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## AER - Q2 2017 AerCap Holdings NV Earnings Call

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## PRESENTATION

**Operator**

Welcome to today's AerCap Holdings 2017 Second Quarter Results Conference Call (Operator Instructions) This call is being webcast, and an audio version of the call will be available on the company's website. This call is also being recorded for replay purposes.

I will now hand the call over to Brian Canniffe, Head of Investor Relations. Please go ahead, sir.

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**Brian Canniffe** *- AerCap Holdings N.V. - Head of IR*

Thank you, operator, and hello, everyone. Welcome to our 2017 second quarter 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 that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

AerCap undertakes no obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call.

Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated August 3, 2017. A copy of the earnings release and conference call presentation are available at our website at aercap.com.

The call is open to the public and is being webcast simultaneously at aercap.com, and will be archived for replay.

I will now turn the call over to Aengus Kelly.

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

Thank you, Brian, and good morning, everyone. Thank you for joining us for our 2017 second quarter earnings call.

I'm happy to report another quarter of strong earnings and profitability. During the second quarter, we generated a $1.67 of earnings per share and net income of $283 million.

AerCap's fleet utilization remains robust at 99.5% for the second quarter, reflecting the continued demand for aircraft globally. We see this demand reflected in IATA's published data. The 7.9% year-on-year growth in global travel through May highlights the outperformance over the long-term average.

AerCap's leasing platform continues to capture this growth in demand. During the second quarter, we've executed 108 aircraft transactions. This includes 65 lease agreements, 47 of which were narrow-bodies and 18 were wide-bodies. Our average remaining lease term is 6.4 years and we have now placed over 30% of our Embraer E2 order.

As expected, it was a relatively quiet quarter from a delivery perspective, with 11 new aircraft arriving from the OEMs. However, our scheduled delivery will increase significantly for the remainder of the year and into 2018. If the current issues affecting the Pratt & Whitney engine are not resolved by United Technologies, a number of these aircraft are likely to be delayed. However, we do not envisage this having a material effect on our 2017 earnings, as many of these aircraft are scheduled to arrive later in the year.

We've continued to see a strong bid for our midlife aircraft. During the second quarter, we sold 24 owned aircraft at an average age of 16 years. Investors remain drawn to the attractive yields and stable cash flows that this asset class delivers. This strong interest allows us to continue optimizing our portfolio and enhance our earnings per share by repurchasing shares at a discount to book value.

The buyer makeup consists of a diverse mix of financial and lessor counterparts. From our vantage point, we believe this pool of capital to be deep.

We achieved a higher-than-normal gain on sale margin this quarter of 17%. This was primarily down to the timing and mix of certain portfolio sales. I would expect our gain on sale margins to revert towards our historical average in Q3 and Q4.

Our most notable transaction during the second quarter was our new order for 30 787-9s from the Boeing company. This was our first wide-body order in 10 years and is indicative of our confidence in the long-term demand for this aircraft type. We think the Dreamliner is a great aircraft and will be an integral part of many airlines mid-sized wide-body fleet.

We are the largest owner of the 787, and we have contracted 89 787 leases to-date. As such, we have more experience than anyone in the world in placing the 787.

This level of activity gives us a unique understanding of the demand characteristics for this aircraft and gave us the confidence to place this order. We believe this transaction will generate the type of returns our shareholders expect from AerCap.

The 787-9 deal also highlights our flexible capital allocation approach which drives shareholder returns. We will continue to evaluate all investment opportunities and execute those that generate the best long-term returns for our shareholders.

Turning to the liability side of the business. We continue to maintain $9 billion of available liquidity, and we closed the quarter with an adjusted debt-to-equity ratio of 2.7:1. We anticipate that our debt/equity ratio will increase, but remain within our stated range during the remainder of 2017 as our CapEx program escalates.

With that in mind, we closed a 10-year unsecured bond offering a few weeks ago, raising $1 billion, at a spread of 140 basis points over the 10-year treasury for an all-in coupon of 3.65%. It was a significant transaction for the company and its success, both in terms of pricing over subscription, illustrates the strength of investor sentiment towards AerCap.

Our share repurchase program continued during the quarter. We repurchased $293 million worth of shares or 6.5 million shares. This brings the total number of shares we've bought back to 55 million, which is over 25% of the company.

We are also announcing today a new share repurchase program of $250 million, effective through December 31.

In closing, our second quarter results demonstrate once again the consistency of our business model and we will continue to run the business to optimize shareholder value and generate long-term consistent returns for our shareholders.

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

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

Great. Thanks, Gus. Good morning, everyone. I'll start on Slide 5 of the presentation. Our reported net income for the second quarter was $282.9 million. That's an increase of 21% over the second quarter of 2016. This increase was due primarily to higher net gain on sale of assets, higher maintenance revenues and lower maintenance rights expenses.

For the first half of this year, our net income was $544.1 million, which is 19% higher than the first half of last year.

Next slide. Our EPS for the second quarter was $1.67. That's an increase of 37% over the second quarter of 2016. Our EPS for the first half was $3.15, up from $2.35 for the first half of last year. The drivers of this EPS increase this quarter were the same as the drivers for net income and, of course, the other driver was the buyback of 32.7 million shares since April of last year.

Turning to the next slide. Our total shareholders' equity as of June 30 was $8,521,000,000, and our book value per share was $53.06. That's an increase of 8% since the beginning of this year and 17% over the past 12 months. And that's been achieved through a combination of both strong earnings as well as substantial share purchases during that period.

As Gus mentioned, since June 2015, we've bought back 55 million shares for over $2.3 billion, and that's over 25% of our total shares outstanding.

On Slide 8, our total revenue for the second quarter was $1,263,800,000. Our basic lease rents were $1,053,500,000, which was a decrease from 2016. The main reason for this drop, as in past quarters, was our sales of midlife and older aircraft over the past year, which reduced our average lease assets by about $1.1 billion.

Our maintenance revenues for the second quarter were $104.1 million, an increase from $70.9 million in 2016. These higher maintenance revenues were mostly driven by higher end-of-lease compensation payments that we received as aircraft were returned at the end of their scheduled leases.

As you can see, our net gain on sales was $69.5 million for the second quarter, that compares to $38.4 million a year ago. In the second quarter, we continued to sell midlife and older aircraft at attractive prices.

Our other income was $36.7 million for the quarter, and the biggest component of that was the final payment we received related to a lease termination that we did last year.

Turning to Slide 9. Our net interest margin was $787.5 million for the quarter compared to $833.2 million in the prior year. Again, the decrease was due to the reduction in our average lease assets from $35.1 billion to $34 billion, primarily due to asset sales. Of course, when we sell these assets, we reinvest the proceeds. And over the last year, we've used the proceeds from these asset sales to fund a significant amount of share buybacks.

Our annualized net spread for the second quarter was 9.3% compared to 9.5% in the second quarter of 2016. As we've talked about in recent quarters, there are 2 main drivers of this trend: first, a reduction in the average age of our fleet; and second, an increase in our average cost of debt.

First, the average age of our fleet improved from 7.7 to 7.3 years as a result of asset sales and new aircraft deliveries. As many of you know, new aircraft generally tend to have lower yields than older aircraft.

Second, our average cost of debt increased from 3.7% in the second quarter of 2016 to 3.9% this past quarter. This was primarily due to the issuance of new longer-term bonds that replaced expiring shorter-term ILFC notes. Also, please note that the average cost of debt that we report includes both our upfront debt issuance costs as well as our fees for undrawn lines. So of the 3.9% this past quarter, that represents around 30 basis points.

Next slide, Slide 10. We continue to actively sell older aircraft to improve the quality of our fleet. During the second quarter, we sold 24 of our aircraft that were an average of 16 years old. We also placed 6 aircraft in long-term leases, and as a result, we reclassified these aircraft from operating to finance leases.

As you can see, our net gain on sales for the quarter was $69.5 million compared to $38.4 million a year ago. Our ability to sell significant amounts of older and midlife aircraft at a substantial gain, illustrates the strong continuing demand for these assets that we see from investors.

Now in the second quarter, we had higher-than-normal gains on sale, primarily due to some older aircraft that we sold at a higher margin. Going forward from the third quarter, we expect our sales margin to be close to our historical average.

And on the purchase side, we took delivery of 11 new aircraft during the quarter, including 8 A320neos, 1 A321neo and 2 Boeing 787-9s.

Next slide. Our maintenance rights expenses were $90.1 million for the second quarter, down from $106.6 million in 2016. The main reason for this decrease was a lower amount of maintenance activity during the quarter.

Our other leasing expenses were $46.2 million for the quarter, an increase from $36.5 million in the prior year. This was primarily the result of some higher-than-normal top-up expenses that we had during the quarter. And I'd also note that these were offset by a higher amount of maintenance revenue during the quarter, as I mentioned on the revenue slide.

Our SG&A expenses were $84.6 million for the quarter, down slightly from the second quarter of 2016. We had asset impairments of $5.3 million this quarter, and these related to 2 aircraft that are being sold at a loss, but were treated as held for sale because the sales weren't completed before the end of the quarter. These 2 aircraft are part of a portfolio of 18 aircraft that's being sold in an overall profit.

And finally, we had restructuring-related expenses of $4.7 million for the quarter, all related to AeroTurbine. And to give you a brief update on AeroTurbine, we've now exited the facility in Miami. We've consigned all the inventory to a third party to be sold off over time, and we have a handful of engines that remain to be sold. So at this point, we've effectively completed the AeroTurbine restructuring, and we don't expect AeroTurbine to have a meaningful impact on our financials going forward.

Slide 12. As in past quarters, we continue to maintain a very strong liquidity position. As of June 30, we had available liquidity of $9 billion, and together with our operating cash flows, that gives us 1.5x coverage of our cash needs over the next 12 months, or put another way, it gives us excess cash coverage of $3.8 billion.

As Gus mentioned earlier, the financing market for AerCap remains very healthy and we've continued to see our spreads improve throughout the year. Last month, we issued $1 billion worth of 10-year unsecured bonds. The offering is heavily oversubscribed and we issued a coupon of 3.65%, which was 140 basis points over treasuries.

So to wrap up, this was another quarter of strong operating financial performance. We've continued to place aircraft and lease 65 planes during the quarter. We've continued to sell older aircraft to improve our portfolio and the bid for those assets remains strong. And we've used the excess capital that we generated, both from our operating earnings and our asset sales, to buy back another 6.5 million shares in the quarter. And as you can see from the recent order we placed for the 30 new Boeing 787-9s, we're always looking for ways to deploy our capital where we can generate attractive returns and create the most value for our investors.

With that, now I'll turn it over for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We'll go first to Jason Arnold at RBC Capital Markets.

**Jason Michael Arnold** - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

I think many investors still read news headlines and assume that new lessor entrants, and particularly the Chinese, are driving returns of [space] a lot lower. When I think a lot of that is chasing the RFP market, which has always been a lot more competitive. So I was just curious if you could talk a bit about competition and then maybe remind us how the AerCap model, and that of perhaps some of your larger peers as well, are substantially different from the RFP market chasers.

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

Sure. Look, there's always been competition. If you go back 20 years ago, you had every Japanese trading house in the world had an aircraft leasing business. Very few of them survived. When it comes to chasing the RFP market, it's a commodity, you bid, and on you go. Certainly at the moment, you're right. There is more smaller lessors out of China coming through. However, having said that, if you look at AerCap's position in the industry, at the top of the pile, you have us as the largest owner of aircraft by dollars; and then you have GECAS as the 2 giants of the business. And frankly, we have unparalleled market knowledge, access to information. The flow of information that come through our system is a competitive advantage, and we put that to use all the time. What we have also seen in the industry is significant consolidation of reasonable-sized platforms. You have seen Hong Kong aviation, Avolon, CIT become one platform. We've recently seen Dubai Aerospace and AWAS become one platform. So you have -- well you have new entrants, for sure, but you have consolidation of platforms that matter. And where we are in the industry at the moment, we see the competitive advantage that AerCap has at being maintained for the long term.

**Jason Michael Arnold** - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

Great. And then, obviously, the OEM order book is one that, I guess, the new entrants can't really just kind of jump right into either. Any other thoughts on that side?

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

Well, they can. But whether they'd be any good at it is another matter entirely and when they will get the slots. Flying an airplane is perfectly safe if you're a pilot; if you're not, it's a hazardous profession. And our experience of placing aircraft is unparalleled. Our ability to move aircraft, as you see from the amount of metal that we move every quarter, is very significant. And the platform capabilities of AerCap cannot be matched by any new entrants.

**Jason Michael Arnold** - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

Excellent. And then just a second question on your media comments earlier. I was just curious if you see the expected order deferrals out of the Middle East carriers as an opportunity that AerCap can capitalize on carriers [if the] market dislocation comes about?

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

Well, we just did 30 787-9s. Whether they are related or not to the Middle Eastern discussions, I do not know. That is a question for Boeing. But certainly, this the first wide-body order we have placed in the last 10 years. And the 787-9, we believe, is an airplane that will be the workhorse of the small wide-body fleets of airlines going forward. And we have placed 89 of these airplanes to-date. So we certainly think that, that is an opportunity for us. How it transpired, I don't know. But it was there for us to execute.

**Operator**

And we'll go next to Jamie Baker at JPMorgan.

**Jamie Nathaniel Baker** - *JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

First question. It looks like the GTF fuel burn is coming in better than on the LEAP, and we're curious if you think at this point though that the GTF program is simply, I don't know, crippled beyond repair. I mean, do you get the sense that your customers, or AerCap more importantly for that matter, is rethinking the GTF as part of the long-term plan?

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

Short answer, no, Jamie. We do not see that happening. You are correct in your assertion that the fuel burn on the GTF is ahead of expectation. We have won a particular data point where an airline flew on a very long mission, an A320ceo on a 6-hour -- neo on a 6-hour mission, and it came in 17% better than a [sharp] versus the A320ceo, which in itself is a very good airplane. So the fuel burn is excellent. It's there. There's no question about that. Now Pratt & Whitney and United Technologies are getting through the issues one at a time. So we believe that this program will be around for the long term. United Technologies is one of the biggest industrial concerns in the world with huge engineering resources. Having said all that, they do need to put every resource they possibly can on this program. I think that the risk to United Technologies of this going wrong, the liabilities they will have, be it to Airbus, to the buyers of airplanes, to the operators of airplanes, would be very significant. So I don't see any evidence that we have customers walking away. We certainly see a lot of customers very interested in the fuel burn savings that are being generated by the engine.

**Jamie Nathaniel Baker** - *JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Okay, good. And second, Mark and I were both wondering, if you look at the 24 shells that you sold last quarter, no question there's a bit of a narrow-body skew there. In fact, it looks like you sold one of everything except 777s. Does this mean you can't sell 777s right now? Or am I simply reading too much into this?

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

I think you're reading too much into a quarter. If you look at the record of how many 777s we've sold over the last 3 years and leased, you will see that it comes out an extremely significant number. And the 777 market is one where we're placing airplanes all the time into it. The types of carriers that are taking the 777s, in some cases it's scheduled network carriers; in other cases, it's charter operators. And the 777-300ER is a tremendous airplane. If an airline can fill that airplane, it will make money. Even at $100 a barrel, it is the most efficient large twin out there. And any airline that can fill it, loves it. And so we do see a market evolving in the charter market, where we see airlines looking at putting over 450 passengers on it in either -- in a premium economy and economy configuration are all [aligned] to potentially go to closer to 500.

**Operator**

And we'll go next to Moshe Orenbuch at Credit Suisse.

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**James Ulan** - *Credit Suisse - Analyst*

This is actually James Ulan, on for Moshe. Given that spreads seem to be higher than guidance, but sales are greater and therefore fleet assets are naturally lower, are your internal expectations for earnings growth better than you thought at your Investor Day? And if so, can you kind of talk about what particularly is driving the delta between original and improved expectations?

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

Sure, James. I'd say our expectations currently are about the same as we had for Investor Day, in terms of, if you look at our earnings without gains on sale. So obviously, we didn't project gains on sale at Investor Day. But if you look otherwise, we're about where we expected to be for the year. Obviously, we've had strong gains the first couple of quarters of the year. I think that the margins that we'll see in the third quarter and fourth quarter will be lower than that. So -- but otherwise, we're pretty much in line with where we expected to be, maybe a little bit better because we have seen an improvement in our spreads coming in. So a little bit better than we would have projected, but basically in line.

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**James Ulan** - *Credit Suisse - Analyst*

Okay. And a follow-up to that, I saw that your weighted average cost of debt ticked down a little bit quarter-over-quarter. Can you just talk about what's driving that and maybe what we should expect, especially over the long term as the amortization of the debt fair value rolls off?

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

Yes. That's really -- that was really due to rounding, frankly. So it was just -- it's really just a rounding issue. It's about where it was last quarter as well. I mean, the 2 things that are driving it are the fair value of debt is rolling off, and that is leading to -- that's pushing it up. On the other hand, we've been -- the [value] that we're putting on is at lower cost, right? So we're getting a cash benefit from that, and that's pushing it the other way. So I think, over a longer period, it's still expected to be 3.9 to 4, similar to what we had guided to before.

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**Operator**

And we'll take our next question from Gary Liebowitz at Wells Fargo Securities.

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**Gary Steven Liebowitz** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Gus, I wonder if you can just talk a little more about the 787 order, particularly the timing. Why now, did Boeing just come down to meet your terms? And also, can you talk about the delivery schedule for those 30 planes, because I was surprised to see it wasn't included in your forward order chart in the slides, even though Boeing had included them as firm orders in June?

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

Well, first of all, Gary, why did we order the airplane? We believe the 787-9 is a great airplane, and overall, we have placed 89 787s. So we were starting to run out. We only had 3 left. We believe that the market is there for that airplane, that that will be the dominant airplane in that class, which is the small wide-body in the -- for new technology in the long term. And we saw an opportunity where we were able to agree terms with the manufacturer, and it worked out for both sides. So that's the -- that's the background to the transaction. As I said earlier on, Gary, the key in this business is buying airplanes that your customers want and not the ones that the manufacturer wants to sell you. You have to be very careful in picking the variant that you want -- the family, and specifically within that, the variant to focus on. In terms of delivery profile, no, we didn't disclose that, and at the moment we're not disclosing it.

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**Gary Steven Liebowitz** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Also, I noticed you had a significant amount of assets listed as held for sale at the end of the period. Are all those going to close in Q3? And should we be rethinking our $1 billion placeholder for annual asset sales, given what you've done over the last couple of years?

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

Yes. Gary, so those will -- I would expect those all to be closed during the second half of this year, not necessarily all in the third quarter, but all in the second half of the year. In terms of the $1 billion placeholder, so we've done about $900 million year-to-date in the first half, and we've got $650 million that, as I said, we'd expect to close during the latter half of this year. So obviously, that's going to be over the $1 billion dollar target that we had set. Whether we do any in addition to that, we'll see. But that's basically where we are today.

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**Gary Steven Liebowitz** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And last one, Peter. This might also be another one of those rounding errors, but your expectations of operating cash flow over the next 12 months, $3.2 billion, is a tick down from where it had been. Is that a function of the delivery delays? Or what's driving that?

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

No, I mean, that's really rounding as well. It's just -- it was in between $3.2 billion and $3.3 billion. So I wouldn't read anything into that.

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**Operator**

And we'll go next to Mike Linenberg at Deutsche Bank.

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**Michael John Linenberg** - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Gus, just to go back to, I guess, the call you had with reporters before we talked about significant deferrals from Middle East carriers. I mean, I realized this isn't the first time that you've brought this up. It's been, actually -- it seems like it's over the past couple of months. This view, is this a function of just -- look, these are your customers. I mean, is this a function of just having robust conversations with those customers? Or is this you sort of looking back at the lay of the land, applying analysis and saying, there's just way too many airplanes on order going into that part of the world, and naturally, we're going to see deferrals.

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

Mike, I think, just to be clear, we do not have any airplane scheduled for delivery to the Middle East or in big 3 carriers. So the comment was about the discussions that we assume and believe are happening between the manufacturers and the Middle Eastern carriers. Now I don't believe for a minute that Boeing and Airbus actually believed that the aircraft that were ordered by those carriers would deliver in the time frame they were ordered. In fact, they deliberately design orders so that it can't happen, so they get a chance to reprice carriers in deferral discussions. Now I do believe the Middle Eastern carriers have changed global aviation in terms of the hub-and-spoke operation and the quality of their service. I do believe that, ultimately, these business models will be successful and that the airplanes will deliver but there was just too many airplanes ordered in too short a time span, and I think that, as assumed by Boeing and Airbus, a number of these are going to be deferred.

**Michael John Linenberg** - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Great. This is a quick second question here. Just the strong bid that you talked about to midlife cycle assets, who were -- who's primarily buying these airplanes? Is it mostly other aircraft lessors? Are there financial buyers? Like, what's the split? Because, like you said, there is good demand for this product.

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

There's a number of them. You have other lessors who are focused on midlife assets and older assets. You have airlines; and you have financial buyers themselves who may ask us to manage the assets for them after the sale. The rationale for this is, look, I think a lot of investors realize that this asset class provides a stable return over time. And particularly, when we look at where global bond yields are, that this is an attractive return on a relative basis. And so that's what we see out there, that the asset class is becoming more mainstream.

**Michael John Linenberg** - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Just had a quick one on the airline piece. Have you seen a pickup in aircraft buying, the aircraft off lease and just inducting them into their fleet to these middle-aged aircraft? Or has there been very little change on that front?

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

They tend to -- the airplanes they intend to induct, there is -- there are 1 or 2 exceptions, and notable exceptions. I would have to say United Airlines is an airline that will and does just buy airplanes or effectively buys them by taking them on finance lease terms from used airplanes. But for the most part, airlines tend to buy the aircraft that they may have operated themselves [at office]. They may see that an airplane may be 20 years of age and the say, "Look, why don't I just buy it and operate it for a few more years and run it out, rather than hand it back in and incur the costs associated with return, particularly given where fuel is at the moment?"

**Operator**

Next we'll move to Ross Harvey at Davy Research.

**Ross Harvey** - *Davy, Research Division - Transport, Distribution and Logistics Analyst*

I have one question. Most of mine were asked and have been answered. So I was wondering about the broader industry and taking a step back. So we've seen 7%-plus growth through '15, through '16. H1 was 7.9% growth according to IATA. And I know you guys have a close feel for market dynamics. So is this a new elevated level? Is this a new norm for the mid-term, this type of 7% to 8% growth, high single digit. And by extension, you might just discuss what sort of agility you have to rejig and benefit from that type of demand growth.

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

We certainly think that as we look at the next year or so, because we are placing airplanes on the new side out as far as 2020 and on the used side, mainly 2019 at this point. We do see, for the most part, around the world, confidence that traffic will continue at a fairly robust clip. Now what we do know, of course, though is that over the long run, we think that the assumption that every 15 years the total number of people traveling will double, and that's closer to a 5% in change growth rate. We think that, that is still, for the very long term, a good average to look at. And when we place orders or buy airplanes or engage in M&A activity, that is the number that we would always have historically looked at as a key assumption. I don't see that changing.

**Operator**

And we'll go next to Rajeev Lalwani at Morgan Stanley.

**Rajeev Lalwani** - *Morgan Stanley, Research Division - Executive Director*

Aengus, I wanted to come back to a comment you made about the Mid-Eastern potential deferrals. Are you of the view that, even if we do have those deferrals, it shouldn't impact the market too much, be it used values, et cetera, just given the way that Boeing and Airbus have managed the skyline? Is that what you were trying to convey?

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

Correct. We don't think that Boeing and Airbus ever thought they'd actually deliver those airplanes when they took the order. In fact, Boeing and Airbus deliberately planned the business model to enforce airlines to overcommit, in terms of the time frame they take the airplane. So they have to go back to them and ask for a deferral and they will increase the pricing and generate an improved margin because of that. So I don't think that anyone ever expected the 3 carriers in the Middle East to take delivery of all the airplanes in the time frame they were ordered. That's the key point. I do believe the business models are sound and robust for the long term and that over the longer term, those seats will deliver. But not in the original time frame that was envisaged.

**Rajeev Lalwani** - *Morgan Stanley, Research Division - Executive Director*

Very helpful. And then, also, Aengus, you talked about just a good deal of interest from a range of players. Has that interest continued to accelerate? And what impact is the stronger dollars, and some movement in interest rates, having more recently, if at all?

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

We continue to see very stable steady interest over the last couple of years, and you can see that in terms of our asset sales, that we have been hitting north of $2 billion a year with an average age of 12, 13 years. So I would describe the market as similar to what it was last year, in terms of demand for used airplanes. It's a robust bid, is how I would view it at the moment.

**Rajeev Lalwani** - *Morgan Stanley, Research Division - Executive Director*

Okay. And I'll just sneak one quick one in for Peter. You talked earlier about -- or you provided some color around your net spreads and where those numbers are. Can you just provide your thoughts on when you're going to start to see your spreads stabilize and not come in? Obviously, you've provided some good reasons for it. But I just wanted to get your view on maybe the next several quarters or several years, as far just stabilization, if you will?

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

Sure. So at Investor Day, we had guided to, I think, it was 8.9% for this year and around 8.5% to 8.6% for next year. I still think those are good numbers, could be 8.9% to 9% this year. But I think, generally speaking, those are still good numbers. And the primary driver of that really is the new deliveries that we're taking. So as we sell older aircraft and as our CapEx program escalates, and it is pretty back-end loaded this year, and obviously, going into 2018, that's where we'll see that average age being driven down. And that's really the biggest driver of that happening. As I said, the weighted average cost of debt, that had been -- that was the factor that's been going into it. And so when you look at the year-over-year comparisons, that's a driver. But I think, we're pretty much going to stay where we are, in terms of that. So that's my best guess at the moment about where we'd be. I mean, as -- over the next few years, we will continue to reduce the average age. We talked before about, by 2020, it will get down to just over 6 years, 6 and change. And so you would expect that to have an effect on the spread over that whole period.

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**Operator**

We'll go next to Kristine Liwag at Bank of America Merrill Lynch.

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**Kristine Tan Liwag** - *BofA Merrill Lynch, Research Division - VP*

Gus, I know you've gotten a lot of questions now on the Middle East, but I just wanted to clarify something. From your comments, does it mean that the 30 787-9s you picked up were the slots earmarked for the Middle Eastern carriers? And if not, I would have thought that you would have received better terms from the OEMs if you waited until they actually announced the cancellations and deferrals?

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

I don't know where these slots came from, Kristine. We have a very good view of what the 787-9 is and what it can generate in the market, in terms of lease rate, and generally in the wide-body market. And we were able to agree terms with Boeing, in terms of the purchase price, where we believe we'll make an attractive return for the shareholders on it.

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**Kristine Tan Liwag** - *BofA Merrill Lynch, Research Division - VP*

Great. And maybe a separate question. In the past few years, as you took delivery of new aircrafts, you've been selling old aircraft and shrinking the size of your fleet. What would you have to see, either in the market or in the composition of your fleet, to change your strategy going forward?

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

That's a capital allocation end question, I guess, Kristine, and we look at our shareholders' money every day and what's the best thing to do with it. And capital allocation comes to how you generate the capital for selling assets. So if there was a very strong bid for the older assets continues, we will continue to sell them and either return that capital to the shareholders or -- as we have been doing in significant size, or if we see opportunities with the manufacturers or elsewhere in the industry, we will take advantage of those. But at the moment, we believe buying ourselves is a compelling investment case, and we see a good bid in the market for the used airplanes. So long as that continues, you'll see more of the same.

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**Operator**

And we'll move next to Helane Becker at Cowen and Company.

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**Helane Renee Becker** - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Just one question. Gus, in the past couple of years, we've had periods or geographies that have been under some pressure, and it feels like that may not be true so much this year. And I was wondering -- I mean, I know that you took back a Turkish aircraft, I guess, late last month, but maybe that was supposed to come back. Can you just like maybe give us a couple of comments on what you're seeing geographically? And if that, like, impression that things have gotten a little better on a worldwide basis is accurate?

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

I think, generally, things have got better. A lot of that driver is coming from Europe. The Western, Eastern European market combined is, in terms of ASM, it depends how you measure probably the biggest market in the world, of which country you include. So that has come back and it continues to come back. I think in the North American market, with very healthy airlines, we're not seeing the same growth in ASM there further out that we saw a couple of years ago in that market, which is understandable, as the market matures. In South America, clearly, it's driven by Brazil. We have certainly seen a stabilization of things in Brazil, which is the first step in the recovery through the cadence to these markets when they get under pressure as to how they recover, and we certainly see Brazil getting slightly better. And that will bring the rest of South America with it. Turkey is still a difficult place, getting slightly better. Russia is an important market. Russia has continued to recover and continues to do so. And then, Southeast Asia is stable at the moment. Some of the carriers out there have had well-documented issues regarding their capacity levels. And then, of course, we've commented significantly on the Middle East here. But, as I said, overall, generally better at the moment.

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**Operator**

And we'll take our final question from Scott Valentin at Compass Point.

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**Scott Jean Valentin** - *Compass Point Research & Trading, LLC, Research Division - MD and Research Analyst*

Just with regard to the buyback, you mentioned aircraft sales have been probably higher than what we would have thought. You've been aggressively selling aircraft in the first half here, taking advantage of the strong market. How should we think of the buybacks going forward? I think in the Investor Day, you had, like, $900 million was the excess capital, and that was kind of what was pegged for buybacks. And it looks like you're generating more than that. So as long as the aircraft sales keep happening, do we assume the buybacks keep happening?

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

Yes. So we had estimated $900 million of excess capital for the year. That was premised on $1 billion of aircraft sales. As we said, we look like we'll be well above that. And you can look at it as, maybe for every $1 billion in excess sold, it's about a 4:1 ratio. So $1 billion more of sales creates another $250 million of excess capital that you can deploy. So that's kind of the rule of thumb in terms of thinking about it. So as I said, we're at $900 million, another $650 million that's held for sale. So that would add to it on that 4:1 basis.

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

But it's important to note timing, of course, though. If you buy a share on the last day of the year from weighted average impact of EPS for the year there's little to no impact. So that's an important aspect as well as to when these sales actually close and the money comes in and then it's put out again to -- redeployed into actually purchasing the shares.

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**Scott Jean Valentin** - *Compass Point Research & Trading, LLC, Research Division - MD and Research Analyst*

Okay. And then on a delayed aircraft with the GTF, you mentioned no impact from '17 because it's late in the year; but '18, do you see any way to make up for those deliveries? Do you find -- do you think other slots? Or do you go out into the secondary market and find aircraft?

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

We won't do that. I mean, we are assuming that the United Technologies will resolve the issues and the airplanes will arrive. If it's a few months late, I'm not going to go out in a rush to buy airplanes to plug the hole for the sake of a few months and put additional CapEx into the company just for the sake of meeting a quarter. When I buy an airplane, I've got to like it for 25 years, not for 3 months.

**Scott Jean Valentin** - *Compass Point Research & Trading, LLC, Research Division - MD and Research Analyst*

Okay. And then a final question. Just M&A, there's been press reports, I guess, of a lessor of a decent-sized portfolio, looking at strategic alternatives. Just wondering what you think right now of the M&A market, given where AerCap's trading and given -- actually to buy back your stock versus acquire aircraft.

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

Well, we believe that buying our own stock represents the best value proposition that we see out there at the moment across any of the potential fleet opportunities or M&A opportunities that are out there.

**Operator**

And that does conclude the question-and-answer session at this time. I'll turn the conference back over to management for any closing remarks.

**Brian Canniffe** - *AerCap Holdings N.V. - Head of IR*

Thank you, operator. That concludes our call. Thank you all for joining. Operator, please disconnect.

**Operator**

Thank you. And again, that does conclude today's conference. Thank you for your participation.