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AER - Q4 2013 AerCap Holdings N.V. Earnings Conference Call

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OVERVIEW:

AER reported 4Q13 total revenue of \$278m and reported net income of \$65.6m.



CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Welcome to the AerCap Holdings 2013 fourth-quarter and full-year 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. The call is also being recorded for replay purposes.

I now hand the call over to Peter Wortel, Head of Investor Relations. Please go ahead.

Peter Wortel - AerCap Holdings - VP IR

Thank you very much. Good day, everyone, and welcome to the 2013 fourth-quarter and full-year results conference call. With me today in New York are Aengus Kelly, AerCap's CEO, and Keith Helming, AerCap's CFO.

Before we begin today's call, I would like to mention that in addition to this earnings call, AerCap will also host a group presentation for analysts and investors today at the New York Palace Hotel in the Holmes Room. The presentation will start at 1130 a.m. and doors will open at 11 a.m. The presentation will not be webcasted.

Now let me first read the disclaimer language before I hand it over to Aengus Kelly. I want 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.

In addition, this conference call contains time-sensitive information that reflects management's best judgments only as of the date of the last call. AerCap does not undertake any ongoing 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 related to forward-looking statements can be found in AerCap's earnings release dated February 20, 2014.

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.

I will now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings - CEO*

Thank you, Peter. Good morning to everyone in the US and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today for our fourth-quarter and full-year results call.

2013 was a milestone year for AerCap. We generated record earnings, executed the largest sale-leaseback ever done in our industry when we acquired the 25 aircraft on long-term lease to LATAM, and, of course, we entered into the transformative ILFC transaction.

Firstly, on the financial results. We are very pleased to report record after-tax earnings for the full-year 2013 of almost \$300 million. This result was driven by rigorous adherence to the four principles upon which AerCap is run.

Firstly, very active management of receivables. Our receivables balance is at an all-time low of \$5 million. Secondly, we continually manage the aircraft portfolio. The average age of our fleet is now one of the youngest in the industry at just over five years.

Thirdly, at all times we ensure that we have a long-term, stable liability structure. The average term of our debt is almost 8 years. And fourthly, we run a hedge book. We hedge our exposure to interest rates through a combination of interest rate caps, fixed-rate debt, and swaps.

Turning to the ILFC transaction. As you all know, we entered into a definitive agreement with AIG on December 16, 2013, under which AerCap will acquire 100% of the common stock of ILFC.

I know you want to hear about this transaction, which is transformational for both AerCap and our industry. The latest update on the transaction is that on February 13, we held our extraordinary general meeting in which we received the required shareholder approval for the transaction. We have also received regulatory antitrust approvals from Colombia, Germany, the Ukraine, Ireland, Mexico, South Africa, Turkey, and the United States.

We expect to close the transaction in the second quarter. In the meantime, a great deal of work is being done to prepare for the operational integration. Dedicated integration teams have been set up. These teams are made up of both ILFC and AerCap staff and are on the ground in Los Angeles. Our Chief Operating Officer is leading the process and has moved to LA. Bain consulting is also permanently on the ground in LA overseeing the integration process.

Separately, discussions are ongoing to optimize the funding structure of the Company post-closing. These discussions are focused on the acquisition funding and the unsecured revolving credit facilities that both companies currently have in place. The reaction of our key business partners -- airlines, financiers, and manufacturers -- has been extremely positive to the ILFC transaction.

Now, looking back at AerCap's 2013 performance and the current state of the aircraft leasing industry. All of AerCap's committed future acquisitions are placed on long-term leases, with an average lease term of 11.8 years. And the average remaining lease term of our current portfolio is 6.6 years. These long-term leases will drive long-term stable cash flows and profits for the benefit of our shareholders.

Our utilization rate is running at 99.5%, and we have only two aircraft that are owned which are unplaced in the next 12 months. This is a minimal task for a platform with AerCap's capabilities that currently has 338 aircraft out on lease.



Also, as I referenced, our receivables are running at an all-time low. Given this position of strength, AerCap is well positioned to execute the ILFC transaction.

On the industry, we continue to see improving lease rates and demand. During 2013, Europe showed the greatest level of growth, with the largest portion of aircraft subject to re-leasing going into the European market. The North American market continues to be very robust, but we are, of course, very vigilant and carefully monitor those lessees who are most exposed to local currency movements in emerging markets.

Looking forward to the combined Company, almost 90% by value of the portfolio will be composed of A320, A330, Boeing 737, and Boeing 777 aircraft. Importantly, we have what we believe is the most attractive order book in the industry in terms of delivery slots, pricing, and aircraft types, being Airbus A350s, Boeing 787s, Airbus A320neos, and Embraer E2 jets, which are the most in-demand new technology aircraft.

Secondly, our disciplined and active portfolio management saw us close the sale of 28 aircraft in 2013 from our owned and managed portfolio, while realizing a net gain of \$10 million in the fourth quarter and \$42 million for the full year on our owned assets.

AerCap standalone has aircraft purchase commitments for \$3.5 billion, relating to 44 aircraft. As I mentioned, all of these aircraft are already placed on long-term leases, with an average term of almost 12 years.

The combination of the ILFC order book and our future purchase commitments will provide AerCap shareholders with stable, long-term, high-quality profits and cash flows. And as we have said before, we believe there is embedded value in the ILFC order book in relation to both pricing and delivery dates.

Thirdly, AerCap is extremely well financed and has industry-leading access to all funding markets. During 2013, we secured \$5.9 billion of funding from various markets and capital providers around the globe.

Of course, though, as I have always said, in this business the management must be very disciplined when it comes to spending our shareholders' money. Before we commit our shareholders' capital, we must be convinced that the risk/reward trade-off is in balance. The potential for misallocation of capital is always at the forefront of our minds. Misallocation of capital can relate to both knowing when to purchase aircraft, as well as when to dispose of aircraft and then reinvest the proceeds or delever the balance sheet.

Our track record speaks for itself in this regard, be it the acquisition of ILFC or the LATAM and American Airlines deals, as well as our aircraft disposition strategy that has enabled us to optimize our portfolio, rapidly delever our balance sheet, and buy back 25% of our outstanding shares at \$12 a share.

Now to close, I would like to come back to the ILFC deal, which will see AerCap becoming the leading global franchise in the industry, with pro forma run rate annual earnings per share in excess of \$4 and net profit of approximately \$1 billion. Once the deal is approved, we will have a robust liquidity position on closing of approximately \$5 billion, and we expect to generate over \$3 billion of operating cash flows per annum, resulting in overall liquidity of approximately \$8 billion. This level of liquidity will comfortably cover our annual CapEx, circa \$3 billion per annum.

On that note, I will hand the call over to Keith before we open up to the Q&A.

Keith Helming - AerCap Holdings - CFO

Thanks, Gus. Good morning, everyone. I will start on page 4 of the presentation.

Our reported net income for fourth-quarter 2013 was \$65.6 million and our adjusted net income, which excludes the various items listed, was \$74.9 million, which is an increase of 11% over the fourth quarter of 2012.

For the full year of 2013, reported net income was \$292.4 million and adjusted net income was \$299.9 million, a 16% increase over the full year of 2012.



On page 5, reported earnings per share were \$0.58 in fourth-quarter 2013. Adjusted earnings per share were \$0.66 during the same period. For the full year, reported earnings per share were \$2.58 and adjusted earnings per share were \$2.64, which is an increase of 35% over the full-year 2012.

The average shares outstanding in the fourth quarter were 113.6 million, which is approximately 6 million shares lower than the same period in 2012, as a result of the share repurchases completed in 2012.

On page 6, total revenue in fourth-quarter 2013 was \$278 million. For the full year, total revenue was \$1.05 billion, an increase of 8% over the prior year. The increase in total revenue was driven primarily by a higher gain on the sale of assets and a small increase in other revenue.

Page 7. Net interest margin or net spread was \$176 million in fourth quarter. The annualized margin as a percent to average lease assets was 8.7%. For the full-year 2013, net interest margin was \$664 million. The small decrease in net interest margin year over year was driven primarily by the sale of the ALS portfolio in the fourth quarter of 2012, partially offset by purchases of new aircraft.

Page 8. The impact from sales in fourth quarter of 2013 was a pretax gain of \$9.6 million and was \$41.9 million for the full year of 2013. During 2013, from our own portfolio we sold three A330s, nine 737-800s, one 737-400, and one MD-11 aircraft.

The average age of our aircraft portfolio is 5.4 years.

On page 9, leasing expenses were \$17.7 million for fourth-quarter 2013. For the full year, leasing expenses were \$15.5 million, down from \$41.2 million for the full-year 2012. The decrease in leasing expenses was driven primarily from a lower impact from defaults and restructurings.

SG&A in fourth-quarter 2013, excluding transaction-related expenses, was \$21.9 million, and was \$89.1 million for the full year. In 2013, we also incurred \$11 million of costs relating to the ILFC transaction.

Also in fourth-quarter 2013, we incurred an impairment charge of \$14.3 million. \$9.7 million of this charge related to one 747 Freighter aircraft, which was triggered by the receipt of a \$6.8 million end-of-lease maintenance payment, which was recorded in revenue. In addition, \$4.6 million of the charge related to two older A319 aircraft.

Our tax rate for the full year of 2013 was 8.4%.

Page 10, AerCap's unrestricted cash balance at the end of the fourth quarter was \$296 million, and our total cash balance, including restricted cash, was \$563 million. Operating cash flows were \$673 million for the full year of 2013.

Page 11. At the end of fourth-quarter 2013, AerCap's debt balance was \$6.2 million and our debt-to-equity ratio was 2.6 to 1. Our book equity is \$2.4 billion and the average cost of our debt for the full year of 2013 was 3.9%.

Those were the summary financial highlights for the fourth quarter and for the full year of 2013, and with that, I would like to now turn it open to Q&A.

Peter Wortel - AerCap Holdings - VP IR

Operator, can you start the Q&A?



QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions). John Godyn, Morgan Stanley.

John Godyn - Morgan Stanley - Analyst

Thank you for taking my question. Gus, I wanted to ask a couple of questions on your view broadly on the cycle here. We have now had a few years of, I guess, relatively robust kind of aerospace trends, broadly demand for aircraft. It seems like everything that we are hearing from you and other lessors is that trends are only improving on the margin. Credit risk is still very good.

As you look out at all of the data that you track, what you hear from customers, is that true? And at what point do you start to worry that perhaps the cycle might be peaking, and what gives you confidence that it is continuing from here?

Aengus Kelly - AerCap Holdings - CEO

You are right that 2010 was better than 2009, 2011 was better than 2010, and so on, and we expect 2014 to be better than 2013.

The principal metric I look at when I look at that is airline profitability. We're assuming the IATA forecasts are accurate for 2014, and just let's say they are in the black. They are assuming very high levels of profit relatively for 2014.

We will be in a period where we have witnessed four to five years of uninterrupted global airline industry profitability, so that is a very positive sign. Of course, it's coming off the base of what happened in 2008-2009 when the fuel hit \$148 a barrel and when we had the financial crisis.

So I think the fact that we've seen steadily improving trends, it must be borne in mind that we came off an exceptionally low base, and it hasn't been that we have seen growth rates or are predicting any growth rates in traffic that are at high single digits or anywhere near to it. It's stable numbers in the 4% to 5% level, which are in line with historical averages.

So as we look forward, we continue to see 2014 to look reasonably good, and 2015, we will see what happens when we get there, but at the moment, the outlook is continuing to improve.

Now I will say that to participate in that, you do need to have what the customers want, and that's focused, of course, as we've said many times, on the core airplanes that are in production, be it the 737, the 320, the 330, the 777, and then over time that will migrate into the 78s, the 350s, the NEOs, and the MAXs. If you have a higher concentration in other aircraft types, then you may not participate to the same extent, and also, the freight market is in a much tougher spot.

John Godyn - Morgan Stanley - Analyst

That's very helpful, and if I could just follow up on the 737 and A320 comments. Gus, if I remember correctly, last quarter you made the comment that if you had more narrowbodies available, you could certainly lease them out, that that was the sort of strength in the spot market demand. Is that still the case right now? Do you feel that way?

Aengus Kelly - AerCap Holdings - CEO

I do, John. If we had them, we could move them.



We only have two airplanes left to place of our own book for the next 12 months, to the end of the year. That's two A319s, and they will probably be gone in the coming days. There are a couple of airlines looking at those airplanes.

So if I go back to, say, 2010 and 2011, you probably would have had a bigger inventory of assets coming at you and you wouldn't have had several -- two or three airlines looking at those aircraft types. And I am specifically picking the 319, as that was the one that was the hardest hit on the last go-round.

John Godyn - *Morgan Stanley - Analyst*

That's very helpful, and just last question. Boeing has been talking about increasing production rates. They have announced the 47 per month increase. There is talk out there about a number north of 50. I'm just curious about what you think about those sort of numbers as you think about the health of the cycle from here?

Aengus Kelly - *AerCap Holdings - CEO*

What the OEMs say in terms of projecting production may well and often has differed materially from what is actually delivered. The OEMs, of course, their job is to put as many airplanes into the market as the market will bear, and that can, of course, lead to periods where there is oversupply in the market.

But that being said, you always have to step back at the very high level of the aircraft market and say, there are only two suppliers of aircraft, two major suppliers of aircraft in the world. And they have always, in the end, acted rationally.

And what I mean by that is they have never cannibalized their customer base by saying to an airline that it had ordered, say, 20 airplanes for delivery in 2014 and 20 in 2015, the airline comes in and says, look, we can only take seven or eight. Boeing and Airbus will both go back and say, okay, well, we will give you some reduction, but the pricing goes up. Your escalation cap goes away, et cetera.

But they will never force the airline into bankruptcy, and that has happened time and again, which is very different from a lot of other industries. And I often reference shipping as being the comparison where you have dozens of manufacturers who just need to cover variable cost. So that's their only benchmark to put capacity into the market, whereas Boeing and Airbus, being the duopoly, have acted very rationally and have never flooded the market with supply.

So, I look to their track record, how they have behaved, and what they've actually delivered versus what they promised to do.

John Godyn - *Morgan Stanley - Analyst*

Thanks a lot. That's really helpful.

Operator

Michael Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Gus, you went through the different jurisdictions that you received regulatory approval. It was a bit of a list. The US was mentioned. Do you need approval from the EU or China? What are some of the other large jurisdictions that you would need approval on this transaction, if any?



Aengus Kelly - *AerCap Holdings - CEO*

We do not need -- firstly, on Europe, we don't need approval at the federal level in Europe. It would be at the state level. And we already have a bunch of those in Germany, being the biggest one.

We have the US in. The main countries that are out there still that are coming in are China and Russia, but we would expect all of those to come in before the end of the second quarter.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. And then, just another question, the way that you answered John's question, and I think we all see that things are starting to perk up and things do feel better. That said, as things improve, you typically tend to start attracting other players, and I just -- we are starting to read more and more about other participants getting involved in this space, whether it's operating lessors from Asia or other financial institutions, and you are starting to now even read some commentary that would suggest that there are a lot more players coming in that may put some pressure on margins.

And so, the concern -- maybe I'm a little early here, but is that a potential concern, that as more and more people start to run after some of these deals that all of a sudden terms start to become maybe less attractive? Are you seeing any of that at this point? Is that a potential concern as we look out over the next year or so as new entrants enter the space?

Aengus Kelly - *AerCap Holdings - CEO*

Let me speak about the new entrants, and what we have seen in previous go-rounds and what we're seeing now. In the aircraft leasing industry, there is about eight or nine global platforms. That's it. And some of the names have changed over the last 10, 15 odd years on the doors, but it's the same platforms, effectively.

There has been very little, if any, that can actually break into that top tier of aircraft leasing platforms. Many financial institutions and funds are attracted to the sector because they see that the net interest margin in this business, after credit costs in AerCap's case, is running at 870 basis points. That is a very large multiple of what most financial institutions earn at their net interest margin level, so they are very interested in it.

That being said, what we always see is that they see it as a non-core business, that, yes, it produces an attractive margin for them, but there is a limit to how big they actually go into it and it has never changed.

We have seen many people come in and buy \$1 billion, \$2 billion, \$3 billion, \$4 billion of assets at the top end -- \$4 billion, to be honest. But then, they stop. And particularly in today's regulatory environment, I would be very surprised if we would see that group of eight, nine global lessors increase by more than one or two over the next five or six -- four or five years.

The industry is growing a lot, so there is certainly room for it, but we see plenty of people come in and because they like the look of the industry, the margins it generates, but they generally, then, because of their own internal constraints, be it that the financial institution is regulated in Europe and the US or other areas, that they have a cap as to how big they will get into the industry. And so, obviously, we have, of course, sold an awful lot of airplanes to new entrants, too, and it's obviously a source of -- to dispose of aircraft for us, too.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great, and then, just one last one. When we think about historically as a Company, you have been extremely shareholder friendly. You talked about buying back 25% of your stock at \$12. As we look out going forward, and assuming that the merger has closed, should we anticipate those types of initiatives? Or will they be on hold for several years as you focus on digesting the acquisition and really paying down debt, which, frankly,



investors should be happy about as well? Maybe not as boosting to the share price as maybe a share buyback, but nonetheless still something that people should embrace. What are your thoughts on that?

Aengus Kelly - *AerCap Holdings - CEO*

Let me start and then hand it over to Keith. This was the first Company that ever got the investment-grade rating on a standalone basis, and our intention is to go back there.

We believe that is in the interest of all our shareholders and capital providers, so that's the number one focus, Mike. So, the Company will be focused on delevering the balance sheet and on the portfolio.

But the reason I mentioned that specific item of having repurchased 25% of our shares at \$12 was so that people understand how we view spending our shareholders' money. When we spend our shareholders' money, it has to be in their best interests. We're not here just to buy assets for the sake of it or make announcements at air shows. We are here to maximize the value of this Company for our shareholders.

As we look forward right now, surplus cash flow will be directed more towards delevering the balance sheet. Keith, maybe you would want to comment on that as well.

Keith Helming - *AerCap Holdings - CFO*

Yes. With the recent increase in the share price, obviously the equity balance day one for the combined company is going to be greater than what we had originally discussed in the previous announcement.

So we will be delevering much quicker. Certainly, we will start from a lower position, and we believe in the next couple of years, we will be able to delever down to the level that we once, again, ran in the past. So we are still very focused on that, but we think we can get to the plans that we want very quickly.

Michael Linenberg - *Deutsche Bank - Analyst*

Perfect, thank you.

Operator

Arren Cyganovich, Evercore.

Arren Cyganovich - *Evercore Partners - Analyst*

I was just curious as to whether you had any update from the rating agencies as to what their views are on your investment-grade rating, and if it really matters that much, just because it appears that the ILFC bonds have actually improved in yield since you announced the deal?

Keith Helming - *AerCap Holdings - CFO*

We haven't received any new updates from them. Just before closing, probably sometime in April, we will go visit them again to give them an update on the integration process.



Obviously, as I just mentioned before, the share price is higher, so the day one equity balance will be higher. That will be a positive, I think, from their viewpoint, as well. But everything is effectively still on track as to our discussion with them previously, other than, again, the increase in the share price and the higher equity balance.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. In the transaction expenses that you have booked for this year, how much are you expecting in 2014, and is there any kind of progression over the next few quarters?

Keith Helming - *AerCap Holdings - CFO*

We will provide more on that sort of guidance later on. The transaction-related expenses will be in relation to the bridge costs and various integration-type costs, which we are working through now.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. And then just on the quarter, it looked like you had some elevated maintenance revenue, and I saw a 747 Freighter and a couple A319s that were impaired. Was that related to those impairments?

Keith Helming - *AerCap Holdings - CFO*

That's correct. Again, with the 747 Freighter, the reason that we have the impairment is because we received an end-of-lease payment on that particular aircraft, and that effectively triggered the impairment.

So, it wasn't exactly offsetting, but they were pretty comparable, if you will. So that's one reason why the maintenance was a little bit higher than normal. And that's why, of course, we had that particular impairment.

Arren Cyganovich - *Evercore Partners - Analyst*

And that wasn't a default, though? It was just an end of lease?

Keith Helming - *AerCap Holdings - CFO*

That's correct. That's correct.

Arren Cyganovich - *Evercore Partners - Analyst*

And what about the A319s?

Keith Helming - *AerCap Holdings - CFO*

The A319s are two 15-year aircraft that we just decided and effectively re-evaluated the residual position and brought that down a little bit, which triggered the impairment.



Arren Cyganovich - *Evercore Partners - Analyst*

Okay, thank you.

Operator

Scott Valentin, FBR Capital Markets.

Scott Valentin - *FBR & Co. - Analyst*

Thanks for taking my question. Gus, you talked about the receivables being all-time low, indicating strong credit. Just wondering, a lot of volatility in the emerging markets -- Turkey, China slowing down and there's talk that the environment still is very strong. Just wondering how you reconcile the two? Is it still too early to tell what's going to happen and there is strength there? I am just wondering how you think about what you are seeing in some of the growth markets.

Aengus Kelly - *AerCap Holdings - CEO*

Of course, what's been in the headlines recently is the volatility of the currencies in those markets, and so, the major carriers in those airlines are generally -- have some level -- have a material level of hedging, because a lot of their revenue base is denominated in euros or in dollars or Australian dollars.

It is more the airlines that are purely focused on local currency and don't have a revenue base that is beyond the local currency that would be the most impacted by movements in the currency.

But overall, we haven't seen anything yet really that's material from any of these guys. No, there isn't a rush of people coming in, looking for any restructurings or anything like that at all. So, so far, they have been able to deal with it, particularly the bigger guys who have anyway the foreign currency earnings for them. They are not so much impacted at all, really. It's the smaller guys who might have some issues, but we haven't seen that yet.

Scott Valentin - *FBR & Co. - Analyst*

Okay, and just returning to the return of capital question. In the past, I guess between dividend and a buyback, you preferred to buy back stock, if it made sense. If not, husband the capital. Just wondering, going forward as a larger Company and, I assume, more stable, given the size of the Company, does a dividend make more sense than it has in the past?

Aengus Kelly - *AerCap Holdings - CEO*

The focus for now is just delevering the balance sheet. That's the focus right now, and once we get down to the levels we have been at before, then we will contemplate how we would return capital, if it's appropriate.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Thanks very much.

Operator

Jason Arnold, RBC Capital Markets.



Jason Arnold - *RBC Capital Markets - Analyst*

Just a quick follow-up on the last one on the emerging markets side. Is there anything that you guys can do if you see emerging market related currency issues in managing the business to limit your risk exposure, if things were to go more haywire from a currency perspective? Or how do you think about managing around some of that currency-related risk?

Aengus Kelly - *AerCap Holdings - CEO*

There is always risk in our business, with airlines. That's a given. There's been a lot of talk about the currencies recently, but some of that has already receded.

The key, key feature of running an aircraft leasing business and managing credit is, first of all, do you have aircraft that can be rapidly redeployed to performing regions or performing airlines from underperforming ones? That means that you have to have modern fuel-efficient airplanes, which AerCap has.

Two, you have to have the appropriate levels of maintenance reserves and security deposits so that when you actually -- if and when you actually have to take an airplane back, that the impact is minimal. And again, I would redirect you here to our history. We are nowhere near where we were in 2009, 2008, et cetera, and in that environment, our total credit costs ran at less than 100 basis points of lease revenue. So we are looking at stuff that is really at the margin here. And we have never, never had material costs from credit.

Jason Arnold - *RBC Capital Markets - Analyst*

Okay, super. Thank you. And then, just one quick follow-up. I was just wondering if you could update us on the financing end of the equation, specifically any of your various funding sources being more attractive right now versus others, and then any kind of opportunity to reduce average borrowing costs still from here, or is -- feel largely more stable on that end of the equation?

Keith Helming - *AerCap Holdings - CFO*

Yes, the financing initiatives that we are focused on for the moment is doing an amendment and an extension of the unsecured revolvers of both companies. On a combined basis, they total \$2.6 billion, and these revolvers are -- in addition to the AIG revolver, these are important elements of the Company's liquidity. So we are doing an amend and extend on those facilities that will become effective as of the closing date.

In addition to that, we are working on the syndication of the bridge facility and preparing for, effectively, the takeout financing on the acquisition side. So those are the key financial initiatives we're working on at the moment.

Jason Arnold - *RBC Capital Markets - Analyst*

Okay, super. Well, keep up the great work. Thanks a lot, guys.

Operator

Justine Fisher, Goldman Sachs.

Justine Fisher - *Goldman Sachs - Analyst*

I have one more follow-up question, sorry, on the emerging market issue. So I think that on the one hand, it's definitely understandable why you would be very -- why you could be concerned about lessees in countries that are facing currency issues, but on the flipside, it seems as though if there were some airlines that, for example, thought they could get financing from other sources -- we don't know who is been looking at the international EETC market, but I suspect there are a lot of airlines that have been, and maybe some of those may not be able to easily do one because of the way investors might perceive currency risk.

So that seems to me to create an opportunity for lessors. So were you saying that you would shy away from those opportunities because of the currency risk? Or I guess it depends on the airline, but it seems to me to create an interesting opportunity as opposed to the currency situation that we are looking at, making it less of an opportunity for a lessor?

Aengus Kelly - *AerCap Holdings - CEO*

It would only get the currency thing overblown. It impacts a handful of airlines, literally. It's not many at the moment, at all, if any. There is nothing that has come out of it. A lot of headlines in the press, but in reality, it hasn't made much of an impact.

It certainly won't deter us from leasing airplanes. That is what we are paid to do. That is why our investors invest capital is that we have a platform that is able to rapidly move aircraft around the world to areas of opportunity from ones that may not be performing as well as hoped. So no, we are very comfortable doing that.

On the question about international EETCs, I think it will be a very small pool of airlines who would tap that, to be frank. So yes, a lot of noise about it, again, from some of the investment banks, but I can't see much actually happening there in reality.

Justine Fisher - *Goldman Sachs - Analyst*

Okay, because that was going to be a follow-up of mine. In the discussions that you are having with airlines when they're talking to you about potential sale-leaseback transactions, are you hearing a lot of them listing international EETCs as an alternative for themselves or are not many airlines listing that, in your discussions?

Aengus Kelly - *AerCap Holdings - CEO*

None. Not a single one.

Justine Fisher - *Goldman Sachs - Analyst*

Interesting, okay.

And then, I had a question on selling additional aircraft from the ILFC portfolio. I know that was something that you listed that could be a possibility when you first announced the transaction. And I was just wondering -- I know that you are obviously working on integration now. Are any potential sales something that we could see -- that we would see in the near term, i.e., before the summer as you go into the closing of the transaction, perhaps before you meet with the rating agencies in April, or is this something that we might see towards the back end of the year once you have combined the portfolios and you get a better sense of how you want to structure them?

And then, on a related note, does an ABS deal for you count as an asset sale, because you're moving assets off the balance sheet, given that we've seen a few deals in that market recently?



Aengus Kelly - *AerCap Holdings - CEO*

Let me just start. First of all, our sales -- what I said on the call was that when we announced the transaction, our sales strategy wouldn't change. Over the last six years, AerCap has sold an airplane every five days. That's what we do in AerCap standalone. That's what I indicated on the call. Why would that change? It won't. And that's what's ongoing at the moment.

In relation to the ILFC fleet, we couldn't do anything with that until after closing, so we will deal with that afterwards. The focus is integration.

In terms of an ABS transaction, an ABS transaction is not a source of selling airplanes, generally, only if you sell the junior tranche, the equity note, or the E note. In the past, we have traditionally held onto that equity note at the start, and then later on maybe sold it all if the opportunity is correct, but that's how we see things.

Justine Fisher - *Goldman Sachs - Analyst*

Okay, and then one last question on the large sale-leaseback deals that you have done. These are great deals, and certainly when you announced the LATAM deal in mid-2013, it was a huge deal versus AerCap's book value at the time.

Now that AerCap will be a much larger Company with ILFC, I am certainly not implying that AerCap did those deals for the sake of growth, because, again, I think they are good deals and that does not seem to me to be the case. But given that you will be a larger Company, those would still be meaningful deals, but, of course, somewhat less meaningful, given that your book value would be much larger.

Would you still look for sale-leaseback deals on that scale, given that they do concentrate some credit risk, et cetera, or would AerCap more look to smaller deals at that point, because once you have acquired ILFC, you are just a much bigger Company and you don't necessarily need to do such huge deals?

Aengus Kelly - *AerCap Holdings - CEO*

Justine, when it comes to acquiring assets, I have been very clear. We are not here to make headlines to be the biggest. We're here to make sure we are the best and we maximize the value of the Company for our shareholders.

If that means we do a particular size transaction, we will do it. If it means we don't do one, we won't do one. And it will depend on the circumstances of the transaction.

Justine Fisher - *Goldman Sachs - Analyst*

Okay, thanks very much.

Operator

Gary Liebowitz, Wells Fargo.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Gus, you mentioned that you had two unplaced aircraft that will soon be placed out of your portfolio, but ILFC had over 100 lease expirations scheduled for 2014 coming into the year, and a lot of them are going to be parted out. Can you talk about what the placement requirements are on the ILFC side?



Aengus Kelly - *AerCap Holdings - CEO*

We can't, Gary, actually. They disclose their own information. They file publicly, so we cannot give information on that.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Okay, but could you talk maybe generally about the -- is there a collaborative process now during this interim period, because obviously, ILFC is still very actively managing their portfolio, placing planes, trading planes? How much input do you have into their portfolio activities at this time?

Aengus Kelly - *AerCap Holdings - CEO*

Gary, of course, you know it's very sensitive to the antitrust ruling, so we do not involve ourselves at all in ILFC's placement of aircraft at all.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Okay, then just a couple quick ones, maybe for Keith. Keith, you had given standalone guidance back in November. Has any of that changed?

Keith Helming - *AerCap Holdings - CFO*

No, no, the standalone guidance that we gave regarding synergies and fair value accounting and all that is effectively the same. Obviously, we won't have file numbers until the actual closing date. The purchase accounting, the fair value adjustments will all be based on the circumstances as of that particular day, like the share price, like the trading value of the ILFC debt, plus a few other things, as well.

So once we have all of that information finalized, we'll provide any sort of updates to those numbers, but at this point, there aren't any significant changes.

Gary Liebowitz - *Wells Fargo Securities, LLC - Analyst*

Okay, thank you very much.

Operator

Glenn Engel, Bank of America.

Glenn Engel - *BofA Merrill Lynch - Analyst*

One of your strengths over the years has been you have been more actively managing your portfolio than most, turning it over -- you know, \$500 million sales a year. Now that you have got ILFC, though, if you're going to keep that same sort of turnover rate, the amount of sales you would have to do would be magnitudes higher.

So, can you just talk about how -- have you lost the nimbleness with ILFC being so much larger, and what type of portfolio sales -- if you used to do \$500 million a year, on average, what type of portfolio sales could we expect to see in the long run, once the ILFC deal is done?

Aengus Kelly - *AerCap Holdings - CEO*

Glenn, again, asset sales are driven by a number of things. Will it be credit concentration? Will it be our view on a particular aircraft type? Will it be opportunity to reinvest in a different asset, et cetera? That's what drives the decision.

We have been very active. It has been \$1 billion a year is the average, actually, of what we have done. What we have actually been doing in AerCap is \$1 billion a year in sales, but we did comfortably a lot more than that in 2012. Obviously, last year we had -- we were close to that, but we had other focus towards the second half of last year.

And certainly, \$1 billion a year is a doable, very doable number now, and there's plenty of demand out there if we wanted to increase that, so I don't see that being any issue at all.

Glenn Engel - *BofA Merrill Lynch - Analyst*

So the -- again, I guess, the issue would be that ILFC is magnitudes larger. To keep the same sort of turnover of your \$1 billion a year, can you really turn over that much more -- several billion a year in sales? Is the market really that flexible to do that?

Aengus Kelly - *AerCap Holdings - CEO*

We won't need to turn over that much into the market. The market is very deep, Glenn, to be quite frank with you, as well. There will be no problem in us doing a lot more if we wanted to. There are numerous outlets for aircraft, so that wouldn't be an issue.

We will sell them when we think it's in the best interest of the shareholders, and so that's how we look at it. I think we have indicated \$1 billion a year is what needs to be done in ILFC. Please bear in mind that a lot of the aircraft by value in ILFC are the less attractive ones, will be minimal on the balance sheet going forward, day one. So when you say \$1 billion, it is actually, in reality, on a relative basis, probably bigger because of the lower values we will have these assets on the balance sheet at, post-closing.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And finally, how is your cost of capital trending?

Keith Helming - *AerCap Holdings - CFO*

The cost of capital on the secured side, on our secured financings, has been relatively constant. You saw that the average cost of our debt in 2013 is just under 4%. It has been at that level now for a while, and it isn't changing.

Down the ILFC side, on the unsecured side, they are in a similar position. Their cost of debt has come down in recent years, and again, those levels are not really changed from where we were at the end of last year.

Aengus Kelly - *AerCap Holdings - CEO*

I think, Glenn, as was mentioned by one of the other analysts, what we monitor very carefully, in fact, on a daily basis, the ILFC spreads. The ILFC bonds rallied -- when the deal was announced, ILFC bonds rallied, so that says a lot, too.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Thanks.



Operator

Ryan Zacharia, JAM.

Ryan Zacharia - *Jacobs Asset Management - Analyst*

Thanks for the question. I just wanted to circle back to the maintenance contribution. You had previously guided to neutral contribution for the year. In Q4, is it fair to look at the asset impairment, including that in there, and basically say that there was a \$5 million pretax kind of headwind in Q4 because the sum of the leasing expenses and asset impairment was \$5 million higher than the maintenance?

Keith Helming - *AerCap Holdings - CFO*

That's correct. Actually, throughout -- in 2013, there were two 747 Freighters where we incurred impairments of, I think, approximately \$20 million, and we had close to \$20 million in maintenance payments, as well. So, you do need to include the impairment charge in that calculation if you want to see the net contribution.

Ryan Zacharia - *Jacobs Asset Management - Analyst*

So is it fair to say that there was basically a \$5 million pretax headwind in Q4 from the combination of the write-downs and the net contribution from maintenance rent?

Keith Helming - *AerCap Holdings - CFO*

Yes, that's correct. Yes.

Ryan Zacharia - *Jacobs Asset Management - Analyst*

Okay, that was my only question. Thanks.

Operator

Helane Becker, Cowen and Company.

Helane Becker - *Cowen and Company - Analyst*

Thanks for all the time and the answers. I just have one question, on the aircraft impairment charge that you had. So those planes are going to storage or what are you doing with those planes, going forward?

Aengus Kelly - *AerCap Holdings - CEO*

Both of those airplanes have been re-leased and delivered already. They're two 747 Freighters, so they are both gone already.

Helane Becker - *Cowen and Company - Analyst*

Oh, I was wondering about that, because they are still in your fleet plan, right, for going forward?

Aengus Kelly - *AerCap Holdings - CEO*

Yes, because they were released. They have been re-released already.

Helane Becker - *Cowen and Company - Analyst*

Okay, and the A319s?

Aengus Kelly - *AerCap Holdings - CEO*

(multiple speakers). And they are being released as well.

Helane Becker - *Cowen and Company - Analyst*

Okay, great. And then, in the first quarter, are there any -- or maybe I don't want to ask the question that way. Maybe I want to ask it, are there any customers about whom you are concerned in terms and that are on your watch list in terms of getting additional aircraft back that you might not be expecting?

Aengus Kelly - *AerCap Holdings - CEO*

Not really, no. Nothing beyond the usual. We don't see anything unusual on the credit side. As I said, the best indicator, Helane, is that receivables are at an all-time low.

Helane Becker - *Cowen and Company - Analyst*

Yes, I see that. Great, thank you very much. See you later.

Operator

(Operator Instructions). Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Most of my questions, actually, have been answered. But just very briefly, you mentioned that you won't really have the information until the closing, but, obviously, the changes in the ILFC debt cost, can you just talk about how to think about the impact of purchase accounting on your go-forward results on the ILFC debt?

Keith Helming - *AerCap Holdings - CFO*

Actually, every quarter ILFC actually does a disclosure that gives the fair value of their debt. We do it as well on the AerCap side. So that gives you an indication as to the adjustment that we will need to put in for the fair value adjustment on their debt.

It will effectively increase the amount of the debt value, and then the difference will be amortized over the remaining life of the debt facilities. So, it's effectively bringing down the cost of some of the ILFC facilities to their current level of borrowing.

Aengus Kelly - *AerCap Holdings - CEO*

Effectively, it marks to market the ILFC debt.

Keith Helming - *AerCap Holdings - CFO*

A mark-to-market (multiple speakers)

Moshe Orenbuch - *Credit Suisse - Analyst*

So we could look at that adjustment and spread it over whatever the remaining life is?

Keith Helming - *AerCap Holdings - CFO*

Yes, exactly.

Moshe Orenbuch - *Credit Suisse - Analyst*

Perfect, thank you.

Operator

Ladies and gentlemen, as there are no further questions in the queue, I will now hand the call back over to Mr. Kelly for any additional or closing remarks.

Aengus Kelly - *AerCap Holdings - CEO*

Thank you, Operator. And thank you all very much for joining us today on the call. We hope to see as many of you as possible at the New York Palace at 11:30, and failing that, we will talk to you in three months' time. Thank you.

Operator

That will conclude today's conference call. Thank you for your consideration, ladies and gentlemen. You may now disconnect.

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