

Balance Sheet Discipline in Aircraft Leasing

Hello and welcome to our investor education section.

The idea of these videos is to explain topical issues that arise from time to time, in no more than a few minutes.

Today we will look at the importance of balance sheet discipline in the lessor business model and the critical role it plays in AerCap's risk-management strategy.

Why is balance sheet discipline so important for lessors?

Lessors have significant financing requirements to fund, maintain and operate their asset bases.

They must therefore manage interest rate exposure and other financial risks appropriately.

For AerCap, running the business efficiently has always started with prioritising the company's financial health.

Through different cycles, having a strong and well protected balance sheet has enabled us to maintain financial flexibility to invest in the future of the business.

It has also helped to protect shareholder value, especially during periods of market volatility.

How AerCap protects its balance sheet

We protect our balance sheet in several ways.

Leverage: The first is by maintaining low leverage.

AerCap runs with a target leverage of 2.7x net debt-to-equity. This is a well-considered level which we believe strikes an appropriate balance between risk and return. At this level, equity holders benefit from an attractive return, while the balance sheet is adequately protected for bondholders.

Funding sources and liquidity: The second is around funding sources and liquidity.

This means having high access to funding at all times and ensuring those sources are well-diversified across geographies and debt mix. With a high investment grade rating, AerCap has direct access to capital via the unsecured bond market and via the secured bond market with over 100 banking relationships globally. This enables us to call upon various sources at various times to fund our business. It also allows us to be opportunistic when the time is right.

To ensure adequate liquidity, the company also maintains 1.5x the next twelve months' sources-to-uses at all times.

Asset-liability-matching: Lastly is by appropriately managing interest rate exposure.

Given the sizeable debt obligations, hedging interest rate exposure is a critical part of ensuring balance sheet strength and managing financial risk. AerCap's hedging strategy aims to align the timing and structure of our assets with our liabilities.

Since lease rents are typically fixed at the outset and run for 6 to 12 years, we have clear visibility into future cash flows. Most of our debt is also fixed rate and when we borrow on a floating-rate basis, we use hedges to manage that exposure.

Aligning the asset and liability side of our balance sheet allows us to manage duration risk effectively.

Summary

In summary, recognising the importance of a strong balance sheet has been critical to AerCap's financial strategy and performance over the long-term.

It has enabled us to manage risk appropriately, maintain flexibility through different cycles, and continue delivering long-term value for our shareholders.

I hope you found this useful, and we look forward to sharing more with you in the months ahead.