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AER - Q3 2017 AerCap Holdings NV Earnings Call

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PRESENTATION

Operator

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

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

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

Thank you, Operator, and hello, everyone. Welcome to our 2017 third quarter conference call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated November 2, 2017.

A copy of the earnings release and conference call presentation are available on our website at aercap.com. The call is open to the public and is being webcast simultaneously at aercap.com, and will be archived for replay.

I will now turn the call over to Aengus Kelly.



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

Thank you, Brian. Good morning, everyone, and thank you for joining us for our 2017 third quarter earnings call. I am happy to report another quarter of consistent earnings and profitability. During the third quarter, we generated \$1.62 of earnings per share and net income of \$266 million. It is, of course, the platform of AerCap and its people that underpins our success.

During the quarter, the AerCap team executed 89 aircraft transactions. This included 50 lease agreements, 11 purchases, and 28 sales. Of the 89 transactions, 36 were for wide-bodies. Our utilization rate remained high at 99.3%. The demand for aircraft on a global basis remains robust, supported by a year-on-year increase in travel growth of almost 8%. We are now 100% placed on our forward order book through 2018 and 91% through 2019.

We continued to be active sellers of mid-life aircraft. During the quarter, we sold 27 owned aircraft at an average age of 16 years. We achieved an average gain on sale of 9% on these transactions. This has resulted in a further reduction in the average age of our portfolio to 7.1 years from 7.6 years a year ago. Our average remaining lease term is also trending positively. It now stands at 6.6 years, up from 6.1 years 12 months ago.

In relation to aircraft purchases, we continue to experience delays on the A320neo program due to issues with the GTF engine manufacturing process. We have urged United Technologies to put whatever resources are required to solve the production issues of the GTF. This has resulted in the delivery of eight GTF-powered aircraft being pushed from Q4 '17 to Q1 2018. On a positive note, operators of the engine are impressed by the fuel burn savings the GTF provides.

We are also experiencing delays on certain variants of the A320neo family aircraft and the A350 that are scheduled to deliver to Chinese operators this quarter. This is due to a delay in the type certification of these aircraft in China. As these aircraft types are operating all over the world and are today flying into and out of China from other jurisdictions, we expect the Chinese Civil Aviation Authority to issue the type certification for these aircraft in the near future. Further, sister ships within the A320neo family have already received their type certification from the Chinese Civil Aviation Authority and are being operated by Chinese airlines. Nonetheless, this will push up to 10 airplanes from Q4 '17 into early '18.

Turning to our customer base, we continue to see positive trends for the airline industry on a global basis. However, as we have seen in the past, a number of individual airlines do get into trouble in any given year, and 2017 is no exception, as evidenced by the recent demise of Air Berlin and Monarch Airlines, as well as Alitalia entering administration. As usual, AerCap acted quickly and decisively with Air Berlin and Monarch, and rapidly secured control of our aircraft.

We also monetized our collateral packages. Re-marketing of the returning aircraft began immediately. There were a total of 22 owned and managed aircraft, comprising of 10 A330s and 12 A320 family aircraft. 17 of these aircraft are already under LOI. This not only highlights the strong demand for aircraft on a global basis, but also the expertise of the AerCap platform in moving aircraft. We will provide further information around re-marketing results of these aircraft at our upcoming Investor Day.

Turning to the liability side of our business, we are holding \$8.9 billion of available liquidity, and we closed the quarter with an adjusted debt-equity ratio of 2.7 to 1. We anticipate that our debt-equity ratio will increase, but remain within our stated range as our CapEx program escalates.

Our share repurchase program continued during the quarter. We repurchased 5.4 million shares for \$266 million. This brings the total number of shares we have repurchased to 59 million shares, approximately 28% of the company. We are also announcing a new share repurchase program of \$200 million effective through March 31, 2018.

In closing, AerCap has produced another strong quarter of earnings. This has been achieved through proactive risk management and a disciplined approach to portfolio management. As many of you know, we will be hosting our 2017 Investor Day in New York on November 13. I hope to see as many of you as possible at this event, where you will get to hear from a number of the AerCap management team.

With that, I will hand it over to Pete before we have the Q&A session.



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Peter Juhas - AerCap Holdings N.V. - CFO

Great. Thanks, Gus. Good morning, everyone. I'll start on Slide 5 of the presentation. Our reported net income for the third quarter was \$265.8 million. That's an increase of 18% over the third quarter of 2016. This increase was due primarily to a higher gain on the sale of assets, as well as the absence of certain one-time items that affected our results in the third quarter of 2016.

For the first nine months of this year, our net income is \$809.9 million compared to \$682 million for the first nine months of last year. Our earnings per share for the third quarter was \$1.62. That's an increase of 33% over the third quarter of 2016. Our EPS for the first three quarters of this year was \$4.77, up from \$3.55 last year. The drivers of the EPS increase this quarter were the same as the drivers for net income, as well as the repurchase of 30.4 million shares from July 2016 through September 2017.

On Slide 6, our total shareholders' equity as of September 30th was \$8,546 million, and our book value per share was \$55.06. That's an increase in book value per share of 17% over the past year, and that's been achieved through a combination of strong earnings, as well as substantial share repurchases over that period.

Since June 2015, we've repurchased over 59 million shares for around \$2.5 billion. As Gus mentioned, that's about 28% of our initial total shares outstanding.

On Slide 7, our total revenue for the third quarter was \$1,273.9 million. Our basic lease rents were \$1,038.4 million. As we've seen in prior quarters, basic lease rents decreased due to the sale of mid-life and older aircraft over the past year, which reduced our average lease assets, as well as the age of our fleet.

Our maintenance revenues for the third quarter were \$163 million, an increase from \$91.9 million in 2016. This increase was primarily driven by two factors. First, our maintenance revenues were higher than last year as a result of higher end-of-lease compensation payments that we received as aircraft were returned at the end of their scheduled leases. Second, we had an increase from early lease terminations and restructurings during the quarter, including the impact of the Air Berlin bankruptcy. Some of the benefits that we saw come through the maintenance revenues line are offset in the leasing expenses this quarter, and will also be offset with additional leasing expenses in the future related to these aircraft.

Our net gain on sales was \$63.7 million for the third quarter compared to \$22.4 million a year ago. In the third quarter, we continued to sell mid-life and older aircraft at attractive prices. Our other income was \$8.8 million for the third quarter, a decrease from \$23.8 million last year. That's really the result of the absence of some of the one-time items, like insurance proceeds, that we had seen come through the other income line last year.

Turning to Slide 8, our net interest margin was \$760.2 million for the quarter compared to \$815.7 million last year. Again, the decrease was due both to a reduction in our average lease assets as well as the reduction in the average age of our fleet. The average age of our fleet improved from 7.6 years to 7.1 years as a result of asset sales and new aircraft deliveries.

Since the new aircraft have lower yields than the older aircraft, when we sell older aircraft and replace them with deliveries of new aircraft, that reduces our overall yield. Now, of course, we're selling these older aircraft to improve the quality of our portfolio, and we've also reinvested the proceeds from selling these aircraft at a premium to book value to fund a significant amount of share buybacks at a discount to book.

Our annualized net spread for the third quarter was 8.9% compared to 9.4% in the third quarter of 2016. This reduction is consistent with the guidance that we laid out at our Investor Day last year. It's due to the decrease in the average age of our fleet that I just mentioned, as well as the increase in our average cost of debt from 3.8% to 4% as we continue to issue new longer-term bonds that replaced expiring, shorter-term ILFC notes.

Also, please note that the average cost of debt that we report includes both our upfront debt issuance costs, as well as our fees for undrawn lines. This amounted to around 30 basis points in the third quarter. One of the drivers for the decrease in the net spread this quarter was the amortization of debt issuance cost as we repaid a couple of our debt facilities early.



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Slide 9, we continued to actively sell older aircraft to improve the quality of our fleet. During the third quarter, we sold 27 of our owned aircraft that were an average of 16 years old. Over 50% of our sales revenue this quarter was from wide-body aircraft. We also placed eight aircraft on long-term leases and, as a result, we reclassified them from operating to finance leases. Our net gain on sales for the quarter was \$63.7 million compared to \$22.4 million a year ago. Our ability to sell significant amounts of older and mid-life aircraft at a gain illustrates the strong demand for these assets that we continue to see from investors.

And on the purchase side, we took delivery of 11 new aircraft during the quarter, including two A320neo family aircraft, one A350, and eight Boeing 787-9s. Now, on the delivery front, you will notice in the supplemental materials to this presentation that we have updated our delivery schedule. This includes the movement of 22 aircraft out of the fourth quarter of 2017 and into 2018, so an average of two months delay from the previous schedule we provided. As Gus mentioned, this is primarily due to the engine production delays with the A320neo aircraft, as well as some certification delays. The effect of these delays is to reduce our 2017 expected CapEx to around \$5 billion, and we expect our 2018 CapEx to be around \$6 billion.

Next slide, our maintenance rights expenses were \$109.1 million for the second quarter, up from \$71.7 million in 2016. The main reason for this increase was the higher amount of maintenance activity during the quarter, as well as some maintenance amortization expenses related to the Air Berlin bankruptcy. Our other leasing expenses were \$28.7 million for the quarter, a decrease from \$57 million last year. This is primarily the result of some end-of-lease payments that we made in 2016.

Our SG&A expenses were \$83.9 million for the quarter, up slightly from \$80.8 million in 2016. This was primarily due to some one-time items, as well as the foreign exchange impact of the stronger euro. We had asset impairments of \$45.6 million this quarter. This primarily related to aircraft which returned at the end of their scheduled leases. The asset impairments were more than offset by maintenance revenue through high end-of-lease compensation payments that we received, along with maintenance revenue releases on these aircraft. And finally, we did not recognize any restructuring-related expenses this quarter.

Slide 11. We continue to maintain a very strong liquidity position. As Gus mentioned, as of September 30th, we had available liquidity of \$8.9 billion. Together with our operating cash flows, that gives us total sources of \$12.1 billion, which is 1.3 times our cash needs of \$9.1 billion over the next 12 months. That amounts to excess coverage of \$3 billion.

So, to wrap up, this was another quarter of strong operating and financial performance of the company. We leased 50 planes during the quarter, we sold 27 owned aircraft at a premium to book value with an average age of 16 years, and we continued to use the excess capital we generated from our operating earnings and asset sales to buy back another 5.4 million shares in the quarter at a 10% discount to book value to create value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Moshe Orenbuch from Credit Suisse.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Maybe just at a high level, if you could just talk a little bit about how you're thinking about the lease rates for the newer neo and Max versus the existing technology, and maybe just talk a little bit about how you manage that risk over the next couple of years.



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

We're seeing very robust demand for existing A320 family aircraft, as robust as we have seen. Now, that is a factor of the positive global traffic that's out there. As you saw, we're at 7.9% growth year-on-year in traffic. And of course, it's been aided by the delays in the GTF. So that has given certainly a near-term boost to demand for those aircraft types.

Turning to the new aircraft, the new technology as they deliver, we continue to see very strong demand for the A320neo, the A321neo, and also the 737 Max 8. We see those three aircraft types as having extremely strong demand. In fact, just this morning, we were debating whether or not to lease a very significant number of our 2020 slots on the neo side, or to hold them back for future campaigns. That's the best evidence I can give you of the market demand for the asset types.

So despite the fact that the engine is having its teething issues, when it is in service, it is providing impressive fuel burn savings to the customer base.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Just to follow up, how do you think that manifests itself in terms of the leases that are coming up on existing technology as they (inaudible)?

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

The market is growing at a significant rate, as it always does. I think it's very important to remember that, structurally, we always have growth due to 100 million people boarding an airplane for the first time every year in the world. That isn't going to change.

We expect to see very strong demand, going forward, for the CO and the NG, particularly those in the mid-life ones where they represent very good value. And so we don't see any change in that in the near future.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Given the delays, any kind of change -- I know you re-upped with another \$200 million in the buyback. Any other changes in capital allocation that we should think about?

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

No, Moshe. Capital allocation is something we consider very carefully on a continuous basis here at AerCap, and what is the best use of our capital. Is it buying aircraft in the market, placing orders, acquiring our own shares, or M&A? And these are the things we are always looking at, and we still feel that purchasing our own shares is very compelling investment alternative for us.

Operator

Michael Linenberg from Deutsche Bank.

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

Gus, you've had good success selling these older, or mid-life older aircraft with good returns. Who's buying these airplanes? Is it other lessors? Are you seeing a pick-up in purchases off-lease by airline operators [as well], just given where financing costs are, et cetera? Can you give us some color on that?



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

A: It's a combination, Mike. It is, of course, airlines. The airlines -- the very old airplanes the airlines will take on. The airlines will say to themselves, for example -- take an A340 as an extreme example. They will say, okay, particularly old one, with low fuel, I'll operate it for another three or four years before I get a 787 or an A350, and so they'll come and buy the airplanes. Same is true on 767s. The airlines are the buyers of those asset types.

We see other lessors also buying mid-life assets, but there's different stripes in these lessors. Some of them are genuine global lessors, but many of them are smaller niche players where either we assist in the management of the platform, or they may work with someone else to assist in the management of the platform.

And the investor behind it is just looking at this as being a stable asset class that they want to invest in. The return on equity they're targeting is a significant premium to what they're able to earn in the U.S. treasuries or German bonds. But having said that, it is less than what our shareholders expect to earn because we have the platform, of course. So those investors are behind some of the portfolio buys, as well.

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

When we think about your net interest margin over a cycle, where this last quarter was very representative of a lot of puts and takes that drive that number. A lot of it also seems to not be necessarily economic. Some of it has to do more with the mix of the aircraft in your fleet. As we think longer-term, where does that bottom out? Where does that top out? We've seen it above 10% in the history of AerCap. We've also seen it down maybe in the low 8s, maybe high 7s. How do we think about your net interest margin over a cycle? What's the band there?

Peter Juhas - AerCap Holdings N.V. - CFO

So what we'll see is, with the average age coming down over the next few years, we'll continue to see that come down, and then it will level off. So for the whole year this year, we had said 8.9% to 9%. I think that's still a good number for this year, and we'll see some reduction next year. But it is going to vary, as you say. I think over, say, an 8% to 10% range, that's probably a reasonable range to expect over a long timeframe.

Operator

Mark DeVries from Barclays.

Mark C. DeVries - Barclays PLC, Research Division - Director and Senior Research Analyst

Was just hoping to get some updated thoughts on when you may transition from being a net seller of planes to growing your fleet again.

Peter Juhas - AerCap Holdings N.V. - CFO

We will start to grow again next year, so in 2018 we will start to be a net grower, we expect.

Mark C. DeVries - Barclays PLC, Research Division - Director and Senior Research Analyst

Is that more towards the back half of the year?



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

No. Really it should be during the course of the year we'll be growing, and a lot of it depends upon exactly when these deliveries come in. As you saw, we pushed them out from the fourth quarter to the first quarter, but I think we will be growing throughout 2018.

Operator

Gary Liebowitz from Wells Fargo.

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

Gus, I was wondering, with these aircraft delays, does it change your position at all towards selling aircraft? In other words, you want to maintain a certain level of core leasing [in common]? These delays have made you think again about selling aircraft?

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

No, they don't. We believe in the aircraft that are going to be delivered by the manufacturers. We see excellent demand for them. And when we look at what assets to sell, if we believe we are getting a fair price for those aircraft, and we believe that, post- the sale of those aircraft, the average quality of our portfolio is at least as good, if not higher, then we will proceed with the sale as it is the right thing to do for the long-term interest of the company.

And the proceeds from those sales have been reinvested in share repurchases to date. So I think it's always very important that we look to maximizing the value of the business in the long-term and doing the right thing always for the long-term of the business. And we don't want to be buffeted by near-term worries about the next quarter [and] earnings, and we think that we've demonstrated a very strong track record of capital allocation in maximizing the value of the company for the shareholders.

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

You had talked about the neo delays from '17 into '18. But if I look at your delivery schedule, it looks like some of your Embraer air deliveries from 2018 were pushed out. Is that a delay in the program, or is that just a lack of customer demand?

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

It's related to the engine as well, Gary. We've placed now 15 of the airplanes. But where we are going to see, as you saw today from Bombardier's announcement as well with the C series, of further delays on their aircraft also.

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

So this is a program delay?

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

It'll be engine-related.



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

And if you can comment on the news surrounding the C series and Airbus, how does that affect the marketability of your E2s?

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

Well, we'd have to see how that materializes and if that transaction will close. I presume it will close, close at the end of next year. It does indeed validate the fact that there is a significant market down there, or else Airbus would not have taken on a project of this magnitude. While they are not paying anything for the investment in the aircraft, they will, of course, incur very significant cost in setting up a production line to manufacture this airplane. The associated costs of logistics, of supporting the airplane on a global basis are very significant. So this does validate the segment of that market, that it is there.

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

Peter, if I look at your average assets in Q3, they were unchanged from Q2, but your basic rents went down about \$15 million. Is that entirely a function of the changing age profile, bringing on lower-yielding new assets and sell our higher-yielding ones?

Peter Juhas - AerCap Holdings N.V. - CFO

Yes, that's really it, Gary, because you can have a flat average assets number, but if it's really weighted more towards younger aircraft, then it's going to be lower yielding.

Operator

Jamie Baker from JPMorgan.

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

The placement figures you gave for the next two years, the 100% and 91% figures respectively, that's a percentage of deliveries. What would the figure look like if we also include current aircraft with leases set to expire during this timeframe?

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

It's a fairly minimal number, Jamie, and we're going to disclose that at the Investor Day in November 13, and you'll see over the next several years what the used aircraft releasing task is. But it is very modest, given the capabilities and track record of the platform.

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

Just to follow up on the 7-8, the increased production rate going to 14 a month in 2019, any thoughts on whether that speaks to a potential crowding in the market a little bit, or did you largely envision this stepped-up rate in the first place when you ordered the aircraft last June?

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

We assumed that the step-up would come, and our order may have been part of the cornerstone for the step-up. But the airplane itself fundamentally, and this is something we will talk about next week, or in two weeks' time when we meet, is we see very strong demand for that particular aircraft type, the 787-9. We believe that it has widespread acceptance in the market. And we placed that order having been the biggest customer in the



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world for the 787. We had moved 89 of them before we placed the order. And so we had looked at this market for a long time before we placed the order, and so far we do continue to see the same level of demand for the aircraft as we had seen before the order.

Operator

Rajeev Lalwani from Morgan Stanley.

Rajeev Lalwani - Morgan Stanley, Research Division - Executive Director

Aengus, you talked about some of the pressure in the European market, or maybe it was contained to a couple of airlines. Do you see that spreading at all as we look forward, or do you think it'll be a bit more contained to those one or two carriers?

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

I think it will be relatively contained. I think it's fair to say that Air Berlin was an insolvent carrier that had been propped up by its principal shareholder. And so, once that shareholder decided to no longer support the carrier, it was inevitable that it was going to go away. Monarch Airlines, small charter operator in the U.K. that just never really got its costs fully under control following its restructuring, and so a marginal carrier. We don't see evidence of this spreading. In fact, as we look at our placement activity over the last couple of years on the used aircraft side particularly, it's been the European market that has exhibited a particular strength. And at the moment, we continue to see a fairly robust market in the EMEA region.

Rajeev Lalwani - Morgan Stanley, Research Division - Executive Director

In terms of the aircraft delays that you talked about going into the end of the year, what implication does that have for some of the targets you've laid out before in terms of earnings for the year and yields and asset levels and that sort of thing?

Peter Juhas - AerCap Holdings N.V. - CFO

It doesn't really have much of an impact at all on the targets for this year, Rajeev, just because these aircraft were going to come in very late in the year in the first place, and so they really have very little impact just slipping out of 2017 and into 2018.

Operator

Ross Harvey from Davy.

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

We know that Q4 '16 was the first quarter in two, 2.5 years that we saw fuel up year-on-year, jet fuel up year-on-year, has continued since then. So I'm wondering, has there been any impact on demand outside of the more recent company-specific events in Europe, and if you might split that out between wide-body and narrow-body variants?

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

The best example of the demand I can give you is that we repossessed 22 airplanes from Air Berlin and from Monarch, mix of wide and narrow. The wides were A330s, extremely liquid market, the A330, of the small, in-production wide-bodies by far the most liquid. And they were moved. In fact,



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we had those moved within a matter of a couple of weeks. They were the first to go. And we had moved then seven of the A320 narrow-bodies as well [that takes the 17], and we have verbal commitments for another three, so there's two left to go that we're going to move, as well.

So that's really the best evidence I can give you that we repossessed a significant number of aircraft, and we have the vast, vast majority of them already under LOI within a few weeks. The demand for those aircraft is coming from Europe and Asia, is where the airplanes are going.

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

And can you remind us just what the general turnaround period is on those aircraft? What sort of specifications on the aircraft that you might need to work on, or what the typical period is between actually taking it back from the previous lessee and moving it on?

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

On the narrow-bodies, it'll be relatively short, and they should be operating within two to three months. On the wide-bodies, there'll be some work to be done on the interior, but not a huge amount on these ones. They were actually very well maintained, high-quality aircraft that had recently been upgraded by Air Berlin, hence the demand for them. And we'd expect them to start getting into service. In the first quarter of next year they begin going into service in Q1.

Operator

Jason Arnold from RBC Capital Markets.

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

I was just curious on the geared turbofan delays obviously being a technological factor. That seems like it's slowly getting worked out. We've got that one [in scope]. But what are your thoughts on the supply chain and how things are being addressed on the production side of the equation with respect to that?

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

With respect to the GTF specifically, Jason?

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

Not the GTF, but just more broadly.

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

I think the GTF is a reminder for the manufacturers that they're actually manufacturers. That's what they do. And they need to make sure now -- they've done very well at selling. I think all of them, be it Boeing and Airbus with the air framers or the engine manufacturers, that they look at their entire supply chain and make sure that it is robust enough to keep up with the demand.

Of course, as a marginal supplier of capacity to the market, there is a part of me that says, if there are delays, it's generally not a bad thing for me on my used aircraft side, but it is extremely frustrating to my customers who are expecting new aircraft and have them planned into their schedule, and it does have an impact on their operations when they have to, at the last minute, adjust capacity and bring in wet-leased airplanes.



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But I think that the manufacturers are extremely focused on the supply chain and trying to make it as smooth as possible. Longer-term, will we see some of the supply chain come back in-house? There was a push a number of years ago to try and outsource more and more of the manufacturing process. I think that strategy has reached its conclusion, and we may see some crucial parts of the supply chain over the coming years go back into the main OEMs.

Operator

Kristine Liwag from Bank of America Merrill Lynch.

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

Gus, with your 91% lease placement through 2019, which aircraft types do you still have left to place, and what does placement look like for 2020?

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

As I just mentioned, Kristine, on 2020, just before this call, we had a debate whether or not to give up nearly every remaining A320neo lease commitment we have for a customer in 2020, so there's very strong demand. So on the 2020 slots, particularly on the narrow-bodies, it's more a question of do we hold stuff back at the moment for future campaigns or not. On the 2019 slots, we have very few airplanes left. There are one wide-body and a couple of narrow-bodies. But we would expect those to go very shortly in the coming weeks.

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

And for the 787s that you're placing in the market, how are operators using these aircraft? Are these largely replacement, new city [pairs]? Can you provide any detail like that?

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

For the people who are taking them into service, there's a period of training where they will go on short-haul missions, and you'll see -- you might see some high cycle time on some 787 fleet at the very beginning as airlines put them on very short-haul missions for training purposes.

Now, having said that, where do we see them mainly operating? They tend to be on point-to-point of existing city pairs. They are opening up new pairs. That's more the 787-8, because it's more of a pathfinder. It's a smaller machine. It's used for that. It's less risky to start up a new city pair with a smaller machine, and then once the business case is validated, you put in the bigger machine, the 787-9.

But, for the most part, the 787-9 is operating on existing routes, where it is a more efficient operator than the previous aircraft. And of course, we're just seeing more traffic on a global basis every year, as we have done every year since the inception of the industry.

Operator

Helene Becker from Cowen and Company.

Conor T. Cunningham - *Cowen and Company, LLC, Research Division - Associate*

It's actually Conor Cunningham in for Helene. So your comments on the Bombardier-Airbus JV are interesting. If you think the [100-seat] market has been somewhat validated, then it would appear that you guys are somewhat under-indexed to the product. Can you just talk about the long-term opportunity there, or is it more of a wait-and-see for the asset type right now?



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

I think it's 100 to 140-odd seat market. I think that the heart of that market will be in the 120 to 135-odd seats. I think that's where the heart of that market will be. We do see a lot of airlines looking at the aircraft type. Generally, though, these decisions are made much closer in than the A320 737 decisions, because the A320 737 make up the vast majority of an airline's fleet. The smaller aircraft tends to be a much smaller part of the fleet, so the decision for that tends to lag a bit.

But as I said, we do believe that the announcement of the Airbus involvement in the Bombardier program is a big positive and validation of the segment.

Conor T. Cunningham - *Cowen and Company, LLC, Research Division - Associate*

We appreciate the color that you gave on the re-marketed aircraft for the bankruptcies. Is it safe to assume that the asset impairment charge in the quarter was all related to the A330?

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

No. No, actually, the asset impairment charge really related to some older aircraft where we got -- these were scheduled re-deliveries, and basically the deal that we had negotiated with the airline was that they would not reinvest in the aircraft, and they would basically make a big end-of-lease payment to us at the end of those leases.

And so what happened is we ended up getting those payments, and then once you do that, then you have to recognize an offsetting impairment because, effectively, the aircraft hasn't been invested in. So we made a conscious decision, rather than reinvesting in the aircraft, to just take that cash. And that's why I say the amount of cash that we got was more than the impairment, but that's really just the way the accounting works for it. So that was what that represented.

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

And the economic deal was done several years ago. This was three old wide-body airplanes with six engines. We said, under the terms of the lease, the customer's obligated to hand us back close to fresh engines from an overhaul. We said to the customer, don't do that, and don't overhaul the engines. Just keep them till the end of the lease, pay us the cash that would have gone into the overhaul of the engine, because these are very old aircraft, and we wouldn't have got the money back because they wouldn't have gone on for another 15-odd years. So we just said don't overhaul them. Give it back to us. But that was put in place several years ago, so it is not related to the Air Belin aircraft.

Operator

Scott Valentin from Compass Point.

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

With regard to the overall financing environment, there's been concern about Asian capital coming in and aggressively pricing lease factors. Wonder if there's been any change there, if maybe the intensity of competition has diminished somewhat, and you're seeing stabilization of lease factors.



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

A: There is, of course, a significant amount of capital has come into the market. Why has it come in I think is important. I think that this was a niche asset class. If you go back seven or eight years ago, it's matured significantly, and people see that the business is -- while it is in the aviation business, the returns in it are generally not cyclical. As you can see from our own margins, they are not cyclical. If you go back over the last 12-odd years, you see that they're fairly stable.

And I think many investors have realized this. The investors that are coming in, very, very few of them, if any, really are trying to build big global platforms. Some of them do use the sale-leaseback market as the entry ticket in, where they could just put capital to work, and they can say, okay, don't have to do anything with that airplane for 10 or 12 years, and then I'll worry about it. We certainly do see that. But many of those participants are not building big platforms. We have not executed an open market sale-leaseback since December 2013. We do bid on them every week. Having said that, we have generated huge value for the shareholders through other means, be it the forward orders where you don't have that type of capital participating, or through the buyback of our own shares, and of course sales of aircraft to the new entrants into the sector.

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

You mentioned you haven't done a sale-leaseback since 2013, but in terms of portfolio opportunities, is that something that [you're] seeing more and more of? Does that interest you at the right price?

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

Oh, for sure. At the right price, we will be aggressive. A key competitive advantage of our scale is that we garner more information from the market than anyone else every 24 hours. That information is compiled and used. And so when we do see opportunity that we believe in, we will be extremely aggressive in going after it if it's there in big size, be that on the orders, be that on portfolio sales, or on sale-leaseback transactions, or buying our own shares, for that matter. So if and when we do see those opportunities that we believe are the right mix of assets, we will be very aggressive.

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

I think Peter mentioned that the financial impact on '17 won't be that significant on the delayed aircraft. But I was wondering, in terms of payments, I assume are there payments being made to you by Airbus for the delays, and then are you required to make payments to the Chinese lessors for those delays?

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

To Chinese lessees? Sure. We can't comment too much on that. The entity that is most impacted by these delays, the short-term delays, is the airline. So there is generally support provided by the manufacturers to the airline. We of course are impacted also, and we also receive an element of compensation to do [with that] also. But these are relatively near-term issues. We do not see anything like what happened with the 787, where of course we were hurt because of the extremely long delays that occurred there, and there was very significant compensation paid to this company due to that. But we do not see that type of scenario at the moment.

Operator

Gary Liebowitz from Wells Fargo.

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

Peter, is a 9% margin on asset sales a reasonable number to use, going forward?



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

As you've seen, this number moves around a fair amount. I'd say if you look at over the past couple of years, it's really averaged between 5% and 10%. Now, again, that's going to depend, in any given quarter, on the assets that we're selling, so it can be at the lower end of that range, as well. But that's basically where it's been, so I wouldn't say is it going to be 9% every quarter. No, but I think between 5% and 10% is what we have seen.

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

How should we think of share-based comp trends for next year?

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

I'm going to go through, as part of the Investor Day in a couple weeks, I'll go through all of the guidance for 2018 and 2019, so it'd probably make sense to discuss it then.

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

I know it was only four months ago you placed that 787 order, but just wondering is there any market traction. Have you signed any LOIs for its placement?

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

We are starting to move them, Gary. We are starting to move them.

Operator

That concludes today's question and answer session. At this time, I'll turn the conference back to our hosts for any additional or closing remarks.

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

Thank you, Operator. That completes our earnings call for third quarter. We hope to see many of you at our upcoming Investor Day in New York on November the 13th. Operator, you may close the line.

Operator

Thank you. Ladies and gentlemen, this concludes today's call. Thank you very much for your participation. You may now disconnect.



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