

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AER - Q3 2012 AerCap Holdings N.V. Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 07, 2012 / 2:30PM GMT

OVERVIEW:

Co. reported 3Q12 total revenue of \$269m, reported net income of \$57.9m, adjusted net income of \$62.2m, reported EPS of \$0.45, and adjusted EPS of \$0.48. YTD 2012 adjusted net income was \$190.5m.



CORPORATE PARTICIPANTS

Peter Wortel *AerCap Holdings N.V. - VP of IR*

Aengus Kelly *AerCap Holdings N.V. - CEO and Executive Director*

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

CONFERENCE CALL PARTICIPANTS

Gary Liebowitz *Wells Fargo Securities - Analyst*

John Godyn *Morgan Stanley - Analyst*

Helene Becker *Dahlman Rose & Co. - Analyst*

Arren Cyganovich *Evercore Partners - Analyst*

Isaac Hussein *Barclays Capital - Analyst*

Ray Neidl *Maxim Group - Analyst*

Mike Linenberg *Deutsche Bank - Analyst*

Glenn Engel *BofA Merrill Lynch - Analyst*

Brian Zacharias *JAM - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the AerCap 2012 third-quarter results conference call on Wednesday, 7th of November, 2012. Throughout today's presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

I will now hand the conference over to Peter Wortel. Please go ahead, sir.

Peter Wortel - *AerCap Holdings N.V. - VP of IR*

Thank you. Good day, everyone. Welcome to the 2012 third-quarter results conference call. With me today are Aengus Kelly, AerCap's CEO; and Keith Helming, AerCap's CFO.

In today's call, we will discuss our third-quarter earnings. In addition to this earnings call, AerCap will also host a lunch for analysts and investors today at the New York Palace in the Garrison Room. The lunch will not be webcasted.

Before we begin, I want 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. In addition, this conference call contains time-sensitive information that reflects management's best judgment only as of the date of the last call.

AerCap does not undertake any ongoing 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 related to forward-looking statements can be found in AerCap's earnings release dated November 7, 2012.



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'll now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Thank you, Peter. Good morning to everyone in the US, and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today for our third-quarter earnings call.

During the third quarter, AerCap generated an adjusted net income of \$62 million or \$0.48 per share. This very healthy profit is a result of the focus on our operating strategy. During the quarter, we maintained a fleet-wide utilization rate of 98%. We continued with our efforts to optimize our fleet through the acquisition of new modern technology, fuel-efficient aircraft, and the disposal of older aircraft. In addition, we raised over \$200 million of long-term debt.

We have now sold over \$1.1 billion worth of assets in the last 15 months, mainly older, out-of-production aircraft and engines. We have also raised over \$1.5 billion of financing, and we have acquired \$1.3 billion of assets, all of which are new, modern technology, fuel-efficient aircraft on long-term leases.

In addition, during the third quarter, due to our robust liquidity position, we were able to take advantage of a unique opportunity to further enhance shareholder value by acquiring 12.9 million shares at an average price of \$11.99. This represents a 33% discount to book value per share, and brings the total amount of capital returned to our shareholders over the course of the last 18 months to \$317 million. This repurchase demonstrates our commitment and focus to enhancing shareholder value.

Now, turning to the leasing business, we have maintained a utilization rate of over 98% for the last 12 months. Importantly, the average lease term of new aircraft acquisitions is 139 months, and the average term of re-leases is 65 months. The longevity of our leases will drive long-term stable profits at AerCap.

On our previous earnings call, I noted that A320 lease rates were firming. This is a trend we are continuing to observe in the market, and also now on the A319s. On the 319 family, we did see lease rate decline between 2011 and the first half of 2012. What we have seen since then is a firming of the lease rate.

This is driven by the same characteristic that underpins all aircraft value and lease rates, which is the diversity and size of the user base of the aircraft type. Simply put, if an aircraft has a large user base, it will always find a home. If it does not, then the value of the aircraft and lease rates will be highly volatile.

As the 319 has such a large installed user base, and utilizes the most fuel-efficient technology in the market, there will always be a home for the aircraft, unlike old technology assets. The tangible evidence of this is that in 2012 alone, there were 14 new operators of the 319. These include airlines such as Allegiant, Aer Lingus, Thomas Cook, and Fastjet. And we are seeing increased demand from our customer base for this aircraft type.

Turning to the credit side, we do not see any unusual level of receivables, given the time of year we are at. We did have one aircraft with Hello Airlines in Switzerland, which we repossessed within 24 hours of the airline ceasing operations. This aircraft is currently being remarketed, and we expect to sign a deal in the coming weeks. The impact of this default was not material.

Turning to growth opportunities, and opportunities to enhance shareholder value, we believe 2013 will provide opportunities for leasing companies like AerCap that can move rapidly to acquire aircraft on a tracked term. In order to do this, however, you must have access to funding, the ability to rapidly execute, as well as a global platform, to source the opportunity. Generally, we feel that the market for sale-leaseback transactions may become less competitive in 2013, as most of the money that flowed into the market in 2010 and 2011 has been deployed or is committed to be deployed in order books.

In summary, the three resilient trends that I have mentioned on prior calls, which underpin the consistent profitability of AerCap -- namely, emerging market growth; the replacement requirement of older aircraft in the developed markets; and the increasing demand for operating leasing -- are still very prevalent in today's markets.

On that note, I will hand you over to Keith to take you through the financials before we open the call for the question-and-answer session.

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

Thanks, Gus. Good morning, everyone. I'll now take you through the highlights of our third-quarter 2012 financial performance. I'll begin on page 5 of the presentation.

Our reported net income for the third quarter was \$57.6 million. Adjusted net income, which excludes the mark-to-market on interest rate caps and the cost of share-based compensation, was \$62.2 million. Adjusted net income for the first nine months of 2012 was \$190 million.

Moving to page 6, reported earnings per share was \$0.45 in the third quarter 2012, and adjusted earnings per share was \$0.48 during the same period. The average shares outstanding during the quarter was \$128.4 million.

Page 7, total revenue. Total revenue in third quarter of 2012 was \$269 million, down from \$276 million in third-quarter 2011. The decrease was driven primarily by a lower net gain on aircraft sales and lower maintenance revenue.

Page 8, net interest margin or net spread was \$176 million in third-quarter. The annualized margin as a percent to average lease assets was 8.77%.

Page 9, the impact from sales for third-quarter 2012 was a gain of \$500,000. During the third quarter, we sold one A330 aircraft, one A320 aircraft. The number of aircraft we sell in any given period may vary, depending on the market conditions and other factors.

Page 10, leasing expenses were \$23.3 million for third-quarter 2012, up from \$13.5 million for the same period in 2011. The increase was driven primarily by the impact related to defaults and restructurings that occurred in late 2011.

Page 11, SG&A expenses were \$22.3 million in the third quarter of 2012, down significantly from the same period in 2011. Included in the SG&A amount in third-quarter 2011 was the \$11.4 million relating to the mark-to-market of foreign currency hedges and cash balances, plus other derivatives.

Page 12, the financial impact from defaults and restructurings in third-quarter 2012 was a pre-tax loss of \$17.2 million. Again, this loss was driven by costs relating to defaults and restructurings which occurred late in 2011 and early 2012.

Page 13, our blended tax rate for full-year 2013 is expected to be 5.5%. The blended tax rate in third quarter alone was only 1.3%. During the third quarter, a previously agreed tax agreement with the Dutch Tax Authorities that was set to expire at June 30, 2012 was extended to year-end 2012. This extension reduced the estimated full-year 2012 blended tax rate and the cumulative adjustment was recorded in the third quarter.

Page 14, AerCap's total assets as of third quarter 2012 was \$9.1 billion. The decrease in assets from 2011 was driven by the sale of our AeroTurbine business and the sale of a 50% interest in the joint venture. The number of aircraft in our portfolio is 337. This includes owned aircraft, managed aircraft, aircraft on order, under contract, or subject to LOI, and also includes the American Airlines purchase leaseback transaction, where the remaining aircraft are subject to confirmation on an aircraft-by-aircraft basis.

Page 15, for the nine months of 2012, we completed \$518 million of purchases, which consists of 14 aircraft. For full-year 2012, we expect \$1.1 billion of purchases consisting of 20 aircraft. Again, these amounts include the aircraft relating to the American Airlines purchase leaseback transaction.



Page 16, the utilization rate was 98.1% for the nine months of 2012, and the unit yielded generated by our aircraft lease portfolio was 12.8%. The average term of new leases for new aircraft entered into for the first nine months includes the letters of intent with 139 months. And the average lease term entered into during the first nine months of 2012 for new leases on existing portfolios was 65 months.

On page 17, AerCap's free and unrestricted cash balance at the end of third-quarter 2012 was \$310 million, and our total cash balance, including restricted cash, was \$620 million. Operating cash flows were \$187 million for third-quarter 2012.

On page 18, at the end of third-quarter 2012, AerCap's debt balance was \$6.1 billion, and our debt to equity ratio was 2.8 to 1. Our book equity is \$2.2 billion and the average cost for debt for the third quarter of 2012 was 4%.

On page 19, with regard to our full-year 2012 financial outlook, committed purchases are still expected to be approximately \$1.1 billion. 2012 basic rent is now expected to be comparable to 2011. The maintenance contribution to income, which is the maintenance revenue less leasing expenses, is expected to be minimal in 2012. And the financial impact from committed aircraft sales in 2012 is also expected to be minimal.

The average cost of debt in 2012 is expected to be approximately 4%; the blended tax rate, 5.5%; and the 2012 ROE, approximately 10%. With regard to our full-year 2013 financial outlook, expected purchases is approximately \$1.2 billion. 2013 basic rents is expected to increase 6% to 10% as compared to 2012. The maintenance contribution to income is expected to be minimal in 2013.

The financial impact from committed aircraft sales in 2013 is also expected to be minimal. The average cost of debt in 2013 is expected to be approximately 4%. The blended tax rate is expected to be 7% and the ROE, again, at 10%.

Those are the financial highlights for third quarter. And I'll turn it quickly back over to Gus before Q&A.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Thank you, Keith. So, in conclusion, AerCap remains highly disciplined and we continue to deliver industry-leading returns. We remain extremely well-funded with no near-term debt maturities, and we are well-positioned to take advantage of market opportunities that may arise in 2013.

So, Operator, with that, we will open the call for questions and answers, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

I noticed that in September, your share repurchase activity was de minimis. And based on your comments about the outlook for aircraft acquisition opportunities, do you think the pendulum is swinging now that more towards aircraft acquisitions versus share buyback, given where your stock price is?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, Gary, we've done an awful lot of share buybacks over the course of the last 15-odd months -- \$317 million worth. And we continue to evaluate further share buyback programs, and we'll continue to do that throughout the new year. At the same time, we'll also look at new aircraft acquisition opportunities.

So, again, whenever we deploy capital, we always look at what's in the best interest of the shareholder and what maximizes the return. So, if we get into next year and we see that the aircraft market, that there's still a lot of money chasing airplanes, we'll probably sell into that. And if our own share price remains at a significant discount, we'll probably look to increase the buyback programs. But it will be all be dependent, Gary, on the market dynamics at the time. So there's no change in approach to how we deploy capital.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, thanks. And also, could you just talk about perhaps some of the financing initiatives that might be underway, and your willingness to go out and do another unsecured debt deal, even if you don't have specific acquisitions lined up?

Keith Helming - AerCap Holdings N.V. - CFO

Gary, this is Keith, yes. I mean, you saw last week that we completed another transaction relating to the American Airlines purchase leaseback transaction. Obviously, that's the forefront of our debt initiative at the moment on the secured side. So that will -- that brings our total committed financings for the American Airlines aircraft at 23 aircraft, which also then matches the amount of committed aircraft that we have with American Airlines.

So, we're keeping pace on the financing side there. You know, the unsecured market, we're continuously looking at where it is. And yes, depending upon the amount of investment opportunity that we find and pursue, we'll -- we could be back out on the unsecured market again in 2013.

Gary Liebowitz - Wells Fargo Securities - Analyst

Thank you very much.

Operator

John Godyn, Morgan Stanley.

John Godyn - Morgan Stanley - Analyst

Thanks for taking my question here. Gus, I like the comments that you had on sort of some firming trends and the possibility of a less competitive sale-leaseback environment in 2013. When I think about some of these comments, it sounds like certainly you're getting more bullish on just lessor fundamentals in general. But this 2013 ROE, you know, you've got it flat versus 2012 at 10%.

I feel like the qualitative nature of your comments would suggest that we should see it kind of improving here. Can you just give us some -- can you elaborate a little bit on maybe some of the puts and takes in 2013 that drive sort of a flat ROE outlook?

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

Well, as we look at 2013, as Keith said, we have just put in over \$1 billion of acquisitions. If you look at AerCap's behavior in the past, as you know, if we do see the right opportunity, we would probably go for substantially more than that. The capital structure of the Company could certainly support more than that.

If we continue to see a very strong bid on sale-leasebacks, we will probably continue to sell assets into the market, as I said. But my suspicion is that a lot of the money, as you know, that came in when the market was pretty topish in 2010 and 2011, was deployed or is committed into big order books. So there just isn't as much competitive pressure out there and there's still quite a large number of deliveries coming next year. And



so if we see the right opportunity, provided it makes sense for the shareholders, we would probably go beyond the level of committed purchases that we have outlined in the guidance Keith gave you.

John Godyn - Morgan Stanley - Analyst

Okay. So is it fair to say that the upside to the 10% in 2013, aside from some of these maybe opportunistic things that you just described, would be gains on sale? And that's where we would look for sort of the more natural lever to the upside, is that fair? (multiple speakers)

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

So -- no. No, not necessarily. What I'm saying is that, given that a lot of the new leasing companies that came into the market have deployed the vast majority of their capital, I suspect that there will be less competition out there for the standard sale-leaseback product, which may enable us to deploy more capital. If it turns out that that is not the case, and that these guys still raise more money and are willing to pay up for airplanes, in that case, we will sell to them.

John Godyn - Morgan Stanley - Analyst

Got it.

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

(multiple speakers) Is that --?

John Godyn - Morgan Stanley - Analyst

Okay. Great. Now, can I follow-up on some of the comments on the buyback? I think at the Investor Day, Gus, you mentioned that as you guys were executing the buybacks, it was actually very difficult to find large shareholders that wanted to sell to you. Can you just update us on that commentary? Is that still the case today?

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

Well, as I said, at the time, we -- since -- or should I say since the last 15 months, we've spent \$317 million buying back, give or take, 20% of the Company. During the summer, it was the case that there was a limited number of large shareholders, as I said, at the Investor Day, that were interested in selling.

So we were confronted with just buying the maximum amount we could in the market every day. As we go into the new year, if we see that there is still good value, and we see that there are large shareholders who are willing to sell blocks of their shares, we will certainly enter into those discussions at that time.

John Godyn - Morgan Stanley - Analyst

Okay, that's helpful. And just last question on this topic -- can you just update us on your thoughts on sort of a dividend policy? I know it comes up frequently, but just given the fact that you have had some difficulty in finding shareholders, large shareholders for large blocks that wanted to sell into your buyback, does it -- at what point does it make more sense to kind of revisit the dividend, and maybe provide a more balanced approach of returning cash to shareholders? Thanks a lot.



Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure, no problem. On the buyback, let's be clear now, we've managed to do 20% of the Company. That is a very substantial portion to actually -- to buy back. So that's a very significant number.

When we look at the dividend policy -- and we discuss this at every Board meeting -- we would say, well, if we're going to return capital to shareholders, what's the best format to do it in? And so far, we have been able to find people who are willing to sell or just buy daily in the market.

If that is not the case and the share price gets closer to book value, and we can't find opportunities in the market to acquire aircraft, then, of course, the most efficient way to return capital to our shareholders will be through dividends. But this is something, how we deploy capital is discussed at every single Board meeting, be it dividends, buybacks, or the acquisition of new aircraft. And the pros and cons of each one are debated at each Board meeting.

John Godyn - *Morgan Stanley - Analyst*

Great. Thank you for the thorough answers.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Very welcome.

Operator

Helane Becker, Dahlman Rose.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Just one little housekeeping thing, Keith. How many shares outstanding will there be then for the fourth quarter?

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

Approximately 121 million.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay, and then is that the number we should use for into 2013?

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

Until you see more share repurchase activity, yes.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay, great. And then, Gus, so I appreciate all your very detailed answers, and thanks very much for the information. Just had one question on the timing of when you do your valuations for your aircraft. When in the year does that come up?



Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

We'll do it twice a year. So the next one will be done at the year-end, and then we'll disclose that in the first-quarter earnings call.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay. So should we be thinking that some of the classics might have to have different valuations to them? Or are you comfortable with your valuations?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, we're comfortable with our evaluations, but I think what's important to note here, Helane, is that in AerCap, we have an accelerated depreciation policy, as you know, that once the airplane reaches 15 years of age, we actually increase the level of depreciation. We do not keep it constant. So that then insulates our equity providers and our shareholders from declines in asset value.

And it's very important, though, Helane. As you know, this Company sells airplanes. It's a core competence of this platform. And three out of four airplanes that reach -- never reach 15 years of age in the AerCap portfolio because we sell them, we have a dedicated aircraft trading unit, that their job -- there's eight of them in the unit -- and their job is to make sure they know where all buyers of aircraft are in the world, what type of asset they want to acquire, on what terms they want to acquire them.

And during the year, we've sold everything from MD-80s for less than \$1 million up to A330-300s for north of \$100 million, and most everything in between. That's a core competence of this platform.

Keith, would you like to comment on the depreciation just once again?

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

Yes. I mean, at 15 years, typically, you'll have a better idea as to what the specifics are to that particular aircraft. So, with our accountants, we define specific aircraft depreciation schedule unit-by-unit. But again, this is only on aircraft that reach 15 years of age. And as Gus mentioned, 75% of our aircraft never reach that level. But, again, because we put that depreciation policy in place, it effectively limits the amount of impairment that we have.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay. And then are there any change of control issues with -- or I don't -- that's not the right word, but I'm not sure what is -- in the American leases that you have?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

In so far as change of control -- you mean in the event that American was to be acquired by another airline or was to merge with another airline, is that what you mean?

Helane Becker - *Dahlman Rose & Co. - Analyst*

Yes. Yes, yes. Yes, exactly, thank you.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

No, not at all. Our leases are court-approved, so no aircraft that we take from American is not approved by the Court. Therefore, the lease terms cannot be amended.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay. Right. I remember you had said that last quarter. Okay, then thanks. I'll see you later.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Thank you.

Operator

Arren Cyganovich, Evercore.

Arren Cyganovich - *Evercore Partners - Analyst*

Maybe touching on the credit quality aspect, I think last quarter, you mentioned that past dues were at the lowest level that you had had in your distance, maybe any update you have from that perspective? I know we're probably getting into a less favorable season for airlines today.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, Arren, receivables are still running at very low levels versus historical trends. And as I said, we don't see anything on the receivables book that is unusual, given the time of year. The key to managing receivables is just being quick to act. You know, if you don't do something about a problem, it's unlikely to fix itself. And in AerCap, we're extremely proactive managing it.

We did, as I mentioned, have a recent repossession at Hello Airlines in Switzerland. But our airplane was within our control within 24 hours of the airline ceasing operations. The real problems with receivables build up if you don't act quickly, and then problems arise on the technical condition of the asset.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. Thank you. And then the leasing expenses that were higher this quarter, you mentioned, or Keith mentioned, that they were from late 2011 defaults. What's the reason for the long lag time of recognizing those lease costs?

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

Well, the recognition is based on actual cash accounting effectively. So many of these leases were terminated in fourth quarter, and so the reserves that we held became revenue items. So you saw significant revenue generation and earnings generation when these leases actually went into default. And now, the expenses are being recorded. So the accounting of the expenses file, unfortunately, the revenue recognition.



Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

And if you just take time before the engine shop actually sends you the bill, and you agree terms with an engine shop as well, before you put the engines in. So there's a lag between when the work is done and when the invoice is actually paid. And as Keith mentioned, it's on a cash basis rather than an accrual basis.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. So you could actually have the aircraft back in service under a new lease but then have the recognition after that fact?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Effectively, yes. Yes.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. And then not to beat a dead horse, but the 2013 guidance of acquisitions of \$1.2 billion is only \$100 million higher than, I guess, what you have contractual or committed thus far to date. That's not a whole lot of additional expected purchases on top. That seems fairly conservative. Is that your focus just to be a little bit more conservative on your guidance, even though it seems likely that you would be able to exceed that fairly easily?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, we will only exceed it if the transactions make sense for our shareholders and are accretive to the shareholders. And as I mentioned, we may see a better market for acquisitions in 2015 than we've seen in the course of 2010 and 2011, as a lot of the new money is being deployed. And if that is the case, and we do see asset acquisition opportunities, we will pursue them. But we will be patient and make sure that we do them -- do the ones that are in the best interest of the shareholders.

As we've always said to you, we're not here for the -- just to be big for the sake of being big. It's got to be profitable. And if the asset acquisition opportunities aren't there, then we look at alternatives, like we did last year. We're always very focused on shareholder value. And if the share price is low next year, then we will probably look more towards the share buyback program if we can't see the appropriate asset acquisitions.

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

And I'll just add, the purpose of the guidance pages really are to show you where the contractual levels are, not just with that but with many of the assumptions. We're trying to give you a firm foundation to be able to work from. But as things change and things are modified, we'll continue to provide more guidance to you, more updates.

Arren Cyganovich - *Evercore Partners - Analyst*

Fair enough, thank you.

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

You're welcome.

Operator

David Fintzen, Barclays.

Isaac Husseini - Barclays Capital - Analyst

This is actually Isaac Husseini in for Dave. Wanted to ask a question about the 2012 guidance. Initially, I think, mid-year, you guided for basic lease revenue to grow by 2% to 5%. Now it's looking like it's going to be flat relative to 2011. So we know that the lease rates market has softened over the last couple of quarters, but I was wondering if you could parse out that change in the guidance? How much of it was due to lease rate weakness that we've seen over the last six months? And how much was just timing of assets coming on the book?

Keith Helming - AerCap Holdings N.V. - CFO

I would say that -- I mean, the previous guidance again just had a very few percentage increase year-over-year. So I would say roughly half of the decrease associated with normal rollover activity, and the other half is associated with some of the default/restructurings. Although, you know, it's been a limited amount, it still has had some impact on the revenue year-over-year.

Isaac Husseini - Barclays Capital - Analyst

Okay, that's helpful. And then I guess just to follow-up on a question that was asked a couple of different ways, you know, if I assume that assets are being added at the same rate under your book in a somewhat of a soft lease rate environment, and cost at lease interests are inching up a little bit, that would explain probably some pressure on the ROEs that we're seeing in the guidance in the 2013 ROEs.

So that said, how do you internally balance that or justify the growth then with returning capital to shareholders? And obviously, I understand that the issue with some of the share buybacks that you've tried to implement, and then how difficult it was to find substantial owners who were willing to sell. But just wanted to see if you can give me some more color on that thought.

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

When it comes to the acquisition of assets, any new assets that are being put on the books, the target ROE must be comparable to what we would generate from share buybacks. Notwithstanding the issue about the amount of the volume of share buybacks that's available in the market. So any new assets we put on next year would have to be accretive to the ROE of the business. You can take that as a given.

Isaac Husseini - Barclays Capital - Analyst

Okay, thank you.

Operator

Ray Neidl, Maxim Group.

Ray Neidl - Maxim Group - Analyst

Yes, just a general summary of the softness in rates that you're seeing. What is your view of the overall economic environment going forward here, especially now that the presidential race is over? And I think, you know, tied to -- I think you mentioned that there will be less competition in the aircraft leasing market next year. I was wondering if you'd clarify that.

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

Certainly. Well, on the general economic environment, talking about aviation, we will continue to see growth. IATA is forecasting around 4.5% growth in available seat kilometers next year. So the growth will happen. This industry, with the exception of a couple of extreme downturn years over the course of the last 40 years, has always exhibited growth, because there are extremely resilient trends in this industry which is, emerging market growth -- people do want to travel when they make some money; it's either for work, visiting friends or family or to see the world.

You have what we know is the absolute necessity to replace older equipment in the developed market. In general, you have the increased demand for operating leasing. Those trends are still very prevalent in the market today. And what we see is that, given the portfolio that AerCap has of modern, fuel-efficient aircraft based around the 737, which is now our largest single exposure, the 320 family and the 330 family, we see -- we don't see any ability -- not that -- we don't see any issue placing those airplanes.

What we do see going forward probably is the older, out-of-production technology assets continuing to suffer. If you look at the world's fleet today, almost -- almost one-third of the entire fleet today is made up of aircraft that are out-of-production types. So those -- and they have an average age of 20 years -- so those airplanes are all going to go. So that is, if you will, even if we had no economic growth globally, those aircraft are still going to go.

So, so long as you have the right airplanes, you will continue to place them. And that's why I mentioned on prior calls, what we saw on the 320 market for the new technology 320s, that it was starting to firm earlier this year. And now we're seeing the same trend on the 319s that, yes, we had experienced declines in those lease rates on the 319s in 2011 and the first part of this year. But now we're seeing them firm and we're seeing more airlines interested in them. As I said, there's 14 new operators this year already. And we have one of the largest airlines in the world at the moment looking for a package of 319s as well.

Ray Neidl - Maxim Group - Analyst

And there's less competition going forward because some entities have older aircraft? Is that what you're saying?

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

No. What I'm talking about are -- when I spoke about less competition, I was referring to sale-leasebacks and dealing with the manufacturers. So, the acquisition side of the business -- because, as you know, in 2010 and 2011, there was a substantial amount of new money that came into the market that was spent. We sold heavily into those new buyers, as you know. But a lot of that capital has been deployed or is committed to be deployed by order book.

So, that was the reference to less competition. When it comes to the lease, the rollover of leases, there isn't really a difference. The leasing companies with modern technology assets will be the people we'll be competing against and who we compete against week in/week out.

Ray Neidl - Maxim Group - Analyst

Okay. And you know you mentioned the 10% ROE for 2012/2013. Does the Company have a target, a specific target, where they want to get the ROE up to?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, any new assets we're putting on, clearly, they need to be accretive to the ROE of the business. So as we put on new assets, we certainly want to be into the mid-teens in the ROE. And that's the target level we go for.

We have bid on, over the course of the last 18 months, we've bid on over 200 aircraft. The transaction we've been successful on were with Singapore Airlines and with American Airlines. And we recently signed up, just very recently in the last couple of weeks, two more 737-800s. And those transactions have those type of ROEs on them, but all the other transactions did not. And we walked away and we put money into the share buyback program instead. So, that's the discipline that AerCap has when it comes to deploying capital.

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

And I'll just mention as well -- obviously, the ROE would be expected to be correlated to effectively the interest rate environment. So with the low interest rate environment that we have in 2012 as well as expected 2013, it would be very difficult to expect to see mid ROEs at that point. But again, over time, the two do correlate. So if interest rates improve, the economy improves; obviously, the ROE should increase as well.

Ray Neidl - *Maxim Group - Analyst*

Okay, good. That's very interesting. And then finally, your outlook for the fleet, how strong it is versus passenger versus freighters?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sorry, Ray, you just broke up a little bit there. Were you asking for the commentary on pax versus freighter?

Ray Neidl - *Maxim Group - Analyst*

Yes, what's your outlook in the demand or how solid the market is for freighter aircraft versus passenger aircraft?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Currently, the freight market is undergoing some difficulty. We are not, as you know, a big freight operator. We only have three freighters on our books. So we're not particularly big in the market, so we don't have as much knowledge as some other players in the sector.

But what we do generally see is that the 747 model is under some pressure to move them at the moment. One of the reasons that may be the case is not necessarily the freight market in and of itself, but the 777-300 ER passenger airplane is a fantastic airplane. And the payload of that airplane, it's so -- is so good that it's almost a quasi-freighter for some airlines.

So as well as being a pax aircraft, it can also almost act as a quasi-freighter, which means that the demand for pure freighters from certain airlines -- from certain airlines -- now is less because of how good that airplane is. But in general, at the moment, yes, there's no doubt the freight market is a bit stressed.

On the pax side, it's all about having the modern fuel-efficient aircraft. You know, as I said, in the end, if you invest in the most popular airplane types in the world, and they've got the right technology on them, the most fuel-efficient ones, you know, you look at the 320 family, the single biggest user base in the world is on the 320. The second biggest user base in the world is the 737-800. The biggest user base in the world on the 330s are -- on the wide bodies is the 330s.



They're the ones to coalesce the leasing company around, and thereby, you always know that you'll have somewhere to put the asset. Sure, of course, in time of distress, the lease rate may not be everything you want, but you'll always move the airplane. There will always be a bid on the asset.

Ray Neidl - *Maxim Group - Analyst*

Okay, great. Thank you.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

You're welcome.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Just a couple of questions here, guys. Thanks for giving us the information on the new -- or on the used airplanes, you know, the length of the, I guess, the renewals.

What I'm interested in is, what are you hearing from customers who had airplanes coming up for -- that would be renewed or released in the latter part of 2012? And as we look into 2013, how many airplanes do you have coming up for renewal? What percent of customers are renewing with you? What percent are saying, "You know what? We don't need the airplane. We want to hand it back." What -- can you give us kind of the update on that, any color on that?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure. In -- as you can see, the utilization rate is run at 98%, which infers full utilization, because you'll always have aircraft transitioning from A to B. So the aircraft are all getting moved. And the split between extensions and renewals is about 40%-odd on extensions; about 60%, give or take, on renewals.

And as we go into next year, we have about 4% of the value of our assets to place. It's about \$335 million of assets that we have to move that's yet to be placed. I would expect that some of those will be extended, others will be released. I would still say it will be around that 40%/60%-odd split. Maybe one-third/two-thirds.

You've got to remember that for an airline to give -- for an airline, it's often just very efficient and easy to keep an airplane that they know is working, that is the configuration they want. And it's more difficult to bring in new assets. Now, of course, against that, if an airline has a very big order book, it may not have a choice and it has to hand it back. And that's the reality.

So, these are the tensions that you see, but I don't see any difficulty with us moving these assets. We'll place these airplanes, and we always have, in far more severe markets than we're in right now.



Mike Linenberg - Deutsche Bank - Analyst

Okay. And Gus, I mean, and I was also sort of alluding to the fact that you are seeing some carriers where they're facing some distress, or carriers that we know are pretty good credits, like Lufthansa, who have publicly said we have 1500-too-many flight attendants and 500-too-many pilots, and we thought we were going to grow our capacity next year and now we're going to contract 3%. We need to get out of some of these airplanes.

And I know some of this is -- you know, it's hitting the wires now, but I'm sure that these conversations have been ongoing with people like yourselves probably for some time.

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

Certainly, and that's nothing new, you know? But what you do find, if we go back to 2009, which is a very stressed situation, you saw the utilization rate of the big leasing companies always stayed above that 97-odd-percent point.

The key to it, though, is having the right asset type. If you think about it, let's say that Lufthansa wants to exit some A320s or 737s. And they want to hand them back to us because it's the end of the lease. They can never hand them back prematurely, of course. But if they wanted to hand them back -- and so we would have no choice; we would take them back.

But we would find other homes around the world for those aircraft because, as I said, one-third of the world's fleet is currently out-of-production technology. That's one-third. So, you know, if you take a 320 or a 737 to an operator and say, we have an example of one in Indonesia, which is one of the fastest-growing markets in the world, where that operator is currently using 737 Classics, and he wants to get his hands on 737-800s, that's what happens. So he kicks out the Classic.

So, you will find a home. It will be at the expense of the older technology assets. The home will be found. You know, the key is having the right machines; the ones with the -- on the 320 side, the 5B, the V2500-A5 engine, and on the 737s, the 7B engines. And on the 330s, the same. You want the modern technology. So -- and the assets who will suffer will be those older technology ones, be it the 74, 75s, the early generation M320s, the 737 Classics. They're the ones that will suffer.

Mike Linenberg - Deutsche Bank - Analyst

Okay, great. And then just my second question -- when we look at next year's CapEx plan of \$1.2 billion, 18 airplanes are going to be with American, what, just in rough numbers, the American piece -- what percent does that account for when we look at the \$1.2 billion? Is that two-thirds of that? Is that 80%? What are you guys using for that?

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

Just need to be a little bit careful because there are some very confidential terms about the American Airlines transaction.

Mike Linenberg - Deutsche Bank - Analyst

So that's -- yes, that's why I said very -- you could do very rough numbers. (laughter) Nothing? Or can you not say?

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

I just prefer not to, Mike, if that's okay.



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

Yes, I'd say exactly, if that's okay.

Mike Linenberg - *Deutsche Bank - Analyst*

(multiple speakers) Fair enough. Totally understand. Thanks, guys. Appreciate it.

Operator

Glenn Engel, Bank of America.

Glenn Engel - *BofA Merrill Lynch - Analyst*

A couple of questions. One, a follow-up on the renewals side. You've got -- given all the aircraft additions you have, you would have expected base rentals to be up more than 10%, I thought. Is that just sales that is reducing it to 6% or 7%? Or is that just headwinds from lease renewals at lower rates?

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

Yes, some of it is related to the sale activity, again, as Gus pointed out. We have sold a number of aircraft again this year, relative to our portfolio management strategy. But again, some of the renewals are at less -- lower rates than effectively where they were before. And there have been some decrease in some of the rentals as a result of the defaults and restructurings that we had late in 2011, early 2012. So a combination of all those items.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Is a good benchmark on sales to assume that 2013 will look similar to 2012?

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

Yes, but again, I mean, we're not expecting to have a high amount of profit generated from the aircraft sales. But the amount itself would probably be similar.

Glenn Engel - *BofA Merrill Lynch - Analyst*

You commented that A320 and A319 rates had stabilized. Can you go through the 737-800, the A330 and 777 lease rates?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure. So if I go through -- let me just start again with the Airbus family. So the A321 is an asset that we see significant demand for at the moment actually. We did have a package of seven-year-old A321s, where there was competition between an Asian flag carrier and a low-cost carrier in the American hemisphere. We ended up going with the Asian flag carrier for those 1's.



But that airplane, because it's a bit bigger, is one that we have seen, I would say, an upward movement in lease rates. On the A320 family, as I mentioned on prior calls, we've seen the lease rate just start to flatten out at this point. And we don't see any further degradation there. And we spotted -- we saw that probably, as I mentioned on the last earnings call, about five months ago.

And then over the course of the last month or two, we've seen a similar trend on the 319 market. On the Boeing market, on the 737-800, it's remained pretty resilient. The 737-800 in particular has been a resilient asset. We've said that all along over the course of the last few years, that we did not see the decline of the 737-800 that we saw on the 320.

The 737-700, a bit like there was a level of pressure on those lease rates again; less so on than on the 319 market. Because the 700 market is so concentrated with one large carrier, Southwest Airlines is effectively the 737-700 market. And they hold their assets for 20-odd years. They own them on the balance sheet. So you don't see the 700 come into the market that much.

And turning to the 330, the 330 is the one airplane where we've seen lease rates rise, and particularly the A330-300. That is the most in-demand aircraft in the world today. I was in Hong Kong last week at the Asian Airfinance and Airline Conference, and there wasn't an airline that didn't ask for the A330-300.

The reason is this -- is that the A330-300 is being utilized effectively as a short-haul aircraft in Asia. The reason is that, in Asia, it's an emerging market. Infrastructure is limited. So they know they can fill the airplanes, but they just don't have enough airports and enough slots to satisfy the demand. So instead of going for what the Europeans or the Americans would go for, which would be a 320 or a 737, they're updating to the small wide-body, the A330.

And that's evidenced by the average stage length that an A330 flies these days is 750 -- 1750 nautical miles, which is a short-haul airplane. But it's just that they need to operate them in Asia, because they need -- they have the passengers to fill the aircraft. And there's no sign of that demand changing.

So that's the one airplane where we have seen upward movement on lease rates. And when I say upward movement, it's important to note what we're talking about is on the net interest basis, of course. Because if you go back to 2007 when interest rates were 6%, obviously the lease rate was higher than it is today when 10-year treasuries are at 1.65% or 1.67% this morning.

Glenn Engel - BofA Merrill Lynch - Analyst

Finally, the 777s?

Aengus Kelly - AerCap Holdings N.V. - CEO and Executive Director

On the 777-300ER is an airplane that doesn't really get into the leasing market that much. It's more on a sale-leaseback business. Because the 777-300ER doesn't have quite the same user -- doesn't have the same user base as an A330. It's a great -- it's a fantastic airplane, don't get me wrong; but it's not one that lessors traditionally tend to order speculatively, because most of the operators, if not all of them, have their own order books of that aircraft size. And it's a large wide-body.

So therefore, the transition costs are very significant for a 300ER. But don't get me wrong. It's a fantastic aircraft and most of the -- any operator who has it thinks it's a great asset.

Glenn Engel - BofA Merrill Lynch - Analyst

Thank you very much.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

It just doesn't have the same broad user base as the 330.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Thanks.

Operator

Brian Zacharias, JAM.

Brian Zacharias - *JAM - Analyst*

In 2012, you guys were -- Q1 of 2012, you were estimating net maintenance contributions minus \$20 million. And through the first three quarters of this year were at minus \$5.5 million. So is Q4 going to be this big kind of true-up period where there's a minus \$15 million contribution from (multiple speakers) --?

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

No, no. The impact that we expect from the net maintenance is actually about neutral for 2012. So effectively, the lease expenses and the maintenance revenue should more or less match.

I think we had previously a \$45 million adjustment in previous guidance. That was the delta between 2011 and 2012. And again, last year, the reason we had such a big positive contribution was because, on some of those defaults, we had large maintenance balances, and that was recorded as revenue upon lease termination. And again, that goes back to the timing thing that we talked about before, between the revenue recognition and the expense.

Brian Zacharias - *JAM - Analyst*

Right, no, I got that. I just thought that in the Q1 presentation, the estimate was for minus \$20 million of contributions, not the delta from the (multiple speakers) --.

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

(multiple speakers) Okay, okay. Yes. So, I mean, so some of the events have -- the timing of events have changed. Obviously, it's been impacted by the defaults that have occurred. But yes, it will now be minimal, effectively neutral for 2012, and then currently, it's expected to be the same for 2013.

Brian Zacharias - *JAM - Analyst*

Okay, great. Thank you.

Operator

Thank you. Our final question is a follow-up question from David Fintzen from Barclays. Please go ahead with your question.



Isaac Husseini - *Barclays Capital - Analyst*

Thanks for taking the follow-ups. A quick one, when we look at, on the used aircraft side, the lease terms coming down about 10 months or so over the last year, and then -- I know that's not a new trend, but is there anything to read into that? Does that go kind of with some of the softening and the lease rates? Are you seeing airlines looking for and maybe even paying up for flexibility? I'm just curious if there's any behavioral changes in there?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Actually, no, the 65 months is pretty long-term for used aircraft. The reason why you see decline versus last year was that last year, during the Arab Spring, we had three aircraft that were more or less brand-new 320s that we took out after -- they were very new airplanes -- and we took them out, and we put them out on -- I think there was over 10 years each airplane went out on lease.

So that somewhat distorted the average lease term last year for used airplanes. Because technically, it was used but they were quite new, so they went out on very long dated leases. What you're seeing in the 65 months is actually pretty long-duration for the used airplanes.

Isaac Husseini - *Barclays Capital - Analyst*

Okay. All right, that helps a lot. Thank you.

Operator

Thank you, sir. We appear to have no further questions at this time. Please continue with any further points you wish to raise.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, thank you very much, everybody, for joining us on the third-quarter call. We look forward to seeing as many of you as possible at the lunch today in the New York Palace. As Peter mentioned, we're in the Garrison Room. And failing that, we'll talk to you on the first-quarter earnings call in the New Year. Thank you very much.

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

Thanks, everyone.

Operator

Thank you, ladies and gentlemen. That concludes today's AerCap 2012 third-quarter results conference call. Thank you for your participation. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.

