. Because what we're seeing is the portfolio yield, the lease rate factor is going up. That's going to continue to climb. And so overall, net spread is going to increase.

I would remind you though that net spread obviously isn't the whole story. There's a lot beyond net spread. We're not managing to that. We're managing to EPS. But I do think the profitability will increase going forward.

And maybe just to touch for a second on Jamie's question before in terms of whether we've reached peak profitability for the industry. I don't think so, in part because even the deals that we're doing today, there is a lag in terms of seeing the financial results come through for those. So even if you did reach peak profitability in terms of the market being great today, you're not going to see the financial results of those really flow through until the next few years.

So I think we've got a good tailwind on that. We've got a good tailwind in terms of COVID leases rolling off, that will take time, but it is a tailwind. So I think there are a number of things that are positive for us as a company going into the next few years.

#### **Q - Kristine T. Liwag {[BIO 21935865](#) <GO>}**

Great, thank you very much, guys.

#### **A - Peter Juhas {[BIO 16582554](#) <GO>}**

Sure.

## Operator

We will take our next question from Hillary Cacanando with Deutsche Bank.

### Q - Hillary Cacanando {BIO 18940405 <GO>}

Hi. Thank you for taking my question. I know you already wrote down your exposure to Azul late last year, but that was before they filed for bankruptcy. I was just wondering if there could be any other impact from Azul's bankruptcy on your end.

### A - Peter Juhas {BIO 16582554 <GO>}

Thanks, Hillary. Yes, so last year, you're right, we did take a provision against Azul. And as we look out today, Azul is still in bankruptcy. They've been making progress in their restructuring plan. We don't see any impact compared to where we were. So I think minimal impact this quarter from Azul. And we think we're fully provisioned there for how this restructuring should play out.

### Q - Hillary Cacanando {BIO 18940405 <GO>}

Great. Thank you. Thank you for that. And then, so far, we saw about, 10 very young A320neo getting retired in the market and parted out to harvest the engines just given the demand for spare engines. I guess that speaks to the strength of the engine market. So, I just wanted to get your thoughts on that phenomenon and if that's something that you expect to continue.

### A - Aengus Kelly {BIO 2460371 <GO>}

Well, there's a couple of items there, actually. On those, the report of those neo's being torn down, there are 220 aircraft that were in Egypt. They are being disassembled. The other aircraft, the A320 aircraft that you're speaking about, it's my understanding that it's only the engines that have been removed. The aircraft themselves are not being torn down. And that is in order for Pratt & Whitney to support the obligations it has to its customers. So that's not happening, as far as I'm aware, on A320neos, the teardowns. It is only happening on the 220s that were in Egypt.

### Q - Hillary Cacanando {BIO 18940405 <GO>}

Got it. Great. That's very helpful. Thank you.

## Operator

We will go back to Catherine O'Brien with Goldman Sachs.

### Q - Catherine O'Brien

Oh, hey. Thanks for the extra time. Maybe just one more on the sale-leaseback opportunity. Are these, more opportunistic from distressed airlines, or is this just a function of more deliveries driving less competition per RFP? Just was curious, as I know that market has been pretty competitive and not very attractive the last couple of years. Just wondering what's driving the shift. Thanks.

### A - Aengus Kelly {BIO 2460371 <GO>}

Well, Catherine, first of all, we have to execute on them. Now, we have done so over the years. And you can see that, indeed, last year with the amount of CapEx we put on the books that was not there at the

beginning of the year. It's highly unlikely we're going to be competing in open bid sale-leaseback transactions. It's where we bring other things to the table in terms of our installed fleet, our engine business, et cetera. There are different things we bring to the table that others don't. So I can't say that every deal is uniquely bilateral, but we certainly wouldn't be entering into many sale-leaseback transactions. I don't think we have, where there's just open bids where everybody's bidding against us.

## Q - Catherine O'Brien

Great. Thanks.

## Operator

There are no further questions at this time. Mr. Kelly, at this time, I will turn the conference back to you for any additional or closing remarks.

## A - Aengus Kelly {BIO 2460371 <GO>}

Thank you very much, everyone, for joining us for the call, and we look forward to speaking to you during the quarter. Enjoy the rest of the summer. Goodbye.

## Operator

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

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