Q4 2023 Earnings Call

Company Participants

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

Other Participants

- Catherine O'Brien, Goldman Sachs
- Christopher N. Stathoulopoulos, Analyst, Susquehanna International Group
- Hillary Cacanando, Deutsche Bank
- Jamie Baker, JP Morgan.
- Ron Epstein, Analyst, Bank of America
- Ross Harvey, Davy.
- Stephen Trent, Citi.
- Terry Ma, Barclays
- Unidentified Participant

Presentation

Operator

Good day and welcome to the AerCap Holdings N.V. Fourth Quarter 2023 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 fourth-quarter 2023 conference call. With me today is our Chief Executive Officer, Aengus Kelly, and our Chief Financial Officer, Pete Juhas. Before we begin today's call, I would like to remind you that some statements made during this conference call which are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

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

could materially affect performance can be found in AerCap's earnings release dated February 23, 2024, a copy of the earnings release and conference call presentation are available on our website at aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. We will shortly run-through our earnings presentation and we'll allow time at the end for Q&A. As a reminder, I would ask that analysts limit themselves to one question and one follow-up.

I will now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Thank you for joining us for our fourth-quarter 2023 earnings call. I am pleased to report another year of record earnings for AerCap. We generated GAAP net income of $3.1 billion and earnings per share of $13.78. Adjusted net income came in at $2.4 billion and adjusted EPS at $10.73. And we generated a record operating cash-flow of $5.3 billion. We expect to see a continuation of the trends in 2024 that we observed last year. In terms of the supportive supply-demand dynamic, continued accretive capital deployment and demand for our assets. Leading to an EPS range of $7.50 to $8.50, however this does not include the impact of any gain on-sale, which historically has been significant. Given the continued strength of the business and consistent cash generation, I am also pleased to announce another $500 million share repurchase program, taking total authorizations in the last 12 months-to over $3 billion. We continue to see tremendous value in the stock today and this latest authorization underscores our confidence in the outlook for 2024 and beyond. As we have consistently said for some time, demand continues to outstrip supply for aircraft, for engines and for helicopters. We expect this dynamic to persist for many years. The largest global leasing conference was just hosted in Dublin and attracted over 5,000 people to the event. It was clear from the many conversations we had with airlines, aircraft traders and financiers that demand for aviation assets continues to grow. Unsurprisingly the main concern for airlines at the moment is around sourcing lift and the reliability of their fleet. So in tandem with our engine leasing business, we are in a unique position to offer a multifaceted solutions. Putting us in a very envious position. On the trading side, we continue to see a healthy bid for aircraft from investors and other lessors. And expect to see robust demand for aviation assets continuing throughout the year. The topic that dominates most conversations today is the global supply-demand imbalance and I'd like to spend some time talking about how we have reached this point. As we see it, there have been three substantial drivers of today's aircraft shortage. The first dates back to the grounding of the 737 MAX in March 2019. Which resulted in significant cuts to Boeing's narrow-body production rates. Followed by COVID in 2020 where production rates across-the-board were cut by Boeing and Airbus. As a result, the 723 aircraft delivered in 2020 represented only 45% of 2018s output. Moving forward to 2023, it is clear from the chart on the left that production rates are still yet to fully recover and remain approximately 20% below 2018 levels. So whilst there is plenty of discussion about when the OEMs will return to their pre COVID output rates, many, seem to overlook the 2,700 new technology aircraft that simply have not been built-in the last five years. This is one of the main reasons why I expect this favorable supply-demand dynamic to persist for many years to come. Even if Boeing and Airbus do manage to resolve the many issues facing their supply chains

and deliver on their promises for '25 or '26, that is really only the beginning. The second factor revolves around new engine reliability, during their maturation phase. As the first batch of new technology engines come off the production line. They must undergo rigorous testing and checks following their initial entry-into-service. If these checks do not result in any issues, then longer and longer lead times are allowed between shop visits, increasing reliability and time on wing. This is a natural part of any new engine development. In an ordinary environment, this would be expected to cause some minor delays to the earliest equipment. However, as a result of the already stressed MRO network, the shortage of parts and labor, and further compounded by the recent Pratt & Whitney powdered metal issue. This is stretching engine turnaround times to over one year, in some cases. As you can see from the chart on the right-hand side. This is leading to outsized storage rates for younger aircraft. Amazingly, there are currently more zero to Five-Year old aircraft stored than any other age group under 20 years, outside the MAX grounding this has not happened before in the last 25 years. Finally, the third major factor impacting supply today came as a result of the reduction in shop visit activity in 2020 and 2021. This is for both aircraft and engines. During that period airlines did all they could to reduce capital expenditure on their fleet, to preserve cash. Naturally, this had a significant impact on the MRO network which reacted by cutting capacity and head count to stay-in business. That meant, when demand for engine and aircraft shop visits returned in late 2021 and into 2022. There was a significant backlog of shop visits to be completed but, in a smaller MRO network. This has led to consistently longer turnaround times and time off wing and on-the-ground for many engines and aircraft. These issues persist today and will continue to do so into the future. Together, these three factors create sustained demand for our new slots, our used aircraft and a wide array of engines. As the leading provider of all these assets in the markets, Aercap is in a strong position to capitalize on this trend. Increasing returns across the portfolio and driving growth in earnings. The combination of these favorable conditions is most evident today on our gain on-sale line. Which is the most immediate way to take advantage of this heightened demand. We are of course, also increasing lease rates, which supports the continued strength in our operating cash flows and margins. I'll touch on those later. Before that though, let me take you through the math of how we recycle capital to create value for you, our shareholders. In 2023 AerCap sold 74 aircraft, 65 engines and 28 helicopters. These assets were held in our books for $2.27 billion. However, we sold them for $2.76 billion generating a gain of $490 million. This equates to a 22% gain on the carrying value of the assets. But importantly, an 80% gain on the equity component of those assets. So, after repaying The $1.66 billion of debt attaching to those assets to keep our leverage-neutral. We have $1.1 billion to deploy into share repurchases. As the stock was trading at an average discount of 0.8 times our book-value, we were able to buyback $1.38 billion of stock. So, from the starting position of $615 million of equity we had against those assets, we were able to generate $490 million from the gain on the sale of the assets and a further $276 million through the discounted share repurchases. So in total, we ended-up at $1.38 billion, adding those three together, the $615 million $490 million and the $276 million. And this results in a 2.25 times book equity multiple. Gains on-sale are not limited to aircraft, engines and helicopters are also in-demand selling for gains in the period. Our engine leasing businesses in particular are benefiting from the widespread shortages of engines, increased turnaround times and time off wing, as airlines scramble for capacity to take advantage of the strong passenger yields available.

Another pleasing aspect on the trading side this year was that the improved gain on-sale performance was reflected across our entire fleet. And not simply a few outliers or solely from the GECAS transaction. It was notable, that the gain on-sale margin from the sale of legacy AerCap assets was actually higher in the year, than the former GECAS assets. This should not be a surprise to you. We have demonstrated for more than 10 years in a row that the market value of our assets is much higher than our book values would imply, as we generated over $1.9 billion of gains on-sale in that period. To do this consistently across such a broad variety of assets and market dynamics, reflects the inherent value created by the unique AerCap platform and our consistent portfolio management strategy. So when we say that not all book values of leasing companies are created equal, this is what we mean. And this is what we demonstrate. While gains on-sale represent the strength of our portfolio, a trend we see continuing is our consistently strong cash flows, which form the bedrock of our earnings and capital deployment. In 2023, we generated operating cash flows of $5.3 billion, our highest-ever. Please bear in mind, our operating cash-flow, does not include the $1.3 billion of proceeds from Russian insurance claims or the nearly $0.5 billion of gain on-sale. These strong cash flows, allowed us to buy-back over $2.6 billion of stock or 18% of the company, between March and December 2023. While at the same time, we delevered AerCap's balance sheet in doing so. This is a key part of our strategy, as you know, we are incredibly focused on how to maximize the value of AerCap for our shareholders and to do so in a prudent and sustainable way. Since 2015, we have returned $7 billion to you, our shareholders. And with today's announcement, it will exceed $7.5 billion. We have returned this amount of capital, despite the impact of COVID in 2020, the conflict in Ukraine in 2022 and the completion of a $31 billion M&A deal in-between. Demonstrating the tremendous cash-generating power and resilience of AerCap. We have not taken unnecessary risk to do this. In fact, the reality is that by selling our less desirable assets and recycling that capital into a stronger company, at a discount, we are actually improving AerCap's risk profile, assets and returns at the same time. In 2023 alone, AerCap would have been in the 99th percentile of the S&P 500 companies for share repurchases. And yet, we delevered our balance sheet while doing so. This is leading to consistent returns for AerCap shareholders and an upward trajectory in our credit rating. Where we are on positive outlook with both S&P and Moody's. So to wrap-up, AerCap's book-value per share ended the year above $83, growing by 25% last year. And as Pete will reference shortly, we remain confident in our ability to grow it even further in the year ahead. AerCap's platform is clearly the best-in the business. We offer more services and products to our customers around the world with an unrivaled level of execution. We will continue to do what's right for you, our shareholders, and look-forward to demonstrating the results of this strategy in the year ahead. With that, I'll now hand the call over to Pete to review the financials and the outlook for 2024, thank you.

Pete Juhas {BIO 16582554 <GO>}

Thanks Gus, good morning, everyone. AerCap had a record performance for the fourth-quarter. Our GAAP net income was $1.1 billion or $5.37 per share. This included recoveries of $614 million related to our Russian aircraft, which has included a net recoveries related to the Ukraine conflict. The impact of purchase accounting adjustments was $83 million for the quarter. This included lease premium

amortization of $40 million, which reduced our basic lease rents, maintenance rights amortization of $25 million, which reduced maintenance revenue and maintenance rights amortization of $18 million, which increased leasing expenses. The tax effect of the insurance settlement proceeds and these purchase accounting items was $66 million.

So taking all that into account, our adjusted net income for the fourth-quarter was $641 million or $3.11 per share. I'll talk briefly about the main drivers that affected our results for the fourth-quarter. Basic lease rents were $1,576 million. That reflects continued strong cash collections and we also continued to benefit from power by the hour rents from our lessees that are on PBH arrangements in their leases. As I mentioned, our basic lease rents reflected $40 million of lease premium amortization, which reduces our basic lease rents lease premium assets are amortized over the remaining term of the lease as a reduction to basic lease rents.

Maintenance revenues for the fourth-quarter were $142 million and that reflects $25 million of maintenance rights assets that were amortized to maintenance revenue during the quarter. So in other words, maintenance revenue would have been $25 million higher or $167 million without this amortization. Net gain on-sale of assets was $94 million for the quarter, we sold 35 of our owned assets during the fourth-quarter for total sales revenue of $625 million. That resulted in a gain on-sale margin of 18% for the fourth-quarter. And at the end-of-the year, we had $297 million worth of assets held-for-sale.

For the full-year 2023, we sold nearly $2.8 billion worth of assets and recorded a total gain on-sale of $490 million, which is an average unlevered gain on-sale margin of 22%. As I mentioned earlier, net recoveries related to Ukraine conflict, were $614 million, which primarily consisted of recoveries of insurance claims on our Russian aircraft on lease to four Russian airlines. Interest expense was $496 million for the quarter, which included $19 million mark-to-market losses on interest-rate derivatives.

Our leasing expenses were $135 million for the quarter, including $18 million of maintenance rights amortization expenses. Income tax expense for the fourth-quarter was $39 million. We recognized tax benefits of $85 million that include valuation allowance releases and other items. And as a result our effective tax rate was 3.6% for the fourth quarter and 8.9% for the full year. On the next slide you can see a walk of our full year earnings and EPS. And as you can see, it was a record year for AerCap on many fronts, including earnings and EPS on both a GAAP and an adjusted basis. We had over $3 billion dollars of GAAP net income, which included $1.3 billion of net recoveries of insurance claims. That equates to GAAP earnings of almost $14 dollars a share. After adjusting for the insurance recoveries as well as purchase accounting items, our adjusted net earnings income was $2.4 billion, or $10.73 a share. Our GAAP ROE for the full year was 19% and our adjusted ROE was 15%. Operating cash flow was a record $5.3 billion dollars for the year. That does not include any proceeds from Russian insurance settlements, as these go through investing cash flow. We continue to maintain a strong liquidity position as of December 31st, our total sources of liquidity, were around $19 billion, which resulted in a next 12 months sources to uses coverage ratio of 1.4 times. That's well-above our target of 1.2 times coverage and represents excess cash coverage of around $6 billion. Our leverage ratio at the end-of-the quarter was 2.47 times. That's lower than last quarter and also lower than at the

beginning of 2023, so we even after taking delivery of 80 aircraft, 76 engines and 17 helicopters, $6.2 billion of cash CapEx for the year and after $2.6 billion of share repurchases during the year, we were still able to delever. And that really demonstrates the significant amount of cash-flow and capital that AerCap generates, basically in-line with prior quarters. Our average cost of debt was 3.7% for the fourth-quarter. Our book-value per share was $83.81 as of December 31st, which represents an increase of 25% over our book-value per share at the beginning of 2023. During the fourth-quarter, we repurchased 10.3 million shares at an average price of $62.86 for a total of $649 million. And for the full-year, we repurchased 44 million shares at an average price of $59.09 for a total of $2.6 billion. So clearly, 2023 was an outstanding year for AerCap with adjusted EPS of $10.73, as we look out into 2024, we remain confident about the future. For 2024, we're projecting adjusted EPS of $7.50 to $8.50 before any gains on-sale. I think its useful to walk from 2023 to 2024 to call-out some of the major items. In 2023 we had gains on-sale of $490 million or $1.88 per share after tax. We also had over $200 million of power by the hour rents that we received on leases that had a PBH period at the front-end of the lease. As I've mentioned on previous earnings calls, most of those leases have now converted to regular fixed-rate rents. In almost all cases, the fixed-rate rents are higher than the PBH rents we were receiving. So, we expect cash receipts from these leases to increase by over $40 million this year. However, from an accounting standpoint during the PBH period we recognize both the straight-line fixed rent, which is the average of the fixed rent across the entire term of the lease and the PBH rent. Once we move-out of the PBH period, we only recognize the straight-line fixed rent. So as a result, we'll record lower revenues from these leases in 2024, even though we're receiving more cash and the effect of those revenues is around $0.70 a share after tax. As I mentioned, we also recognized a number of significant tax benefits in 2023, which led to a low effective tax-rate of only 8.9%. In 2024, we expect to have a higher effective tax-rate, which I'll talk about in a moment. So that's a headwind of around $0.57 a share in 2024 compared to 2023. Those are the major items to call-out, the other column includes everything else, including higher lease revenues, higher interest costs, the impact of share repurchases and other items, we expect the net effect of all of these will be about $0.42 positive in 2024. That takes us to an EPS range of $7.50 to $8.50 in 2024, again, not including any gains on-sale during the year. On the next slide, you can see a breakdown of our projected income statement for 2024 showing the major line items. For the full-year 2024, we expect to have lease revenue of around $6.3 billion, maintenance revenue is around $700 million and other income of around $300 million, for total revenue of around $7.2 billion.

We've assumed that we will have cash CapEx of around $7.2 billion for the year and asset sales of $2 billion. As you know, these figures can vary significantly. CapEx is largely dependent on OEM deliveries and sales volume depends on the demand for assets and the time it takes to close those sales. We're projecting depreciation and amortization around $2.7 billion and interest expense of around $2.1 billion. We expect leasing expenses, SG&A and other expenses to total around $1.2 billion for the year. On tax, we have assumed a tax-rate of 16.5%, so I'll talk about that for a moment. Historically, we've generally assumed a tax-rate of around 14%, the corporate tax-rate in Ireland where we own the vast majority of our assets is 12.5%, but we are subject to taxes at higher rates on assets in other countries, which is why we typically projected an overall tax-rate, a little above the Irish corporate rate. At the beginning of this year, we became subject to global minimum tax under Pillar Two, of the OECD's minimum tax directive, which resulted in a top-up tax for jurisdictions such as Ireland, where the company is paying an effective tax-rate of less than 15%. We expect Pillar two, to increase our tax-rate by around 2.5%, so that's why we've assumed a 16.5% effective tax-rate for 2024. In 2024, we expect to recognize earnings at around $200 million from our equity investments, which is primarily our

engine leasing joint-venture SES, but also includes some other smaller equity investments. And altogether, that gives us projected GAAP net income of around $1.2 billion after purchase accounting adjustments of around $400 million after tax, we expect to adjusted net income of around $1.6 billion for the year. That gives us an adjusted EPS range of $750 to $850 for the year. Again, not including any gains on-sale. So overall, we're coming off a record year for AerCap in terms of revenues, earnings, EPS, operating cash-flow and return of capital to shareholders. As we look-forward into 2024, we continue to see a strong supply-demand imbalance that shows no signs of ending anytime soon. We believe we can continue to produce strong results and outperform and we'll continue to vigorously pursue insurance settlements with the Russian insurers as well as our own insurance claims. You can see this confidence in the future of our business, demonstrated by the new $500 million share repurchase authorization that we announced today. And with that, operator, we can open up the call for Q&A.

Questions And Answers

Operator

Thank you.(Operator Instructions) We'll go first to Ross Harvey with Davy

Q - Ross Harvey {BIO 18664315 <GO>}

Joseph. Congrats on very strong result. Two questions from me. Firstly, It appears that your net spread less depreciation may have tightened in Q4, can you address that and secondly I guess the 2024 guide might look quite conservative relative to how you finished from 2023, so can you just talk us through that again. Thanks.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure, thanks Ross. So on the net spread. Net spread decreased in the fourth-quarter because we brought forward some interest cost through the early refinancing of some bond maturities. It's also worth noting that we're earning higher interest income on our cash balances at the moment, but that comes through other income, not through the net spread. Similarly, our net spread less depreciation also went down because we accelerated depreciation on some older aircraft during the quarter, where we eliminated the return condition on the leases. So while that leads to a higher depreciation expense, it also leads to higher maintenance revenue, which is also not part of net spread. And just by the way, as we look out to the year ahead. I think that after the effective PBH which is around 30 basis-points, we'd expect the net spread to be stable in 2024 and it's worth keeping in mind just on-net spread that we don't manage the business to maximize net spread, we do it to maximize EPS.

A - Pete Juhas {BIO 16582554 <GO>}

So for example, when we sell our assets. That brings down the net spread but we're reinvesting those proceeds as Gus mentioned at higher returns to maximize EPS. As we look at the guidance for next year. So look, last year, our initial guidance for 2023 was EPS of$7.00 to $7.50 and we ended-up producing EPS of $10.78. This year we're guiding to $7.50 to $8.50, so you can make an estimate as to where we'll end-up. It's the same

management team running the company. We did the projections on the same basis that we did last year. And of course, we'd hope to beat those numbers the guidance excludes gains on-sale, it includes estimates for default costs and higher interest rates and there is good reason to think that we could outperform on all of those items because fundamentally, it's not like everything has changed when we entered the new year, we're still seeing the same industry supply-demand issues that we saw last year.

We're still seeing the same strong demand for assets and we're still pursuing the same strategy to maximize the value of our assets and produce value for our shareholders.

Q - Ross Harvey {BIO 18664315 <GO>}

That's great, helpful. Thanks

A - Pete Juhas {BIO 16582554 <GO>}

Sure

Operator

We'll go next to Hillary Cacanando with Deutsche Bank.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Hi, thanks for taking my question. First is, are you including any in your guidance, are you including any buyback assumptions. And then my second question is, last quarter you talked about very strong lease extension rate, especially for widebodies I was hoping you could talk about extension rates for this quarter and what the differences are between the narrowbody and the widebody in terms of lease extension. Thank you very much.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure, thanks, Hillary. So look, I'll take the share repurchase question, so far this year, we've bought back around $170 million worth of stock, and we have a little over $100 million left in our existing authorization. And you saw, we've announced a new authorization for $500 million. So we'd expect to deploy all of that this year. Beyond that, we have assumed some additional share repurchases in the projections and those are based on the earnings, the CapEx and sales assumptions that we've laid out here. But if we do better in our earnings, then we'll have more excess capital that we can deploy if CapEx gets delayed, we'll have more excess capital. And likewise, if we can sell more assets or produce gains on those sales. That will also lead to more excess capital, and I guess, of course that's all before any mention of additional insurance proceeds, which we would hope to recover, but can't count on.

A - Pete Juhas {BIO 16582554 <GO>}

So it's really a function of all those things, how much we would ultimately do. Gus do you want to add,

A - Aengus Kelly {BIO 2460371 <GO>}

Sure and on extensions, look, as Pete said, the market is extremely strong. There's hardly any aircraft that we have customers that they don't want to extend. They have to pay the going rate, of course, but I think particularly on widebodies, nearly everything extends in the last quarter. And on the narrow's, it's very strong as well.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Got it. Thank you, very much

Operator

We'll go next to Jamie Baker with JP Morgan.

Q - Jamie Baker {BIO 3406456 <GO>}

Good afternoon. So Peter, a follow-up to the net spread question that we already took during Q&A you've guided to stable trend next year. You talked about the drivers for net spreads coming down sequentially in the fourth-quarter. But Mark and are still curious what impact the lease expiries, lease extensions, excuse me, and asset sales, might be having on this particular metric and maybe the answer is, they're not really contributing, but are those factors that we should also factor-in, in addition to what you articulated in response to the first question.

A - Pete Juhas {BIO 16582554 <GO>}

Sure yeah. So Jamie, you're right. Both of those kind of factor in as well. I mean, fundamentally, if we're selling older assets that may have higher that may have higher yields. We are, you lose that revenue, right. So that can affect the net spread, but obviously as we laid out we're redeploying that capital. So we think that makes sense. On the extensions front, so that can have an impact on it, because essentially if you are extending more aircraft and you're particularly if you're extending aircraft that are further in advance, further advance than you normally would as we've been doing, then that affects you, because you have to straight-line those rents over the existing lease and the new lease, and so that can have an impact on-net spread all else equal.

I think those are contributing factors too. But fundamentally, we do expect to see it. I think it will stay flat for the, based on what we see for the for the next year.

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah, but. I would really focus, Jamie, on the fact that the real focus is there. If we manage to net spread, I would not have sold any older aircraft. And so what we look at is what's the metric we want to focus on value-creation, earnings per share and the

right risk profile of our fleet. So therefore, I'm selling older aircraft at massive gains, I'm redeploying them into the buybacks at a massive gain, you saw from my example. On the trade, we did last year, we turned book equity of 1 time into 2.25 times. So if I was worried about net spread I wouldn't have done something like that. So we are here to make money for the shareholders. And that's the way we drive it. And in the meantime, we sell those assets. The residual business is actually better than it was before, with a lower-risk profile.

Q - Jamie Baker {BIO 3406456 <GO>}

That's great, Gus, no pushback from us on this. I'm just trying to articulate things for some investors. And then just a quick follow-up on Russia. Can you remind us in aggregate, what your average recovery has been as a percentage of the book you initially wrote-off. It looks to be around, I don't know, $0.65 to $0.70 on the dollar at least for the aircraft that have been settled, is our math accurate on that?

A - Pete Juhas {BIO 16582554 <GO>}

Yeah, that's about right, 70% is right, Jamie, but remember that we still retain the insurance claims for the full amount from our own policy. So that's, so it's not as though that money is necessarily lost

Q - Jamie Baker {BIO 3406456 <GO>}

Got it okay. Pete and Gus thank you, very much Appreciate it.

A - Pete Juhas {BIO 16582554 <GO>}

Sure.

Operator

We'll go next to Terry Ma with Barclays. Terry your line is open.

Q - Terry Ma {BIO 17247903 <GO>}

Hey, good morning, so. I wanted to see if you can provide an update on your cargo conversion program. I think Gus called out some one-time costs last year, so I was hoping you could maybe quantify the revenue opportunity, and how much of that's actually factored into the '24 guidance

A - Aengus Kelly {BIO 2460371 <GO>}

Well, as it relates to the cargo program, the development, we have several 777s that are currently in conversion. And we expect in our guidance, we expect that the triple sevens to start rolling out-of-the conversion program in the first-half of this year and into the second-half and from thereon. So, yes, our guidance does not include any revenue from those triple sevens. In the first part of this year.

Q - Terry Ma {BIO 17247903 <GO>}

Got it, and then on your sales guide of $2 billion. What's the mix of assets we should assume in terms of aircraft, engines and helicopters. How should we think about the gain on-sale contribution from each of those?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, as it goes for the mix of assets, I mean, generally speaking, it will be similar to what we've done in the past with a focus generally on older assets . As it pertains to the gain on-sale, we don't give guidance to gain on-sale. However, you can look at our historical performance and you can see that we have generated very significant gains there, but there are zero gains in our forecasts.

Q - Terry Ma {BIO 17247903 <GO>}

Right Got it. Thank you

Operator

We'll go next to Catherine O'Brien with Goldman Sachs.

Q - Catherine O'Brien

Hi, good morning gentlemen, thanks for the time. Not to keep harping on lease yield, but even if the OEMs were to start to hit production targets faster than the market was expecting, have we not even really seen the impact here lease yield from the strong lease rate environment that kicked-off with how tight supply-and-demand was and maybe it was called second-half '22 all the way through next year accelerating. How many years out, are we from your delivery slots, or how many years out are your delivery slots booked at this point and when do you start taking delivery of aircraft you the majority being signed two half '22 and later.

A - Aengus Kelly {BIO 2460371 <GO>}

Yes , you could think about two to three years out Catherine, you're right in that aircraft that were signed in 2021 would have delivered in 2023, aircraft that are signed and the first even into the first-half of 2021 would have been 2023, 2024, you get to 2022 placements back-half of 2022 would be back-half of '24, Q4 '24, into '25, '26 et-cetera. So you're correct in saying that there is a lag in that regard. But again, I'd make the same comment about lease yields that other portfolio basis that I do about this net spread, of course, as we sell the older asset, we of course reduce our lease yield because they are higher-yielding at the last two years of a lease than they were at the first two years of the lease, but where you pick it all-up, it's on the EPS.

And that's the key thing to look at.

Q - Catherine O'Brien

I totally agree. Makes sense, kind of wanted to make sure I wasn't thinking about that inflection incorrectly, just in terms of when we're going to actually start to see,

A - Aengus Kelly {BIO 2460371 <GO>}

I think if you can keep the lease yield flat, improve the quality of your portfolio and drive-up EPS, you're achieving a far better risk-adjusted return on a higher-quality business and that's what AerCap has been doing for 10 years.

Q - Catherine O'Brien

Right. Totally makes sense. And then can you speak to how lease rates have trended since we last spoke, realize it's only been a couple of months. But just given the incremental issues with the MAX and the GTF. Is it fair to say supply has gotten even tighter and you've are you already seeing that translate to lease rates. If yes, is that mostly on narrow bodies or are you seeing it flow to wide body as well. Thanks.

A - Aengus Kelly {BIO 2460371 <GO>}

I wouldn't say in 90 days there's been a dramatic move to be fair about it out. But there has been a move upwards. There's no doubt about it, for sure there has and what's very important, of course, is we've seen a bit of a fall in interest rates in that 90 day period, but we have not seen a fall in lease rates and that's what you really interested in again, is to say, okay, what happened with the headline lease rate is interesting, but what happened with underneath with the interest rate. So what we really like to see is falling rates and steady lease rates or even slightly increasing lease rates. And I say over the last 90 days, lease rates probably similar, but interest rates fell. So we didn't have to pass-on the fall in interest rates.

Q - Catherine O'Brien

That's great. I may just squeeze in one really quick third one for Pete on the guidance, in your third-quarter 6-K you had I think $6.4 billion in purchase obligations. You're guiding to $7.2 in CapEx for this year. Were you able to lock-in incremental aircraft or is that just a function of, I understand there's so many moving pieces in the Skyline, just trying to figure out what drove that delta. Thanks so much for the time.

A - Pete Juhas {BIO 16582554 <GO>}

Yeah, some of that -- some of that is engines, Catherine. Engine purchases in 2024. I mean, there are a bunch of things that move around here and I think as we look out at the 7.2, we do have some significant questions about that. So that's our estimate today, but it could clearly move around a lot, given the OEM issues.

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah, if. I was a betting, if I was a betting man, Catherine. I'd imagine that some of our CapEx is inevitably going to move to the right

Q - Catherine O'Brien

Great, Thanks for the time.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure.

Operator

We'll go next to Chris Stathoulopoulos with Susquehanna International Group.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Good morning, thanks for taking my question. Aengus, thank you for the walk-through on how you're thinking about the supply-demand dynamic the points. I think, three points you outlined. But on points two and three. So you spoke to the stressed MRO network backlog of shop visits. As we think about those two points. And we think about resolution here, which of those might persist longer. We'd like to hear your view on how you see that moving into perhaps mid or end-of-the decade. Is it sort of MRO perhaps resolving faster or is this are these both pressure points that for any number of reasons. And if you have those, love to hear them. That we should expect to extend. Closer into end of decade. Thank you.

A - Pete Juhas {BIO 16582554 <GO>}

Sure, you're right on MRO, on airframe MRO I would expect that issue to get resolved sooner. It's easier to conduct airframe MRO than it is to do engine MRO for the engine MRO, you need to have a test cell. A very big workforce of highly trained engineers. It's a little bit different, so, I think the airframe MRO will get solved first. The engine MRO though, here's the big issue. There's a finite supply of parts to build and repair engines those parts when a part is made or manufactured, it can go, number one, to production aircraft engines, i.e, an engine that's going to go under wing of an Airbus or Boeing aircraft.

Number two, instead of that. the part could go to spare engines. Now if the fleet was staying on wing longer than it currently is, you would need as many parts to go to spare engines, but you do. Then the third, engines have to go into the shop to get repaired. So, shops, the MRO shops, also need that part. So there are three sources of demand for every engine part being produced today. And the manufacturers of those parts, way back up the supply-chain, to do the castings are not going to increase that significantly anytime this decade as far as I understand, so I think we will see the engine issues persist through the decade, and bear in mind that AerCap is the largest marginal supplier of spare engines to the world, which gives us of course an enviable position when it comes to engine leasing.

But as it pertains to aircraft leasing, it gives us a unique advantage over all of our competitors because they cannot offer the vital products that we can in conjunction with our aircraft

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Okay, thank you. As a follow-up. So as we think about in the secondary market here for 2024, think you sent to in response to an earlier question. There's been a slight

fall in interest rates. Sounds like lease rates are steady up. But we have had news here around the MAX and kind of growing concerns around quality-control issues with certain aircraft types as well as some carriers recently signaling a potential change in the composition of the order book. So given all that, could you put perhaps a finer point or details of what you're seeing in the secondary market. Any sort of color you have around aircraft types or residual values that have perhaps meaningfully shift or not since you last updated a few months back. Thanks.

A - Aengus Kelly

Sure, well, it's worth, again just splitting the family up. So we all know that Airbus is outselling Boeing and has been for some time.

It's not enough just to say the 320 family out sells the Boeing family, Airbus wins in one particular aircraft. It's the A321 product. It does not win as much on the A320 product. The 320 product is the 180 seater. The 321 product, it's a 220, 230, 240 seater even in some instances. So the MAX-8 is the 180 competitor from Boeing, that airplane is an excellent aircraft and many operators will say it is as good if not better than the competing Airbus A320 aircraft. Where Boeing fall down though, is that the MAX-10 has not yet been certified and it's not as capable an airplane and even when it is, it's unlikely to be as capable as the A321 currently is.

So from our perspective, we are very bullish on the MAX-8. In fact, we bought a few of them around Christmas, that just popped up. And we think that is an excellent aircraft. But because of the 321 superiority over the larger Boeing product and the fact that it's so early to the market versus the Boeing product. We are going to see a significant majority of the market heading towards the Airbus product line for the long term.. Okay, thank you.

Operator

We'll go next to Ron Epstein with Bank of America.

Q - Ron Epstein {BIO 15893287 <GO>}

Good morning, guys. Following-up on that last comment Gus. When you look at Airbus narrow-body backlog, of the 11,000 airplanes, 60% 70% of them are A321s. I mean, it's an overwhelming majority of the backlog and it means for a lack of better words, it really kind of crushes Boeings offering, don't you get the sense they have to do something. Are they really going to lose out on that larger segment and it does seem like carriers are and tell me if I'm reading this wrong are trying to migrate the narrow-body product to larger shells.

A - Aengus Kelly

{BIO 2460371 <GO>}

Yeah, by and large, there has been up-gauging Ron, for sure in the markets, and that's where the 737-800 and 320 were the heart of the market, the, 160 and 180 seater, Boeing had a majority of the market, that's clearly changed now as you rightly point out, the 321 is the dominant airplane. But the MAX-8 still has a very significant user base and is in good demand actually, but just the target market for the MAX-8 is not as big as you rightly pointed out, as the 321 because many customers are up-gauging but we still see very strong demand for MAX-8 and there's very limited supply of them

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, got it. And then what's your sense on the 220. Is there much demand there particularly, the 300 and if they were to do a 500, which I guess there's speculation they may or may not. Will there be demand for that.

A - Aengus Kelly {BIO 2460371 <GO>}

Listen I think the manufacturers should focus on making what they have. I honestly think any of the OEMs to contemplate a new platform with new engines, given the troubles they've had with the 380s, the Rolls-Royce engines, the 737 grounding 19 months after entry-into-service, the MAX issues, the delays, year-after year for Airbus 320 program. I think they should focus on their customers now and delivering the promises as they have made and delivering them on-spec, on-time.

Q - Ron Epstein {BIO 15893287 <GO>}

And then maybe one last follow-up to that. How are you planning in your own kind of delivery horizon with your customers on the MAX-8 given in general all the uncertainty with the inspections and everything that's going on.

A - Aengus Kelly {BIO 2460371 <GO>}

We just work with them Ron, you know, and we work closely with Boeing and the customers want the aircraft as soon as they can deliver them and we try and get them with Boeing the most accurate delivery dates we can, at the moment that's not possible. But hopefully, we'll have clarity as to what the delivery profile will be for '24 and '25 by the time we talk again

Q - Unidentified Participant

Got it. All right. Thank you.

Operator

We'll go next to Stephen Trent with Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, everybody. Can you hear me okay.

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah.

A - Pete Juhas {BIO 16582554 <GO>}

Yeah.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great, thank you. Because I'm having some terrible phone problems so I apologize if I drop and I missed part of the call because of these issues, but just if, I could understand sort of your long-term view and the credit rating. Do you sort of have an idea in mind in terms of where you guys would like to be rated by Moody's and S&P over the long-term and

A - Pete Juhas {BIO 16582554 <GO>}

Sure, thanks, Stephen. I don't know if he got cut-off there. But in any case. Yes, look, we're on we're triple B flat across-the-board now, we're on positive outlook with S&P and Moody's and we hope to get those upgrades from them. And really that's a function of how the business has performed. It's both the resilience that we showed through COVID, through Russia, through all of those things, the improved credit profile of the business coming out-of-the GECAS acquisition, but also the fact that if you look at any operating metric whether it's operating cash-flow, net spread, whether it's FFO-to-debt, any of those things that are meaningful for the rating agencies.

We're outperforming the competition by a big stretch. Right, and so when you look at other companies that may be rated the same and they looked at us and say, okay, there's a big difference there. We think that that warrants an upgrade and really that's what we're pushing for, so, I think if we can get to BBB plus across the Board, that would be great and look, can we get into the single A's, I mean, that's a different category I think, but certainly, I think there is a good reason to think that we could get to BBB plus

Operator

(Operator Instructions) And at this time there are no further questions.

A - Aengus Kelly
{BIO 2460371 <GO>}

Thank you operator and thank you all for joining us for the call. I'd like to let you all know that we will host a Capital Markets Day in New York on May 8th and we look-forward to seeing you all there. Thank you very much for your time.

Operator

This does concludes today's conference. We thank you for your participation

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