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AER - Q3 2016 AerCap Holdings NV Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2016 / 2:00PM GMT



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PRESENTATION

Operator

Welcome to today's AerCap Holdings third-quarter conference call. (Operator Instructions). This call is being webcast and an audio version of the call will be available on the Company's website. This call is also being recorded for replay purposes. I now hand over the call to John Wikoff, Head of Investor Relations.

John Wikoff - *AerCap Holdings N.V. - IR*

Thank you, Operator, and hello, everyone. Welcome to our 2016 third-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 November 8, 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 archived for replay.

I will now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Thank you, John. Good morning, everybody, and thank you for joining us for our 2016 third-quarter earnings call, where I'm delighted to report another quarter of strong earnings and profitability. During the quarter, AerCap generated adjusted net income of \$310 million and earnings per share of \$1.68.

In Q3, the AerCap platform continued to perform very strongly, as it has throughout 2016. Our fleet utilization remained very high at 99.8%.

Although global airlines have faced a number of challenges in recent years, air traffic remains resilient. Over the course of the last two and a half years, airlines have faced growing terrorist activity; Ebola; the Zika virus; downturns in Brazil, Russia, Turkey; and most recently Brexit. Despite all of these issues, air traffic has continued to grow solidly at 5.5% per annum.

AerCap has operated at a 99% fleet utilization, and we have generated over \$2.8 billion of adjusted income.

During the third quarter, we completed a record 143 aircraft transactions, representing more than two aircraft transactions every working day. This included 96 lease agreements. As a result of this very high level of lease activity, the vast majority of our lease revenue for the next three years is now contracted. Our average remaining lease term is more than six years. We have placed 95% of our new aircraft deliveries through the end of 2018, and these new aircraft are going out on 12-year leases.

All of this gives us great visibility into our revenue line for the next several years.

It is also worth noting that during the quarter we leased or sold 20 widebody aircraft, almost two a week. This volume of activity demonstrates the unequalled reach and scale of the AerCap platform. We purchased seven aircraft, including one A320neo, three A350s, and three 787s.

In terms of standout deliveries during the quarter, AerCap delivered the first A320neo to North America with the delivery to Volaris airlines. This followed multiple deliveries of the 350 during the quarter to Cathay Pacific, LATAM, and Ethiopian Airlines. Also in relation to our order book, we recently placed five Embraer E2s with Borajet in our capacity as the launch lessor for Embraer second-generation E-Jet family.

Separately, we decided to accelerate the downsizing of AeroTurbine. Keith will discuss the financial implications of this decision later on the call.

We continued to take advantage of the strong demand for aircraft assets by selling 40 planes during the quarter for a total of \$1.1 billion. The 40 aircraft we disposed of had an average age of 12 years and were split 60/40 between used narrowbodies and widebodies. This brings our total sales for the year to \$2.3 billion and we are on track to sell approximately \$3 billion by year-end.

Such a high level of aircraft sales evidences the very robust demand for most aircraft types in the secondary market, a trend we are able to capitalize on to further improve the quality of our fleet and simultaneously optimize returns for our shareholders.

As a result of our extremely active portfolio management, our average lease assets have actually declined over the past year by \$1.8 billion. However, the impact of these asset sales on our revenue and net spread lines has been offset by the bottom-line impact of our increased share repurchase program, which has driven earnings per share.

We remain true to our mantra that we do not grow just for growth's sake, and we adopt a flexible and nimble approach to generating the greatest long-term value for our shareholders.

As a result of our very solid earnings over the past two years, as well as our asset disposition strategy, we have generated significant excess capital. This has enabled us to de-lever while simultaneously returning capital to our shareholders through stock buybacks.

As of September 30, our debt to equity ratio stood at 2.7 times, down from 3.1 times a year ago.

Over the past 17 months, we have repurchased over 36 million shares, returning over \$1.5 billion of capital to our shareholders. The deleveraging we have accomplished, along with the level of visibility we have into our future earnings and the substantial excess capital we have available, provides us with the confidence to return additional capital to our shareholders. As such, we will increase our current share buyback program by \$250 million.

This \$250 million increase will bring the total of our buyback program over the last 18 months to \$1.9 billion. We will discuss our approach to capital allocation in more detail at our upcoming investor day and we look forward to seeing you there.

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

Keith Helming - *AerCap Holdings N.V. - CFO*

Thanks, Gus. I will start on slide 5 of the presentation.

Our net income for the quarter was \$310.6 million on an adjusted basis and was \$225.6 million on a reported basis. For the first nine months, adjusted net income was \$904 million and reported net income was \$682 million.

As in other quarters, the main difference between adjusted and reported net income was the amortization of the maintenance rights expense, which accelerates the amortization of the aircraft 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 expense and period losses.

Our return on equity for the quarter on an adjusted basis was approximately 15%, 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 nine months of 2016. For the first nine months of 2016, we have sold 103 aircraft, for approximately \$2.3 billion. These sales reduced our average lease assets by \$1.8 billion in third-quarter 2016, as compared to the same period in 2015, and reduced our basic lease rents accordingly.

Proceeds from the sale of these assets have provided us with capital for our committed CapEx, further deleveraging, and further share repurchases.

Other drivers of the variance were lower gain on sales assets and slightly higher interest expense. The decrease in reported net income was also driven by non-recurring, largely non-cash charges resulting from our decision to accelerate the downsizing of the AeroTurbine business.

Approximately \$63 million out of the \$73 million of total charges was non-cash and consisted of \$18 million from our decision during the quarter to exit our MRO business, \$9 million from a write-down to the expected sales prices on engines in process of being sold, and \$36 million from further write-down on older, out-of-production parts inventory to reflect loss of value during the year and our decision to accelerate the remaining inventory sales. The remaining \$10 million of charges related to operating costs incurred during the quarter.

As of third quarter, AeroTurbine's total assets have been reduced by over 60%, from \$650 million down to \$250 million. After completion of the engine sales in process, as well as further parts sales expected over the next few months, the downsizing of AeroTurbine will be largely complete and the remaining assets of AeroTurbine will be less than \$100 million, of which approximately half will be cash and receivables.

Turning to slide 6, our earnings per share for the quarter were \$1.68 on an adjusted basis and \$1.22 on a reported basis. For the first nine months, adjusted earnings per share were \$4.71 and reported earnings per share were \$3.55. As you can see, the first nine months of 2016 EPS on an adjusted

basis was comparable to our very strong first nine months in 2015 and does not yet reflect all the benefits from the capital that has been reallocated for share repurchases.

EPS for third quarter was impacted by lower gain on sales of assets in 2016 versus 2015. Other factors impacting it were the lower average assets and higher interest expense. And the decrease in reported earnings per share was also impacted by the AeroTurbine results.

Slide 7, our book value per share at the end of third quarter was \$46.91. Over the past year, we have grown book value per share by approximately 15%. We have done this through a combination of earnings, as well as share repurchases.

We have reduced our share count by 9.6% since last September 30 and have reduced our share count by 36 million shares since the beginning of 2015, or approximately 17% of total shares outstanding. We have returned approximately \$1.5 billion to shareholders during this time period.

Let me pass it over to Pete now, who will take you through the rest of the financial details.

Peter Juhas - *AerCap Holdings N.V. - Deputy CFO*

Thanks, Keith. Good morning, everyone.

Starting on slide 8, our total revenue for the third quarter was \$1.226 billion versus \$1.323 billion for the third quarter of 2015.

As Keith mentioned, our aircraft sales during 2015 and the first three quarters of this year reduced our average lease assets by about \$1.8 billion. This led to lower basic lease rents and was the primary driver of the decrease in revenue year over year. Of course, we have been redeploying the proceeds from these asset sales to buy back a substantial portion of our stock over the course of this year.

Our maintenance revenues for the quarter were \$91.9 million, an increase of \$10.8 million from the prior-year period, primarily due to lease terminations during the quarter.

Our net gain on sales was \$22.4 million, compared to \$51.6 million a year ago. The decrease was due to the timing and composition of our asset sales. This year, we have sold a number of large portfolios, and it typically takes longer to close the sales of all the individual aircraft within those portfolios. Because of this, the results of these transactions are spread across multiple quarters, which can have an impact on the amount of gains recognized in any particular quarter.

Our other income was \$23.8 million for the quarter, which was basically flat over the prior-year period. Other income included nonrecurring income from insurance proceeds, which was partially offset by nonrecurring, non-cash charges resulting from the accelerated downsizing of AeroTurbine.

Turning to slide 9, the high level of asset sales that we have completed resulted in average lease assets of \$34.6 billion for the third quarter. This led to lower basic lease rents and a net interest margin of \$816 million, compared to \$892 million in the prior-year period. However, we can see the benefits of these sales coming through in our share repurchases and in our earnings per share.

Our net interest margin and annualized net spread were also impacted by an increase in our average cost of debt from 3.6% in the third quarter of 2015 to 3.8% this past quarter. This increase is due to the roll-off of the legacy ILFC debt, which had lower reported interest expense as a result of purchase accounting. The net interest margin and annualized net spread were also impacted by the higher amount of liquidity that we held in the third quarter compared to the prior-year period.

Slide 10, we continued to sell older aircraft during the quarter. In the third quarter, we sold 36 aircraft, with an average age of 12 years. Over 40% of the assets we sold were widebodies, including four A330s, one A340, and four 777-200ERs.

We also put a number of aircraft out on long-term leases, which led us to reclassify four aircraft, two 777-200ERs and two A320s, from operating to financed leases, which are treated as sales.

Our sales margin for the first nine months of the year was approximately 4% and we are expecting a margin between 4% and 5% for the full year.

We also took delivery of seven new aircraft during the third quarter, including one A320neo, three A350s, and three 787s.

Turning to slide 11, our leasing expenses decreased slightly to \$128.7 million for the quarter, down from \$133 million in 2015. Our SG&A expenses were down \$10.4 million to \$80.8 million for the quarter. This expense drop was primarily due to the continued downsizing of AeroTurbine, as well as due to lower expenses in our core business.

We reported asset impairments of \$15.1 million in the third quarter, which related primarily to four aircraft where we had lease terminations. The \$15 million of impairments were more than offset by the release of \$20 million of maintenance reserves for these aircraft, for a net \$5 million positive to the P&L.

And finally, we had transaction restructure expenses of \$29 million during the quarter, which were largely non-cash and all related to the accelerated downsizing of AeroTurbine.

Next slide, we ended the third quarter with strong available liquidity of \$9 billion. During the quarter, we entered into a new \$700 million secured credit facility that will be used to finance 13 new and used aircraft. Including our expected operating cash flows, we now have 1.5 times coverage of our next 12 months' cash needs, which represents excess cash coverage of \$4 billion.

We continue to target a level of at least 1.2 times sources to uses coverage, which is an investment-grade standard.

So, overall, for AerCap this was another quarter of strong operating and financial performance for our business. We have significantly exceeded our targets for asset sales and are on track to complete \$3 billion worth of sales this year. Through our strong operating performance and high level of asset sales, we continue to generate significant excess capital and we continue to deploy it to generate attractive long-term value for our shareholders.

With that, we will now turn over for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Helane Becker, Cowen and Company.

Helane Becker - Cowen and Company - Analyst

Thanks for your time. I appreciate it. The one question I have is when you think about your liquidity, do you have a specific number in mind that you don't want to go below or that you think is appropriate to have for a company of your size?

Peter Juhas - AerCap Holdings N.V. - Deputy CFO

Thanks, Helane. We really look at in terms of what are our upcoming uses of cash over the next 12 months, and so we manage to that 1.2 times coverage level. That's our basic standard. Obviously, we always want to have adequate liquidity available to deal with our immediate cash needs, but we will always keep above 1.2 times.



Helane Becker - Cowen and Company - Analyst

Okay. And then when you are selling aircraft, can you just talk a little bit about the pricing on the aircraft that you are selling? Have you offered aircraft for sale that nobody has been interested in taking? Have there been -- or is there more demand for the aircraft that you have than -- is there more demand than actually aircraft you have available for sale? Maybe that's the way to ask it.

Aengus Kelly - AerCap Holdings N.V. - CEO

The short answer is yes, there is. A lot of investors have realized how attractive this asset class is.

Our strategy has been to generate two benefits for the shareholders and, indeed, for all capital providers, including our debt providers, which is to improve the quality of the portfolio that we have by disposing of portfolios generally of older assets. That does, of course, bring with it a degradation of yield, as you have seen, but then the proceeds that we release from the sale of those assets is used to buy back the stock.

And so while, as I said, there may be some impact on the net spread line, this is more than offset by what is happening at the EPS line by the buybacks. So there is very robust demand out there across the board for aircraft types, and that is evidenced by how much we will have sold if you look back over the last -- I think when we go through 2013, 2014, and 2015, we will certainly get above \$5 billion in total.

Helane Becker - Cowen and Company - Analyst

And through 2016, right or (multiple speakers)

Aengus Kelly - AerCap Holdings N.V. - CEO

Sorry, I meant 2014, 2015 -- excuse me, Helane, sorry, I meant 2014. Since the ILFC acquisition in mid-2014 through the end of this year, I expect us to pass \$5 billion.

Helane Becker - Cowen and Company - Analyst

Right, okay. Great. Okay, I have other questions, but I will get back in line.

Operator

Kristine Liwag, Bank of America Merrill Lynch.

Kristine Liwag - BofA Merrill Lynch - Analyst

Gus, for the 26 wide-body aircraft transactions that you closed in this quarter, can you provide more color on the pricing trends and lease terms that you have signed?

Aengus Kelly - AerCap Holdings N.V. - CEO

It has been fairly steady, Kristine, across the board. They have mainly focused on 777s and A330s, as you see there in the disclosure we gave you on the sales, but it is a similar trend on the lease rates.

Look, these are very good airplanes that are going to fly for a long period of time, and a lot of airlines, as you have heard publicly from statements from IAG, from the Lufthansa Group, are looking at how do they incorporate more used aircraft into their fleet on the widebody side.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great, and maybe a follow-up on a different topic. The asset impairment for the four aircraft in the quarter drove a net positive \$5 million, I think, after the maintenance rents. Can you provide more color on these transactions? What drove these? Were these expected lease terminations that were scheduled or unscheduled? And then, is this something that you reached out to the customer preemptively or is this something that the airline reached out to you to change?

Peter Juhas - *AerCap Holdings N.V. - Deputy CFO*

Kristine, these are really just lease terminations. It is a combination of things, but it is where we reached agreement with the airline and then we have swept the maintenance reserves that we had already collected of \$20 million, which was offset, so we had the \$15 million impairment against the \$20 million of maintenance reserves.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

The thinking behind this, Kristine, is of course we could have repaired the engines or overhauled them and the airframe and put it back into service, but we felt that a better use of the Company's funds was we're in a position where given the book values we have, the maintenance reserves, that the right economical thing to do was not overhaul the engines and the airframe, but to just -- to take our maintenance reserves and just sell off the assets.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

That's helpful. Thank you.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Just a couple here. When I look at your sales margin in the quarter, it seemed low. It looked like it is trending down through the year. Is that just a function of the mix of aircraft being sold or is there a discernible trend here?

Peter Juhas - *AerCap Holdings N.V. - Deputy CFO*

Yes, it is really just a timing issue, Mike. I think when you look at the large transactions we have done, so we did one for 37 aircraft in the second quarter, those closings of those individual aircraft sales will happen over a period of the next two quarters, and so what you're seeing is the mix of what closes in any particular quarter. That can have an impact on the margin that you see.

But for the -- if you look at nine months year to date, you will see that we are in the 4% to 5% range, and we expect to be the same for the full year, so I think it's really just a timing issue.



Mike Linenberg - Deutsche Bank - Analyst

Okay, great. That helps. And then just, Gus, I guess before there was a -- I don't know if it was the media call or I saw some of the lines come across Bloomberg, and you mentioned new aircraft sales prices reduced on low interest rates. And I just -- I don't know if you were commenting about Boeing list prices or prices that you are seeing. Can you just clarify that? What were you highlighting there?

Aengus Kelly - AerCap Holdings N.V. - CEO

Sure. The query -- the question that came in was what are we seeing in new aircraft lease rates in the spot market, and what we have observed during the year, as I said, and maybe it's just a slight misquote, is that we have seen lease rates for new aircraft decline pro rata with interest rates, but that is nothing to be concerned about. If you are hedged correctly, your margin will hold up.

Mike Linenberg - Deutsche Bank - Analyst

Okay. Okay, great. Thanks for the clarification. Thank you.

Operator

Vincent Caintic, Stephens Inc.

Vincent Caintic - Stephens Inc. - Analyst

I know you will have more guidance on next week's investor day, so I will just focus on the third-quarter results. And it is really just some quick ones. First, on the net insurance that you have received that you highlighted on your press release, is that in adjusted earnings and was that offset by some of the AeroTurbine impairments you took?

Peter Juhas - AerCap Holdings N.V. - Deputy CFO

Vincent, that is included in adjusted earnings. We didn't make a specific adjustment for the insurance proceeds. But the insurance proceeds is largely offset by the AeroTurbine charges. Again, the insurance proceeds are cash, obviously, and the AeroTurbine is a non-cash one.

Vincent Caintic - Stephens Inc. - Analyst

Okay, got it. And then for AeroTurbine broadly, you gave some numbers about you have less than \$100 million assets remaining, but when do you expect to have completed the AeroTurbine runoff? And is there any more adjustments that you could foresee in the next quarter or so that we should be modeling in? Thanks.

Keith Helming - AerCap Holdings N.V. - CFO

We expect that the third quarter was the bulk of all the charges that we need to take. We will have, obviously, some operating costs going forward, but effectively there won't be any material cost, so this will continue in the first quarter, first half of 2017, but after that you won't see much at all.

Vincent Caintic - Stephens Inc. - Analyst

Okay, got it. So it's typically about \$10 million in operating costs a quarter through the first half of next year and then that's it.



Keith Helming - *AerCap Holdings N.V. - CFO*

Yes, yes. You have seen obviously the operating expenses continue to decrease with the size of the business decreasing.

Vincent Caintic - *Stephens Inc. - Analyst*

Got it, okay, sounds good. All right, look forward to next week's investor day. Thanks.

Operator

Mark Streeter, JPMorgan.

Mark Streeter - *JPMorgan - Analyst*

So, Jamie and I are wondering about a couple of things related to Turkish and their announcement of deferrals and your exposure there. And then -- or parking some aircraft, I should say, at Turkish specifically. But then just all the deferrals that have been announced out there, and we are keeping track of them. It is Thai, GOL, Avianca, Delta, Southwest, American, LATAM, a couple others that are out there that have deferred aircraft this year.

And there is a lot of fear in the market. On the one hand, we have the very, very strong traffic results and profitability and so forth, but with this growing list of deferrals, are you concerned about the cycle turning over? Is this natural course of business? Obviously, your utilization is high and so forth. Maybe you can talk about your exposure to Turkish and this list of deferrals and give us some comfort as to what is going on.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Sure, Mark. Firstly, on Turkish, the announcement you are relating to is the one that just came across half an hour ago regarding some of the capacity that they are looking to put on the ground or sublease out during the winter. So, we will just have to see how that plays out.

Any airline is able to sublease capacity out to reduce over the winter, and indeed we see Ryanair do that very significantly, of course, and we see other carriers doing it, depending on seasonal trend. So that is something that we are working with Turkish on. It is a very important customer, and we certainly believe in the Turkish market long term.

Now to touch on your question about deferrals, we have often said that orders are no more than a signpost to the future, and as we have often said, most -- a decent chunk of what gets ordered never gets built. And the reason is about the OEMs have very large fixed costs that have to be covered by manufacturing. Those fixed costs, they don't know which airline is going to take delivery of the orders that they put in place three or four years ago. They don't know what part of the world is going to be under pressure in three or four years' time. All they know is some part of the world will.

They didn't know four years ago that Russia would get into trouble. They didn't know that Brazil would have difficulty, et cetera. All they knew is that some part of the world would be in trouble, so they always have to overcommit on the order book, knowing that some of it will melt away.

And in summary, what we are seeing is normal course of business. The deferrals that you are seeing now are from public entities, but this is ongoing all the time with Boeing and Airbus and the customer base. Ultimately, as we have said in the past, Boeing and Airbus can rationalize supply to the market either in a controlled fashion or in an uncontrolled fashion. Up until now, over the last 30 years, they have chosen to do it in a controlled fashion whereby airlines who have over-ordered come back to them, ask for help. They get it for a price. Then those airlines defer those aircraft, take them at a later date.



The alternative is to say to those airlines, no, you will take delivery of those aircraft. Now, those airlines then will either go into bankruptcy themselves or put one of their neighbors into bankruptcy, and thereby leading to cancellations to the order book and a rationalization of supply into the market, but in an uncontrolled fashion.

So what we are seeing at the moment is no more than the normal course of business with the manufacturers and how they deal with the customer base when they inevitably overcommit.

Mark Streeter - *JPMorgan - Analyst*

Great, that's helpful, and then just one more follow-up. Your credit spreads have significantly been underperforming Air Lease. I would have thought at this point your spreads would be narrowing, but instead they have been widening. I think a lot of that has to do with technicals and so forth. But, maybe, can you just talk a little bit about your commitment to current leverage levels? Obviously, you got the share repurchase on the tape here with the release this morning and so forth. Maybe just talk about the commitment to the low BBB rating and what your plans are for the future?

Peter Juhas - *AerCap Holdings N.V. - Deputy CFO*

Thanks. We are committed to the BBB rating, and from a leverage standpoint, we're going to continue to maintain our leverage within the 2.7 to 3 to 1 level. We ended the third quarter at 2.7 to 1 and we will stay in that level, certainly -- probably at the lower end of that range at the end of the fourth quarter, even taking into account this new share repurchase authorization.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Yes, without a doubt, Mark, we are committed to the investment-grade rating.

Mark Streeter - *JPMorgan - Analyst*

Okay, thanks very much.

Operator

Rajeev Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thanks for the time. Aengus, a question for you, and this may be for the investor day, but it stands out, just given the announcement today on buybacks. As you think longer term, do you believe that the strategy of selling assets and buying back stock is something that is sustainable? Are you comfortable using that as a way to grow the business?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Well, it's one way to grow the business. There are three -- there are four uses of capital that we generate. Firstly is to pay down debt, which we did a very significant amount of over the course of the last two and a half years. Our objective was to get back to investment grade and get the debt equity ratio to the target area we wanted of between 2.7 and 3 to 1, so that was accomplished a year ahead of schedule.

And from that point forward, toward -- at the end of the first quarter of this year we were able then to use capital for other means, and the other three means of deploying capital are buying airplanes, M&A, or buying ourselves. And we continually look at the best way to deploy our shareholders' money to create long-term value.

We will talk about this more extensively next week, but in essence you look at those three alternatives and when you see the right opportunity, that's the one you pursue. You have to be nimble and flexible, and this Company has been very able and disciplined stewards of capital over the course of the last decade, investing in all three of those alternatives, be it M&A, large aircraft acquisitions or aircraft orders, and also very significant share buybacks when the opportunity presents itself.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Very helpful. You talked earlier about lease rates down, I think because of interest rates. Do you think it's as simple as that or do you think there is maybe something structural at play with all the aviation players entering the market and so on?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Not really. We're just going -- we don't see anything different here to what we have seen over the past. So, not really, no.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thank you, gentlemen.

Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

I was just hoping you could talk a little bit about the level of deliveries in Q4. Looks like it is a little higher than in Q3. You had some of those delays, and how to think about that over the next couple of quarters as a use of capital, and relate that also to the share repurchase authorization.

Keith Helming - *AerCap Holdings N.V. - CFO*

Yes, so the contracted level of deliveries in the fourth quarter does kick up and it does reflect the delays that we expect thus far, and then also that level will continue into 2017. So, there is a reasonable amount of CapEx that is contracted even with the delays that we would expect to move into 2018. So, you will -- we do have the capital ready and we will raise more capital if need be.

Moshe Orenbuch - *Credit Suisse - Analyst*

And Keith, just to relate it to the repurchase authorization, is there a time period that you would like to complete that over?

Keith Helming - *AerCap Holdings N.V. - CFO*

Well, it goes out through the end of the first quarter, but in the past we typically have done it before then. So we will probably begin using it in 2016 and it will move into 2017.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great. Thanks very much.

Operator

Christopher Nolan, FBR & Co.

Christopher Nolan - *FBR & Co. - Analyst*

Thanks for taking my questions. When do you anticipate the balance sheet will start growing again?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Well, we will see the growth come in as the order book delivers. Of course, there has been delays.

But having said that, allocation of capital is not just about how you spend money. It's also about how you generate and what do you sell. What you hold onto is very important. And, look, if there is a very strong bid for assets and we can sell at a premium to book value and buy stock back at less than book value, then that's a trade that makes eminent sense for the Company as well.

But I do believe that when the order book starts to deliver and in significant size, that's when you'll see the balance sheet and the revenue line continue to expand.

Christopher Nolan - *FBR & Co. - Analyst*

And Gus, for the aircraft that were sold, is the demand from investors really for the remaining lease on those aircraft? Is the investor demand really for the leases or for the actual aircraft metal?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

It's a combination, depending on the investor type. Certain investors are very focused on the older type of assets where they are just looking for the stub life of the lease and then the part out of the airplane. Other investors are looking at assets that are midlife, say a 10-, 12-year-old airplane where there will be one or two more leases left. So it depends more on the buyer.

Christopher Nolan - *FBR & Co. - Analyst*

Okay, thank you for taking my questions.

Operator

Darryl Genovesi, UBS.



Darryl Genovesi - *UBS Securities, LLC - Analyst*

Thanks for the time. Maybe just to follow up on Mike's question regarding the trading gain. I think at your 2015 investor day, you had highlighted a \$3.3 billion imbedded gain, based on some information you had from, I don't know, six or seven appraisers. That would have represented about a 10% premium to your book fleet value at the time.

And I guess I would have thought that your monetization of that 10% gain would be somewhat front-end loaded. We saw you guys recognize something close to a 20% gain on asset sales in 2015, and so now you're guiding to 4% to 5% for this year. And so I guess it begs the question, when the catch-up gets realized, when the 10% -- when the monetization of this 10% premium above the actual marked value of the fleet gets realized? Thank you.

Keith Helming - *AerCap Holdings N.V. - CFO*

Yes, so the monetization of that value that we talked about in the past, it comes about in two ways. One is through, obviously, the gain on sale, as you just referenced, but also it comes about in effectively the leasing earnings, if you will.

So we continue to amortize the asset, and the difference between the lease rate and the amortized asset value in depreciation also reflects this value. So it starts to decrease over time. We still expect to have value gains in the portfolio for the remainder of the useful life of the aircraft. Some of that will, again, be reflected in gains in the future and some will be reflected in better, effectively, net spread.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

And Darryl, of course, as Keith is saying, when we sell the asset, we crystallize the returning earnings associated with the asset as well. So if we have held it for two more years, then from 2015, of course, we have burnt off a portion of the in-the-money element, which has been crystallized through the sale for book value, plus the 5% premium.

Darryl Genovesi - *UBS Securities, LLC - Analyst*

Okay. Thanks for that. And then if I could just ask, Keith, when I look at your -- when I look at the expenses that you report on your financial statements here, before any adjustments, the numbers look pretty similar to where you have been running. And so, I guess, when I'm thinking about this \$73 million charge for AeroTurbine, I guess there are multiple ways I could allocate it. I know -- I think it sounded like you gave some color earlier, but what it would seem to imply is that your underlying operating expenses, excluding AeroTurbine, are down pretty significantly. Is that the right interpretation and can you explain why?

Keith Helming - *AerCap Holdings N.V. - CFO*

Yes, in the disclosure, in the press release, we do show a split between AeroTurbine and effectively the core leasing business on the SG&A side. And I think the SG&A for the core business was about \$45 million for the quarter.

I think in the past we have talked about the annual run rate being \$270 million to \$280 million, and that is the number that we expect going forward. That number is down considerably from where it was in the past, but it reflects, if you recall, the \$100 million of savings that we expected when we consolidated both AerCap and the ILFC businesses. And that integration effectively got completed, obviously, in 2015 and now we are starting to see really the full-year run rate of that benefit.

Darryl Genovesi - *UBS Securities, LLC - Analyst*

Okay, so I guess I didn't quite follow that. It sounded like you were saying the run rate for the year should be \$270 million, and if I just divide \$270 million by four, I would get a \$70 million number, and you are suggesting that you are running at \$45 million.

Keith Helming - *AerCap Holdings N.V. - CFO*

I am sorry. The \$270 million included the share-based compensation as well.

Darryl Genovesi - *UBS Securities, LLC - Analyst*

Okay, got it. All right, thank you.

Operator

(Operator Instructions). Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Can we talk about the forward order book? Gus, it looks like as of September 30 you had 16 neos you expected in the fourth quarter. I know two of those delivered so far. Are you really expecting 14 neos between now and year-end or what might be a more realistic expectation?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Gary, it is hard to know. As Keith said, at the moment that is our best estimate. Will there be some delays in that? Possibly there could be. It is just very difficult for us to say at this point if many of them will slip into the first quarter of next year.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Okay. And if I look back a year ago, Keith, you had estimated 2017 CapEx would be about \$6 billion. Is it fair to assume at this point that should be maybe closer to \$5 billion?

Keith Helming - *AerCap Holdings N.V. - CFO*

It will be lower, yes, and we will provide more of that detail next week. But, yes, you are correct in terms of the trend.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Okay. Can you also talk about the accounting for the Sri Lankan early termination? There were some reports suggesting a very significant termination payment that was made to you. Is that reflected in any of Q3's numbers or how does that get recognized?

Keith Helming - *AerCap Holdings N.V. - CFO*

No, there's nothing in the third-quarter results related to that particular event. That will start impacting our numbers in the fourth quarter and in 2017, and, again, we will provide again some more detail on that next week.

Gary Liebowitz - Wells Fargo Securities, LLC - Analyst

Okay, and last one, Gus, it doesn't look like any -- there were no pop-up opportunities that were added to the forward order book. It looks like you exercised a neo option for some planes. But is there -- you are obviously looking at adding planes outside your current order book all the time. Are the returns on those types of transactions just simply not competitive with what you see share repurchases adding?

Aengus Kelly - AerCap Holdings N.V. - CEO

We look at them all the time. We are in the market and talking to customers every day. I was in China last week, talking to a number of customers.

We did have one pop-up 787 that we took in on a private transaction, but other than that, no, Gary. When we look at the opportunity on the buyback program to date, that has been more attractive, but we evaluate all those opportunities at how to deploy our capital consistently. And for the minute, the buyback is the one that is more accretive to our shareholders.

Gary Liebowitz - Wells Fargo Securities, LLC - Analyst

Thanks. And Keith, just a clarification. Did you say that even after all of these write-downs, you are still expecting AeroTurbine to report operating losses at least through the middle of next year?

Keith Helming - AerCap Holdings N.V. - CFO

No, those were operating expenses I was referring to. So, obviously, the business has to continue to sell down the remaining portion of the inventory and those are the costs that I was referring to. And that will, as I mentioned, that will decrease over time.

But (multiple speakers) in terms of write-offs of balances of assets on the balance sheet, we don't expect to have that going forward.

Gary Liebowitz - Wells Fargo Securities, LLC - Analyst

I guess a simple way of asking it is, when is AeroTurbine a breakeven contributor to the P&L?

Keith Helming - AerCap Holdings N.V. - CFO

We believe it will reach that level sometime in the first half of next year.

Gary Liebowitz - Wells Fargo Securities, LLC - Analyst

Okay, thank you very much.

Operator

Jason Arnold, RBC Capital Markets.



Jason Arnold - RBC Capital Markets - Analyst

Most of my questions have been asked, but just one quick one on AeroTurbine. I guess just any change in direction from the past on the direction you're going with that business. I know the MRO operations shut down, but just curious if there is any kind of thoughts. I think you are still going to keep the business and operation for part outs, but any other changes there?

Keith Helming - AerCap Holdings N.V. - CFO

No, the only change or the only new update, if you will, was the decision to exit the MRO business. A portion of the engines will be transferred to the AerCap portfolio for the use of the AerCap business. That has been reflected in the analysis as well, but the rest of the plan is still intact.

Jason Arnold - RBC Capital Markets - Analyst

Okay, and then one other quick follow-up. Did you give the dollar amount of the insurance settlement this quarter?

Keith Helming - AerCap Holdings N.V. - CFO

It is around about the \$50 million level. You will see that in our detailed disclosures in the interim report.

Jason Arnold - RBC Capital Markets - Analyst

Okay, super. Thank you very much, guys.

Operator

Arren Cyganovich, D.A. Davidson.

Arren Cyganovich - D.A. Davidson & Co. - Analyst

I was just curious about the de-risking of the portfolio and what's left of the portfolio that you are looking to trim back. And I think after the ILFC transaction, you had highlighted a run rate of about \$1 billion of aircraft sales per year. Is that still something that you're thinking about over the long term? I know we have been quite elevated over the past couple of years.

Aengus Kelly - AerCap Holdings N.V. - CEO

Of course, in the last couple of years we have been well north of that \$1 billion a year target. The market has been robust and we wanted to de-lever the business to make sure that the balance sheet got back to a very strong position. And then we saw the opportunity to buy back the stock as well, which encouraged us to sell, too, when the stock was trading below book value.

So, a confluence of events there, willingness to delever and then, obviously, increased long-term shareholder value, and on the other side, we had a strong bid on the assets across the board. So if those conditions continue, we will continue to execute probably at elevated levels. As we go forward, we will just have to evaluate what the market is.



Arren Cyganovich - *D.A. Davidson & Co. - Analyst*

And in terms of the fleet, are there any particular areas you are looking to trim exposure to NGs or A320 CEOs Just trying to think of broadly how you are viewing the risk of the portfolio.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

If you look at the history of what we are selling, it tends to be weighted towards older assets and a combination of various asset types across the widebody spectrum, and the narrowbodies as well. We do portfolio transactions where we tried to give the buyers a decent diversification across different asset classes, and that helps us optimize the price we get for the portfolio also.

Arren Cyganovich - *D.A. Davidson & Co. - Analyst*

Helpful, thank you.

Operator

(Operator Instructions). Christopher Nolan, FBR & Co.

Christopher Nolan - *FBR & Co. - Analyst*

Keith, what is the reason for the higher effective tax rate in the quarter, please?

Keith Helming - *AerCap Holdings N.V. - CFO*

The charges relating to AeroTurbine do not have a tax, a positive tax impact, so excluding the AeroTurbine charges, the tax rate is below 13%.

Christopher Nolan - *FBR & Co. - Analyst*

Should we look for a 13.5% or so going forward?

Keith Helming - *AerCap Holdings N.V. - CFO*

As AeroTurbine rose out of our results, you will see the tax rate down to the 13% level, roughly.

Christopher Nolan - *FBR & Co. - Analyst*

Great, and was that A320neo that took delivery, did that have the fixed Pratt & Whitney engine with it?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Yes, it did. The one we delivered, the first one to North America, it did have the GTF. And the good news on the GTF, to be fair, is that all reports from the operators that the fuel burn levels are between 15% and 17% improvement over Sharklet at CEO, which in and of itself was a couple of percent ahead of the CEO.



So, there is no doubt that the machine is generating the fuel burn savings and then some. We just need to make sure now that the manufacturing process becomes more robust.

Christopher Nolan - *FBR & Co. - Analyst*

And Gus, a quick follow-up on the neo. One of your competitors was mentioning they are expecting possible delays in neo deliveries in first half of 2017. Are you anticipating neo delays for your neos?

Aengus Kelly - *AerCap Holdings N.V. - CEO*

We are, and we will talk a bit more about that next week. And as Keith just alluded to earlier in response to one of the calls, about a year ago we had expected \$6 billion of CapEx in 2017. That will be lower, due to some of the deferrals.

Christopher Nolan - *FBR & Co. - Analyst*

Okay, thank you for taking my questions again.

Operator

I would now like to turn the call back to Mr. Aengus Kelly for any additional or closing remarks.

Aengus Kelly - *AerCap Holdings N.V. - CEO*

Thank you all for joining us for the call, and we look forward to seeing as many of you as possible next week at the investor day.

Keith Helming - *AerCap Holdings N.V. - CFO*

Thanks.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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