Q4 2025 Earnings Call

Company Participants

- Aengus Kelly, Chief Executive Officer and Executive Director
- Brian Canniffe, Group Treasurer
- Peter Juhas, Chief Financial Officer

Other Participants

- Arren Cyganovich, Analyst, Truist Securities
- Catherine O'Brien, Analyst, Goldman Sachs
- Chris Stathoulopoulos, Analyst, SIG
- Jamie Baker, Analyst, J.P. Morgan
- Kristine Liwag, Analyst, Morgan Stanley
- Moshe Orenbuch, Analyst, TD Cowen
- Ron Epstein, Analyst, Bank of America
- Shannon Doherty, Analyst, Deutsche Bank
- Terry Ma, Analyst, Barclays

Presentation

Operator

Good day, and welcome to the AerCap's Q4 2025 Financial Results. Today's conference is being recorded, and a transcript will be available following the call on the company's website. At this time, I'd like to turn the conference over to Brian Canniffe, Group Treasurer. Please go ahead, sir.

Brian Canniffe {BIO 2559027 <GO>}

Thank you, operator, and hello, everyone. Welcome to our Fourth Quarter 2025 Conference Call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas. Before we begin today's call, I would like to remind you that some statements made during this conference call, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated February the 6th, 2026. 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. We will shortly run through our earnings presentation, and we'll allow time at the end for Q&A. As a reminder, I will ask that analysts limit themselves to one question and one follow-up.

I will now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Thank you for joining us for our Fourth Quarter 2025 Earnings Call. This was a record year for

AerCap, with exceptional financial and operating performance driven by disciplined execution across all of our business lines.

In 2025, we reported record GAAP Net Income of $3.8 billion, or $21.30 per share, and Adjusted Net Income of $2.7 billion, or $15.37 per share. Full-year revenues reached an all-time high of $8.5 billion, while sales volumes totalled a record $3.9 billion. During the year we had cash capex of $6.1 billion, and we generated $5.4 billion of operating cash flow for the full-year 2025.

Building on these record results, we returned $2.6 billion of capital to our shareholders last year – our highest annual amount ever – through the repurchase of approximately 22.1 million shares and the payment of quarterly dividends. At the same time, we strengthened our balance sheet, resulting in a credit rating upgrade from Fitch, and a net-debt-to-equity level of 2.1x at year-end.

We received $1.5 billion of insurance and other recoveries related to the Ukraine conflict in 2025, in large part due to the successful court judgement in June. This brings total pre-tax recoveries related to the Ukraine conflict since 2023 to approximately $3 billion, which exceeds the net charge of $2.7 billion that we recognised in 2022.

These key achievements underscore the strength of our company and the value we deliver to you, our shareholders, every single day. As we look to the year ahead, our outlook remains strong, and that is why we are announcing an adjusted EPS range of $12.00 to $13.00 per share for 2026, not including any gains on asset sales. We have also increased our quarterly dividend to $0.40 per share. This is on top of the new $1 billion share repurchase program we announced in December.

Moving to business activity during the year. Ongoing secular trends continue to underpin the strength of aviation assets globally. Demand remains robust, with recent industry-wide load factors at record highs, while delivery delays and maintenance backlogs have kept supply constrained. To that point, it is encouraging to see increases in OEM production rates in recent months, which should start to alleviate some of the backlog for new aircraft. That said, we do not expect to see a normalization of the supply-demand imbalance until sustained higher monthly production rates are achieved. As I have said before, aircraft manufacturing is a complex industrial process and production surprises to the upside simply do not occur. So, while demand dynamics may evolve, we remain confident that the current structural shortage of aircraft will persist at least through the end of this decade.

Against this backdrop, in 2025 we executed 705 transactions, positioning AerCap to capitalize on these favourable market conditions. This included the sale of 189 assets, delivering a gain on sale margin of 27% or 2.0x the book equity on our owned assets. The high volume of sales and consistently strong margins underscore the persistent demand we are seeing for our assets, and our conservative book values. It is worth mentioning that aircraft sales were particularly elevated last year. We sold 108 owned aircraft at an average age of 15 years, generating strong gains while improving the overall quality of our portfolio. We also extended 87% of our leased aircraft in 2025, up from 79% in 2024, which further highlights the strength of customer demand. Airlines and lessors remain prominent buyers, accounting for more than 80% of the aircraft sales revenues last year.

Balancing our robust sales activity, we also delivered strong organic fleet growth in 2025 with full-year cash capex reaching $6.1 billion. As noted on our last call, we acquired Spirit's orderbook of 52 Airbus A320neo family aircraft last year, along with an additional 45 options from Airbus. More recently in January, we announced a sale-and-leaseback for six new Airbus A330neos with Virgin Atlantic, which will start delivering in the coming months. These are just two examples of bilateral transactions that enable us to secure today's most in-demand aircraft outside traditional OEM channels, and in most instances with delivery certainty before the end of the decade. With our scale, market intelligence, and strong financial position, AerCap is uniquely positioned to continue executing such strategic transactions.

Turning to the engine business, in 2025 we strengthened our engine offering by expanding our existing partnership with GE Aerospace, which will provide support to the GE9X engine. This partnership enhances AerCap's value proposition for airline customers worldwide at a time when engine support and spare engines are in exceptionally high demand. Our engine leasing business continues to offer a very attractive investment opportunity in this regard. At year-end, we have approximately 100 engines on order which, once delivered, will further expand our capabilities and reinforce our leadership in this critical space.

Now turning to cargo. 2025 was a landmark year for our cargo business, as we received certification for the 777-300ERSF passenger-to-freighter conversion program. This milestone allowed us to deliver the first 8 of our converted 777 aircraft to customers worldwide, helping them to meet strong and growing air cargo demand. The cargo market has shown tremendous resilience despite global trade tariffs and other geopolitical challenges. In addition to meeting demand, our cargo platform also extends the useful life of former passenger aircraft, enabling us to extract further value from our assets. Looking ahead, we remain focused on executing our robust pipeline of feedstock and expect to deliver another 15 cargo aircraft from our cargo conversion programs in 2026, 5 of which are part of the 777-conversion program.

2025 was equally momentous for Milestone, our helicopter business, as it celebrated 15 years in operation. Demand across multiple segments remains strong, reflected in the full year utilization rate reaching 99%. Today, we have no Sikorsky S-92 helicopters available for lease. To put this into perspective, Milestone had 18x S-92 helicopters on the ground in 2020, which underscores the sustained recovery in this market. Last year we further strengthened our helicopter operator relationships by signing 71 lease agreements with 23 customers, the most recent being with Bristow Group for five new Airbus H160s in the fourth quarter of 2025 – becoming the first lessor to bring this aircraft type into their fleet.

In closing, 2025 was a tremendous year for AerCap. A year that showcased the inherent strength and capabilities of our global industrial platform. Combining scale, expertise, and disciplined execution, we completed 705 transactions during the year, repurchased approximately 22.1 million of our outstanding shares, and generated $5.4 billion of operating cash flow, all while strengthening our balance sheet and growing book value per share.

Looking ahead, we enter 2026 ready to build on this position of strength. We have over $3 billion of excess capital to deploy, which we will continue to allocate with the flexible and disciplined approach that has defined our strategy since inception. 95% of our orderbook is placed for the next two years, and we have an average remaining lease term of seven years on our existing fleet, providing us with exceptional visibility into future cash flows. This degree of forward revenue certainly is something very few sectors can offer.

These factors, together with the structural supply constraints and the strong demand for aviation assets, give us a high level of confidence in the outlook for the business. We look forward to executing our strategy and continuing to deliver long term value for our shareholders in 2026 and beyond.

I will now hand the call over to Pete to review the financials in more detail.

Peter Juhas {BIO 16582554 <GO>}

Thanks Gus. Good morning everyone.

Our GAAP net income for the fourth quarter was $633 million dollars, or $3.79 per share. The impact of purchase accounting adjustments was $74 million dollars for the quarter, or $0.45 a share. That included lease premium amortization of $25 million dollars, which reduced basic lease rents, maintenance rights amortization of $36 million dollars, which reduced maintenance revenue, and maintenance rights amortization of $13 million dollars, which increased leasing expenses. During the fourth quarter we had $43 million dollars of recoveries related to the Ukraine Conflict, or $0.26 a share. The tax effect of the purchase accounting adjustments and the net recoveries related to the Ukraine Conflict was $5 million dollars, or $0.03 per share. So, taking all of that into account, our adjusted net income for the fourth quarter was $660 million dollars, or $3.95 per share

I'll briefly go through the main drivers that affected our results for the fourth quarter. Basic lease rents were $1,688 million, basically flat compared to last quarter, and maintenance revenues were $225 million. Net gain on sale of assets was $253 million. We sold 55 of our owned assets during the fourth quarter for total sales revenue of just over $1.3 billion, resulting in an unlevered gain on sale margin of 24% for the quarter. As Gus mentioned, this brought our sales for the full year to a record $3.9 billion and a gain on sale margin of 27%, which translates into 2 times book equity value. Interest expense was $474 million for the fourth quarter. Leasing expenses were higher than usual due to restructuring costs related to the Spirit Airlines bankruptcy.

When we look at maintenance revenue and leasing expenses, we generally look at them in terms of net maintenance contribution on an adjusted income basis, which is maintenance revenue, less leasing expenses, other than maintenance rights amortization. We generally expect the contribution to be around $30 to $50 million dollars a quarter on average, although it tends to fluctuate from quarter to quarter mainly due to the level of maintenance activity. In the fourth quarter the net maintenance contribution was negative $106 million dollars, so approximately $130 – $150 million lower than normal. This reflects the net impact of the Spirit restructuring as well as other unusual items and the timing of maintenance activity that I mentioned earlier. Our income tax expense for the fourth quarter was $78 million dollars. Equity in net earnings of investments accounted for under the equity method was $80 million dollars. That was primarily driven by continued strong earnings and gains on sales in the fourth quarter from our Shannon Engine Support joint venture.

On the next slide you can see a walk of our full year earnings and EPS. And as you can see, it was a record year for AerCap across a number of areas, including GAAP net income, adjusted net income, GAAP EPS and adjusted EPS. We had approximately $3.8 billion dollars of GAAP net income for the year, which included $1.5 billion of net recoveries related to the Ukraine Conflict. That resulted in a record $21.30 of GAAP EPS for the year. After adjusting for the insurance recoveries as well as for purchase accounting items, our adjusted net income was approximately $2.7 billion dollars. So that's an adjusted EPS of $15.37 per share, which is also a record. Our GAAP ROE for the full year was 21% and our adjusted ROE was 15%. Operating cash flow was $5.4 billion dollars for the year. As a reminder, this does not include any proceeds from Russian insurance settlements or any gains on sale, both of which go through investing cash flow.

We continue to maintain a strong liquidity position. As of December 31st, our total sources of liquidity were approximately $21 billion dollars. That compares to uses of around $11 billion dollars, resulting in a next-12-months' sources-to-uses coverage ratio of 1.8x. That reflects excess cash coverage of around $9 billion dollars. Our leverage ratio at the end of the quarter was 2.1 to 1 and our operating cash flow was approximately $1.2 billion dollars for the fourth quarter. Our secured debt-to-total-assets ratio was 10% at the end of December, the same as last quarter. Our average cost of debt was 4.1%, a slight increase from 4.0% last quarter. During the fourth quarter, we bought back 3.5 million shares at an average price of $127.63, for a total of $444 million dollars. In December we announced a $1 billion share repurchase program and today we've announced an increase in our dividend to $0.40 cents a share.

One of the metrics that we focus on is growing book value per share. On this slide you can see that AerCap's book value per share has increased by over $45 dollars, or 68%, since the end of 2022. Over the past year, book value per share increased by 19%, and in fact over the past three years it has increased at a compound annual growth rate of 19%. Of course, this reflects in part the significant amount of insurance recoveries that we've had over the last three years. But it also reflects the company's ability to generate significant amounts of capital year after year.

So that covers our 2025 performance. Now, I'll turn to our guidance for 2026. For 2026, we're projecting adjusted EPS of $12.00 to $13.00 dollars, not including any gains on sale.

On this slide you can see a walk from our record adjusted EPS of $15.37 in 2025 to our guidance for 2026. The largest item is gains on sale of $3.95 that we had in 2025, and we have not included any gains in our 2026 forecast. We had high levels of other income in 2025 related to a number of specific items as well as high interest income, so we're projecting other income to be $0.45 cents lower in 2026. Our effective tax rate was 13.6% in 2025, due to some releases related to prior years. For 2026, we're projecting an ETR of 15.5%, so that results in a reduction of $0.30 cents. Other than those items, we're projecting our EPS to be higher by $1.80, which reflects the impact of lease rents, net maintenance contribution, SG&A, share repurchases and other items.

On the following slide, you can see a breakdown of our projected income statement for 2026 showing the major line items. For full year 2026, we expect to have lease rents of around $6.7 billion dollars, maintenance revenues of around $700 million dollars, and other income of around $200 million dollars, for total revenue of around $7.6 billion dollars. On the expense side, we're projecting depreciation and amortization of around $2.6 billion dollars, and interest expense of around $2.0 billion dollars. We expect leasing expenses, SG&A and other expenses to total around $1.2 billion dollars for the year. And I would note that the majority of the leasing costs associated with the Spirit restructuring were recognized in the fourth quarter of 2025. We will of course have downtime on aircraft that we've taken back from Spirit, which has an impact on lease revenue, and that's been reflected in this forecast. We've assumed that we'll have cash capex of around $5.2 billion dollars for the year, and we're forecasting asset sales of $2 to 3 billion dollars. As you know, these figures can vary significantly as capex is largely dependent on OEM deliveries, and sales volume depends on the demand for assets and the time it takes to close those sales. As I mentioned, we've assumed an effective tax rate of 15.5%, which assumes no specific tax releases as we had in 2025.

In 2026, we expect to recognize earnings of around $200 million dollars from our equity investments, which is primarily our engine leasing joint venture SES. Altogether, that gives us projected GAAP net income of around $1.7 billion dollars. After adding back purchase accounting adjustments of around $300 million dollars, we expect to have adjusted net income of around $2.0 billion dollars for the year. That gives us an adjusted EPS range of $12.00 to $13.00, again not including any gains on sale.

So, in closing, AerCap continued to perform very strongly during the fourth quarter, concluding a record year for the company across many fronts. As Gus mentioned, we continue to see a strong environment for leasing and a strong environment for aircraft sales, which is reflected in the record level of gains on sale for the full year. We're continuing to generate strong cash flows that in turn result in greater profitability and more financial flexibility, and we're deploying capital where we see the most attractive opportunities. We also continue to return capital to shareholders. In 2025 we returned $2.6 billion to our shareholders through share repurchases and dividends. We announced another new share repurchase authorization of $1.0 billion dollars in December and today we've announced an increase in our quarterly dividend to $0.40 cents per share. These actions reflect our strong confidence in the value of AerCap and in our outlook for the future. And with that, operator, we can now open up the call for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) For our first question, we'll go to Jamie Baker with J.P. Morgan. Please go ahead.

Q - Jamie Baker {BIO 3406456 <GO>}

Good afternoon to the team. A couple of high-level questions for Gus. So Gus, on the order book, I totally understand your preferences to order at the bottom of the cycle, when the OEMs come to you. I trust that's a fair characterization, but we still keep coming back to that existing backlog and the possibility that the next downturn is, hopefully, a long way away. So, my question is, is there a point where the backlog window would grow so significant that you might feel you'dhave no choice but to get in with an incremental sizable order.

A - Aengus Kelly {BIO 2460371 <GO>}

Thanks, Jamie. Well, like you, we certainly hope that any downturn is a long, long way off. In that regard, we certainly feel that, Jamie, given the supply dynamics that are in the market, even if we did see any weakness on the demand side, the shortage of supply is, we think, structural for a good bit of time. So, I take your point on the order book. But that being said, Jamie, last year, we added 103 aircraft to our order book, including options. None of those aircraft came through direct orders from the OEMs. It was all because of our positioning in the industry and how we were able to assist our customers.

We also ordered 22 helicopters and, importantly, in the last two years, we have committed to purchase 281 brand new engines, through our own engine business, which we 100% own in-house, and the SES joint venture. So, we have found very significant growth away from the tent in Farnborough or Le Bourget. That's not to say, of course, Jamie, that we won't order with the OEMs. I'm delighted to order with them. But it has to be on terms that makes sense for our customers. And I do think just a bilateral straight-up deal – it's hard to see how that will add value at the moment, given the duration of when you deliver this stuff. But there are other things that AerCap can offer to OEMs, and discussions we've had with OEMs about that, that they value. So, I would say, if the right opportunity comes, of course, we will. But I have a high level of confidence in the capability of the AerCap platform, its global reach and penetration in the industry, and the unique skillsets it brings, particularly through its engine business, as well, that give us access to opportunities that no one else would be able to open up.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. That's great color. And then sort of as a follow-up, Gus. Lessors – if I just kind of step back, lessors are scaling up to sizes that, at least for us, 10 or 15 years ago, we wouldn't have thought it was likely, right? So, my question is, is there any size – I don't know, maybe it's a $100 billion – I can just make up a number, but is there any size where an individual lessor simply becomes potentially too large? Thanks in advance.

A - Aengus Kelly {BIO 2460371 <GO>}

Thanks, Jamie. I would say it's a nuanced answer. To me, the concern I had when we were acquiring GCAS was: would we be of a size where we had to participate in every transaction because we had so many aircraft coming at us or engines every week, so we had to place X aircraft, X engines, Y helicopters, etc. And are you a price taker from the market? That was my concern at the time. It proved to be unfounded, and we are well able to exercise price discipline, placement discipline, as evidenced by our results.

So I would say on that one, so long as I don't believe that we will have to take every transaction in the market and we're not price takers, which I don't see, I think you could grow quite a bit from where we are. I do believe that. And then on the liability side, which would have been, as you rightly say, 10, 15 years ago, a very limiting factor as there were very few investment-grade lessors, there was very little public debt offerings, etc. That's changed dramatically. And while nearly every lessor in the world issues public debt, every big institutional investor, bond fund, bank has an aviation division now and has understood the space a lot more, and realizes through thick and thin, that aircraft are a safe store of value and a hard dollar asset.

Q - Jamie Baker {BIO 3406456 <GO>}

That's great. Thank you, guys. Take care.

A - Aengus Kelly {BIO 2460371 <GO>}

Pleasure.

Operator

Thank you. And we'll go next to Ron Epstein with Bank of America. Please go ahead.

Q - Ron Epstein {BIO 15893287 <GO>}

Good morning, guys. Last week – or was it two weeks ago in Dublin, Gus, right, there was a lot of talk about an A220-500. What's your take on the airplanes? What does it mean? And if Airbus were to do something like that, would that provoke some competitive response from Boeing? And you yourself being a large fleet owner, how do you think about it?

A - Aengus Kelly {BIO 2460371 <GO>}

Look, candidly, I just don't see anywhere in the market that the airplane is needed. Airbus are the market leaders in the narrowbodies. I think they'd be just cannibalizing their own market share, incurring a lot of cost. I know the A220-300 program – they want to make it more profitable. I think they just focus on their efficiency of manufacturing the aircraft rather than trying to just scale up more volume, because I think they're only eating their own market share. It's not solving a problem that exists, in my view, that aircraft.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it. Got it. That's clear. And then, in the quarter or in the year, excuse me -- and in the quarter, you've guys been very successful at selling aircraft. When does that trade end? So maybe this is a follow-on to Jamie's question. Like how do we think about a transition from AerCap selling aircraft on a gain to maybe just more of a focus on the traditional leasing model?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, I'd say, Ron, if you look at our earnings profile, the vast vast majority of our earnings comes from the operating business. And while the gain on sales percentage margins are higher than usual, I would say that if you go back to 2006 when we became a public company of 20 years, I think for all 20 years, maybe 19 years, we have sold assets at a gain. That speaks to the discipline of how we acquire assets, but most importantly, how we manage them and how we manage the maintenance cost of those assets and the condition we manage those assets to. Because at the end of the day, an aircraft is really just a piece of tin. And without records and management of those records, it is an expensive piece of tin.

So, to generate value on a consistent basis over a 20-year period, which this company has done, it is about how you manage that asset every single day, and we've demonstrated that. So, I'd be highly confident that as we go forward, I mean, maybe we won't be at 2 times book equity forever, but if you look at our history, I think - Pete, it's what is that on average the last 20 years we sell about 1.3 times book equity, is it?

A - Peter Juhas {BIO 16582554 <GO>}

Yeah, a little above that I'd say.

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah, and that's going through the average of going through the financial crisis, COVID, Russia. And what I point to Ron, and I think is important, is the stability of AerCap's earnings through thick and thin. Our average GAAP ROE for the last 20 years is 951 basis points above the five-year treasury for that 20-year period. And that is a GAAP number, which includes the impact of the losses in Ukraine, COVID, the financial crisis. I would challenge you to find any industrial company in the aerospace sector that could match the stability of those returns or indeed the outlook that this company has.

Q - Ron Epstein {BIO 15893287 <GO>}

Yeah. For sure. And then maybe just one last quick one. Everything seems really good right now, kind of across all the segments. When you think about risk mitigation, what worries you? I mean, there's got to be something that maybe doesn't keep you up at night, but at least in the back of your head, what would get your spidey sense going that “we got to think about this”?

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah. Well, I think that for me, Ron, everything boils down to the day-to-day of the business, the operations of the business that we are 100% focused on making sure that our assets are moving efficiently, as quickly, as we can. They're on time, on spec, they're on budget. That is what drives the business. The internal operations of the business. That's things like internal audit. They're boring, but things like that really make a difference in the long run of how you manage the business. We have very high-value assets, so very high CapEx, very low numbers of people against that. So not much in the way of labor, but it's vital therefore that all the process, the people you have that they’re 100% focused every day on doing the right thing and following the process procedures that underpin how this company operates. And that Ron – from that everything flows. If that breaks down, it's lights out.

Q - Ron Epstein {BIO 15893287 <GO>}

Got you, got you. All right. Well, thank you very much.

Operator

Thank you. And we'll take our next question from Moshe Orenbuch with TD Cowen. Please go ahead.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks, and congrats on some really impressive results and even a higher level of excess capital than three months ago. Maybe on that issue, could you talk a little bit about how you see that deployment of that excess capital? And it seems like there isn't much, if any of that embedded in your guide for 2026.

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Moshe. So, in terms of the guide, first off, I mean, we've assumed that we would use our remaining authorization and then do some other buybacks on top of that for modeling purposes. And look, if you look at what we did in 2025, buying back $2.4 billion worth of stock, I mean that's indicative, I think, of our view there in terms of the attractiveness of the stock.

I think in terms of leverage and how we use our excess capital, over the medium-term, I would expect that to start to revert towards more normal levels, towards our target. But as Gus mentioned before, we're really focused on the opportunities. Where can you get the most value in deploying capital? Whether that's buying back stock? Whether that's adding to the order book, the engines, all of those type of things. So those opportunities come along from time to time, and we act on them, and we want to be able to act on them in a big way. And I think given our positioning now, we obviously have a lot of capital that can be deployed for that purpose.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Right. And maybe in one of your slides, you noted over 100 aircraft added to your order book from Spirit and other transactions, and you kind of talked about that a little bit. As you look at the landscape, do you think that future years will have comparable levels? I mean, how should we think about what the opportunity set is out there as we go forward?

A - Aengus Kelly {BIO 2460371 <GO>}

Sure, Moshe. And you're right, not only did we add the 103 aircraft last year, but as I mentioned in an earlier comment, in the last two years, we've added 281 brand new engines. That's a significant amount of growth in our two engine businesses. And we – my view has always been in this business – I've said to you guys, aviation is a growth business. Every 15 to 20 years, the number of people travelling doubles. Leasing is a growth space within that. The airlines will always need us. The airlines' net profit margin next year will be around close to 4% per IATA. That is a business that always needs capital. It's a business that will need aircraft, and we supply both, and we can manage both.

So I would be very confident that as we look forward, as the aviation industry grows, opportunity will come. We've demonstrated year-in, year-out that we've always found attractive opportunities for our shareholders. Last year was no exception. This year is off to a good start as well. You saw the announcement that we added another six widebodies with Virgin Atlantic. Again, these are bilateral transactions in timeframes that are just not available with traditional orders with the OEMs. And so, we're always looking at how to allocate the capital in the best way. And of course, we believe that our shares still represent the cheapest aircraft in the world.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Thanks very much.

Operator

Thank you. And we'll next go to Terry Ma with Barclays. Please go ahead.

Q - Terry Ma {BIO 17247903 <GO>}

Hey, thank you. Good morning. Pete, I think you mentioned some of the downtime from the Spirit aircraft was kind of contemplated in the guide. I was maybe just hoping for an update on timing of kind of when those get kind of released and go back into service, and how much of that was actually contemplated for this year?

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Terry. So we've baked that into our numbers, into our guidance that we've provided here for 2026. We'd expect the first of those aircraft to start coming back in the second half of the year.

Q - Terry Ma {BIO 17247903 <GO>}

Got it. And when do you think all of those actually come back? Is it this year, or does it kind of drift into '27?

A - Peter Juhas {BIO 16582554 <GO>}

Some of it, I think, some of it will going to go into '27. I mean, we'll see how fast they can get done. Obviously, we prefer sooner, but we've assumed that some of that comes back in '26 and then bleeds into early part of 2027.

Q - Terry Ma {BIO 17247903 <GO>}

Got it. Okay. That's helpful. And maybe just to follow up on the capital allocation question. You guys gave some color on what the priorities are kind of medium-term. But as you kind of sit here today for 2026, like maybe just kind of rank order kind of the most attractive uses of capital, whether it's buybacks or some like one-off deals that you see? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Thanks, Terry. Terry, I wouldn't rank them per se. I mean, to me, the uses of capital, our return of capital to shareholders, obviously the buybacks, we have very small dividend, asset acquisitions, be it engines, aircraft, or M&A for that matter. As you know, we participated in an M&A process earlier in the year. But the key is discipline, Terry. Any one of those three are just fine with me, so long as the outcome of those decisions is to increase the value of this company by increasing earnings on a risk-adjusted basis. That's the only reason we're here. Nothing else. I'm not here to grow for the sake of growth. We're here to make a return for our shareholders. And whichever one of those capital allocation strategies, or all three of them for that matter, they'll be the ones we will follow that will add value.

Q - Terry Ma {BIO 17247903 <GO>}

Great. Thank you.

Operator

Thank you. And we'll go next to Catherine O'Brien with Goldman Sachs. Please go ahead.

Q - Catherine O'Brien

Hey, good morning, everyone. Thanks for the time. So, I have a bit of a follow-up to Moshe and Terry's questions. Gus, you've made it clear you continue to see very good value in buying back your own shares over the last couple of these calls and the last several years. Your leverage is still well below your target at 2.1 times at year end. Should we interpret this as you seeing more unique and significant opportunities to acquire assets over the next year or so, and you want to have dry powder?

And I guess, like if that doesn't materialize over the next 6 - 12 months, how quickly and aggressively will you pivot to shareholder returns? I guess I'm just trying to understand is there a minimum leverage where you would not want to sit at for more than a quarter or two?

A - Aengus Kelly {BIO 2460371 <GO>}

I think, Catherine, you've got to put a little bit of context around the current debt/equity ratio because of the large insurance recovery that came in just a few months ago. And so that has had a big impact on it so you don't just distribute that just as quickly. And if you look at what we did last year, it's a good indicator of how we think. As we said, we had a record amount of return of capital to shareholders with the best part of $2.5 billion. And in addition, we deployed $6.1 billion of CapEx last year – that was cash CapEx, and then we added a very significant amount of assets to the backlog.

So, as I look forward, I'm not concerned about the ability of the company to find attractive uses of capital. And if that is buybacks, as I said on the earlier call, or asset acquisitions, etc., very happy to do it. But we have always managed to do that, and I would imagine that we will.

Pete, anything to add?

A - Peter Juhas {BIO 16582554 <GO>}

No, I agree with that. Look, I think, Catherine, over time, as I said, I think it is going to get closer to the target level. But obviously, we're looking for the right opportunities to deploy it. The worst thing you could do is to try and chase growth by doing the wrong deal.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Absolutely agree. I think your guys' results speak to that. Another one. In the industry, another owner of engine assets announced they'd be looking to convert engines to power turbines to service data centers. Is that something you guys are exploring? And can you just remind us how many engines you own that are not under your agreement with CFM?

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. Well, to start with, of course we're looking at this. And if it turns out that the demand for what are currently commercial aerospace engines, if that demand to convert them into ground-based power generation for data centers is very durable and is long lived, then of course, we will participate in that, either directly or indirectly, directly by converting the engine into ground-based power generation or indirectly by taking advantage of this surge in demand. But, at the moment, we want to make sure that this demand is a durable demand and it's not fleeting, and that's our focus at the moment is sizing the market. And from there, then we will participate, as I said, one way or the other.

In terms of the quantum of engines that we have ourselves, if you look at what's installed on our aircraft, take the CFM56 model, we are the largest owner of CFM56s in the world. And I would remind you that all of our engines are serviceable and have to be returned for the most part in full life condition – which is very different to a portfolio of engines that is half-life or run out engines, and you're swapping modules to make a serviceable engine. So, when we look at the engine portfolio that we have, Catherine, on any of those metrics, we would have more engines than anyone in the world.

Q - Catherine O'Brien

That's great. Excited to see how it all plays out. Thanks for the time.

Operator

Thank you. And we'll go next to Kristine Liwag with Morgan Stanley. Please go ahead.

Q - Kristine Liwag {BIO 21935865 <GO>}

Hey, good afternoon, everyone. So maybe following up on the Spirit order book that you've taken, and maybe this is a more theoretical question than practical. But if you look at those aircraft slots that you were able to get, how much of a value did you get if you were to have ordered that on your own? I mean, are those planes even available to acquire? But how do you measure value? Thanks.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, that's where the knowledge and the wisdom is, understanding the difference in price and value. And I would say, given our market knowledge – we lease more airplanes than anyone, we lease more engines than anyone, we know where the delivery slots are with the OEMs. All that data comes together to assess what we think the value of an aircraft is in any given year.

And closer in aircraft have a premium because it is availability. And so when we looked at the proposition with Spirit, and we saw the order book, we felt that there was significant value there versus the OEM alternative, and that value was composed of the proximity in terms of time, and also the absolute price level. Is that okay?

Q - Kristine Liwag {BIO 21935865 <GO>}

Great. And would you like to quantify any of that, Gus?

A - Aengus Kelly {BIO 2460371 <GO>}

I won't if you don't mind. Thanks very much.

Q - Kristine Liwag {BIO 21935865 <GO>}

No, no worries. I thought I'd try. And if I could do another follow-up. You've already received more in insurance proceeds than the charge you took regarding Ukraine. I was wondering, can you remind us how much more on unresolved or unsettled litigation you have? And if you were able to recover more, how much that could be?

A - Peter Juhas {BIO 16582554 <GO>}

Well, Kristine, we do have a case ongoing. This is pursuing the operator insurance reinsurers. So that's the case in London that will – we expect – go to trial late this year. We haven't included in our guidance or in our projections any further recoveries on that, or from the Russian insurers directly. It's possible that we could get some there, but it's just very hard to know. And obviously, as you said, we've already gotten $3 billion back, which, from our perspective, is a huge result. Obviously, we take everything that we can. But at the moment, we're not projecting anything.

Q - Kristine Liwag {BIO 21935865 <GO>}

Great. Thank you very much.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

Thank you. And we'll go next to Arren Cyganovich with Truist Securities. Please go ahead.

Q - Arren Cyganovich {BIO 6532878 <GO>}

Thanks. I was wondering if you could talk a little bit about any technology investments that you potentially could be making or any investments that you have made recently that are improving the efficiency of the company? I know your company's quite efficient already, but just curious what you're seeing on there.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. Well, I would say the biggest investment we make is around – and we always have – because we have more data than any other participant in the aviation industry. And that data is used, as I just referenced in the earlier question, to assess what we believe value of an asset is. The value of an asset is a function of market demand, it's a function of the condition of your assets, and it's a function of where you think market demand will be and what you think the cost of maintaining assets – that particular asset – will be in the future. That gives you data, and we're always putting money into our IT systems, our technology systems in AerCap to improve, to enhance the efficiency of that data. The same is true then, in particular, when it comes to maintaining the assets. As I said in prior calls, if you spend $100 million on an airplane, you will spend $100 million on maintenance over its life, or you might spend $120 million if you don't know what you're doing or you might spend $90 million if you know what you're doing. The proof of whether you did $90 million, $100 million, or $120 million generally comes out in your margins versus your peers, and also your gain on sale of older life assets. And you can see the results of that with our margins, both our operating margins on the core business, and as well as gain on sale.

So, we are always looking to try and utilize the vast quantity of data that we have to make our decisions better informed. That's not to say that we – that doesn't mean that we're making some massive AI investment – that's not the case. The case is that we look at the different ways we can enhance the data we have all the time.

Q - Arren Cyganovich {BIO 6532878 <GO>}

Okay. Thanks. And then this is kind of a small one, but the CapEx guide for the year, $5.2 billion, I think the last public disclosure of what the obligations were was in the second quarter is $5.8 billion of obligations, like $600 million or so less now. Were those sales or delays? Just curious what the drop-down was?

A - Peter Juhas {BIO 16582554 <GO>}

Well, we had a pretty significant amount that we did in the fourth quarter of this year. So, I think that was a lot of CapEx in the fourth quarter. Not meaningful delays from what we had before, I think it was just that some of that may have been front-loaded than we did last quarter.

Q - Arren Cyganovich {BIO 6532878 <GO>}

So pull forward from the 2026 estimate?

A - Peter Juhas {BIO 16582554 <GO>}

Yeah. I think because we're giving a next 12 months estimate, right? And so yes, this last quarter was high for CapEx, it was $2 billion total or $2.1 billion of cash payments that we made. A fair amount of that was PDPs, but also deliveries in the fourth quarter. So, we think $5.3 billion is a reasonable number for next year. It could grow if we find additional opportunities. And we have seen that in the past where it's actually grown during the year because even though you might see some delays because of production issues with the OEMs, we've also added, in some cases, whether that's engines or helicopters or aircraft during the course of the year. So, I think it's a reasonable number for now.

Q - Arren Cyganovich {BIO 6532878 <GO>}

Okay. Thank you.

Operator

Thank you. And we'll go for our next question from Shannon Doherty with Deutsche Bank. Please go ahead.

Q - Shannon Doherty {BIO 22063427 <GO>}

Hi. Thank you for taking my questions, and congratulations on the strong results this year. Gus, this may be a follow-up to Ron's question asked earlier in the call. But in general, do you foresee any sort of systemic risk to aircraft lessors that some financially weaker airlines may fail to meet contractual return conditions, just simply based on the high maintenance escalation costs that we're seeing? I understand this would be a bigger problem for the airlines, but I'm just curious to get your thoughts.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. I mean, look, the reality is, of course, the airlines are a non-investment grade bunch, which is the great thing about them. They'll always need me – that's never changed and I don't expect it to ever change. So, there will be instances, no doubt in the future, where they're not able to meet return conditions because they don't have the wherewithal. Now, in many of those instances, that's where someone of our position and scale is able to provide alternatives that no one else can. So, if they can't meet engine return conditions, we might say, okay, we can use our engine leasing business or just our scale, our positioning with the engine MROs, to facilitate or to secure slots to provide spare engines. And in return for that, then we will cooperate with our partner airlines and see what they can give us in return. That's happened on several occasions, for example, with GOL Airlines when they were in some difficulty in Chapter 11, we were able to provide them with engines. We took over some of their order book, something similar with Spirit, etc. So, I would see it as part of the daily cut and thrust of our business and something that we manage year-in, year-out for the last 20 years.

Q - Shannon Doherty {BIO 22063427 <GO>}

Great. Thanks. And as my follow-up, we know that lease extensions have been historically high those past couple of years, when do you expect renewal rates to decline or perhaps normalize? And what percent of your existing fleet are COVID leases do you expect them to run off, let's say, 2031 or 2032 still? Thanks for taking the questions.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. Let me deal with the first part, then I'll ask Pete to comment on the COVID leases. Extensions are elevated. You're right. There were two things driving that. The first is, of course, the airlines know that the OEMs won't deliver on time. As I said in my prepared comments, you just don't get surprises to the upside on aircraft production. So, they know that and they know that it's not for a year or two years, it's structural for the long-term. And that's why we have seen these elevated extension levels for several years now, and I expect them to persist.

The second reason that I expect them to persist is that, even when the technology delivers, what's happening is that because of the strain put on the engines and on the aircraft, they do not last as long in service before they need an overhaul as the previous generation of A320s or 737s or A330s or 777s. And so therefore, in order to fly the same number of flights, if you need to fly – if you're flying 10 x 737s, you might need 11 MAXs or 11 neos to do the same over the long-run to accomplish the same number of flights because they do spend longer in the shop.

Now in time, I do expect the technology, which is always the case that there are technology improvements that will improve that time on wing – the next one coming up will be the Pratt & Whitney Advantage Engine, we have the upgrades also to the LEAP-1A, which have begun and the similar upgrades we put into the LEAP-1B – they'll begin later this year. So steadily over time, we will see time on wing improve. But before those improvements flow through the whole fleet, which is massive, we'll be well into the 2030s.

A - Peter Juhas {BIO 16582554 <GO>}

And then to answer your question on the COVID-era leases, it's about 12% of our fleet today. And you're right, it will roll off over time, but it will pretty much be done by 2031, 2032.

Operator

Thank you. And we'll go to our next question with Chris Stathoulopoulos with SIG. Please go ahead.

Q - Chris Stathoulopoulos {BIO 20308003 <GO>}

Thanks for taking my question. Aengus, could you remind us -- so in your prepared remarks, you spoke about the normalization of supply-demand balance, and you don't see, I guess, monthly production rates meaningfully picking up. At your Investor Day, I believe you said end of decade, where you continue to see a supply shortage. And I think a quarter or two ago on a call in response to a question, it was the same. Has that changed? And then could you also remind us at your Investor Day, you went into the economics of the engine market and why, I guess, the OEMs are really not incentivized to produce excess units given the -- I guess, the initial sale and then the economics around servicing that in the secondary market. Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. So with regards to the first part of the question, supply demand imbalance, I still – I do believe that around 2030, Boeing and Airbus will probably pick up production to where it gets closer to meeting the demand. But that being said – so it might be 2031 or 2032 or 2030. But that being said, the other point that's very important to remember is what I just said on the previous question is that the technology being used is not as durable as the previous generation. Take an A330-300 with Rolls-Royce engines, that thing could go forever, our 777 GE90. They're just not as durable today because those engines, they're pushed much harder, they're running hotter, they're coming off wing more often, which means that the demand for aircraft, in my view, the OEMs just won't be able to meet it for many years to come, even when they get the basic production up. It's because once these assets are in service, they're just not lasting, and they're not spending as much time in service as the previous generation. And that's a hidden aspect that is not as visible, obviously, as Boeing missing a production target. So, in my view, I do believe that supply will be structurally limited for a very long time, well into the 2030s, because of those two events.

The other thing, though, that's very important, as I referenced and you bring up from the Investor Day, we have never ever seen a significant period of oversupply of aircraft on a global basis in my career, which is 30-odd years, never happened. Why is that? Because airlines do go bust, and that was the case, of course, with all the US majors at some period of time. The reason is that, yes, a region can be oversupplied with aircraft due to a downturn in that region. But the engine OEM sells their engine on day one, the day the aircraft is delivered for about 25% of cost or 30% of cost. The airframer, Boeing or Airbus, gets 100% of their revenue on day one. Now the engine guy only makes money if those engines hit the shop probably 3 times, once after maybe eight years, once after 14 years, once at 18 years. The single most important thing, any engine OEM does, is that last shop visit when the aircraft is around 18 years of age. That is the most cash flow positive, highest margin thing they do. The least attractive thing they do is deliver a new engine to Boeing and Airbus. So, if they ever see, and this is the case for the last 30 years, a period of significant oversupply coming to the market, they will be the ones who will lose the most because oversupply of new aircraft will mean early retirement of old aircraft. Those old aircraft are the ones where that shop visit is performed on. So, it's Turkeys voting for Christmas. If they allow Boeing and Airbus to overproduce aircraft in a market where there is oversupply and they have never, ever done it and I don't expect they will. And that's one of the key reasons on a macro basis why AerCap has produced such stable returns for decades. And I don't see that changing.

Q - Chris Stathoulopoulos {BIO 20308003 <GO>}

Great color. Thank you. And I guess along those lines, if you could speak to -- I know there's been a few questions around capital allocation and priorities this year, and thoughts around, I guess, buybacks and acquisitions. But one of the things that I think is important and perhaps sometimes forgotten about and what is unique and certainly shows up in your results here is this barbell approach to managing your portfolio? At a high level, could you just run that down for us? I think that's important for us to revisit, if you will? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Certainly. And when we sell assets, we're not selling them to generate a gain. Of course, when we decide to sell an asset, we want to maximize to the greatest extent possible how much we get for the asset. But the driver is to look at where the portfolio will be. And so, in the barbell approach, as you rightly say, the way we want the portfolio to be is if we have older technology assets like the 737, the A320, the 777, the A330. We want them to be old assets. We do not want young variants of those assets. At some point, the 777 and the A330s and the A320s will be replaced in large part by the neos, by the MAXs, by the 78s, etc. It hasn't happened just yet, but it will happen at some point in the future.

And so, if you have, say, a 2017 A320 or 777, for that aircraft to return a fair cost of capital over the lifespan, it has to still be in service in 2042 if you bought it in 2017, because it's 25 years of service. I simply do not believe that will be the case. At some point in the 2030s, the demand for those assets will fall off. And therefore, you do not want to have young variants of those assets. Now having an old variant that's 18 years old of an A330 or 737 or 320, that's perfectly fine because you’re going to get another five or six years, five-odd years out of it and you'll do just fine off the asset. And then when it comes to buying assets, what we want to make sure is that we're in the assets of the future, the ones that we believe the most durable demand is for out there, and that's where we invest in the A321neo, A320neo, 737 MAX 8, 787-9, A330-900, A350-900.

Q - Chris Stathoulopoulos {BIO 20308003 <GO>}

Great. Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Very welcome.

Operator

Thank you. Thank you. I'd like to now turn the call back over to our speakers for any final or closing remarks.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you, operator, and thank you all for joining us for the call. And we look forward to speaking to you again in three months' time.

Operator

Thank you. And that does conclude today's conference. We thank you for your participation. You may now disconnect.