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AER - Q2 2014 AerCap Holdings N.V. Earnings Conference Call

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## PRESENTATION

### Operator

Welcome to the AerCap Holdings second-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 the replay purposes. I now hand over the call to Mr. Peter Wortel, Head of Investor Relations. Please go ahead, sir.

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**Peter Wortel** - *AerCap Holdings N.V. - VP of IR*

Thank you, operator. Good day, everyone, and welcome to the 2014 second-quarter results conference call. With me today on the call are Aengus Kelly, AerCap's CEO; and Keith Helming, AerCap's CFO.

Before we begin today's call I would like to read the disclaimer language to you. I also 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 judgment 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 August 12, 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 to call over to Aengus Kelly. Please go ahead.



**Aengus Kelly** - *AerCap Holdings N.V. - 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 second-quarter earnings call, the first set of results reported by AerCap following the completion of the ILFC transaction which closed on May 14. The ILFC transaction has transformed AerCap strategically, operationally, and financially. While it is still relatively early in the integration process, we are pleased to report that we have incurred no unscheduled aircraft downtime, no unplanned labor attrition, and 90% of our assets have been transferred to our Irish operations.

The operational progress thus far is thanks to the tireless efforts of the entire AerCap team around the globe, including those who have joined us from ILFC. We continue to be very impressed with the depth and quality of the talent of those professionals. Their contribution and ability to quickly integrate has provided tangible benefits, as I will detail in my remarks on our recent efforts in aircraft placement and aircraft procurement.

At the macro level we are particularly satisfied with the level of strategic interaction we are having with both our customers and OEM suppliers. The success of the transaction to date is borne out by the numbers. In Q2, which incorporated ILFC for six weeks, AerCap generated adjusted after-tax net income of \$215 million and adjusted earnings per share of \$1.31. Our net spread or NIM, which is the crucial measure of the Company's performance, ran at a five-year high of 10.1%. Our fleet utilization was 99% and as of June 30 AerCap had \$6.5 billion of available liquidity on hand. During the quarter we executed 122 aircraft transactions, more than one per day. On the sales side, since the announcement of the transaction in December 2013 we have disposed of or contracted to sell almost \$2 billion of assets, double our targeted annual asset sales of \$1 billion.

Turning to the order book, as of June 30 we have committed to purchase 350 aircraft to be delivered through the end of 2022. Despite this long lead time, I am pleased to report that we have already placed 90% of the deliveries through December 2016 and 50% of all deliveries scheduled between now and end 2022. We have deliberately held back the placement of a number of A320neo aircraft in 2016 in order to maximize the option value of these slots. This very strong placement activity is the result of our highly attractive order book and the global reach of our platform. The placement of such a substantial part of our order book provides both stability and visibility into the future profits and cash flows of AerCap.

As you are aware, we also have a purchase option to acquire an additional 50 A320neo aircraft on the same very attractive terms as the original launch terms ILFC received from Airbus. The demand for the A320neo is extremely strong and therefore we exercised this option. We firmly believe that this was value-maximizing for our shareholders.

Turning to third parties, the transaction has been extremely well received by our customers, our suppliers, and our financiers. Given the scale and global penetration of our fleet, we are engaged in all aspects of fleet planning exercises with our customers. This is providing AerCap a competitive advantage.

We have also finalized the purchase accounting adjustments precipitated by the ILFC acquisition. At the announcement of the ILFC transaction we estimated a run rate of approximately \$1 billion of after-tax net income, post-implementation of all synergies. The doubling of the stock price since the deal was announced led to non-cash purchases accounting adjustments, which will reduce earnings by approximately \$140 million per annum. Very importantly, though, this non-cash impact has been more than covered by \$170 million per annum of cash operational improvements we have observed in the business.

The ILFC deal has also caused one additional non-cash maintenance accounting adjustment which reverses over time. Keith will talk you through this.

Looking at the market and demand for aircraft we see robust demand for the A320 and 737 family aircraft. Particularly the A321 and 737-800. On wide-body side we see good demand for A330 and 777 aircraft. We are also observing continued demand for good quality 767s and 757s. The extremely attractive nature of our order book is evidenced by the very strong placement activity I referenced earlier.

In terms of receivables we have reduced the legacy ILFC receivable balance and do not have any material issues in receivables at the moment. We are of course carefully monitoring geopolitical events and potential impacts thereof.

Discipline and a strict adherence to four core strategic pillars have been at the heart of AerCap's success over the years, enabling us to successfully manage risks while driving profitability and growth. These principles apply as much to AerCap now in its position as the world's leading aircraft franchise as it has over the past several years.

To recap, firstly we take a very direct and proactive approach to managing credit risk. At the end of Q2 we had significantly reduced the legacy ILFC overdues. Secondly, as we mentioned before, we are always working at optimizing our portfolio, and you can see this reflected in both our sales and purchase activity for the quarter. Since the announcement of the ILFC transaction we have completed \$2 billion worth of aircraft sales, and subsequent to the quarter end we exercised the option to purchase 50 A320neo family aircraft from Airbus. As I noted this is an aircraft that is in a very high demand, but importantly by exercising this option we triggered another purchase option of 50 A320neos on the same terms that ILFC had negotiated, again, as part of its original launch customer order.

Thirdly, we are very focused on maintaining a long-term stable liability structure to match our long-term assets. Total financing transactions year-to-date amount to \$7.3 billion and include the origination of an unsecured revolver, term loan, and acquisition takeout financing. This demonstrates our unparalleled access to numerous funding sources around the world and strategically important access to liquidity.

Fourthly, we hedge our interest rate exposure through a combination of interest rate caps, fixed rate debt, and swaps, mitigating risks from volatile swings in interest rates. Now, despite the purchasing power our platform and liquidity position affords us as well as the markets growth potential, be in no doubt that AerCap will maintain its discipline when it comes to managing and deploying our shareholders' capital. It is these values that put air cap AerCap in the position to complete the ILFC deal in the first place.

Finally, let me say that we are deeply saddened by the horrific and tragic events regarding Malaysia Airlines flight MH17 in the Ukraine. As many of you already know, the aircraft was part of our leasing portfolio through a joint venture structure. On behalf of all of us at AerCap I would like to extend my sincere condolences to the families, friends, and loved ones of all the passengers and crew numbers who perished on board this aircraft. Our sympathies are also with Malaysian Airlines, a long-standing customer of ours.

With that, I will hand over to Keith before we start the Q&A.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Thanks, Gus. Good day, everyone. I'll start first with an update on purchase accounting which you can follow along in pages 5 and 6 of the presentation. Our second-quarter financial statements do reflect the fair value of the assets acquired and liabilities assumed in the ILFC acquisition. The impact on the purchase price driven by the significant increase in AerCap's share price from the announcement of the ILFC transaction to closing is reflected in the purchase price allocation to the assets and liabilities.

The fair values were determined using the market and income approaches and are subject to change during the 12-month measurement period. The most significant areas include flight equipment, the forward order book, outstanding debt, and a maintenance rights asset. The maintenance rights assets represents the difference between the actual physical condition of the aircraft on the acquisition date and the value based on the contracted return conditions in the lease contract, and is reflected as a maintenance rights intangible asset on the balance sheet. After discussions with the staff of the SEC through a preclearance process we concluded that our reported net income and earnings per share should reflect expensing this asset during the remaining lease term.

Moving to slide seven, although we concluded that we should expense the maintenance rights asset during the remaining lease term, we believe it is important to understand how this compares to expensing this asset over the remaining economic life of aircraft, which is what you would typically see outside of business combination accounting. The difference in these two methods is shown on page 7 of the presentation. The impact from expensing the maintenance rights asset during the remaining lease term as compared to the economic life of the aircraft will reduce reported earnings by approximately \$80 million per annum for the period through the end of 2017. The difference in the two methods have no economic impact and is non-cash and will revert post 2017. The difference in the two methods will be included in determining the adjusted net income.

Page 8 provides an update to the annual earnings run rate including synergies. Our original guidance of \$1 billion per annum remains intact. The higher depreciation and share comp costs from the increase in the share price has been more than offset by better operational performance. This includes the better top-line revenues from a greater demand for the aircraft, lower financing cost on new debt issuance, and faster transfer of aircraft to Ireland. You can see this in the section on the left side of the slide.

Slightly higher costs related to the expensing of the maintenance rights asset will impact the earnings run rate through 2017 with the offsetting impact in the year subsequent to 2017. You can see this in the middle section of the slide and the right side of the slide. It is very important to note that these earnings amounts for future periods are not guidance but are based on a steady-state to reflect the timing impact related to the expensing of the maintenance rights asset.

Moving to slide 9, our reported net income for second quarter was \$138.3 million. During second quarter we incurred post-tax expenses of \$88.4 million related to the ILFC transaction. Adjusted net income which excludes the various items listed including the adjustment for the maintenance rights asset was \$212.4 million. Reported earnings per share were \$0.84 in the second quarter. Adjusted earnings per share were \$1.29 during the same period. The average shares outstanding during the second quarter was 165 million.

Page 11, total revenue in the second quarter was \$807 million in the second quarter. Maintenance related revenue was \$47 million. Net gain on the sale of assets was \$19 million, and other income was \$24 million. The increase in revenue was driven primarily by the ILFC acquisition.

Page 12, net interest margin or net spread was -- excuse me, the annualized margin as a percent of the average leased asset was 10.1%, up from 8.5% during the same period in 2013.

Page 13, the impact from asset sales in second quarter 2014 was a pretax gain of \$19 million. During the second quarter we sold our 42% equity interest in AerData, our 37 aircraft Genesis portfolio, and four other aircraft from our own portfolio.

Page 14, leasing expenses were \$22.6 million and SG&A was \$63.3 million in the second quarter. Also in second quarter 2014 we incurred \$101 million pretax basis of transaction-related expenses relating to the ILFC acquisition.

On page 15, AerCap's unrestricted cash balance at the end of second quarter was \$1.731 billion and our total cash balance including restricted cash was \$2.530 billion. Operating cash flows were \$455 million for the second quarter.

On page 16 our available liquidity sources over the next 12 months is \$9.6 billion and contracted debt maturities and CapEx over the same period is \$6.9 billion. This results in excess liquidity coverage of \$2.7 billion and a ratio of sources to uses of 1.39 times. These sources do not include any additional financing for deliveries of new aircraft purchases.

Page 17, at the end of second quarter AerCap's debt balance was \$31.3 billion and our adjusted debt to equity ratio was 3.7 to 1. Our book equity is \$7.3 billion, and our average cost of debt for the second quarter was 3.5%.

Page 18, with regard to our second-half 2014 financial outlook, lease revenue is expected to be approximately \$5 billion on an annualized basis. Costs on an annualized basis are expected to be as follows: depreciation of \$2.1 billion, excluding the maintenance rights expense adjustment; interest expense of \$1.1 billion; and \$600 million for leasing, SG&A, and share comp expenses. The tax rate is expected to be approximately 18% in the second half of 2014.

So those were the financial details for the second quarter, and I'd like to now open it up to Q&A.

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**Peter Wortel** - AerCap Holdings N.V. - VP of IR

Operator, can you start the Q&A, please?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Moshe Orenbuch, Credit Suisse.

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### Moshe Orenbuch - Credit Suisse - Analyst

Great. Thanks. So could you maybe talk a little bit about -- I understand that the tables, the charts that you are showing us in terms of the earnings outlook are based upon a steady-state. I mean, if you think about kind of the process of the forward order book and the sales and related kind of all the accounting adjustments, is there kind of a growth rate that we should think about for the Company as we go forward?

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### Keith Helming - AerCap Holdings N.V. - CFO

Just based on contracted business -- the contracted order book as it stands today and, again, assuming that we continue to sell at least \$1 billion of aircraft per annum between now and the end of 2017, into 2018 would be roughly 5% growth rate, per annum.

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### Moshe Orenbuch - Credit Suisse - Analyst

So that growth rate is still kind of intact as you had had before?

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### Keith Helming - AerCap Holdings N.V. - CFO

It is. And again, I just stress it's based on contracted business as of today.

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### Moshe Orenbuch - Credit Suisse - Analyst

And you mentioned both the \$140 million of negative results to earnings from higher depreciation and amortization kind of more than offset by the \$170 million from better business conditions. Can you talk a little bit about what those are and whether that's something that is likely to either run off or get better?

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### Keith Helming - AerCap Holdings N.V. - CFO

Yes. I'll start first with the \$140 million on an annualized basis. Again, obviously with the increase in the share price, the purchase price we paid for the ILFC acquisition obviously was higher because we had a fixed number of shares -- 97.6 million. So the higher purchase price obviously had to be allocated to the assets and we allocated about \$2 billion more to the existing ILFC fleet. So the ILFC fleet was put on the balance sheet at a fair value of \$28 billion. So, obviously, the increased allocation, if you will, results in increased depreciation which is the most of the \$140 million per annum.

And then, of course, there's share comp programs in place. So the share price was around \$47 on the date of the closing. So the share comp programs are based on that particular stock price. So that also increased costs slightly going forward.

And \$170 million is, again, based on better top-line revenue from placement activity that we've seen thus far. It also includes lower financing costs on new debt issuances, especially the takeout financing that we did just before closing. And then also the faster transfer of aircraft to Ireland. Now,



that doesn't result in a higher run rate, long-term, but certainly in 2014 and 2015 it adds some income because we are at a lower tax rate in those years.

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**Moshe Orenbuch** - *Credit Suisse - Analyst*

Great. And then just last thing for me is it seems like certainly the debt to equity and the adjusted debt to equity numbers are better than what you had projected at the outset. How does that affect your thought process going forward?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

You are right. They are lower than what we expected. That is the other side of the run-up in the stock price, because the stock price doubled the value of the equity we gave as consideration for the acquisition was a higher number, hence the higher number on the balance sheet. We have stated that our target is to bring the Company back to the investment-grade level which is somewhere, we believe, around the three times debt equity ratio. And at that time we will evaluate how we look at further delevering growth opportunities or potential return of capital to our shareholders. But as you've seen from our track record in the past, we are very disciplined stewards of our shareholders' money.

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**Moshe Orenbuch** - *Credit Suisse - Analyst*

Thanks very much.

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**Operator**

Michael Linenberg, Deutsche Bank.

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**Catherine O'Brien** - *Deutsche Bank - Analyst*

This is actually Catherine O'Brien filling in for Mike. I actually have a follow-up just to the debt to equity question asked previously. Three to seven is actually a little bit below where you guys thought to be two years post the merger. So I was just wondering, do you have an updated timeline for when you think you will get that 3 to 1? I know you were originally aiming to achieve that four to five years post the deal close.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes. We expect to be obviously around the 3 1/2 to one level toward the end of this year. And then during 2015 we should effectively approach the 3 to 1 debt equity ratio.

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**Catherine O'Brien** - *Deutsche Bank - Analyst*

Okay. Great. And then if I can ask one more, with 90% of your aircraft deliveries through 2016 already committed, do you feel you can make some further strategic purchases over the next two years? Or do you think really management is going to be more focused on executing the merger and keeping that moving along?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, the first focus is of course making sure that the successful start we had to the integration process is continued and there is a tremendous focus internally on that. Of course, though, we are in the market every day talking to our customers, but as we said we will only spend our shareholders'



money when we think there is the appropriate risk and return trade. So, obviously, you saw evidence of that in us exercising the 50 neo's -- that's been a very successful aircraft for us. And importantly, that also triggered another option that we can exercise in the coming years for an additional 50. But if we see the right deal for our shareholders we will do it, if we don't we won't.

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**Catherine O'Brien** - *Deutsche Bank - Analyst*

Great. Thank you for the time.

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**Operator**

Scott Valentin, FBR & Co.

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**Scott Valentin** - *FBR & Co. - Analyst*

Just on the guidance -- I think, Keith, you guys talked about \$5 billion annualized basis for lease revenues. This other income line now is somewhat material I guess because of AeroTurbine. How should we think about that other revenue line going forward?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

A good portion of the other revenue is as you just said, AeroTurbine -- it's the parts sales from AeroTurbine. So I think on an annualized basis other revenue, which also includes management fees and interest income, should be approaching roughly \$100 million.

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**Scott Valentin** - *FBR & Co. - Analyst*

Okay. Great. That helps. And then just another modeling and accounting question, in terms of fully diluted share count, where should that end up given I know the -- I think outstanding shares were 212 million at quarter end, but I know there's share comp and options et cetera. Just wondering where the fully diluted share count should be going forward.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

We actually have reported -- I think we have reported that --

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

The fully diluted.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

So, you see it in the fully diluted, effectively. So the difference between the basic and diluted is what you should expect going forward.

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**Scott Valentin** - *FBR & Co. - Analyst*

Okay. Great. And in terms of -- I guess the delevering has come up a number of times, but is there a priority -- I know that integration is the number one focus. But in terms of regaining investment-grade status is that still -- do you think that's possible at three times leverage, or does it have to be at 2.5 times leverage?



**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

We will certainly be in discussions with the ratings agencies once we get close to approaching that and there's strong visibility into future cash flows, but we would certainly start those discussions with the agencies in and around the three times and take it from there.

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**Scott Valentin** - *FBR & Co. - Analyst*

Okay. Great. Thanks very much.

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**Operator**

Justine Fisher, Goldman Sachs.

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**Justine Fisher** - *Goldman Sachs - Analyst*

The first question I had is on debt repayment. I know that with the Company's cash flows at least a lot of investors on the credit side have been focused on debt that you might repay. So I know you've been asked this question before but wanted to re-ask it on whether the company is still now considering taking out any bonds early -- if that option might make sense to you even though the bonds would be expensive to take out. And then as a side note to that, you do have those long-term hybrid bonds that are callable at par now. I was wondering if the Company is considering taking those out-of-the-way to reduce debt on the balance sheet.

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

To answer your first question, we are continuing to look at the existing debt to see if it makes sense to take out and replace it with new debt. But there is obviously considerable prepayment penalties and costs related to doing that in most of the debt issuances, so it's not straightforward in terms of economic benefits. One of the things that we are looking at, though, is looking at obviously debt maturities in 2016 and 2017 and making sure that we spread out all those maturities. So, it's not necessarily repaying the debt but possibly extending some of the existing debt maturities, if you will, to continue to have a very even flow of debt maturities with the operating cash flows. You know our ILFC has done a great job in the past of matching those two, and we will continue having that as one of our primary goals.

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**Justine Fisher** - *Goldman Sachs - Analyst*

Any comment on the hybrids that are callable at par?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

No plans to change that.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

It's 50-year money at extremely low rates and is considered 50% equity in the eyes of the rating agencies, hence that's why we use the term adjusted debt equity ratio -- because \$500 million of that \$1 billion is classified as equity by the agencies, because of its very long dated nature and relatively cheap cost.

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**Justine Fisher** - *Goldman Sachs - Analyst*

Okay. And then I also had a question on the asset value for the ILFC fleet that you are now using because of purchase accounting. We know it's a pretty big write-down in book value from what the fleet was accounted for at ILFC, and I know that you guys have spoken previously about how you use a pretty conservative estimate for that. Would you think that this is probably the lowest it will be for a while, i.e., we should not expect any more write-downs at least in the next year or two because you guys been pretty conservative in how you viewed that fleet now?

And then do you think that your fleet book value is now on the conservative end versus the industry such that if we do -- and this has been a big topic of conversation on recent earnings calls -- but if we see a turn in the cycle that it might be less likely that you guys would have to write down some aircraft versus some peers?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

I'll take that one. So, we did write down the ILFC existing fleet by an additional \$4 billion. It was on ILFC's books at 32, so we put it on at fair value at 28. I think we talked about in previous calls and when we announced the transaction that we got the values from five different appraisers and at that time the average of those five appraisers was \$32 billion. So, we were still very confident that the book values that we have and the price that we paid for this portfolio is very, very attractive. Again, impairment risk is obviously -- when you come out of a fair value approach, it is very minimal.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

And also, Justine, as you know there were multibillion dollar charges taken to the ILFC fleet before it got to the \$32 billion level as well.

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**Justine Fisher** - *Goldman Sachs - Analyst*

Okay. Great. Thanks. Those were all my questions.

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**Operator**

Gary Liebowitz, Wells Fargo Securities.

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

So, I was wondering if you could give a little more color on the integration process -- what are some of the upcoming milestones? And also, do you still view the integration as a 12-month process?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Yes, we would view the integration as a 12-month process, Gary. Right now the focus is on transferring the operations into Ireland. As we mentioned, 90% of the assets have been transferred. A lot of the people are on their way over there as well. Ireland will be the largest center of operations for the Company post the closing of the integration period. The next key item is maintaining, of course, our focus on the balance sheet and ensuring that the delevering process occurs and that we are on a track back to investment-grade -- that's a key priority for the business. And of course, we very, very carefully monitor our aircraft downtime. As I mentioned, we have had no unscheduled aircraft downtime so far. And there's a tremendous focus on that through the integration process to make sure that that standard is continued.



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

I was just wondering, are you on two different accounting systems, still, two different aircraft tracking systems, or when is it just one system for the entire company?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

We have spent the last nine months effectively working -- sorry, the last eight months working the integration of the IT systems. Certain IT systems have been migrated over to one system already. By the end of the third quarter, the expectation is that we will have migrated over to the key systems which are the general ledger and the leasing system. We expect both of those to occur around the end of September, start of October.

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

Okay. Thanks. That's very helpful. Also, could you just clarify? You said you have sold or contracted to sell \$2 billion worth of aircraft already. I know there was the Genesis portfolio, \$750 million or so, and then you had a couple of young A330s. Is there \$1 billion on top of that which you have contracted already?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

It's already done, Gary. What we said is that's between the announcement of the transaction and December 2013. So it includes the sales out of the ILFC portfolio prior to closing as well -- between the period between signing and closing. So a number of aircraft were sold, including a number of 787s during that period. Also we reached an agreement with Airbus where nine of the ILFC A321s that we had contracted to purchase in 2015 have been returned to Airbus.

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

Okay. And last one, Gus, you made a reference to geopolitical risks and you are monitoring them. Can you talk about the Russian exposure you have in your feet? It looks like it's on the order of maybe 100 plus planes. I mean there have been some reports of less sourcing, early lease terminations already. Are you seeing any of that, or just where do you stand on your Russian customers?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

So you are right. We do have 100 airplanes, but that does not represent 10% of the fleet -- it's a lot less because a lot of those aircraft are lower value assets. Our main concentration in Russia is around the Aeroflot group, the state carrier. We have not observed any unusual activity on the receivables side from any of our Russian customers over the course of the last three months. We continue to be paid on time. Of course, we are looking very carefully at what is going on out there. We have not had any early lease terminations and so far I think that was confined to Dobrolet, the entity that was sanctioned. So far, we have not observed any unusual payment behavior with our Russian customer base. But as I said, we are very carefully monitoring it.

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

Thank you very much.

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**Operator**

Arren Cyganovich, Evercore.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

You talked about putting 90% of the aircraft in Ireland already, and so you are expecting to see tax rate around 18% of the second half of the year. Is there further downside for that over time into 2015?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes. I mean we still expect to get to roughly about the Irish rate which is 12.5%. 2015 -- we will be approaching that probably in the 14% to 15% range and after that you should see the steady-state 12.5%.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

Great. And in terms of the guidance for the second half of the year it seems like you are getting pretty close to the run rate guidance of \$1 billion after-tax by the end of this year. I believe you had previously said that you expected that to be fully implemented by the end of 2015. Have you essentially brought that forward a bit in terms of those expectations, or are there other aspects that are going to be diminishing purchase accounting benefits or something over 2015 that has pushed that out?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Obviously, the faster transfer of aircraft obviously is benefiting 2014 and it will be in 2015 as well. So that's the first thing. And then there's a slightly higher benefit from the fair value of the debt as of the closing date of the ILFC acquisition. So the interest costs in 2014 and 2015 will be slightly lower than what we originally expected. But that fair value of interest -- fair value of debt will run off, if you will, over the course of the remaining debt contracts.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

So that would be an upward pressure on your debt cost?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

It will be replaced, though, with obviously the rates that we've seen, like, for example, what we did with the takeout financing, if you will. So there will be a slight uptick, but there won't be a considerable uptick, if you will. But there's a slight benefit in 2014 and 2015.

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**Arren Cyganovich** - *Evercore Partners - Analyst*

Great. And then lastly, I think you had said this, but the equity credit that you are using for the subordinated debt in your adjusted debt to equity ratio, is that the ratio that the rating agencies will actually be using. So when we think about getting to the three times, to get back on the investment-grade track, that's what the rating agencies will be looking at?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

When we discussed this with the rating agencies we gave them obviously what our adjusted debt equity ratio calculation was. One of the three agencies actually has a similar calculation; the other two have different ones. So they all look at it slightly different. But we were very clear as to how we measure it and that's how we are going to be consistent in reporting this information to investors as well as the agencies.



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**Arren Cyganovich** - *Evercore Partners - Analyst*

Okay. Thank you very much.

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**Operator**

Ryan Zacharia, JAM.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

Just to clarify the tax-free question, so you expect to get to 12.5% in 2016?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Yes. By the end of 2015 we should be there. Yes.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

And when do you expect to have fully realized the \$100 million of SG&A savings?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Also at the end of 2015.

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**Ryan Zacharia** - *Jacobs Asset Management - Analyst*

Okay. Thanks, guys.

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**Operator**

Howard Goldberg, Credit Agricole.

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**Howard Goldberg** - *Credit Agricole Securities - Analyst*

I was hoping you could share with us any updated thoughts on the Ex-Im bank possibly losing its funding. And if it did, what effect do you think that would have on your business?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

If Ex-Im Bank were to pull out of funding the Boeing deliveries, I think that that vacuum would be filled by the combination of people like ourselves -- the very big leasing companies with global reach and also probably manufacturers, be it the engines or the air framers would do something, as well. So I wouldn't see it having a huge impact on ultimate demand for the aircraft types, but it would certainly probably favor people like ourselves at the margins.



**Howard Goldberg** - *Credit Agricole Securities - Analyst*

Okay. That's helpful. Can you talk about within the \$5 billion of annualized lease revenues are you including maintenance revenues in that as well? Or is that something we should add in separately?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

That also includes the maintenance revenues that we expect, per annum. And you can see for the period, second quarter, we had \$46 million of maintenance revenue.

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**Howard Goldberg** - *Credit Agricole Securities - Analyst*

Right. And last one from me, will you be providing full pro formas for the quarter in your quarterly filing? Or is that just going to be shown on a go forward basis?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

Well, we are going to continue to provide guidance as to the key elements of our earnings like we did for the second half 2014. We are going to update pro formas that we already completed for 2013 and early 2014. We are going to update those for the final purchase accounting, if you will. And then we also will provide a pro forma for the stub period in the second quarter up to the May 14 closing date.

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**Howard Goldberg** - *Credit Agricole Securities - Analyst*

Great. Thanks very much.

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**Operator**

Scott Valentin, FBR & Co.

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**Scott Valentin** - *FBR & Co. - Analyst*

Thanks for taking my follow-up. Just one quick question. Gus, you mentioned the high placement rate for the order book. How are the releasing going as you have expirations coming due in 2014, 2015? Are those mostly placed?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

They are. We have the smallest releasing task that the combined companies have faced in many years. That's a symptom of obviously the market and the improving credit quality of the customer base. We have approximately 85-odd aircraft to move between now and the end of 2015. This platform to combined entity has moved over 250 aircraft per annum in the past two years, so moving 80 out over the course of the next 16 months is a very manageable task for the platform.

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**Scott Valentin** - *FBR & Co. - Analyst*

Okay. Thanks very much.

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**Operator**

Doug Runte, Deutsche Bank.

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**Doug Runte** - *Deutsche Bank - Analyst*

Good morning, gentlemen. A question on the asset sales. You have spoken think pretty consistently about \$1 billion of aircraft sales. I'm wondering if you can talk a little bit about what your strategy and approach is in terms of portfolio pruning. Are you looking to target certain aircraft types, or is it more of a tactical and opportunistic by aircraft type going forward?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, there's a couple of aspects to disposals of aircraft. The first one is that we have a target age for our aircraft portfolio where we have always said in the past we think it should be -- these are approximate ranges -- between five and eight years of age, give or take. We feel that on average if the portfolio is close to 10 years of age then there is probably outsized risk versus the reward and probably if it's substantially less than five that we are not taking enough risk for the return for our shareholders. That's a general view in that area.

Secondly, of course we sell for credit concentration risks, and so we saw evidence of both of those disciplines during the quarter where we sold a significant number of used aircraft. In the Genesis portfolio for example the average age of what we sold -- those 37 airplanes -- was over 13 years. And then we also reached agreement with Airbus on nine A321s that were scheduled to go to American Airlines. And given our relatively large exposure there we thought it is prudent to do a transaction with Airbus where they took back those slots. So that will guide our disposition strategy. It's generally focused towards the older aircraft and managing credit exposure.

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**Doug Runte** - *Deutsche Bank - Analyst*

Great. And maybe a follow-up on Farnborough. The A330neo was obviously launched, quite a slew of orders from a variety of lessors. I'm wondering what you can say about the A330neo. How do you see it going forward? And what do you see is the impact on the existing A330ceos.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

We continue to evaluate the A330neo. Obviously at that point in time, Doug, we were very focused on the integration itself. We did of course have the A320neo option in front of us, which was a fairly straightforward decision to exercise given the demand we are seeing for that aircraft which is very strong and the very attractive terms we had because of the launch customer position.

On the 330neo we continue to evaluate, as I said. It won't come into service in any scale until towards the end of this decade -- 2019. Maybe there will be a few in 2017 and a few in 2018, but real production will really come in until 2019. We have not purchased any A330ceos of any size in the last several years. Our order was placed a good few years ago, and ILFC hasn't bought any at all in the last several years.

So by the time the neos really start to deliver, they are not really competitors because the average age of our 330ceos will be in a different category. They will be at least 10 years of age, to the extent that we are holding them at that point in time. So it won't be a direct competitor to our CEOs, so it's not something that we would see as having a huge impact on our carrying values in the near term. We are still observing robust demand for the 330 market. But the 330neo I'm sure it will be a fine aircraft, and we will take a good look at it over the course of the next year or so.

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**Doug Runte** - *Deutsche Bank - Analyst*

Great. Thanks. That's very helpful.



**Operator**

Gary Liebowitz, Wells Fargo Securities.

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

Yes. Thanks, Gus. You mentioned you are seeing especially strong demand for the larger narrow bodies. If I look at your neo backlog at least officially it's very much dominated by the A320 and not the A321. What kind of conversion options might you have as you go through the order book?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

As a launch customer for the deal we had very extensive conversion rights. Can't really comment too much more on it, Gary, but you can assume that our order book will be weighted toward where demand is at its highest.

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

Okay. Also just 737 Max, the prospects of placing an order there or is this just an absence of near-term delivery slots that makes you reluctant?

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**Aengus Kelly** - AerCap Holdings N.V. - CEO

Not so much. Again, it will have to be a transaction that makes sense for our shareholders. We will I'm sure own Max aircraft in the future, that's a given. And how we acquire those aircraft will remain to be seen. Will it be through the global reach of our platform? As I said, we are engaged at many levels in strategic discussions with the airlines because any airline that's taking new aircraft and needs to restructure their fleet -- when I say new aircraft, they are taking existing technology assets or new technology assets; they need to make room for the new technology by handing back some of the existing technology assets. It's this platform that they are going to have to talk to. So that gives us a unique position there and a competitive advantage when it comes to looking at acquiring the airplanes directly from airlines.

Of course, with the size of this Company now and its strategic position in the industry we are having very constructive discussions with the OEMs. If they put a deal on the table that makes sense for our shareholders, then that is something we will look at. But we are in no rush. We will find the right way to deploy our shareholders' capital because in the end that's why we are all here -- is to make sure that our shareholders get a fair risk and return from the money we deploy for them.

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

Thank you very much.

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**Operator**

Justine Fisher, Goldman Sachs.

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**Justine Fisher** - Goldman Sachs - Analyst

Hi. Just one other question on the asset sale front. Part of the \$2 billion of asset sales that you have concluded includes the sale of the Genesis portfolio, but securitizations are also -- new securitizations could be a way to sell additional assets in large lumps, let's say over the next year or two. Is this something that you guys are considering? We've heard some from some other lessors that sometimes it's a time-consuming process,



but then others have issued securitizations in recent years -- or have sold assets let's say to securitization vehicles in recent years and found it relatively expedient. Is this something that you guys are looking at?

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**Keith Helming** - *AerCap Holdings N.V. - CFO*

We sold obviously two big portfolios that were part of securitizations -- the ALS portfolio, we sold that prior to this year and, obviously, the Genesis portfolio. So those were -- they're not easy deals, but those were deals that -- and ways to sell a number of older aircraft. So, we are going to continue to look at that securitization -- new securitizations. And when we try to prune our portfolio we will look to see if we can do it through the sale of the equity interest in securitizations, if those are the assets we want to sell.

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**Justine Fisher** - *Goldman Sachs - Analyst*

Given that there are, according to news reports, large leasing companies out there that are either entirely for sale or that might also put large parts of their portfolios up for sale, do you think that there is a sufficient buyer base of strategics that would buy large portfolios in the event that you chose to not pursue securitizations and instead try and find strategic buyers for large packets of assets, let's say, in \$500 million to \$1 billion range?

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Well, Justine, as we have seen, we just sold a package of almost \$800 million. So there are buyers out there for different-sized packages, I'm sure, be it one to 50 airplanes. And we'll do what makes the most sense for the shareholders. If we think there's a better bid in the ABS market than in the strategic market, that's what we will do and that's what we've done in the past.

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**Justine Fisher** - *Goldman Sachs - Analyst*

Great. Thanks very much.

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**Operator**

As there are no further questions I would like to turn to call back to the speaker for any additional or closing remarks.

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**Aengus Kelly** - *AerCap Holdings N.V. - CEO*

Thank you, operator. Thank you all again for joining us on the call today, and we look forward to speaking with you again in three months time, if not before. Thank you very much.

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**Operator**

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

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