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Q1 2022 Earnings Call

Company Participants

- Aengus Kelly, Chief Executive Officer
- Joseph McGinley, Head of Investor Relations
- Peter Juhas, Chief Financial Officer

Other Participants

- Andrew Lobbenberg, Analyst
- Catherine O'Brien, Analyst
- Helane Becker, Analyst
- Hillary Cacanando, Analyst
- Jamie Baker, Analyst
- Moshe Orenbuch, Analyst
- Ross Harvey, Analyst
- Vincent Caintic, Analyst

Presentation

Operator

Good day and welcome to AerCap's First Quarter 2022 Financial Results. Today's conference is being recorded and a transcript will be available following the call on the company's website. At this time, I would like to turn the conference over to Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

Joseph Mcginley {BIO 17672898 <GO>}

Thank you, operator, and hello everyone. Welcome to our First Quarter 2022 Conference Call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release, dated May 17,

2022. A copy of the earnings release and conference call presentation are available on our website at aercap.com.

This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. We will shortly run through our earnings presentation and we'll allow time at the end for Q&A.

I will now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Good morning, everyone, and thank you for joining us for our first quarter 2022 earnings call. But for the impact of Russia, this was a strong underlying quarter for the company, and I'm pleased to report $2.23 of adjusted earnings for the period. Across all our business lines; aircraft, engines, cargo and helicopters, we are seeing improving demand, increased utilization of our assets and the improving financial health of our customers. There has been a strong rebound in traffic on a global scale, as an ever-increasing number of countries removed the last of the COVID-related travel restrictions and welcome foreign travelers once again.

The favorable environment created by these various dynamics, coupled with the proven resilience of the AerCap business model sets us up for a strong year ahead. There are a number of key point, which I'd like to expand on today. The first is that it is clear that the reopening of air travel continues to gather momentum around the world and that the demand for aircraft is strong despite the uncertainty created by the war in the Ukraine and higher oil prices. Importantly, when I speak to airline CEOs, I hear a consistent message, which is that demand is strong enough in the US and Europe to pass through higher input costs. In addition, we are seeing similar trends in Southeast Asia today to the ones we saw in the US and Europe as those markets recovered. These trends drive demand for leased aircraft as airlines took to capitalize on this passenger and yield growth.

Second, we also see strengthening demand for aircraft sales as the effects of COVID-19 begin to ease off in most parts of the world. Last week in Dublin, we had the Annual Air Finance and Airline Economics conferences, which were extremely well attended and the mood was positive. The events of the last two years have once again demonstrated the resilience of the aviation industry and aircraft an asset class. Investors are very interested in owning physical assets as a way to provide protection in a higher inflationary environment, supporting both aircraft and engine values.

Thirdly, we want to provide more financial detail on the benefits of the GECAS transaction. Excluding the impact of a charge we have taken as a result of the war in the Ukraine, for FY 2022, we expect to generate between $6.50 and $7.00 of adjusted EPS, as well as approximately $5 billion of operating cash flow. This is even after taking account of the $33 million of ongoing last monthly revenue from our former Russian customers. Pete will provide more detail on this outlook later in the presentation. Without doubt, the GECAS acquisition has made AerCap a stronger, more diversified and profitable business, and

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earnings are significantly ahead of where we expect the AerCap business to be on a standalone basis.

As you will see from the chart, the demand side of the industry continues to improve with global flight traffic back to 75% of 2019 levels as of May 22, with North America leading the charge at 24,000 daily flights. Europe also continues to improve heading into the summer, with 20,000 daily flights. In both Europe and the US, nearly all COVID-related restrictions have been lifted, supporting frictionless travel and allowing people to connect again. As I said many times, once people are allowed to travel they will do so in large numbers. A very visible example of this is that Ryanair carried 1 million passengers in April 2021, but last month, April 2022, they carried 14.2 million passengers, a 14x increase. China is the only major market where significant restrictions remain, but as we have seen over the past two years, they tend to shut down and reopen very quickly. So we don't expect this latest setback to be long-lasting.

More encouraging is that the Rest of Asia continues to ease restrictions and reopen borders. All the key tourist markets in Southeast Asia, as well as India and Australia, are now open to international travel. This bodes well for wide-body demand as one of the key tourist markets for Southeast Asia is Western Europe. The impact of these announcements is immediate. In just one example, Changi Airport in Singapore saw traffic return to 40% of 2019 levels, from just 15% in three months as a result of this easing, and we are seeing similar results elsewhere, with Asia-Pacific ex-China traffic back to 70% of 2019 levels, or 16,000 daily flights.

The conversations I have with the CEOs of airlines in Southeast Asia have been far more upbeat since April 1, as they are seeing bookings surge from where they were Just a couple of months ago. One of the most common questions I'm asked is how the European and American airlines managed to open up and increase capacity so quickly. Airline CEOs in Asia are most focused on the logistics of reopening, particularly how to reactivate their fleets. We can see clear evidence of this in the maintenance and overhaul facilities where there is little to no capacity left for engine overhauls that are required to reactivate aircraft that have been stored for some time. This gives me confidence in the demand side for the years to come.

So whilst there is still quite a way to run on a full recovery to 2019 levels, I strongly believe that the only impediment to getting there is government intervention. Once restrictions are scaled back, people return to the skies quickly and in large numbers. So while we have a positive demand environment, the supply side is just as important. The good news is that supply-side dynamics are favorable for the leasing industry and AerCap.

Firstly, from Slide 5 you can see that the overall level of new aircraft supply remains well below the run rate of 2018, the year before the 737 MAX was grounded. In 2018, there were just over 1,600 new aircraft deliveries from Boeing and Airbus, and using that as a benchmark 1,900 fewer aircraft have been delivered since then. For 2022, Airbus has set a target of 720 aircraft deliveries and Boeing has set a target of 500, which is unlikely to be hit. But even if they do, that's still amounts to 400 fewer aircraft per annum being delivered each year. Whilst it's at times frustrating to see the delays on the 737, 787 and A320neo family aircraft for a variety of issues, it does help with the demand for our other

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products. I know that Airbus recently announced plans to increase production rates on the narrow-body A320 family to 75 a month by 2025 compared to 50 a month at the moment. But much will depend on the global supply chain issues resolving themselves, as well as the willingness of the engine manufacturers to follow suit.

Turning to wide-body supply, as you're aware, Boeing has not delivered any 787s for the last 15 months. And it will be a few months before they can recommence deliveries. It will also take years to unwind their stock of 787 inventory and get back to even very modest levels of production. As well as this, the 777x entry into service has been delayed until 2025. Similarly, Airbus are also supply-constrained as A320neo production is unlikely to go above three a month for several years to come due to supplier constraints and a significant number of wide-body aircraft have been retired during the pandemic. So all this means that supply is limited on the widebody side. In contrast, widebody demand is starting to come back, led by the 787s, just two weeks ago with three airlines looking for three 787-8s. Importantly, because Asia has been close to international travel for the last year, the European majors have put a lot of their wide-body fleet that normally flies to Asia on the North Atlantic. This will reverse later this year as Asia reopens and should provide a boost to wide-body traffic.

Since the closing of the GECAS acquisition, we've been in negotiations with Boeing regarding a legacy GECAS order for up to 68 737 MAX aircraft, over which GECAS had a cancellation right that AerCap could exercise. In light of the favorable macro supply-demand dynamics that I just discussed, the recovery in demand that we see in particular for the 737 MAX family and the attractive terms that we were able to agree with Boeing, I am pleased to report that we will not exercise our cancellation rights and we look forward to taking delivery of these aircraft in the years ahead. This is a clear indication of our confidence in the future and gives us a leading position in new technology narrow-body aircraft.

Turning back to AerCap, the business units are all performing well with a variety of catalysts across the Group. On the engine side, our 100% owned engine leasing business is comprised of engines from all manufacturers with a concentration of General Electric and CFMI engines. These are the most liquid engine types that power the world's most popular and in-demand aircraft. The environment in this business is strong with elevated narrow-body activity in particular and the wide-body engine market is also improving steadily. To put this in context, for the week ending Friday, May 13, the global GE and CFMI engine fleet was operating at 80% of 2019 levels despite China being effectively grounded last week. This business provides both long-term and short-term engine leasing products. The long-term product provides permanent power to the airline and can be for terms of up to 12 years, similar to aircraft leases. Short-term leases are used to get airlines through shop visit peaks or acute events, which helps to keep the aircraft operating and generating revenue. With more aircraft coming out of storage, we expect to see an increase in shop visits in preparation for re-entry into service. AerCap Engines is well placed to serve its customers.

In cargo, the demand environment also remains strong as the boom in e-commerce continues to have a positive impact. Whilst this is helpful for overall demand, it has also helped to expand the types of customers that are willing to enter into longer-term lease

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agreements. For example, we are now seeing retail businesses, such as Inditex, the owner of Zara, taking their own cargo aircraft to vertically integrate their operations to reach the consumer directly. This has been a driver of demand for AerCap cargo, bringing both additional diversification and improving yields. The cargo business should also be helped by the elimination of freighter capacity from the market in Europe in July 2022, following similar moves from the US and China at the end of 2021. This is where passenger aircraft were given an exemption to fly exclusive freight operations in the passenger deck to mitigate the lack of belly capacity during COVID. This should give another shot on the arm to specialized freighter aircraft in Europe.

Finally, placement of the 777-300 freighters and the 737 freighter programs remain ahead of schedule and the team is now reviewing other opportunities to enhance the portfolio. Clear evidence of the demand for our cargo business is that we launched the 777 conversion program with 15 firm commitments and 15 options, for a total of up to 30 777 freighters. We already have 16 777s under contract or LOI, equating to $1.5 billion in rental commitments, and this is even before the first aircraft delivers from the conversion program.

Then in our helicopter business, leasing activity remains elevated in a way that hasn't been seen for many years. To give an example, we leased six times more helicopters in the first four months of this year than we did in the same period last year. Lease terms are improving with supply becoming more scarce as the OEMs have effectively discontinued the production of large or heavy helicopters for civilian use. Given the increase in commodity prices, cash collections and utilizations also continue to improve.

So to wrap up, I just want to emphasize that over the last two years AerCap has had to deal with extraordinary events. It is a phenomenal achievement and a credit to the hard work of the AerCap team and the resilience of the AerCap business model and balance sheet that we have emerged in the position of strength that we find ourselves in today. The events in Russia, although undoubtedly a setback, are manageable as a result of the way we've consistently run our business, the strength of the recovery in the Rest of the World and the power of the combined company. We've always prided ourselves on being careful stewards of your capital. As the recovery progresses and our leverage continues to fall, we will once again be well-positioned to return capital to shareholders.

I'll now hand the call over to Pete for a review of the financials and our outlook for 2022.

Peter Juhas {BIO 16582554 <GO>}

Thanks, Gus. Good morning, everyone. For the first quarter, our adjusted net income was $540 million, or $2.23 per share. Prior to the Russian invasion of Ukraine and the imposition of sanctions, AerCap had 135 owned aircraft and 14 owned engines on lease to Russian Airlines. The net carrying value of these assets on our balance sheet was approximately $3.1 billion as of December 31, 2021. We have detained 22 of our owned aircraft and 3 of our owned engines outside of Russia. The other aircraft and engines remain in Russia. We have completely written off all of our flight equipment assets that remain in Russia and have also written off any other assets and liabilities related to those aircraft and engines. These include, for example, maintenance rights assets, lease premium assets, security

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deposits and maintenance reserves. We have also reviewed for impairment the assets that we've removed from Russia and Ukraine. In contrast to our aircraft remaining in Russia, most of these were older aircraft that were on their last lease. As a result, our net charges related to the Ukraine conflict were approximately $2.7 billion or approximately $2.4 billion after tax. You can see more detail on the breakdown of these charges in the appendix to the earnings slides.

Excluding the charges related to the Ukraine conflict, our net income for the first quarter was $387 million or $1.60 per share. This included $158 million of purchase accounting adjustments which include lease premium amortization and maintenance rights amortization. Excluding this amount, and a small amount of transaction and integration-related expenses in the quarter, our first quarter net income was $540 million or $2.23 after-tax.

I'll spend a few minutes going through the main drivers that affected our results for the first quarter. Basic lease rents were $1,554 million for the quarter. These were favorably impacted by cash collections in the quarter that were stronger than we expected. We continue to see positive momentum with our customers from the global recovery in air travel. During the quarter, our cash collections rate exceeded 100% because in addition to the regular rent and maintenance payments for the quarter, we also received repayments of deferral balances. Our combined accounts receivable and deferral notes receivable decreased during the first quarter by $63 million or 8%, from $768 million as of December 31, to $705 million as of March 31. That was a continuation of a trend that we've seen over the past several quarters of lease balances coming down. Our basic lease rents were reduced by $57 million of lease premium amortization during the first quarter. As I mentioned on last quarter's earnings call, a lease premium asset is amortized over the remaining term of the lease and reduces basic lease rents.

Maintenance revenues for the quarter were $186 million. This was somewhat higher than we would normally see due to lease terminations during the quarter. But it was also reduced by $51 million of maintenance rights assets that were amortized to revenue during the quarter.

Interest expense for the quarter was $381 million. This included $36 million of mark-to-market gains on interest rate derivatives during the quarter. Leasing expenses were $208 million during the quarter, including $50 million of maintenance rights amortization expenses. So when you add the $57 million of lease premium amortization, the $51 million of maintenance rights amortization and the $50 million of maintenance rights amortization running through leasing expenses, you get the total of $158 million of purchase accounting adjustments that I mentioned in the walk on the previous slide. $108 million of this affected revenue during the quarter and $50 million affected leasing expenses. SG&A for the first quarter was $97 million, which is in line with the $150 million of annual target expense savings that we had for the GECAS transaction.

We continue to maintain a strong liquidity position. As of March 31, our total sources of liquidity were approximately $17 billion, which resulted in a next 12 months sources-to-uses coverage ratio of 2.1 times. That's well above our current target of 1.5 times and gives us excess cash coverage of approximately $9 billion. We ended 2021 with a leverage ratio of 2.66 to 1.

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On the fourth quarter earnings call, I mentioned that our leverage ratio would likely go up as a result of the impairment of aircraft remaining in Russia, and estimated that it could go up to around 3 to 1 debt to equity. We actually ended the first quarter at 2.9 times debt to equity, so a little better than expected. And, of course, that's still below the level of 3 to 1 that we had originally forecasted when we announced the GECAS acquisition last March. As I mentioned earlier, our cash collections during the quarter were strong and our operating cash flow was $1.3 billion. Our secured debt to total assets ratio was approximately 15%, the same as last quarter. And our average cost of debt for the first quarter was 3%.

Now I'd like to take a few minutes to go through our financial outlook for 2022. For the full year 2022, we expect to generate adjusted earnings per share of $6.50 to $7.00. We believe it makes sense to look at EPS on an adjusted basis because we believe it better reflects the economics of the business as the impact of purchase accounting distorts the income statement following the GECAS acquisition. Adjusted GAAP income reflects the add-back of non-cash maintenance rights and lease premium amortization, as well as transaction-related expenses. As many of you will recall, we also reported adjusted earnings after the ILFC transaction in 2014 for the same reasons.

The combined total of these maintenance rights and lease premium assets is approximately $3.9 billion, the vast majority of which will amortize over the next seven years. For this year, we expect it to be around $700 million of amortization in total. It's important to note that this affects both revenues and expenses.

In 2022, we expect to generate total revenues of approximately $6.9 billion. We expect our interest expense for the year to be approximately $1.6 billion, which reflects an average cost of debt of around 3%. Depreciation should be approximately $2.5 billion for the year. We expect our other expenses to be approximately $1 billion. That results in pre-tax income of $1.8 billion on an adjusted basis. We've assumed an effective tax rate of around 13% and we expect to have approximately $50 million of earnings from our equity method investments, primarily, our investment in our engine leasing joint venture, SES. That gives us net income of approximately $1.6 billion on an adjusted basis, or EPS of $6.50 to $7 for the full year.

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These projections exclude the net charges relating to the Ukraine conflict that we recognized in the first quarter but they include the impact of lost revenues from our aircraft and engines that were on lease to Russian Airlines. That was around $33 million a month of lease rents. Since we've completely written those assets off, we're no longer depreciating them. So there is some offset from an expense standpoint, but overall on a net basis, the impact of the Russian assets is around $200 million for the remainder of this year.

These projections also reflect the tail of COVID-19 on our business. While we've seen a strong recovery in terms of passenger demand and cash collections, nonetheless, we will continue to see an impact from lower revenues associated with leases that were restructured during COVID, either as a result of airline bankruptcies or out-of-court restructurings. Over time, of course, that impact will diminish as those leases roll off. These projections also reflect the benefits of the GECAS transaction which really come

These projections also reflect the benefits of the GECAS transaction which really come through in three major ways. First, we purchased the GECAS business at a significant discount to book value.

Secondly, GECAS business overall was less affected by COVID than the legacy AerCap business, basically due to the composition of the portfolio. GECAS had the freighter business and engine leasing business that were less impacted by COVID as well as a higher proportion narrow-body aircraft which were less impacted by airline restructurings. And third, we put in place $24 billion of financing for the GECAS acquisition at an average cost of debt of 2.6% which was well below our average cost on a standalone basis of 3.8%. We also see the benefits of $150 million of annual SG&A savings from the GECAS transaction. Overall, these results are well above what AerCap would have done on a standalone basis for this year. Finally, I should note that these projections do not include any assumed recoveries from insurance claims. As we've mentioned, we've submitted insurance claims for $3.5 billion related to our assets remaining in Russia.

As I mentioned earlier, we ended 2021 at a debt-to-equity ratio of 2.66 to 1. As a result of the write-off of our assets in connection with the Ukraine conflict, our debt-to-equity ratio increased to 2.9 times at the end of the first quarter. We expect to return to our long-term target ratio of 2.7 times by the end of this year. In addition, going forward, based on our contracted capex and assuming sales of approximately $2 billion a year, we would expect to de-lever to 2.5 times by the end of 2023 and 2.3 times by the end of 2024 before taking into account any additional capital deployment or return of capital to shareholders. So that shows the ability of this business to de-lever and generate excess capital. We saw this as well following the ILFC acquisition. Again, these do not assume any insurance recoveries during this period, which would lead to additional de-levering.

So, bringing this all together, we expect to start generating excess capital by the end of this year and will be well positioned to start returning capital to shareholders. Between now and 2024, we expect to generate approximately $2 billion of excess capital. Of course, if we exceed our projections for either earnings or aircraft sales or if we've receive insurance recoveries during this time, the amount of excess capital could be materially greater.

So with that, operator, we can open up the call for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) And our first question will come from Ross Harvey with Davy. Please go ahead.

Q - Ross Harvey {BIO 18664315 <GO>}

Hi, thanks for taking my questions. I've got two if that's okay. Firstly, can you give us a better idea of what AerCap generated on a standalone basis and just how you think about the accretion from the GECAS deal this year?

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A - Peter Juhas {BIO 16582554 <GO>}

Sure, Ross, this is Pete. So back in March of last year, there was obviously a lot of uncertainty generally, but we estimated at the time that AerCap would probably generate somewhere in the low $4s in terms of EPS for 2022 and that's of course before the impact of Russia, which probably would have brought it down to the low $3s. So you can see based on these projections and even on a GAAP basis, this is materially accretive. We know that GAAP is unduly punitive once you do an acquisition of this type. So on an adjusted basis, it's even more accretive. And I think I would also point out that when we look at 2022 in the numbers here, the projections we've given, we are still facing headwinds. Obviously, you've got Russia in there. We've also reflected the cost of reactivating the fleet which comes through in higher leasing expenses. That's obviously mainly on the aircraft but you also see that in the helicopters we're getting up in the air. So, those are things that we've built in here for 2022 and we think are reasonable.

Q - Ross Harvey {BIO 18664315 <GO>}

That's helpful. Thanks, Pete. And secondly, you had $3 million of gain on sale in Q1. Just wondering how do you look at that figure moving forward through the quarters?

A - Peter Juhas {BIO 16582554 <GO>}

Sure. So, the gain on sale was definitely lower in the first quarter, and the main driver of that is there were sales of around $800 million worth of legacy GECAS aircraft that were pending when the acquisition closed in November. And these were aircraft that GECAS had contracted to sell, but the sales hadn't closed yet when we did the acquisition. And since then, they have stated to close. The average gain on those sales was over 10%, but in purchase accounting, we had to mark those assets at the sale price, which is the price that the buyer is paying us. So we won't be booking any gains on those assets because they just come onto our books at the higher value. For the first quarter, those would have been around $20 million higher For instance, we would have had $20 million more gains if we didn't have that purchase accounting effect. And I should say, all of those sales will be done by the end of the year. So that has an impact on the gain on sale margin that we're using. Basically, we haven't assumed much in terms of gains on sale in this forecast, but we would expect on the other assets that weren't contracted before the acquisition, we would expect to have healthy gains as we have in the past.

Q - Ross Harvey {BIO 18664315 <GO>}

Great. Thanks, Pete.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

Alright. And our next question will come from Jamie Baker with J.P. Morgan. Please go ahead.

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Q - Jamie Baker {BIO 3406456 <GO>}

Hey, good afternoon. So, Gus, the slide on the aircraft shortage is a new one in your deck. I believe in it -- obviously, highlight some of the same data that Mark and I have been harping on in a big part of Mark's presentation in Dublin last week, essentially the looming shortage. It sounds like you agree that this is no longer just a narrow-body phenomenon, but there is a twin deficit as well. Assuming the OEMs can't close the gap, it logically implies higher lease rates, but I'm curious on how many requests you're receiving from airlines to extend current leases, and when a lease is extended is it usually cut at prevailing terms or better terms? Again, I'm just thinking about how the shortage is going to manifest in terms of lease rates.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. Thanks, Jamie. And what you're seeing here is -- on the widebody side it hasn't been as in focus because people have been so focused on the recovery in the narrowbody market which has obviously led our way out of COVID, but now we are beginning to see it in the widebody side. Like in the narrowbody side, it's being led by the best asset in the class, which is the Boeing 787 and we are seeing a significant uptick relative to where we were on that aircraft type. Now we are seeing it first, because we're the biggest in the world out there and we see a lot of activity. The airlines are just starting to realize it that there is a coming squeeze on widebody capacity, Boeing, we all know what the issues are in the 787, but Airbus also have their supply limitations as well. So what will happen as our widebodies come up, the 787s, 330neos, we're certainly endeavoring to push rentals up as they come up for reset, be that on extension or off a new order.

Q - Jamie Baker {BIO 3406456 <GO>}

I appreciate that. And second, I was, I guess, a bit encouraged to see that Aeroflot had purchased some A330s that had had their leases terminated. It seems to imply that airlines in Russia might be looking beyond the current sanction dynamic. I'm just wondering how you describe your conversations with former customers there. Are you even having those conversations. Just wondering how you would characterize them and is anybody even beginning to look beyond the current environment in Russia? Thanks, Gus.

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah, certainly. Well, of course, we maintain dialog with our existing customers, and as you've seen, we've been able to get 20-plus aircraft out of Russia and we continue to work with them wherever there is an opportunity to mitigate our risk there.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. I appreciate it. Thank you very much.

Operator

Alright. And up next, we will hear from Helane Becker with Cowen. Please go ahead.

Q - Helane Becker {BIO 1504163 <GO>}

So, thanks very much, operator. Hi everybody and thanks very much for the time. Pete, a question for you on the tax rate. So 15% in the first quarter of last year, down to 12% this quarter. How should we think about that going forward?

A - Peter Juhas {BIO 16582554 <GO>}

So, Helane, I would think about it as roughly 13% to 14% for the full year. This quarter is a little different just because you had the large loss which impacts it, but I'd say kind of on an adjusted basis, 13% to 14% is a good number to use.

Q - Helane Becker {BIO 1504163 <GO>}

Okay. And then the other question I had was, I just listened to -- I don't know if it's for you or Gus, but I just listened to a presentation from United talking about the demand they are seeing in Southeast Asia, which I think you just mentioned as well. Strong demand, wanting more wide-body aircraft especially because their 777s are slow in returning. So two questions. I think you mentioned the 787s are the ones you're seeing the most demand for, but is there opportunity for you to get additional aircraft to place with customers? And on the lease rates, are they tracking interest rates?

A - Aengus Kelly {BIO 2460371 <GO>}

Look, the second part of your question, for any of the new wide-body placements we're doing, they are tracking interest rates. And, indeed, for those assets that we placed prior to now, Helane, there is an interest rate tracker in them. So whatever the agreed rent was, then it adjusts upwards for any movement in interest rates. With regard to obtaining new aircraft, we obviously have a very significant order book. And as I mentioned in the call, in my prepared comments, given the demand we are seeing for the MAX and the resurgence in demand for the MAX, also the strengthening of the lease rental in the MAX where I say now the MAX 8 is on a par with the 320neo in terms of its lease rentals. We were very happy to be able to reach terms with Boeing on that aircraft. On the 787 model, of course, we do have a large order book there and we will be working out with Boeing where the exact positions are for those delivery dates over the coming months as the airplane re-enters service.

Q - Helane Becker {BIO 1504163 <GO>}

Okay. That's really helpful. Thank you very much..

Operator

Alright. And our next question will come from Vincent Caintic with Stephens. Please go ahead.

Q - Vincent Caintic {BIO 18737149 <GO>}

Hey, thanks for taking my questions. Both of them on the EPS guidance. So $6.50 to $7 adjusted EPS, a good number. I guess, first question, when comparing to the first quarter adjusted EPS of $2.23, if you were to run rate that that would imply over $8 of EPS. So I'm just wondering if there was anything in the first quarter's adjusted EPS that maybe we

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shouldn't be thinking of as run rate for the rest of 2022? Or alternatively, if there may be some one-time expenses or something over the course of 2022, which would have rolled off in 2023, I think you spoke about, for example, the cost of reactivating the fleet. So there might be some high leasing expenses just for 2022 that might run off. So maybe any color there. Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Vincent. So, look, I mean the main thing that won't be -- that we got in the first quarter that we won't be getting in subsequent quarters is the revenue from the Russian leases, right, because those have been terminated. And so -- or leasing has been terminated. And so that -- during the first quarter, we were receiving that rent revenue, but that comes out of this forecast for the subsequent quarters. So that's the main thing if you look at 1Q versus the rest of the year. You're right that we will have some higher leasing expenses come through just as we're getting aircraft moved, reactivated et cetera. So that is a driver during the next couple of quarters that we'll see.

And then in terms of one-time items for the first quarter, I guess the only one that I would note is we did have a one-time mark-to-market gain on interest rate caps, which was $36 million pre-tax. So that is a one-time item. Now, obviously, could get those during the rest of the year but I wouldn't count on it.

Q - Vincent Caintic {BIO 18737149 <GO>}

Okay, thank you. Appreciate it. Yeah, when I did the math of Russia that's about $0.70 for the rest of the year. So, I appreciate that, but maybe going into one other assumption, what level of aircraft sales -- I think you've got about $2 billion, but what level of gain on sale of aircraft are you assuming with the EPS guidance? Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

It's just a very small amount of gains that we've assumed, Vincent, because really mainly because of that -- well, for two things. One, because of the GECAS thing that I mentioned in response to Ross' question, but also, as I think you know, just historically we haven't assumed significant gains on sale in our forecast. That's really just I think down to some conservatism on our part, not due to any market things that we're seeing. So that's why we haven't baked in very much for that.

Q - Vincent Caintic {BIO 18737149 <GO>}

Okay, understood. Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

All right. Up next we will hear from Moshe Orenbuch with Credit Suisse. Please go ahead.

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Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks. Pete, maybe following up on that question about aircraft sales, you mentioned kind of going from 2.9 to 2.7 in leverage in the nine months. Given I guess where the stock is and perhaps where it will be after the call, the question is, is there a way to accelerate that and be in a position more quickly to be at your kind of targeted leverage or better than your targeted leverage, I think, particularly in an environment where deliveries have been weak? Can you talk about that perhaps?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, certainly, there are things that can move that. Of course the business performance, we may do better. We make some more assets. And indeed, we put a portfolio of assets into the market for sale just two weeks ago in anticipation of the large Air Finance conference that was held here in Dublin last week, where there was a positive tone. And so we're active in that regard. Also, you could well have a delay in capex too. So they are the factors. I would say it is the business performance, we do a bit better, we have another portfolio in the market.

And I think having said all that, though, it is worth reiterating the extraordinary challenges that the business has had to face over the last two-plus years and to be in a position where after all of that, at the end of this year that we expect to be at 2.7 to 1 is a testament to the resilience of the AerCap business model and the strength of the cash flows we generate. And that is very similar to what we saw eight years ago post the ILFC acquisition where we did de-lever much faster.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Agreed. And certainly is a testament. Pete, maybe just kind of on a more mundane level, the $158 million of charges, roughly two-thirds coming out of revenue and a third out of expenses, could you just remind us -- I know that some of them are difficult to determine the scheduling, but if we were to think about it like you mentioned how much we would likely to see for 2022, any sense as to -- can you give us a sense as to the likely step-down in 2023?

A - Peter Juhas {BIO 16582554 <GO>}

2023, Moshe, I think it's probably going to be roughly a similar number, maybe $600 million to $700 million. I would expect something along those lines. I mean, as you know, these tend to be lumpy, right, because they're based on maintenance events, basically, and shop visits and that type of thing. So it's hard to predict precisely. But I think that's a pretty good estimate for '23.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Okay, thanks very much.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

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Operator

Alright. And next we will hear from Catherine O'Brien with Goldman Sachs. Please go ahead.

Q - Catherine O'Brien

Good morning, everyone. Thanks so much for the time. I think maybe the first one for Gus. So I saw you still have some aircraft availability open for next year, 92% placed through 2023. Is that the normal level you look to hold back for close-in demand that perhaps comes with relatively more attractive lease rates, or is there some movement given airlines' ability to cancel for aircraft delivering over 12 months late? I know last quarter you mentioned you already had some airlines interested in your Russia slots for 2022. But maybe there are just some like LOIs or conversations going on for those Russian aircraft. I know a little bit of nested question, but thanks for any color.

A - Aengus Kelly {BIO 2460371 <GO>}

No problem. Catherine, you're right. All the 2022 aircraft were dealt with in pretty short order and on 2023 there is a few airplanes there, narrowbody assets that we will move. They came out of the Russian situation, but those aircraft will get moved in the very near future.

Q - Catherine O'Brien

I guess, what about the non-Russia aircraft, like is this obviously there's quite a bit of demand, given -- we're talking about aircraft shortages across both narrow-body, wide-body. I guess, is some of this is -- is that kind of like the normal level you'd keep open for a year or maybe some of this by design just because you think the shortage is going to -- the shortage, excuse me, is going to hit more of like a crescendo next year? Would just love to hear more on that as well.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, I would say, we took a decision not to lease any 787s off the order book for some time. I think that's proven to be the right decision. I think we are certainly -- now starting to offer those 787s that we had delivering in the next couple of years at higher rates than certainly would have been achievable a year ago. On the narrowbody side, of course, we have a few -- we always have a few airplanes, and you certainly want to have some airplanes always available within the 24 months availability for the airlines to make sure that you can satisfy some of their nearer-term requirements they have as well. So tactically, you'll always want to have a few airplanes available in a 24-month window. I would say it was more kind of strategic over the last few years on the 787 market as we were confident that would come back and we are seeing that now.

Q - Catherine O'Brien

That's great. And then maybe just one for Pete. Thanks so much for laying out all the details on the 2022 outlook. I guess as we roll forward the next couple of years, obviously, macro, aircrafts supply demand et cetera are all going to influence the outlook. But if we just assume the recovery in air travel continues at a steady pace, or I mean, if we get some step

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function recoveries as more restrictions drop in Asia, can you just help us think about the COVID impact you're baking into this year's outlook that will roll off going forward? And then pardon if I've missed this, but are you assuming any share buybacks in that $6.50 to $7? Thanks for the time.

A - Peter Juhas {BIO 16582554 <GO>}

No, we haven't assumed any share buybacks there for this year. I mean -- and I think you could see in our slides that we are assuming that we -- or we project that we'll get back to our target leverage ratio by the end of the year, as Gus said, it could happen sooner but that's what we're projecting at the moment. So we didn't build in any buybacks into these numbers. Look, I think that as you look out beyond 2022, for sure, there are things that are impacting this year that we would expect to diminish over time. Right? And part of that is, is the kind of nearer-term ones in terms of the leasing expenses and other costs of getting aircraft back in the air, that type of thing, aircraft that you have on the ground that aren't earning revenue, right, those type of things. So those, for sure, should be positive. But I think the longer one is, you've got some leases, as I mentioned, that were restructured during COVID and those will roll off over time, and then they'll go back to normal. So that part of it is going to be more of a multi-year one. So you should see it stepping up over time. But all the things that you talked about in terms of the recovery rate, the greater demand, the supply shortage, all of those things should fold into higher numbers for us.

Q - Catherine O'Brien

That's great, very helpful. Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

And our next question will come from Andrew Lobbenberg with HSBC. Please go ahead.

Q - Andrew Lobbenberg {BIO 3989942 <GO>}

Oh, hi there. Can I ask about the impact of inflation and to what extent that can pressure up your capex as we go forward? So to what extent you have protection mechanisms that cap the price increases to the aircraft orders? And then the second question would surround the Russian Airlines. Air Lease seemed to make a big thing of differentiating between state-owned Russian airlines and private Russian lines, and imagining that that will be a difference of treatment as we go forward. Do you see anything in that, or do you just think that all the Russian assets are written off and we move on?

A - Aengus Kelly {BIO 2460371 <GO>}

Look, I think on the inflation aspect, there are a couple of components to it. There is your purchase prices with Boeing and Airbus and with the engine manufacturers. AerCap has what we call escalation caps, which is a proxy for inflation, and they've been well

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negotiated over many years. So we're happy with those, they protect our purchase price against inflation. And how inflation feeds into higher interest rates, we are protected there on the lease contracts that we've negotiated in the past that they have an interest rate adjustment to them. But, historically, higher interest rates and inflation have led -- historically if we go back over the last 40-odd years in this business, aircraft have been hedges against inflation. We will have to see if this inflation is long-lasting or not and how it plays out if it follows historical patterns.

In relation to the Russian aircraft, we never believed there was any difference between whether it was private or not, that didn't make any difference. And I don't expect it will make any difference. And just on that, three-quarters of our exposure of our Russian assets were on lease to private airlines and a quarter or two to Aeroflot and Rossiya. But the reality is, all these aircraft are gone, whether they were to private or state-owned. So I don't think it makes any difference.

Q - Andrew Lobbenberg {BIO 3989942 <GO>}

Fair enough. Thank you. Oh, sorry dare I ask I mean the aircraft that you've recovered are you able to say where they came from or how they came about, or is that too sensitive?

A - Aengus Kelly {BIO 2460371 <GO>}

I'm not going to comment on that actually, if you don't mind.

Q - Andrew Lobbenberg {BIO 3989942 <GO>}

No. Fair enough. I thought you might not.

Operator

All right. And our next question will come from Hillary Cacanando with Deutsche Bank. Please go ahead.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Hi, thanks for taking my questions. I just had a quick question on your revenue guide. Are you assuming any growth in that number? Seemed a little conservative. Just wanted to find that if you're including any asset sale gains in that number and what you're including in that $6.9 billion. Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Hillary. So, I mean, as I said, there is a very low amount of gains that we have baked into this entire forecast. So that would be true on the revenue side. No, I mean it's really just lease rents and maintenance revenues that we expect. Obviously, it would have been higher, right, given with the Russian rents, if those were in there, but we took out nine months of that. So at $33 million a month, give or take. So that's a pretty significant impact on that.

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Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay. So no further real, like, growth I guess from the first quarter, it's really like -- I guess the run rate is like the first quarter and then take out the $33 million related to Russia, pretty much.

A - Peter Juhas {BIO 16582554 <GO>}

Yeah, I think that's probably reasonable. I mean, obviously, it's going to go down in the second quarter because you don't have Russia in there. And for the first quarter you had it all there.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Yeah, okay. And then could you -- and then in terms of the insurance policy, I know you filed a claim for $3.5 billion. Do you have any other insurance policies that you could file a claim on or that maybe perhaps you can monetize?

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah, during the quarter we also made a claim against the Russian insurers. The way the insurance policies work is that there is a claim against the Russian insurance companies, and there is also then a claim against the Western insurance companies that reinsure that risk. So both of those claims are underway and we will pursue both of them vigorously.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay, got it. Okay, thank you very much.

A - Aengus Kelly {BIO 2460371 <GO>}

You're very welcome.

Operator

We have no additional questions in the queue. I will turn the call back to Aengus Kelly for any closing remarks.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you, and thank you all for joining us for the call. Look forward to talking to you in a couple of months' time.

Operator

This concludes today's call. We thank you again for your participation and you may now disconnect.

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