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AER - Q2 2016 AerCap Holdings NV Earnings Call

EVENT DATE/TIME: AUGUST 09, 2016 / 1:00PM GMT

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CORPORATE PARTICIPANTS

John Wikoff *AerCap Holdings NV - Head, IR*

Aengus Kelly *AerCap Holdings NV - CEO*

Keith Helming *AerCap Holdings NV - CFO*

Peter Juhas *AerCap Holdings NV - Deputy CFO*

CONFERENCE CALL PARTICIPANTS

Helane Becker *Cowen and Company - Analyst*

Gary Liebowitz *Wells Fargo Securities - Analyst*

Nish Mani *JPMorgan - Analyst*

Vincent Caintic *Macquarie Capital Markets - Analyst*

Rajeev Lalwani *Morgan Stanley - Analyst*

Kristine Liwag *BofA Merrill Lynch - Analyst*

Mike Linenberg *Deutsche Bank - Analyst*

Andrew Light *Citigroup - Analyst*

Moshe Orenbuch *Credit Suisse - Analyst*

Christopher Nolan *FBR & Co. - Analyst*

Darryl Genovesi *UBS Securities - Analyst*

PRESENTATION

Operator

Welcome to today's AerCap Holdings second-quarter and first-half results conference call.

At this time, all participants are in a listen-only mode. This call is being webcast and audio version of the call will be available on the Company's website. The call is also being recorded for replay purposes.

I now hand the call over to John Wikoff, Head of Investor Relations. Please go ahead.

John Wikoff - *AerCap Holdings NV - Head, IR*

Thank you, operator, and hello, everyone. Welcome to our 2016 second-quarter results conference call. With me today is our Chief Executive Officer, Aengus Kelly; our Chief Financial Officer, Keith Helming; and our Deputy Chief Financial Officer, Peter Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call that 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 9, 2016. A copy of the earnings release and conference call presentation are available on our website at AerCap.com. This call is open to the public and is being webcast simultaneously at AerCap.com and will be available for replay.

I will now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings NV - CEO*

Thank you, John. Good morning, everybody, and thank you for joining us for our 2016 second-quarter earnings call, where I am delighted to report another strong quarter of stable earnings.

During the second quarter, we generated adjusted net income of $291 million and earnings per share of $1.53. Furthermore, in the first half of 2016 we generated $3.06 of EPS, which is consistent with our record EPS in the first half of 2015, and this number does not yet fully reflect the benefit of the buyback program.

We finished the first half of 2016 with total assets of $43 billion and a very healthy net spread, which is a critical measure of our operational performance, of $833 million. Our net interest margin was 9.5%, driven by the attractive financing terms available to AerCap, the capabilities of our platform, and the quality of our portfolio.

Now, moving on to some operational trends. During the second quarter AerCap's fleet utilization remained high at 99.4% and we completed 68 aircraft transactions.

We continue to prune our portfolio of older and less efficient assets with the sale of 32 aircraft for $640 million. More than 40% of these aircraft were widebodies that had an average age of 14 years. This brings our total aircraft sales tally for the first half to approximately $1 billion and we expect to sell another $1 billion worth of aircraft in the second half.

Our ability to sell this amount of aircraft at a gain demonstrates the continuing robust demand for aircraft in the secondary market and we are taking advantage of this demand to reposition our portfolio and generate additional excess capital.

The sale of some of the aircraft has, of course, resulted in an impact on revenue, but this is more than offset by the impact of share repurchases and the improved quality of our portfolio. During the first half of 2016 we leased or sold 52 widebody aircraft; that is two widebody aircraft a week. And based on this level of activity we can tell you that there continues to be demand for used widebodies.

As far as our placement activity goes, our widebody fleet remains fully placed for the remainder of 2016 and we only have seven 777 and A330 aircraft that need to be placed through the end of 2017.

Looking at the placement status of our forward orders and used aircraft coming off lease through the end of 2018, we are in a very healthy position. We have tremendous top-line visibility as all OEM deliveries through the end of 2017 are placed, as are 90% of new deliveries through 2018; all with an average lease term of 12 years. In addition, the vast majority of our used aircraft coming off lease in the next 18 months have also been placed.

The result of this leasing activity is that most of our revenue has been contracted for the next several years. This gives the business unprecedented stability and the level of our daily interaction with the market gives AerCap unique insight into end-user sentiment and demand for all aircraft types around the world.

AerCap had some notable deliveries during the second quarter, including the first A350s to Cathay Pacific and Ethiopian Airlines. Now, we expect to generate over $900 million of excess capital during the course of 2016.

This is the case despite the various macroeconomic and political developments since we last spoke in May. Now these include Brexit, recent events in Turkey, and the number of unfortunate acts of terror recently seen around the world. No doubt these events will have some localized impact on demand for air travel, as we have seen several times before, most recently with the downturns in Russia and Brazil.

And while current events may result in a degree of softness in passenger growth in certain regions, the long-term outlook remains robust, underpinned by the decades-long trend of positive passenger traffic growth. And this will continue.

It is also very important to keep in mind that AerCap is a global platform that has been built to withstand multiple trouble spots in the world at any given time. The aircraft leasing industry remains robust and we have an extremely durable business that is built to withstand multiple economic cycles, as evidenced by our tenfold growth in assets, 12% annual average EPS growth since 2007 through all economic cycles.

Despite the confidence with which we operate, we remain conservative when it comes to managing risk and this is particularly true of the way we choose to finance AerCap. There is no better way of demonstrating this than by highlighting the extent to which we have used excess cash to reduce our debt-to-equity ratio to 2.8 times to 1, achieving a return to investment grade status with both Standard & Poor's and Fitch.

When it comes to deploying the excess capital AerCap is generating, we adopt a flexible and nimble approach whereby capital is deployed in the manner that generates the greatest long-term value for our shareholders. We do not deliver growth for growth's sake.

In the current environment, we believe that effectively purchasing our own fleet through share repurchases generates greater value than purchasing aircraft in the open market. Since June 2015 we have increased our book value per share by 15.1%. Moreover, since the ILFC acquisition in May of 2014, we have generated $2.3 billion of unadjusted net income and effectively returned a total of $4.2 billion of capital to our equity and debt investors.

As long as our share repurchase program delivers the best long-term return on the excess capital AerCap generates, we expect to continue to repurchase stock. I would like to close by saying that we have a highly-robust business model that generates high levels of earnings visibility and strong, predictable cash flows. And we continue to see an attractive long-term growth trajectory for AerCap.

With that I will hand the call over to Keith and Pete for a detailed review of our financial performance.

Keith Helming - *AerCap Holdings NV - CFO*

Thanks, Gus. Good morning, everyone. Our net income for the quarter was $291.6 million on an adjusted basis and $233.3 million on a reported basis. For the first half, adjusted net income was $593 million and reported net income was $456 million.

As in other quarters, the main difference between adjusted and reported net income was the adjustment for maintenance rights-related expense which accelerates the amortization of the aircraft asset value over the remaining lease term, rather than the remaining useful life of the aircraft, as required under purchase accounting. The other major adjustment item was AeroTurbine results, including restructuring expenses and periodic losses.

Although not shown on the slide, our return on equity for the quarter, on an adjusted basis, was approximately 14% and on a reported basis it was approximately 11%. The principal driver of the decreases in both adjusted and reported net income from 2015 was our sales of older aircraft during 2015 and the first half of 2016.

Since June 30, 2015, we have sold 105 aircraft for approximately $2 billion. These sales reduced our average lease assets by $1.5 billion in 2Q and reduced our basic lease rent. The proceeds from the sale of these assets have provided us with capital for our committed CapEx, further deleveraging, and share repurchases.

Other drivers of the variance were lower gain on sale of assets, slightly higher interest expense, and lower other income.

Slide 8. Our earnings per share for the quarter were $1.53 on an adjusted basis and $1.22 on a reported basis. For the first half, adjusted earnings per share were $3.06 and reported earnings per share were $2.35. As you can see, our first-half 2016 EPS on an adjusted basis was comparable to our very strong first half in 2015 and does not yet reflect all the benefits from the capital that have been reallocated for share repurchases.

The decrease in EPS for second quarter was primarily due to lower gain on sale of assets and lower other income in 2016 versus 2015. Other factors contributing to this were lower average assets and higher interest expense.

Slide 9. Our book value per share at the end of second quarter was $45.26. Over the past year we have grown book value per share by over 15%. We have done this through a combination of earnings as well as share repurchases.

We have reduced our share count by 6.4% since last June and since the beginning of 2015 we have reduced our share count by approximately 29 million shares, or over 13% of our total shares outstanding. We have returned over $1.25 billion to shareholders since the beginning of 2015.

Now let me pass it over to Pete, who will take you through the rest of the financial results.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Thanks, Keith. Good morning, everyone. Starting on slide 10, our total revenue for the second quarter was $1.239 billion versus $1.337 billion for the second quarter of 2015. As Keith mentioned, our aircraft sales during 2015 and the first half of 2016 reduced our average lease assets by $1.5 million. This led to lower basic lease rents and was the primary driver of the decrease in revenue year over year.

Our maintenance revenues were basically flat year over year. Our net gain on sales was $38.4 million compared to $54.6 million a year ago, which was our highest quarter of gains in 2015.

We successfully sold 32 aircraft this quarter that were 14 years old on average and over 40% widebodies. Our other income was $23.9 million for the quarter compared to $48.6 million in 2015, the decrease resulting primarily from the AeroTurbine downsizing, as well as some other one-time items that led to higher-than-normal other income in the second quarter of 2015.

Turning to slide 11, our net interest margin was $833 million in the second quarter compared to $910 million in the second quarter of 2015. The main drivers of this difference were the lower basic lease rents resulting from having a smaller portfolio and slightly higher interest expense, which had two components.

First, we issued new longer-term debt to replace the short-term ILFC debt that was maturing. This maturing ILFC debt had lower reported interest expense as a result of purchase accounting for the ILFC acquisition. As a result, our average reported cost of debt increased from 3.5% to 3.7%, although our cash interest expense decreased.

Second, we increased our liquidity by $3.4 billion from the second quarter of 2015 for our higher upcoming CapEx needs during the second half of this year and in 2017. This also led to increased interest costs. These two factors, the natural roll-off of the ILFC debt and the increased liquidity, also drove the change in our annualized net spread from 9.9% to 9.5% in the quarter. Both our average cost of debt and our net spread were in line with our expectations and with the forecast that we gave at our investor day last September.

Turning to slide 12, we sold 32 aircraft from our owned portfolio in the second quarter and our net gain on sale for the quarter was $38 million. As I mentioned earlier, the average age of the aircraft we sold was 14 years with over 40% widebody content. This brings our total sales for the first half of the year to just over $1 billion. We've also entered into contracts to sell an additional $1 billion worth of aircraft that we expect to close during the second half of this year.

In the second quarter, we also reclassified three older aircraft that we put out a long-term leases as finance leases. We took delivery of six aircraft during the second quarter, two A350s and four 787s, bringing our total purchases to 12 aircraft for the first half of this year and we expect to take delivery of 31 new aircraft during the second half of the year.

Slide 13, our leasing expenses decreased to $143 million for the quarter, down from $173 million in 2015. This expense decrease was primarily due to lower maintenance rights expenses, resulting from fewer maintenance events during the quarter.

Our SG&A was $86.5 million for the quarter, down from $91.5 million in 2015. This expense drop was primarily due to the continued downsizing of AeroTurbine.

We reported asset impairments of $10.5 million in the second quarter, all in connection with aircraft sales. These related to three aircraft that were part of the portfolio sale during the quarter. The overall portfolio was sold at a profit, but these three aircraft were sold at a loss as a result of the way the purchase price was allocated. Because the sales of these three aircraft didn't close during the quarter, they were treated as held for sale and, as a result, the $10.5 million shows up as an asset impairment rather than a loss on sale.

Finally, the transaction and restructuring expenses of $3.5 million in the quarter all related to severance and termination costs that were part of the AeroTurbine downsizing.

Next page. We ended the second quarter with record liquidity of $10 billion. You can see that this represents a $3.4 billion increase over our liquidity at the end the second quarter of 2015.

We increased our liquidity in order to prepare for our upcoming CapEx schedule. We have $4.2 billion of cash CapEx coming up over the next 12 months. The increase in liquidity came primarily from an increase in our undrawn facilities as well as from holding additional cash.

We are currently at a ratio of 1.5 times next 12 months sources to usage coverage, giving us excess cash coverage of $4.4 billion. We continue to target a level of at least 1.2 times source to uses, which is an investment-grade standard.

So overall for AerCap this was another quarter of strong operating and financial performance. Our $3.06 of earnings per share for the first half of the year was consistent with our expectations and consistent with our record earnings year of 2015. And that EPS number does not reflect the full benefits of our capital deployment to our share repurchases, which we will see coming through fully in future quarters.

With that I will now turn it over to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Helane Becker, Cowen and Company.

Helane Becker - *Cowen and Company - Analyst*

Thanks very much, operator. Thank you so much for your time; I appreciate it. Just a couple of questions.

Can you say, Gus, how pricing is holding up on the widebody aircraft as you look ahead on...? I guess the 2016s and 2017s are placed, but as you are thinking about the 2018s when more aircraft are coming off retirement, how is pricing holding up for those?

Aengus Kelly - *AerCap Holdings NV - CEO*

We are continuing to move 2018s and even 2019s, Helane, through aircraft sales as well as through aircraft leases. And as I said, there's still good demand out there for used widebody aircraft.

For sure, lease rates have moved down year on year with the movement in interest rates. That's a given, as you will see that as treasury yields have fallen so have the lease rates. But some aircraft exhibit strong resilience in the face of that; others less so.

But, overall, as we look out over the coming years, we don't see anything in the widebody market that is materially changing how we look at the profitability of the Company.

Helane Becker - *Cowen and Company - Analyst*

Okay. Then I just had another question. You guys have a lot of aircraft out to Turkish and I know it's government -- some of it is government-backed I guess. And I just wonder if you're concerned about that at all; thinking about taking aircraft out of the market and putting it elsewhere.

Aengus Kelly - *AerCap Holdings NV - CEO*

We're certainly not concerned about Turkish Airlines. We don't see any credit issues there whatsoever. In fact, we'd like a lot more carriers with that type of financial strength and backing behind them. Unfortunately, that's not the case.

What we will see, of course, in Turkey, no doubt, is for sure some decline in passenger growth. And we have seen this before in other markets -- as I said in my prepared comments, we're likely to see something out of the UK also -- but I think relatively modest from there.

This is nothing new. As I said, most recently we had Russia, we had Brazil, before that we had Mexico, before that we had India. We do see Russia turning the corner, for sure, at this point. Obviously, India and Mexico are two of the best growth markets in the world.

So there's always some part of the world every year, just because of the size of the world, that gets into trouble, but we don't see anything from Turkey that isn't what we haven't seen before in the past in many other jurisdictions.

Helane Becker - *Cowen and Company - Analyst*

Okay. Thanks, Gus. I really appreciate your help.

Operator

Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thanks, operator. Gus, there was no mention of the standing guidance in the presentation. I just want to know, just want to make sure that you're still comfortable with your prior earnings target to 2016 as well as the three-year earnings growth target that you've talked about before.

Keith Helming - *AerCap Holdings NV - CFO*

Gary, this is Keith. 2016 is very much on track and, as you know, we have a very large amount of CapEx in the coming years and we are redeploying capital through share repurchases. Both are positive forward trends for the following years. We will discuss that in more detail in our expected upcoming investor day in November.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

So the 7% to 9% is --? How would you characterize that: it's under review or is that still a good number?

Keith Helming - *AerCap Holdings NV - CFO*

Again, we have very positive trends, as I said, with the CapEx and the redeployment of capital, and we'd rather go into the detail at our upcoming investor day.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, thanks. Also, can you talk about the planes that are -- the new deliveries that are not placed for 2018? Are they concentrated within a particular model type?

Aengus Kelly - *AerCap Holdings NV - CEO*

Gary, it's a very small number of airplanes for someone of our size. We deliberately always hold back a few machines two years out. We won't put everything away, but it's a very small number of airplanes.

Predominantly on the A320 NEOs; obviously, because of the volume we have, that's where it's focused. But we have leased over 100 A320 NEOs. There's great demand for the product.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, thanks. One last one. Pete, you mentioned there were some unusual items or one-time items in other income in the quarter. Can you tell us what those were and should we expect anything unusual in Q3?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

No, Gary, we shouldn't expect anything unusual in Q3. Other income, I think we've talked about generally, it typically runs around $10 million a quarter now. It was higher in the second quarter of 2015 because we had some one-time items then.

So in both 2015 and 2016 we had some one-time items. Those were greater in 2015 and AeroTurbine was a contributor there. So that's really the difference year over year.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

I'm trying to understand; I thought AeroTurbine lost $11 million in the quarter. You've been generating maybe $10 million of management fees and interest income a quarter, so I'm just -- it seems to be about $25 million that I can't reconcile.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, but AeroTurbine's results flow through a number of different line items. So what flows through other income is their sales on their inventory, so the margin that they made on their inventory. So that was a positive number in 2015 and I'm saying we're not recognizing a positive number for that any longer.

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Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, thank you.

Operator

Jamie Baker, JPMorgan.

Nish Mani - *JPMorgan - Analyst*

Good morning, guys. It's actually Nish Mani on for Jamie. Could I ask you a question about the asset impairment that you guys have booked, the $10.5 million charge in the quarter? It was related to three aircraft that you said were sold at a loss. Could you provide any color on the model and vintage types of the three aircraft?

Keith Helming - *AerCap Holdings NV - CFO*

Well, I think Pete mentioned this in his prepared remarks. Again, this was relating to three aircraft that were part of a 37-aircraft portfolio sale. The sale itself was at an overall profit.

The loss on these three aircraft were really just based on the allocation of the purchase price that had input both from ourselves as well as the buyer. So to be quite frank, the allocation of the purchase price is really not that relevant and so the individual aircraft amounts really aren't of any particular interest or value, if you will.

The only reason it was recorded as an impairment is because those aircrafts had not yet closed by the end of the quarter, but because they had an allocated loss they had to be recorded as impairment. So it's a little bit of accounting requirements, but the make and model I think is irrelevant.

Nish Mani - *JPMorgan - Analyst*

Okay, that's fair. Then turning to just a big picture question. We've seen in the past couple of months production rates from both the OEMs come down on the widebody side and I just wanted to get a sense and take your temperature on the issue and see if you guys expect further production cuts in the coming months and years to kind of restore what would be a supply and demand balance in the marketplace. Or do you think that the actions of Boeing and Airbus year-to-date speak to themselves and that we've kind of approached a balanced market already?

Aengus Kelly - *AerCap Holdings NV - CEO*

As I said before in the past, Airbus and Boeing will always ultimately match the supply with the demand, but they always have to overbook. And we've said this for many years; that you should ignore orders that the OEMs book and look at their deliveries.

They have to overbook their deliveries all the time, because they have no idea three or four years out which part of the world will be in trouble. They just know somewhere will or some airline won't be able to take delivery of aircraft.

And I think what we're seeing now is that the backlog on the widebody airplanes, particularly the 777s is now coming into line with what I'm sure the OEMs always knew was the real demand as some people slide their positions into other widebody types. And I suspect that we probably will see further cuts. I don't see many buyers for the underlying airplanes; it's always the same. So I think we will continue to see that.

There's definitely no doubt, though, that Boeing could sell 777-300ERs and we, and many others, would buy them. However, at the price we would purchase a brand-new 777-300ER at the end of the line, a 2016 or 2017 airplane, it would mean that we would not by 777Xs or would other customers of Boeing. And the same applies on the Airbus side.

Therefore, they would be borrowing from the future and would be an extremely expensive loan for them to take, because they would effectively be cannibalizing their future sales of the X just for some near-term small amount of profitability on the existing aircraft type.

Nish Mani - *JPMorgan - Analyst*

I agree with that. Just kind of the logical follow-on to that would be, going into the narrowbody segment, what you expect in terms of the potential for rolling back some of the production rate increases that people in the market have been talking about over the past couple months.

Aengus Kelly - *AerCap Holdings NV - CEO*

I'm sure they will; I just don't know when. They have a wonderful history of promising great levels of production and then cutting them back, so I would imagine that they will at some point in the future. Of course, they keep taking orders because they don't know in 2021 which airline, which part of the world will be in difficulty. They have to overbook all the time.

But they will be able to respond to that; they always have been. And so, as I said, while they will produce as many aircraft as the market will take, they will not cannibalize their own customers by forcing them to take aircraft that will put them into bankruptcy. Because then what will automatically happen is that supply will get regulated straightaway in an non-controlled fashion because the airline with the orders that goes into bankruptcy will go away and the order will disappear.

They have always acted as a rational duopoly and controlled that supply into the market by making sure their customers take as much as they can without pushing them over the edge. And that's how they control supply in a rational basis versus the irrational situation where they push guys into bankruptcy and then the order book automatically recalibrates.

Nish Mani - *JPMorgan - Analyst*

That's great. Very helpful color, guys. Thank you so much for the time.

Operator

Vincent Caintic, Macquarie.

Vincent Caintic - *Macquarie Capital Markets - Analyst*

Great. Thanks very much, guys. Just two questions. First, on the market value appraisal of your aircraft. The last time you ran it you had a $55 share market value on your portfolio. I was just wondering if you've recently updated that analysis.

Keith Helming - *AerCap Holdings NV - CFO*

We did another update at the end of March of this year and again the difference is positive. In other words, current market values are in excess of our book values. Part of that $15 had runoff just through sales and other activity, but a large part of it still remained.

We're going to do another review in September, at the end of September, and again, hopefully, we will have information to go through again at the upcoming investor day.

Vincent Caintic - *Macquarie Capital Markets - Analyst*

Okay, great. The second question I had, Gus, you alluded to some of the rental rates coming down a bit, but your funding rate has also improved. And I was just wondering how you might expect that to evolve over time and, importantly, how your net spread trends over time. Thanks.

Aengus Kelly - *AerCap Holdings NV - CEO*

The net spread is extremely robust. You could have volatility, of course, in the lease revenue line and, for different reasons, it could be in a particular region or aircraft type.

But, generally, what you see is that the net spread, the overall yield on the portfolio less the overall cost of our debt, is relatively constant. It's fairly robust and we don't see that changing over the long term. It hasn't changed over the last 10 years, not much really.

Vincent Caintic - *Macquarie Capital Markets - Analyst*

Great, that's all I had. Thanks very much, guys.

Operator

Rajiv Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Gentlemen, thanks for the time. Just the first question; as it relates to that 7% to 9% earnings guidance, or growth rather, over the next few years, can you just maybe provide some color as to whether or not you are seeing upward or downward pressure to some of those figures?

I just worry that, with the comment you made earlier, that we are going to take it to mean it's moving down because you didn't reiterate it. So that's the first one.

Keith Helming - *AerCap Holdings NV - CFO*

You shouldn't take any of the comments as up or down, to be quite frank. Again, we talked about a positive outlook and there would be EPS growth in 2017 and 2018; we still expect the same. Again, we have a significant amount of CapEx so the assets we do expect to grow, both 2017 and 2018. And like I said, we are redeploying the other excess capital for share repurchases.

So a lot of moving parts. We just want to do a reevaluation of it, obviously with other events that have happened in the world today, but it's nothing more than that.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Okay, great. Thanks. Then the other question, as it relates to the investment-grade rating and the progress you've made there, what's going to change as we look forward as it relates to your capital structure? Specifically, I'm just wondering if you're going to do anything different with the large cash position you have on the books.

Keith Helming - *AerCap Holdings NV - CFO*

As Pete mentioned, we're still going to maintain this coverage of 1.2 times sources and uses for the following 12 months. We are in a little bit of an excess position now, but we will be using some of that cash in the upcoming quarters, as Pete mentioned.

In terms of our funding approach, we are going to continue to access the unsecured market, continue to use the secured market as we have in the past. We will limit again the amount of secured debt to 30% of total assets and we do expect to now have even more access to the bond market and hopefully we will see some more pricing benefits there as well.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thanks for the time.

Operator

Kristine Liwag, Bank of America.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

For the unplaced widebody aircraft in 2017 and 2018, in which regions of the world do you see them with opportunities for these aircraft? Also, I understand that each airline is unique, but with your conversations with your customers, what are the common themes that are arising as they think about leasing these widebodies at this time?

Aengus Kelly - *AerCap Holdings NV - CEO*

They are all keen to have them, Kristine. We moved 52 widebodies in 26 weeks. Now no one in the world has anywhere close to that insight into the widebody market, so for us to have to move seven airplanes over the next 18 months isn't a huge task.

What we would say is that the widebody market generally follows where the traffic is. Having said that, though, you will see quite a bit of it in Europe, as well as obviously in Asia Pacific, but it's both of those areas. A little bit on the 767 side coming out of North America, for sure, and some A330s, but, by and large, that will be coming out of Asia and Europe.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great. And a few of your peers have taken advantage of pop-ups from OEMs from aircraft deferrals recently. How much of a discount in aircraft prices would you need to see in the market for you to consider these incremental aircraft?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, I suppose we look at our own; we would say, well, of course, we get offered those slots by the OEMs. But what we would look at ourselves before we deploy immediate capital is what's the price of buying our own airplanes? We already have A320 NEOSs on order, so if I'm trading at a discount to book I'm automatically buying them below the already low contracted price I have with the OEMs.

So for us to be attracted to a pop-up slot, it would not only have to be cheaper than the current contracted price we have, but it would have to be cheaper such that we have accounted for the discount to book value that the Company is currently trading at.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

That's very helpful. Maybe last one from me; can you discuss the pricing and competitive dynamics on sale-leaseback transactions compared to pricing and what you are getting on your order book placements?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, you look at the yield I guess, Kristine, and what you will find it's the function of several inputs. Just because you ordered airplanes doesn't mean that you are going to make any decent money out of it. If you paid too much for it, your yield will be low anyway.

The key when you are looking at the order is, well, what did I pay for it in delivery dollars and what rent am I getting? Now we would say that that is at a good premium to the sale-leaseback market today, a very healthy premium we would say. That's a function of what we paid for the aircraft and also the capability of the platform. And of course, what we pay for the aircraft is also a capability of the platform.

The sale-leaseback market at the moment is more competitive; there's no question about that. Having said that, though, those things can change, too. You need to be flexible, as we said. There could be very attractive moments in the sale-leaseback market, too also, as we evidenced when we dealt with people like American Airlines and LatAm.

So, at the moment, we are certainly getting a better premium out of the order book, but that's not to say it will always be like that. You have to keep your discipline and it also comes to how you deploy your capital as well. Do you hold an airplane? Do you sell the airplane? Do you buy back stock or not? So you got to look at all these things when you're spending the shareholders' money.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Good morning, everybody, or good afternoon. Gus, I want to go back on the sale-leaseback market. We've heard on previous calls about how competitive it has become and how guys who play in the space have seen returns under pressure.

And I'm just curious; it would feel like, given your global platform and the fact that you really are a lot bigger than a lot of other lessors and we sort of view you as a fleet solutions provider, that a lot of the -- I should say some of the sale-leaseback campaigns that are out there right now or that could be coming down the road are a bit more complex, to the extent that there may be a barrier to entry. There are only a few guys who can play in that.

So, on one hand, you have people out there disparaging that market. On the other, it does seem like that there are real opportunities. And so I guess my question is: the campaigns that you intend to play in, my sense is that the pricing is probably going to be or the returns are going to be a lot better than maybe just a traditional garden-variety sale-leaseback campaign. Can you talk, just your thoughts on that? Maybe that's how the market has bifurcated, how we should think about it?

Aengus Kelly - *AerCap Holdings NV - CEO*

Sure. Obviously, if you have a big platform, complexity is an opportunity. If you don't, it's a threat. So very few platforms out there are true global platforms with real distribution capability and the ability to move large numbers of aircraft quickly.

The regular way sale-leaseback -- we're looking at one this morning; we've put a bid in. We're pretty confident we won't win and we are not that bothered about it, but we will put a bid in where we would be happy enough to win. But there will be another one in a few days' time, no doubt, and we will see how that one goes.

But you're right; where an airline comes and says, look, we need something else to happen in our fleet that immediately whittles down the field to a very few operators. That's a fact. And for that extra risk that you are being asked to take, you have to get paid for it, you have to price it, and you have to look and see is that in the interest of the shareholders, etc.?

And, for us, the target is always at the moment looking at buying our own aircraft via the repurchases versus buying in the open market.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, thanks for that. And then just a second one. Where are your thoughts -- and maybe this is more of a Board decision, but where your thoughts are with respect to a dividend? You are generating a lot of excess cash. Is it you're still too young of a company or --? How do you think about that, at least at the management level?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, as a Board and Management (team) we are always thinking about capital distribution and what is the best way to allocate capital in the business. I think it's a relatively recent phenomenon that we have been able to distribute capital and we have made it clear when we announced the acquisition two years ago that the priority of the business was to de-lever to get back to investment grade.

That has been done this year, but it's only a few months ago. And since then, only since then, have we been able to distribute capital which we have duly done. At that point in time, we felt the best use of the shareholders' capital was to buy our stock, as it represented strong, value, but it is very recent.

Now, as we go forward, we will continue to examine that. But as we see where we are at the moment, where the buyback program is and where the price is, at the moment that is, by far, the preferred alternative.

Mike Linenberg - *Deutsche Bank - Analyst*

Great, very good. Thank you.

Operator

Andrew Light, Citigroup.

Andrew Light - *Citigroup - Analyst*

Good morning. Your average cost of debt nudged up a little bit, 3.5% to 3.7%, and yet bond yields have fallen quite significantly. I think even your 3.95% coupon bond from May is already trading at around 3%. Do you see any near-term significant opportunities to do some refinancing to get that average cost of debt down again?

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Peter Juhas - *AerCap Holdings NV - Deputy CFO*

We expect that our average cost of debt, as we talked about in the investor day last year, we expect it will continue to go up a little bit as the ILFC debt rolls off. If you think about it, since last April, for instance, we've repaid a little over $4 billion of debt and the reported interest rate on that, the reported cost was under 2%. It was about 1.7%. We've put new debt on, at average, at about 4% so just that factor is really -- that's what contributed to that entire increase.

We've seen some offset. We've seen some benefit because we're able to lower our cash interest expense. So because of the, as you mentioned, the tightening of our spreads and the lower debt cost generally, we have been able to mitigate that. But I still think it will probably go up to about 4% and then level off.

Aengus Kelly - *AerCap Holdings NV - CEO*

It should be noted, Andrew, as Pete said in his comments, that the debt that we replaced the ILFC debt with is much longer duration debt. That's obviously 18-month, two-year debt that we replace with longer duration debt, so of course you're going to pay more for it.

And, secondly, with the upcoming CapEx, we have increased the amount of liquidity the Company has and that also came through the higher interest expense.

Andrew Light - *Citigroup - Analyst*

Right. Are you guys getting near-term opportunities to capitalize on the sharp fall in yields of late?

Aengus Kelly - *AerCap Holdings NV - CEO*

The point is you're seeing it. What we are saying to you that we are taking on a lot more liquidity because of the upcoming CapEx. So, implicitly, without that you'd have higher cost of debt.

And we've put in -- if we had kept the tenor of the debt the same, of course the cost of debt would've gone down further, but we wanted to go for longer duration debt instead of short-term debt.

Andrew Light - *Citigroup - Analyst*

Can I just ask a question on AeroTurbine? Are you confident that the restructuring and the losses have now come to an end and that we should see at least a breakeven situation from now on?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Relating to AeroTurbine? So the downsizing with AeroTurbine is progressing. Actually, the balance sheet has been reduced by nearly 50% as of the end of second quarter.

In the second half of this year we're going to continue to see some of these period losses and some moderate restructuring expense. But, again, nothing significant. And, again, this will continue until effectively the business is down to the size that we plan to maintain it going forward, which will hopefully be nearly complete by the end of 2016.

Andrew Light - *Citigroup - Analyst*

Okay, thank you very much.

Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great, thanks. Most of my questions have been asked and answered but just a follow-up on the net spread. It sounds like, if you've got extra liquidity on the balance sheet and you will be adding higher-yielding assets, that there should be some improvement in the coming quarters, all other things equal. Is that a fair observation?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

What we will see on the debt side -- on the average cost of debt side, that will tick up. So we expect that to go to around 4% and then level off there.

Now we are, as we mentioned, holding a high amount of liquidity at the moment. That will actually come down over time as we start to take delivery of some of these aircraft. So we are holding the $10 billion now; that should go down to between $8 million and $9 billion later this year. So we will see some benefit of that because right now the net spread is being affected by the additional cost of holding that.

Keith Helming - *AerCap Holdings NV - CFO*

And of course once we start purchasing this large amount of CapEx that we've contracted, obviously the asset portfolio will start to grow again and, of course, the net spread will increase as well.

Moshe Orenbuch - *Credit Suisse - Analyst*

And that starts during the third quarter?

Keith Helming - *AerCap Holdings NV - CFO*

Right now we have 31 scheduled aircraft for purchase in the second half of this year, so that should start to increase our portfolio in size, yes.

Moshe Orenbuch - *Credit Suisse - Analyst*

Just how should we think about the capital return during that period? Because you have been in a period of substantially less investment.

Aengus Kelly - *AerCap Holdings NV - CEO*

For the second half of the year, as we said in the prepared comments, we expect to have in excess of $900 million of excess capital for the full-year, based on the CapEx that we see, based on the contracted sales, based on our net income. When we put those three together that's what we expect to see for the full year, in excess of $900 million.

Operator

Christopher Nolan, FBR & Co.

Christopher Nolan - *FBR & Co. - Analyst*

Thanks for the taking my questions. Can you give any guidance in terms of the amount of CapEx in the second half of the year, please?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, it's about $2.3 billion.

Keith Helming - *AerCap Holdings NV - CFO*

Again, it's the 31 aircraft.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, so it's $2.3 billion of cash, Chris, and $2.6 billion of the value of aircraft on delivery for the second half.

Christopher Nolan - *FBR & Co. - Analyst*

And your current share repurchase authorization ends September 30. Given the rise in CapEx, should we expect that there will not be a renewal for the fourth quarter?

Aengus Kelly - *AerCap Holdings NV - CEO*

No, as we said, we expect to have for the full year in excess of $900 million of capital available. We will look at the position where we are at the expiry of the existing program and we would expect that there will be excess capital available.

Christopher Nolan - *FBR & Co. - Analyst*

All right. Gus, strategically, looking at Europe, it accounts for roughly one-third of your revenues in 2015. Lufthansa reported adjusted profits which were down year over year because of everything that you mentioned in your prepared comments.

How do you see the airlines responding to this; is it softness in the Trans-Atlantic traffic or the traffic within Europe? And are they cutting capacity? Are they cutting price? Can you give a little color on that?

Aengus Kelly - *AerCap Holdings NV - CEO*

Sure. Look, there's a lot of different factors that impact the larger carriers in Europe and the smaller carriers in Europe.

Some of them are very regionalized issues, particularly those that are very focused on the Turkish leisure market. They are impacted, no doubt. Some of the carriers that focus on very price-elastic customers in the UK will have some impact with the decline in the value of sterling, so they will be localized impacts.

I think we will see, as usual, some deferrals with the OEMs. That's nothing unusual. But I don't see anything -- this is a very large market obviously, but you have to remember there's other parts of Europe that are growing quite quickly as well, which are emerging markets, be it Poland, Romania, Bulgaria, etc.

And we are seeing things turn in Russia, too. I was in Moscow a few weeks ago and for the first time since December of 2014 we are starting to see airlines talk about expansion plans in 2017 as opposed to contraction plans. So there is a lot of puts and takes to it, but overall, we feel reasonably confident about the European market.

Christopher Nolan - *FBR & Co. - Analyst*

How do you see pricing for leases? One of your competitors mentioned they are starting to see some price competition and more price sensitive customers. How would you --?

Aengus Kelly - *AerCap Holdings NV - CEO*

I've yet to meet a customer who wasn't price sensitive. I'd love to meet them; but I can assure you they are all price-sensitive.

I mean, joking aside, is there more price competition now that there has been? I think that not particularly. We don't see any great difference in the level of competition. There's always competition out there; that's a fact and you have to deal with it. And we've dealt with it pretty well, so I don't see anything unusual there in that regard.

It will depend on the aircraft type, of course. In certain aircraft types, if you're in niche airplane types, for sure, you will face a lot more competition and there will be a lot more pressure. That competition primarily will come, though, from other aircraft types rather than competitors if you're in a niche asset or if you're moving assets that are at the end of a line.

If you are buying end-of-the-line assets, you tend to compete with the OEM. If you've got a brand-new end-of-the-line airplane, the OEM will generally be head-to-head with you all the time because they will be desperate to fill up a few slots here and there. But that's where -- the only competitor that would be difficult to play against is the OEM and really they tend to play much harder when they are trying to fill out the end of their slots.

Christopher Nolan - *FBR & Co. - Analyst*

Okay, thank you for taking my questions.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS Securities - Analyst*

Thanks for the time. Keith or Pete, one of your peers last week adjusted its escalation assumption and its five-year CapEx forecast. I realize that you only update yours annually, rather than quarterly. But would you give us a little more color around what the escalation assumption is that you've got in your CapEx forecast and whether or not you are seeing actual pricing come in much different from that on whatever historical time period is convenient for your reference?

Aengus Kelly - *AerCap Holdings NV - CEO*

Are you referring to the escalation that the OEMs charge versus the escalation we charge the customers?

Darryl Genovesi - *UBS Securities - Analyst*

No, no, just the assumption that you use in the filing when you come up with your CapEx forecast.

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, look, on that one the escalation moves around. There's a lot of components to the escalation. You have engine OEM escalation, you have air frame escalation, you have other vendors have escalation. It isn't a material difference in the context of the numbers we're talking about.

Darryl Genovesi - *UBS Securities - Analyst*

Okay. And then I realize this is probably a little bit more of an investor day question as well, like others have been. But just simplistically when you think about the roughly $2.5 billion to $3 billion ramp in the CapEx that you're going to be incurring here over the next couple of years, should we basically think of that as a less share repurchase or as --.

It sounds like you're not planning on increasing your debt-to-equity ratio, but I guess there are a couple ways you can fund that, right? One is with more asset disposals and the other is with less share repurchase. So is there a tendency one way or the other as you look out over the next two, three years? Thank you.

Keith Helming - *AerCap Holdings NV - CFO*

Of course, obviously we're going to support the contracted CapEx that we have in place and we will continue to generate excess capital, as we talked about, both for 2016, as well as the years in 2017 and 2018. So obviously, based on where we are at today, the choice is obviously to buy back shares. But obviously we will have to see how the markets look in 2017 and 2018 to make a decision then.

Aengus Kelly - *AerCap Holdings NV - CEO*

The key message of the whole company is that you have to always think about capital allocation and what's in the best long-term interest of the shareholders. That's always on our mind.

Is buying airplanes the right time from manufacturers? Is it buying in the used market? Is it buying new and sale-leasebacks? Is it buying our own airplanes? Is it paying down debt? And also is it selling airplanes that you currently have to create additional capital, to reduce risks?

These are the issues you have to think about all the time in running the business and you can't be so wedded to one way of doing business. If you are, sooner or later you'll make the wrong decision.

You have to continually evaluate all the options you have to protect the business for the long term, because we know in the long term this industry is going to grow. Structurally, this thing will grow and grow and grow and the customer will always need us and we don't have that many competitors.

And as we mentioned in the prepared comments, if we look at the history of the business over the last 10 years, grown the assets by tenfold with EPS compounded growth rate of 12% per annum. Those opportunities are out there, gentlemen, but they may not be just in a linear fashion, but they will be there for the patient investor.

With that, I'd like to conclude the call. Thank you very much for your time and we look forward to seeing you at the next call or in the investor day. Thank you very much.