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AER - Q1 2015 AerCap Holdings NV Earnings Call

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**Jason Arnold** *RBC Capital Markets - Analyst*

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## PRESENTATION

### Operator

Welcome to today's AerCap Holdings first-quarter 2015 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 over the call to John Wikoff, Head of Investor Relations. Please go ahead.

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**John Wikoff** - *AerCap Holdings N.V. - Head of IR*

Thank you, operator. Good day, everyone. Welcome to our 2015 first-quarter 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 Drawing Room starting at 11:30 AM. Doors will open at 11 AM.

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 earning release dated May 11, 2015. A copy of the earnings release and conference call presentation are available on our website at [aercap.com](http://aercap.com). This call is open to the public and is being webcast simultaneously at [aercap.com](http://aercap.com) and will be available for replay.

I'll now turn the call over to Aengus Kelly.

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

Thank you, John. Good morning, all, and thank you for joining us for our 2015 first-quarter earnings call. We are delighted to report record results for the first quarter of 2015.

We generated adjusted net income of \$304.6 million and EPS of \$1.44. This should see us exceed an annualized EPS of \$5.00 in 2015, which is significantly higher than the guidance we provided of \$4.00 when we originally announced the ILFC transaction in December 2013.

We finished the first quarter with total assets of \$44.1 billion and net spread, a critical measure of our operational performance, of \$878 million, which is a record level for the Company and a fourfold increase on last year.

Our net interest margin was 9.7%. This also compares favorably to the 8.7% achieved in the first quarter of 2014. These results reflect the success of our transformational deal with ILFC and the success of which the ILFC platform has been rapidly integrated.

I would like to focus on the operational capability of the business for a minute. Less than a year since the closing of the ILFC acquisition, our utilization rate is running at 99% and the average remaining term of our leases is almost 6 years.

During the first quarter, we executed 104 aircraft transactions, which means we bought, sold, or leased more than 1 aircraft every 24 hours. And over the last 18 months alone, we have leased 135 wide-body aircraft.

On the forward order book, we continue to make substantial progress in leasing new aircraft. One notable transaction that closed in the first quarter was the lease of 24 Airbus A320neo aircraft to China's Southern Airlines, Asia's largest airline. In total, we have now placed almost 180 new aircraft on long-term leases from our forward order book.

I believe that our discipline in managing our assets, combined with AerCap's enhanced scale and global platform, will continue to provide significant competitive advantages to us. Our daily interaction in the market gives us unique insight into its trends.

2015 is shaping up to be a good year for demand, driven by passenger growth, which continues to grow by approximately 5.5% per annum. And fuel, our customers' largest and most volatile cost item, continues to trade at relatively low levels.

The reduction in fuel costs is extending the life span of older and midlife aircraft types, such as the Airbus A340 and the Boeing 747. This does create interesting trading opportunities and may prolong both the lifespan and operating leases for these aircraft.

We are, however, operating in an industry that has tremendous long-term growth potential. And our customers are re-fleeting for the long term with the most modern equipment available in the marketplace. Like us, they recognize that global GDP is rising and with it, the middle class in many key Asian markets is growing rapidly.

An interesting anecdote is that 100 million people board an aircraft in Asia for the first time every year. And the number of people flying today will double in the next 10 to 15 years. Near-term trends are therefore not diminishing the long-term need to re-fleet appropriately, given the potential for higher fuel prices over the longer term.

Turning to credit exposure, in a global marketplace, we'll often see territories that are under pressure, as the Russia market has been. Despite this, though, our receivables remain at historical lows.



Where there is risk, we have consistently demonstrated that our assets are highly portable. And we hold significant collateral to protect us against negative credit events.

On the liability side of the business, we are a highly cash generative company and we have a conservative approach towards the management of our balance sheet. We remain well on track to decreasing our debt equity ratio, which currently stands at 3.2 to 1 to a target of 3 to 1 by the end of this year.

As of March 31, 2015, we had \$7.3 billion of liquidity available on hand. And since the announcement of the ILFC deal in December 2013, \$14 billion of funding has been raised by AerCap.

In summary, the demand for aircraft remains strong around the globe. We are very successfully managing the liability side of our business, fleet utilization stands at 99%, and over 90% of our revenue is contracted through 2017. The combination of the operational capabilities of the AerCap platform, our long-dated leases and liability structure, will continue to drive attractive returns for our shareholders. And we will continue to allocate capital to maximize the long-term value of the business.

With that, I will hand the call over to Keith for a detailed review of our financial performance.

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

Thanks, Gus. Good morning, all. I'll start on page 5 of the presentation. Our reported net income, as Gus just mentioned, for the first quarter was \$311.5 million. Adjusted net income was \$304.6 million. The adjustments made to derive adjusted net income include the elimination of costs relating to the mark to market of interest rate caps and swaps, ILFC transaction and integration expenses, and maintenance rights expense.

Page 6, reported earnings per share were \$1.47 in first quarter. Adjusted earnings per share were \$1.44 during the same period. The average basic shares outstanding in the first quarter were 212 million and on a fully diluted basis, there were 215 million shares.

Moving to page 7, total revenue in first quarter was \$1.3 billion. Maintenance-related revenue was \$71 million. Net gain on sale of assets was \$34 million and other income was \$29 million. The increase in total revenue as compared to the same period in 2014 was driven of course by the ILFC acquisition.

Page 8. Net interest margin or net spread was \$878 million in the first quarter. The annualized margin as a percent to average lease assets was 9.7%, up from 8.7% during the same period in 2014.

Page 9. The impact from asset sales in the first quarter was a pre-tax gain of \$33.7 million. During first quarter, we sold 12 aircraft from our own portfolio, executed part-out transactions for 4 aircraft, and 5 aircraft were reclassified as finance leases, which generated a portion of the pre-tax gains.

Page 10. Leasing expenses were \$93 million and SG&A was \$95 million in the first quarter. Leasing costs include \$47 million relating to the expensing of the maintenance right asset and \$11 million relating to aircraft that terminated or defaulted.

During first quarter, we incurred expenses of \$4 million relating to the ILFC acquisition. And also in first quarter, we incurred \$5 million of impairments, which related to the aircraft we parted out, partially offsetting the gain on sale recorded in the first quarter. The tax rate for first quarter was 13.5%.

Page 11. AerCap's unrestricted cash balance at the end the first quarter was \$1.6 billion. And our total cash balance, including restricted cash, was \$1.9 billion. Operating cash flows were \$750 million in the first quarter.

Page 12. Our available liquidity sources over the next 12 months is \$10.6 billion and contracted debt maturities and CapEx over the same period is \$6.4 billion. This results in excess liquidity coverage of \$4.2 billion and a ratio of sources to uses of 1.66 times. These sources do not include additional capital we expect to generate from financing of our new aircraft purchases.



Page 13. At the end of first quarter, AerCap's debt balance was \$30.3 billion and our debt to equity ratio was 3.2 to 1. Our book equity is \$8.3 billion and the average cost of our debt for the first quarter 2015 was 3.7%. Interest cost in the first quarter was higher by approximately \$17 million from one-time charges.

Moving to page 15. With regard to the financial outlook for 2015, we believe the previous guidance we provided for adjusted net income for the full year is still a reasonable estimate. Our only update to the previous guidance is an increase in adjusted net income for the after-tax impact of the gain on sale generated during first quarter. Of course, if we generate further gains on sale in subsequent quarters in 2015, adjusted net income would increase further.

And on page 16, we also believe the previous guidance we provided for reported net income for the full year 2015 is still a reasonable estimate. Again, with the only update being an increase in reported net income for the after-tax of the gain on sale generated during first quarter.

Those were the financial highlights for our first quarter. So operator, I'd now like to open the call to Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Mike Linenberg, Deutsche Bank.

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### Richa Talwar - Deutsche Bank - Analyst

Hello, everyone. Good morning. This is actually Richa Talwar filling in for Mike. Just a couple of questions from us. First, can you tell us from your order book what specific aircraft you have left to place and how demand is shaping up for those units?

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

Well, we can say that all of our Airbus A350s are placed. All of our Boeing 737-800s are placed. We have a small number of Boeing 737MAX aircraft which are placed, too.

We have Airbus A320neos to place, mainly towards the end of the decade, but the Airbus A320neo is a very high demand airplane. And we have seen incredible uptake for this aircraft. We have never observed such a rapid uptake for a new aircraft before, so we are very confident of moving those.

Our next available Boeing 787 is in the first half of 2018. So we have moved pretty much everything through 2017 has been moved and we have a few airplanes to move in 2018.

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### Richa Talwar - Deutsche Bank - Analyst

Okay, thanks for that. And then on your leverage, I noticed that you recently shaved off 75 basis points off your \$1.1 billion term loan. And you also extended the maturity of that loan by three years. So I was curious to know if you saw more balance sheet cleanup opportunities like that down the line?



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

We're going to continue to look to see if there's ways to capitalize on some economic improvements in our liability structure. Those moves were primarily to push out some of the terminations, if you will, out to three years to levelize our debt repayments.

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**Richa Talwar** - *Deutsche Bank - Analyst*

Okay, got it. But the real step function change in your cost of debt will really come, I guess, when you regain that investment grade credit rating. Is that how we should think about it?

And do you expect to regain that credit rating, concurrent with you achieving the 3 to 1 debt to equity target? Or do you think it's going to take a bit longer than that?

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

Well, again, on the debt equity target, we do expect to hit the 3 to 1 in 2015. In fact, as we said before, we expect to actually be below 3 to 1 later in 2015.

Again, we're going to continue updating the rating agencies as to our results. Obviously, they are watching us closely. So again, we'll see what happens with our rating later on in the year.

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**Richa Talwar** - *Deutsche Bank - Analyst*

Okay, fair enough. I'll let someone else ask a question. Thank you.

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**Operator**

Gary Liebowitz, Wells Fargo.

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

Gus, to follow up on the product question. On your Boeing 787 placements, can you compare how terms are in the market in terms of lease yield and overall economics to planes that you are placing today versus the ones you started to place a year ago?

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

On average, I would say, Gary, you're getting more or less the same yields. You've got to remember that as the interest rates come down, that takes down a headline rate, too. Once you adjust for interest rates on average, where we placed them a couple of years ago is similar to where they are today.

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

Okay, okay. And I see you mentioned you added a few Boeing 737MAXs. Is that a sale-leaseback transaction?

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

Yes, that was a deal where, given one of the advantages of having the scale of AerCap is that you don't necessarily need the OEMs, that you can create your own transactions in uncontested situations.

And in this example, an airline needed our help with something. And as part of the transaction, we then picked up some Boeing 737MAX aircraft in 2018.

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

Okay. And then just two quick ones, maybe for Keith. Keith, your guidance for the full-year reported SG&A leasing expenses is still just over \$1 billion. But in the first quarter, they were about \$200 million, if my math is right. What changes in the future quarters?

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

The maintenance right expensing is actually connected to the various maintenance events on the aircraft. So obviously, each quarter isn't going to be consistent, but the estimate that we gave previously for the full year is again the same best estimate we have now. So obviously, the last three quarters would be heavier maintenance right expense than in the first quarter.

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

Okay, great. And then just last one -- on the gains from sales, you mentioned somewhere from the sales of aircraft, the others, and some of it was from reclassifying to finance leases. Can you break that down? Because I'm just trying to compute how much of a margin you generated on the plane sales?

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

Yes. Out of the \$34 million of pre-tax gains, about \$14 million came from the finance leases.

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

Thank you very much.

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**Operator**

Jason Arnold, RBC Capital Markets.

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**Jason Arnold** - *RBC Capital Markets - Analyst*

I guess just a follow-up to the last one. Can you talk a little bit about the decision-making process on reclassifying the five aircraft finance lease?

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

Yes, it really just follows US GAAP accounting. So effectively with those aircraft, something changed commercially -- like an extension, if you will -- and it created the requirement to reclassify them from operating lease to finance lease. So effectively, it's viewed as a sale for accounting purposes, which is why gains can be generated from those items.



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

Yes, it mainly focused on a package of Airbus A340 airplanes that were extended for a long period of time. Once they were extended for that longer period of time, the risks and rewards of ownership substantially transferred to the operator rather than us.

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**Jason Arnold** - *RBC Capital Markets - Analyst*

Got you. Makes sense. Okay, thanks for that. And then just another one on AeroTurbine. You've got a unique alternative versus some of your peers in deciding whether to sell or part out aircraft.

Just wondering if you could talk a bit about the decision-making process you go through in determining the best course of action for an individual aircraft. And then maybe comment on the parts market in general?

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

Sure. So when an older aircraft comes back, you can either re-lease it, you can sell it, or you can part it out. The re-leasing is generally the preferred option, of course. But if it is uneconomic to invest too much money in overhauling the cabin and the engines, then you will sell it or then part it out. That's the first decision that's made.

Then you look at the alternative of what's available for sale of the airplane versus what's available on the part outside. Now as you can see from our numbers, in most cases, we actually sell the airplanes, because there's still a very good bid for the sale of the assets. And you can see that there was five airplanes that we parted out during the quarter that were transferred from the AerCap book.

The parts market overall -- it is still a very steady margin we are seeing there. The gross margin in the AeroTurbine business is fairly robust at the moment.

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**Jason Arnold** - *RBC Capital Markets - Analyst*

Perfect. Thanks a lot for the color.

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**Operator**

Vincent Caintic, Macquarie.

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**Vincent Caintic** - *Macquarie Capital Markets - Analyst*

Wanted to switch over to capital management. And if you have any updated thoughts on your share repurchase program, that would be great.

And in particular, Gus, you discussed that you're a asset manager. And in the current environment, where it seems like there's a lot of competition for aircraft, how do you view, say, allocating capital towards aircraft portfolio growth versus your stock? Thanks.

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

There was a few questions there, but I'll start with capital allocation. We have announced \$250 million program in the last quarter. We were able to do that because of the operational performance of the business has been very strong, well ahead of what we had guided.





Also, we had sold more aircraft than we'd bought. As you can see, that's pretty indicative, then, of how we think about things. And we've been net sellers of aircraft since the acquisition. That has enabled us to delever the business and also start the first part of a capital return program with the \$250 million announcement.

So when it comes to asset acquisitions at the moment in the market, our focus is making sure that if we spend our shareholders' money, we've got to make sure that that's the best use of those funds. That's better than paying down debt and that's better than giving the money back to the shareholders.

And we see that in certain events where that is the case, if you are in an open contested sale-leaseback opportunity, that is not the case. But with our scale and size, we don't need to compete in that market. Airlines will always come to us whenever they are looking at a fleet. We are a fleet program, be it for used aircraft or new aircraft, because invariably, we'll have a significant number of assets in the airline.

But overall on the allocation of capital, a bit like whether we decide to sell airplanes or not. And the first objective following the acquisition was to delever the balance sheet, because the leverage did go up.

Once we feel very confident -- once we felt very confident about that, we started to allocate money to repurchase shares. And that's based also on how we look at the value that we could get in the aircraft acquisition market. If that changes, if we see that there is better value buying airplanes, then we would change that. But at the moment, our bias, as you can see by our action, has been more towards returning capital.

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**Vincent Caintic** - *Macquarie Capital Markets - Analyst*

Thanks for that color. And then in terms of the aircraft sales, is there any particular trends for what you are seeing for the demand of those aircraft? Any particular types of airlines or investors and any particular geographies?

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

No. The market for aircraft sales has been pretty robust for the course of the last two-odd years, really. Aircraft still generate on a risk-reward basis a fairly generous yield. If you are a financial institution who wants to put a small bit of money to work into this sector, you can generate all size yields.

You know, if you look at what you would get in this business, you might get a net interest margin. You won't get what we earn, but you might get, say, 5% or 6%, which is probably three times what you're earning on your mortgage book. So it's still a pretty attractive sector from that standpoint to people in financial services.

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**Vincent Caintic** - *Macquarie Capital Markets - Analyst*

Great. Thanks very much.

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**Operator**

Moshe Orenbuch, Credit Suisse.

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

Thanks. You sort of answered part of this a moment ago, but one of the -- a couple of the other lessors have talked about airlines looking to sell more planes and sale leasebacks because of the dollar's strength. Is that a trend that you've seen and does that at some future point start your trend towards investing again?



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

I think that's one of the factors. We don't see that as the main factor driving sale-leaseback activity. You know, always airlines are going to put up -- over 40% in a book is always going to go up in the sale-leaseback market. So I wouldn't particularly blame the strong dollar for it. And there's lots of different issues that are at play in different parts of the world. So it's one of the factors in that area.

We have our own view of what constitutes value for spending our shareholders' money. And if we see the right opportunity, we'll be aggressive. But if we don't, we won't.

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

Okay. And if you were to just extend your answer to the last question, how do you kind of see the evolution of that? You've got the \$250 million buyback. It sounds like you'd be -- have met your leverage target by the middle of the year. Kind of what happens, what should we be looking for in the second half?

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

Well, we said that we'll get to the leverage target by the end of the year. That's our target: by the end of the year, we expect to get down to the 3 to 1 debt to equity. So that's the target where we feel that the business has a very robust balance sheet and is able to take advantage of opportunities to deploy capital, be it on the aircraft acquisition side or be it on the share buyback side. But we'll wait and see to how we get -- where we are at the end of the year.

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

Okay. Thanks very much.

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**Operator**

Nathan Hong, Morgan Stanley.

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**Nathan Hong** - *Morgan Stanley - Analyst*

Thanks for taking the question. I was wondering if you could talk about the order book. Just curious to hear how comfortable you are with the current size and how we should be thinking about growth going forward? Is there any specific aircraft types that you would actually like to add, given the chance?

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

When we talk about growth, we are interested in growth at the bottom line. Growing the top line is meaningless if you're not growing the bottom line. And if we see the right opportunity to acquire aircraft, be it from the manufacturers or in the sale-leaseback market or getting another lessor, if we see the right value, that's when we'll invest. But there's no aircraft I need that's not going to make money for my shareholders.

If, assuming that the equation is right and it's a fair risk and reward for the shareholders, the bias is towards the Airbus A320neo, the Boeing 737MAX, the Boeing 787 and the Airbus A350, as they will be the core of the global fleet as we go forward. Today, it is Airbus A320, the Boeing 737, Boeing 777 and Airbus A330. But fast forward 10 years, it will be the four aircraft I previously mentioned. So that would be where our natural bias would be.

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**Nathan Hong** - Morgan Stanley - Analyst

Got it. And you did mention the Boeing 737MAXs earlier on the call. I'm just curious to hear how much visibility do you typically have on sale-leaseback opportunities? I guess in your current discussion with global airlines, are most looking to do a sale-leaseback deal for this year? Or are you actually feeling more interest for 2016 and beyond?

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

Yes, it's more -- well, in the Boeing 737MAX, it's 2017, 2018 -- well, they only really start beginning to deliver it at the end of 2017. So it's more towards the end of the decade -- 2018, 2019 -- and those aircraft types, but you'll see plenty of opportunity. You can rest assured that at least 40% of all the deliveries to those airlines will end up in lessor hands one way or the other.

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**Nathan Hong** - Morgan Stanley - Analyst

And then just outside of the Boeing 737MAXs, I guess overall the remaining aircraft types?

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

Well I said the Airbus A320neo, the Boeing 737MAX, the Airbus A350 and the Boeing 787. They'd be the four that would -- you'd have a -- we have a bias towards, other things being equal. But you know, the real bias is towards maximizing the bottom line of the business.

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**Nathan Hong** - Morgan Stanley - Analyst

Okay. Thanks for the time. Appreciate it.

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**Operator**

(Operator Instructions) Scott Valentin, FBR & Company.

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

Thank you for taking my question. Just with regard to the margin, your comments regarding capital flowing into this space. Just wondering if you see -- you mentioned yields are holding, but I'm wondering if you're seeing any pressure on any aircraft types, maybe on yield?

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

The yield environment has been pretty robust. Back over the last 12 months, there's been a general fall in treasury yields, which comes into the market. But you are indifferent to that, really. So we would say the yield environment is fairly robust.

We have commented on a couple of earnings calls now about the increased demand we've seen for the older airplane types, such as Boeing 767, Boeing 75s, Boeing 74s, Airbus A340s, and you see that in our sales activity during the last couple of quarters, too.

So overall, the environment is fairly robust right now. We are also running at 99% utilization, which is full employment, really, because we will always have some airplanes transitioning from one airline to another. So that's a good indicator of the demand environment there also.

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

Okay. So the 9.7%, that net spread, you think that's fairly sustainable for foreseeable future?

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

Yes. We actually expect the spread to be around 9.8% for the full year 2015. The only -- as we mentioned before, we believe our interest cost will levelize at roughly the 4%. So other than that change, that margin should stay relatively intact.

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

Okay, thanks. And then one final question. Just any update on Russia? You mentioned 99% utilization rates. It seems like there's no issues in Russia right now, but maybe your thoughts going forward?

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

Well, you saw us take airplanes out of Russia quite rapidly over the Christmas holidays. That's done since then. The ruble has strengthened significantly. It got down to RUB51 there last week. It's at RUB52 and change today, which is an awful long way from where it was at Christmas and the over RUB70 mark at one for a couple of days.

So that's been a big benefit to those carriers. So at the moment in Russia, we're within 30 days on all of our customers.

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

Okay, thanks very much.

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**Operator**

Andrew Light, Citigroup.

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**Andrew Light** - *Citigroup - Analyst*

Good morning. Are you still on track to make disposals of roughly \$1 billion this year? Or do you think you could step that up, given the strength of the used market?

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

Andrew, again, if we see the opportunities. We are in the market all the time and if we can go north of \$1 billion, we certainly will. If we think we're getting a fair price for it, you know.

But just because we bought an airplane for a good price from when we did the ILFC transaction doesn't mean I'm going to give it away to someone else unless I get paid a good price, too. I'm not going to pass on the gains we generated.

So we need to get a fair price, but I think we will. And I'm sure if the market is there, we'll go over the \$1 billion.

**Andrew Light** - Citigroup - Analyst

And based on your comments, would it be fair to say that your current view on new aircraft is the risk-reward is better with sale and leasebacks in the near term than OEM orders?

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

I wouldn't say that, Andrew. You haven't seen us do anything significant on either side, really, over the course of the last year. We did exercise a 50-aircraft option, as it came with our Airbus neo transaction, but was pretty much a no-brainer because it was off the original deal that ILFC had cut.

And we've done a few sale-leasebacks here and there. And again, they've been in uncontested situations. But the focus over the course of the last year has been more on delevering the balance sheet.

As we go into next year, if we see good value, be it in the sale and leaseback market or with the OEMs, we'd be aggressive. But we have to make sure that we are making money for our shareholders when we do something like that.

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**Andrew Light** - Citigroup - Analyst

Can I just ask a quick question on the sale and leasebacks? Because I found very few leasing companies that actually do enter the contested markets. How would it divide, would you say, between contested and uncontested? Rough split between the two?

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

(inaudible) There's planes on the street every week. So most of them are in the contested market, that's the reality. There's two lessors in the world who have the capability to have such a huge installed fleet with airlines where they probably don't have to enter into that contested market.

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**Andrew Light** - Citigroup - Analyst

Okay, thank you very much.

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**Operator**

Kristine Liwag, BofA Merrill Lynch.

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**Kristine Liwag** - BofA Merrill Lynch - Analyst

Can you walk through what drove the asset impairment of \$5 million in the quarter? And then also which specific aircraft drove these impairments? And also as a follow-on to that, can you provide an update to the appraised value of your aircraft fleet versus their book value?

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

Well, with regard to the \$4.7 million impairment. It related to the four aircraft that we parted out. So these aircraft were put on consignment and we took an adjustment based on where we think their gross proceeds are going to be.

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And we don't have an update yet on the fair value of our existing portfolio yet. We'll provide that information sometime in the future.

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**Kristine Liwag** - *BofA Merrill Lynch - Analyst*

Great. And the OEMs are working on bridging the current generation wide-body aircraft to the new aircraft derivatives that are coming on in the next couple of years. Can you walk us through how you are thinking about the opportunities, maybe in the OEM market there, if you have these end-of-the-line aircraft coming into the market?

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

We obviously are placing a lot of wide-body airplanes ourselves. Just over the last 18 months, on the used side, we moved about 110 used wide-body airplanes. So no one in the world is moving anything like that. So we have a fairly good insight into what the returns would be for those type of aircraft.

Overall, though, I would say that our bias is more towards if we're spending money on aircraft on wide-body airplanes. Other things being equal, our bias would be more towards the newer technology: the Airbus A350, the Boeing 787.

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**Kristine Liwag** - *BofA Merrill Lynch - Analyst*

Great, thank you.

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**Operator**

Darryl Genovesi, UBS.

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**Darryl Genovesi** - *UBS Securities LLC - Analyst*

Thanks for taking the question. Also thanks for including the market value of the future delivery stream in the presentation. I was wondering if these market value estimates that you've got on the slide, which is slide 23, are these market value estimates directly comparable to the contractual obligations that you disclosed in your filing? So that would be I guess the \$24.3 billion at the end of Q4, timing differences aside?

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

Yes, these include -- these amounts are the fair value of the aircraft that are delivering in each of these individual years. So it's part of the fair value exercise that we went through with purchase accounting (technical difficulty) existing fleet as well as the order book.

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**Darryl Genovesi** - *UBS Securities LLC - Analyst*

So if I just -- if I compare the \$26.9 billion that you've got on this slide to the \$24.3 billion number in the filing, that would imply that you essentially see your forward order book as about \$2.6 billion of the money, plus or minus a small margin to reflect activity in the first quarter. Does that sound about right?

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

Yes. It's the amount that's -- the so-called fair value impact from the order book is just over \$2 billion, as you indicated. Yes.

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**Darryl Genovesi** - *UBS Securities LLC - Analyst*

Okay. And I guess how much of that is still on the balance sheet? So essentially what's left of the backlog mark that you took when you closed the ILFC transaction?

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

It's about \$2.2 billion I think that is still left on the balance sheet. And the amount was [\$2.15] billion, roughly, when we closed the transaction.

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**Darryl Genovesi** - *UBS Securities LLC - Analyst*

Okay. So you think the backlog is -- the fair value of the backlog is essentially still reflected on the balance sheet today is kind of what I would take away -- is that the right takeaway?

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

Yes. As the rest of these obviously aircraft deliver, then the rest of that \$2.2 billion will be allocated to the individual aircraft.

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**Darryl Genovesi** - *UBS Securities LLC - Analyst*

Great, thanks very much.

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**Operator**

(Operator Instructions) Ryan Zacharia, JAM.

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

Thanks for taking the questions. Just two. Interest expense -- it said in the presentation there was a one-timer of \$17 million. Can you just comment on what that was?

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

Yes. I related it to -- when -- part of the accounting policy for pre-delivery payments is that you capitalize a portion of your interest costs. And we changed that methodology in the first quarter, effectively catching up the capitalization from the ILFC acquisition. So that was a one-time charge and you know, you won't see it in quarters going forward.

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

So net of that and the \$7 million of mark to market gains, we are looking at interest expense like \$260 million-ish. Does that sound about right?

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

Yes, that's right. So the 3.7% interest cost would have been approximately 3.5%.



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

And then the SG&A declined sequentially. It was little bit bigger than expectations. I think there was \$10 million of one-timers in Q4, but we saw about a \$20 million decline sequentially. Was there anything one-time in nature this quarter?

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

Not particularly. I mean, we're getting down to the level that we think we're going to run on a quarterly basis. I think we're nearly just -- we're nearly at 100% of our SG&A cost take out from the ILFC acquisition. So obviously, the number will move around a little bit in each individual quarter, but this gets to the rough level that you should see going forward.

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

So like \$70 million core SG&A ex-share-based comp?

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

Excluding share-based comp, yes.

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

Okay, great. Thanks.

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**Operator**

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

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

Thank you, operator. Thank you all for joining us today. We look forward to seeing as many of you as possible in the New York Palace later today. And then failing that, we will talk to you on the next quarter's call. Thank you very much.

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**Operator**

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

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