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EDITED TRANSCRIPT

AER - Q4 2016 AerCap Holdings NV Earnings Call

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PRESENTATION

Operator

Welcome to today's AerCap Holdings 2016 fourth quarter and full-year results conference call. (Operator Instructions). This call is being Webcast, and an audio version of the call will be available on the Company's Website. This call is also being recorded for replay purposes. I will now hand the call over to Brian Canniffe, Head of Investor Relations.

Brian Canniffe - *AerCap Holdings NV - IR*

Thank you, operator, and hello, everyone. Welcome to our 2016 fourth quarter and full-year results conference call.

With me today is our Chief Executive Officer Aengus Kelly, our Chief Financial Officer Keith Helming, and our Deputy Chief Financial Officer Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

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AerCap undertakes no obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated February 21st, 2017.

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

I will now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings NV - CEO*

Thank you, Brian. Good morning, everybody, and thank you for joining us for our 2016 fourth quarter and full-year earnings call. I am delighted to report another quarter of strong earnings and profitability. We had a record fourth quarter with net after-tax income of $365 million and $1.047 billion for the full-year net after-tax income. This equates to reported earnings per share $2.01 for the quarter and $5.52 for the full year.

You will have noticed that we are no longer reporting adjusted net income and adjusted earnings per share numbers. Keith and Pete will provide more information on this.

The strong performance of the AerCap platform, which drove a fleet utilization rate of 99.5% for the full year, reflects the continuing resilience of air travel and its ability to withstand the numerous challenges faced by the industry in recent years.

In 2016, the breadth and depth of our platform enabled us to capture increasing demand for aircraft by executing a record 458 transactions, which includes the signing of 279 lease agreements. This is almost two aircraft transactions every working day.

During the fourth quarter alone, we completed 116 aircraft transactions, including 56 new lease agreements, 19 new aircraft purchases, and 41 aircraft sales. Notable deliveries included the first Airbus A320neo to Spirit Airlines, making the airline the first in the United States to receive this aircraft type.

We also delivered the first Boeing 787 Dreamliner to Air France. We now have 78% of new aircraft deliveries through 2019 leased. This level of activity provides the business with a high level of visibility into future earnings.

We continue to actively manage our portfolio during the fourth quarter, resulting in over $3 billion of sales for the full year, 44% of which were widebodies. Based on Ascend market data, we estimate this accounts for approximately 23% of all used aircraft traded globally in 2016. This volume of activity demonstrates not only the unequaled reach and scale of the AerCap platform, but also the continued demand for aircraft in the secondary market.

There has been discussion in the media regarding recent deferral activity by several airlines and what, if any, impact this has on lessors like AerCap. As I have said before, deferrals are nothing new, and they are to be expected. The reason is that the OEMs know several things.

Firstly, they know air traffic will grow. And every 15 years, it will approximately double. Secondly, they know they have a noninvestment-grade customer base in the airlines. And three, they know they have a huge fixed cost base in cash.

The only way to hedge these risks and meet future demand is to overcommit an order. That is why we see that orders are extremely cyclical and always have been, but deliveries are very stable and have been also.

Deliveries closely track the growth in air travel. It is to be expected that, from time to time, certain regions or carriers become oversupplied and require deferrals. Clearly, from our transaction activity, however, in 2016, there continues to be solid demand for aircraft on a global basis, and we don't see that changing.

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Like the OEM, but unlike the airline, AerCap is able to sell its product wherever in the world there is demand. We are not constrained by geography.

So, looking ahead to 2017, we expect to see stable levels of growth in the market. And this will be supported by the eighth year in a row of aggregate airline profitability. Our airline clients also remain well supported by a favorable financing environment with the debt and capital markets looking to participate in the need to finance growth in the sector.

As far as AerCap's own financing activities are concerned, we signed financing transactions for $1.7 billion during the fourth quarter, and we maintain over $9.5 billion of available liquidity. Our debt-to-equity ratio remains at 2.7 to 1.

You will also have seen last week our upgrade to investment grade by Moody's. We are now the only independent lessor in the world that is investment-grade rated by all the three ratings agencies. We view this as a further endorsement of the way we are managing the business.

During 2016, we continued to demonstrate discipline when deploying shareholder capital, your money. In the fourth quarter, we repurchased 5.7 million shares for $241 million. This brings the full-year total of share repurchases to 25 million shares for $966 million, equating to 12% of the outstanding share count.

The level of visibility we have into future earnings and the substantial excess capital we are able to generate provides us with the confidence to increase our share buyback program by $350 million through June 30.

As you've heard me say before, we remain true to our mantra. We do not grow for growth's sake. And we adopt a flexible and nimble approach to generating the greatest long-term value for our shareholders.

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

Keith Helming - *AerCap Holdings NV - CFO*

Thanks, Gus. Good morning. I'll start on slide 5 of the presentation. Our reported net income for the fourth quarter was $364.7 million and was $1.0466 billion for full-year 2016. Our return on equity for the full year was approximately 12.5% on a reported basis.

Fourth quarter 2016 reported net income was up 38% over the fourth quarter of 2015, driven in part by higher gains on sales and other nonrecurring items, as well as lower AeroTurbine losses.

The decrease in year-over-year net income was due to a few items, including sales of older aircraft during 2015 and 2016, which reduced average lease assets by approximately $1.6 billion. The proceeds from these sales were used to repurchase shares.

As you can see, we have just provided reported net income on this slide. Going forward, we have decided to eliminate adjusted net income and earnings per share and focus on our GAAP results only. Instead, we will provide the required information in order to understand our results by showing the key components of net income, as we have done on this slide.

We believe this will help simplify our financial disclosures and make it easier to understand our financial results. With this transitional period, we have provided the same reconciliation from reported net income and earnings per share to the adjusted numbers on slides 15 and 16 of this presentation.

The components of net income that we have provided include those that have the most significant impact to the results. Gains on the sale of aircraft and other nonrecurring items provided $115.4 million of net income in fourth quarter 2016. The nonrecurring items in fourth quarter included income from lease terminations and a gain related to the repayment of a note receivable earlier than expected.

We incurred a loss of $13.6 million in our AeroTurbine business during fourth quarter, which consisted primarily of operating expenses and further severance-related costs. The downsizing of AeroTurbine remains on track with the schedule we discussed previously.

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Maintenance rights amortization impact in fourth quarter was a reduction to net income of $33.6 million. And all other earnings in fourth quarter were $296.5 million.

Turning to slide 6, our earnings per share for the fourth quarter on a reported basis were $2.01, and for the full-year 2016, earnings per share were $5.52. Fourth quarter 2016 earnings per share were up 51% over the fourth quarter of 2015, driven by the same factors as those impacting net income and were also favorably impacted by our share repurchase.

Full-year 2016 earnings per share were down slightly versus the full year of 2015 and were also impacted by the same factors as those driving net income. Although full-year 2016 earnings per share were favorably impacted by our share repurchases, it does not yet reflect the full-year benefits we will receive going forward from the shares we've repurchased during 2016.

On this slide, we have also provided the earnings per share impact of the same components as we did for net income.

Slide 7, our book value per share at the end of fourth quarter was $49.33. Over the past year, we have grown book value per share by 17%. And since the end of 2014, book value per share has grown by 33%. This has been accomplished through a combination of earnings, as well as share repurchases.

Since the beginning of 2015 and through 2016, we have reduced our share count by 40.7 million shares, or approximately 19% of our total shares outstanding. Including the shares purchased to date in 2017, we have repurchased 20% of total shares outstanding. In doing so, we have returned over $1.8 billion to shareholders during this time period.

With that, let me pass it over to Pete, who will take you through the rest of the financial results.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Thanks, Keith. Good morning, everyone. Starting on slide 8, our total revenue for the fourth quarter was $1.3686 billion, an increase of $30.6 million from the fourth quarter of 2015. As Keith mentioned, our aircraft sales during 2015 and 2016 reduced our average lease assets by about $1.6 billion. This led to a reduction in basic lease rents from $1.1488 billion in the fourth quarter of 2015 to $1.0618 billion in 2016.

Our maintenance revenues for the fourth quarter were $159.1 million, an increase of $22.4 million from the prior-year period, primarily due to lease terminations and amendments along with a higher amount of end-of-lease payments during the fourth quarter of 2016.

Our net gain on sales was $58.7 million for the quarter compared to $43.4 million a year ago. The increase was primarily due to the higher volume of sales that closed in the fourth quarter of 2016 as we completed the sales of a number of larger portfolios that were signed earlier in the year.

Our other income was $89 million for the quarter, which included $73 million of nonrecurring income from a combination of lease terminations and a gain related to the repayment of our note receivable earlier than we had expected.

Turning to slide 9, the reduction in our average lease assets due to asset sales resulted in lower basic lease rents and a net interest margin of $790.5 million for the fourth quarter compared to $874.3 million in the prior-year period.

Our annualized net spread for the fourth quarter was 9.3% compared to 9.8% in the fourth quarter of 2015. The two main drivers of this were an increase in our average cost of debt and a reduction in the average age of our fleet. Our average cost of debt increased from 3.7% in the fourth quarter of 2015 to 3.9% this past quarter, primarily due to the issuances of new longer-term bonds that replace shorter-term ILFC notes that had a lower interest expense as a result of purchase accounting.

The average age of our fleet improved from 7.7 years to 7.4 years as a result of asset sales and the delivery of new aircraft, which typically have lower yields than older aircraft.

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On slide 10, in the fourth quarter, we sold 37 aircraft with an average age of 15 years. We also placed three 737NGs on long-term leases, which led us to reclassify them from operating to finance leases. For the full year, we had a net gain of $138.5 million, resulting in a sales margin of approximately 5% for the full year.

On the purchase side, we took delivery of 19 new aircraft during the fourth quarter, including 14 A320neos, three A350s, and two Boeing 787s.

Turning to slide 11, our leasing expenses were $143.3 million for the fourth quarter versus $126.3 million in 2015. The increase was primarily due to costs associated with the lease terminations during the fourth quarter of 2016.

Our SG&A expenses were $96.8 million, down from $103.6 million in the fourth quarter of 2015. This decrease in expenses was primarily due to the downsizing of AeroTurbine.

We reported asset impairments of $11.4 million in the fourth quarter, which related to the lease termination of two aircraft. This was more than offset by the release of $13.4 million of maintenance reserves related to these aircraft.

And finally, we had transaction restructuring expenses of $8.3 million during the quarter, which were primarily severance costs related to the AeroTurbine downsizing.

Slide 12, we continue to maintain a very strong liquidity position, ending the year with available liquidity of $9.5 billion. Together with our estimated operating cash flows, that gives us 1.5 times coverage of our next 12 months' cash needs, or excess cash coverage of $4 billion.

So far this year, we've already completed a number of significant financing transactions. These include the amendment extension and upsizing of our revolving credit facility from $3 billion to $3.75 billion, the amendment and extension of over $2 billion of term loan facilities, and the $600 million bond offering we did in January that was heavily oversubscribed.

So, overall, for AerCap, this was another quarter of strong operating and financial performance for our business to finish a very strong 2016. We leased 279 aircraft during the year, an average of more than one every business day. We sold over $3 billion worth of assets, significantly improving the quality of our portfolio. And we used the excess capital we generated to buy back 25 million shares, or $966 million worth of stock.

At the same time, we continued to de-lever and improve our balance sheet during the course of the year. And with the Moody's upgrade announced last week, we are now the only independent aircraft leasing company to be rated investment grade by all three major rating agencies.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Conor Cunningham, Cowen & Co.

Conor Cunningham - *Cowen & Co - Analyst*

Hey, guys. It's actually Conor Cunningham in for Helane. So, it seems like AerCap's been very active with the aircraft sales over the last several years. Can you talk about like the expected trends in 2017-2018? Should we expect the sales to slow as we get a new uptick or as they have an uptick in new technology entering the fleet? Thanks.

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Aengus Kelly - *AerCap Holdings NV - CEO*

Conor, well, as you know, we expect to sell at least $1 billion of assets each year. In the last two years, we have significantly exceeded that. Now, the key to selling assets is to sell assets that you want to sell. And we tend to target the midlife assets of 10 to 16 years of age -- average age is around 13 years -- as we want to try and drive the average age of the portfolio down a bit and focus the portfolio more on the newer technology assets.

If we still observe a strong bid in the market, I think we'll continue to sell at levels in excess of $1 billion for the assets we want to sell. So far, the market this year seems to be reasonably strong. That could change, of course. But, at the moment, I would say it's likely that we would probably exceed $1 billion. By how much, though, is uncertain.

Conor Cunningham - *Cowen & Co - Analyst*

Great. And just to follow up, there's been -- some airlines have talked about delays with the A321neo. Have you incorporated that into your outlook, or do you expect that to be a major change to any of your delivery schedules in the near term?

Aengus Kelly - *AerCap Holdings NV - CEO*

It may lead to a slide of several months for sure on the Pratt & Whitney-powered A320neo. I think it's likely that we will see three months. But, that has been incorporated into the guidance we've given. If there were any further delays, we'll update on the next call.

Conor Cunningham - *Cowen & Co - Analyst*

Great. And then I just have one maintenance question. In terms of how you guys calculate your utilization rate, do you include assets held for sale? I assume you do if there's a lease attached to it in the near term.

Unidentified Company Representative

Yes, we do. We do include those in it.

Conor Cunningham - *Cowen & Co - Analyst*

Great. Thanks, guys.

Operator

Gary Liebowitz, Wells Fargo.

Gary Liebowitz - *Wells Fargo - Analyst*

Thanks, operator. Good day, gentlemen. Gus, back in November, you talked about the sort of medium-term sale leaseback addressable market opportunity. Are you seeing prices in that market get anywhere close to attractive, or are share buybacks still far more additive?

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Aengus Kelly - *AerCap Holdings NV - CEO*

To date, share buybacks have been more attractive. We bid every week. In fact, we put out three bids yesterday, but that's nothing unusual, Gary. We will put out several bids every week. We want to make sure you know where the market is.

In November, we did say that we expected the addressable market to increase in size as more of the new technology begins to deliver. Now, that is definitely happening that there is more activity. Pricing, though, I think still remains tilted in the wrong direction for us. We don't feel there's a fair reward for the risk.

But, we continue to bid at levels that we think do make sense. But, as we see it here today, the share buyback is a more attractive alternative. That may well change, though, during the year as the addressable market gets bigger.

Gary Liebowitz - *Wells Fargo - Analyst*

Okay. And for Keith or Pete, it looks like you've accelerated some 2018 deliveries into 2017, at least relative to where we were back on September 30th. What is the right CapEx number to be using for this year?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

So, Gary, that's correct. We moved some forward actually from 2018 based on notifications that we'd gotten from Airbus. So, just to -- so you recall, we had assumed basically a six-month delay in terms of 2017, Pratt & Whitney A320neos. And we're still assuming that. But, when we'd gotten the notification from Airbus, we've moved those up to whatever the notification date was.

In terms of CapEx, contracted CapEx for 2017 will be about just over $6 billion.

Gary Liebowitz - *Wells Fargo - Analyst*

Okay. Great. And just one last one, since you're moving to GAAP instead of adjusted EPS, what should we be assuming for 2017, the MRA adjustment? Is it about flat like you thought it might be going, or how much should we be adjusting for that?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

The maintenance rights adjustment for 2017 should be around -- well, we talked about $150 million. That's what we'd given out in the first quarter of last year. And that's still probably the best estimate.

Gary Liebowitz - *Wells Fargo - Analyst*

Okay. And then going down in 2018.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, in 2018, I think the $30 million number that we gave is still about right.

Gary Liebowitz - *Wells Fargo - Analyst*

Okay. Thank you very much.

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Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great. Thanks. Most of my questions actually have been asked and answered already. But, could you maybe just talk a little bit about the decision to go to eliminate the other forms of reporting and go just to GAAP?

Keith Helming - *AerCap Holdings NV - CFO*

Yes, so to -- as Pete just pointed out, 2017 should actually really be the last year where the maintenance right impact is significant. And the other items, including AeroTurbine in 2017, is not expected to be significant.

So, we think that, going forward, providing just one net income number, the GAAP number, and providing this component analysis will be a better way to kind of explain what's going on with the business results.

That way, we don't have to sit here and always debate as to what goes into or is excluded from adjusted net income or a non-GAAP measure. So, we're going to focus on GAAP results, and we'll provide whatever analytical information we need to explain the results.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it. That makes a lot of sense. Okay. And I guess, given that you've got the expectation of $6 billion of CapEx and then the $350 million of the buyback over the first half, how does that -- do you think will that impact the debt-to-equity ratio? You're kind of a few ticks below your target. How would that likely evolve over that period?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, so right now, we're at 2.7 to 1. That's where we ended the year. We'll continue to stay within the 2.7 to 3 to 1 range during the course of the year. And we'll always want to maintain within that level. So, I think you should just expect us to be well within that range for the year.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it. Thanks very much.

Operator

Rajeev Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thanks for the time. Can you walk us through the implications of rising interest rates to borrowing cost and then also how you think that's going to impact yields as we look forward? And then a follow up.

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Aengus Kelly - *AerCap Holdings NV - CEO*

I suppose the first thing is that we run a hedged book. So, we are not exposed to rising rates on the book of business that's written. And the vast -- and any lease that's placed on forward order has an automatic adjustment for any increase in interest rates.

Now, as we go forward, rises in rates have historically been accompanied by rises in lease rates. On the used aircraft, there's generally a lag period. It could be six months give or take. But, it only applies to those aircraft that are repricing at that point in time as rates are rising.

And having said that, also, a rising rate environment generally correlates to a better global growth environment. And what we've always observed in the past, a rising rate environment generally leads to asset inflation.

So, so long as you're hedged, right, and that you're operating in a decent global economy, rising rates should not be a threat to the business. The -- and as I said, this Company does run a hedged book.

Pete, anything you'd add?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

No, I think that's it.

Rajeev Lalwani - *Morgan Stanley - Analyst*

And what about the debt size versus borrowing cost?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, my point is that if -- so, obviously, your swap rate -- if the curve, the yield curve, goes up by 50 points across the curve, then your underlying cost of funding has risen by 50 basis points. But, the lease rate should move with that. And certainly, on new aircraft, they move immediately day by day on the new aircraft with the movement in the swap rates.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Understood. I got your point now. And then another question. You previously talked about asset values being marked below market as far as on your books. Can you talk about how that takes into account just SG&A and lease expense levels and just thoughts going forward as far as overall SG&A levels and what we should be modeling?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Well, so on the SG&A front, I would expect a quarterly average should be around $75 million a quarter. That's probably the best run rate to be using for that.

Keith Helming - *AerCap Holdings NV - CFO*

After the first half of 2017, we don't expect to have really any expenses any longer with AeroTurbine. So, that would be really just core leasing business.

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Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Okay. And sorry, when you talk about your asset values, does that take into account SG&A levels, or is that just a separate line item?

Keith Helming - *AerCap Holdings NV - CFO*

It does not. No, it does not take into consideration SG&A. It's just looking at the aircraft value itself, all components of the aircraft value.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Great. Very helpful, gentlemen. Thank you so much.

Operator

Nish Mani, JPMorgan.

Nish Mani - *JPMorgan - Analyst*

Hey, good afternoon, guys. This is actually Nish Mani on for Jamie Baker. I wanted to ask you a quick question about how you guys are thinking about potential tax reform in the United States and how that would impact US airline decisions to lease versus own. Obviously, there are other economic and credit considerations there. But, have you started to engage your US customers on this topic?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, so, Nish, at this point, it's a little early to predict how US tax form -- tax reform will play out. From our standpoint, we're obviously not a US company. And we have very few assets in the US. So, there would be very little direct impact we think.

In terms of the impact on our customers and on the OEMs, it's very preliminary at this stage. And it's hard to predict how any of the provisions, including the border adjustment mechanism, could act -- whether it will actually happen, and if so, how exactly would that play out.

Obviously, we're monitoring developments in this area. But, I think it's a little early to tell at this point.

Nish Mani - *JPMorgan - Analyst*

Yes, okay. That's helpful. And a quick question on 787 pricing. Just wanted to see if you guys could provide any color on 787 pricing, specifically by model, today relative to maybe a year ago or so and see if any of the market has changed at all.

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, we have moved -- in total, between what we've taken and what we've bought on sale leaseback and still on order, we had over 90 787s. We were over 10% of the market. We've sold some of those assets.

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The 787-9 we think is a tremendous airplane. We see good demand for that. We have only three units left out of our entire position. They're coming in 2019-ish. And we can put them away if we want to.

I think you'll see that the 787 has been fairly durable over the last year. We haven't seen any material move one way or the other in the last 12 months in the lease rates. Obviously, interest rates impacted, as interest rates fell significantly last year. The absolute rate went down with that. But, overall, it's still a very good airplane. And it's the heart of the family.

We don't have any 787-10s. And on the 787-8, a few years ago, we converted all of our open positions into -9s. So, I think that gives you a good indication of where we think the heart of the market is and where there's a fair risk and reward for the owners.

Nish Mani - *JPMorgan - Analyst*

Yes, okay. That is very helpful color. Thank you so much.

Operator

Jason Arnold, RBC Capital Markets.

Aengus Kelly - *AerCap Holdings NV - CEO*

Operator, we'll take the next question.

Operator

Justine Fisher, Goldman Sachs.

Justine Fisher - *Goldman Sachs - Analyst*

Good morning. Hello? Hi. Okay. The first question I have is just on the method for financing your CapEx this year and on the balance sheet. I know that you guys have the secured debt to unsecured debt ratio of 45, 55 right now. And you guys have said that you want to maintain at around that level in order to maintain access to various pools of capital.

But, with an investment grade rating, I would think that that access should remain more open over time to various pools of capital, even if you didn't use one of them for a couple of years, let's say, if the unsecured market was very good.

And also, it probably creates more consistent access to the unsecured market. So, does the rating change -- now that you're IG by all three agencies, change the way you're viewing your secured to unsecured debt ratio?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Justine, thanks for your question. No, it doesn't really change it in our minds. As you said, we want to make sure that we maintain access to all types of funding. So, we cap our secured debt to total assets ratio at 30%. We're just below that at this point. And that will move around, right? It'll move around somewhat below that 30% from time to time.

But, we think that being at that level gives us -- we have good access to the unsecured markets, as we've seen, right? We have good access to the secured markets as well. We're bringing in new lenders. And we think that that's an appropriate place to be.

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Justine Fisher - *Goldman Sachs - Analyst*

Okay. Yes, and then that -- so, the 45 was the percent of your total debt outstanding. So, your target is 30% debt to assets. Okay. So, I was talking about a different number.

And then the other question is just on the widebody deferrals for Gus. I know that there are definitely deferrals all the time. And we saw that, with some Latin American airlines, the lessors played a huge role in helping to figure out some of the delivery problems there, despite the difficulties in demand that we saw.

But, I think that what's concerning investors is that, with the Gulf carriers now, they represent a huge percentage of the widebody backlog. And I think, in people's recent memories, we can't think of a region that represented such a huge percent of the backlog that is going to see deferrals.

So, can you tell us your view on how to I guess allay investor concerns, given the size of the Gulf carriers in the order book?

Aengus Kelly - *AerCap Holdings NV - CEO*

Justine, I would say that we have certainly seen a region having a much bigger share of the backlog and gone through significant stress for a long period of time, which would be the North American markets. As you know, most North American airlines have filed multiple times with massive backlogs and massive amounts of airplanes in the system, far greater than what's in the Gulf.

I would go back to what I have said in my prepared comments. The OEMs know that there will be growth in air travel. The OEMs know they have a noninvestment-grade customer base. And they have a massive fixed cost base they have to cover.

In that regard, I think the OEMs knew when they were taking those orders from several airlines with the same business model that it was unlikely that all of those aircraft would be delivered in the timeframe ordered. But, they didn't know which one would make it or which one would take more of them in the nearer term. So, they needed to take them from all of them.

It's similar to what happened in India, where they overcommitted to everyone. And Kingfisher was the one that everyone thought would make it at the start, but didn't.

So, it's just -- it's nothing really new in the scheme of things. And I think we will see the Middle Eastern carriers have revolutionized air travel. They've been tremendous for the consumer, absolutely tremendous. You can now fly for less in absolute dollar amount almost anywhere in the world than you could do 20 years ago. That's inflation -- that's without adjusting for inflation.

So, these carriers have been a massive boon for the consumers. And I do think that, as we go forward, they'll work their way through their issues. But, this is nothing that we haven't seen before. And the OEMs are not going to put the national carriers of these countries into bankruptcy. That will not happen. They will work with them. They will defer what needs to be done.

As always, for any airline in the world, it is an expensive discussion to go to Seattle or Toulouse and ask for help. And that's how the OEMs make a lot of money, Justine, is by deferrals. They know the day the airline signs the order there's a high likelihood that they'll have to come back and look for help. And when they do that, the price goes up significantly. And so, it's part of the OEM business model and their profit margin to expect deferrals.

Justine Fisher - *Goldman Sachs - Analyst*

All right. Thanks very much.

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Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Yes, hey, good morning, good afternoon, everybody. Peter, I think you had mentioned the sales margin was about 5% for the full year on the assets sold. What was it for the fourth quarter? Did you say that?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

I didn't say that. It was actually higher for the fourth quarter. It was around 9% for the fourth quarter. And that really -- that moves around. It moves around depending on what happens to close during that quarter.

As I mentioned before, we had a number of big portfolios that comprised a big percentage of the sales during last year. And so, some of those closed in the second quarter, some third, some in the fourth. And so, I think it's probably best to look at the full-year margin. I think that's more reflective of what we would expect going forward as well.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Great. That's helpful. And then just my second question, I guess, Keith, you had presented this sort of focusing on this GAAP number. And I get that, although there is that element of nonrecurring. And that is something that is notoriously difficult to forecast.

I'm not sure. In subsequent quarters, are you going to put out like an 8-K in advance about what those potential nonrecurring numbers are so that we have a forecast that can sort of sync up with what you're thinking about on a GAAP basis?

And then just kind of a follow on, what was the -- what was that nonrecurring in that $115 million, just so I have the right numbers here? What was the nonrecurring number in the fourth quarter, if you could provide that? Thank you.

Keith Helming - *AerCap Holdings NV - CFO*

Yes, well, the gain on sale, you can see that in the slides. It was about 40% of that total number. The nonrecurring items would fall into the other income category. And it consisted of primarily lease terminations, so effectively payments we received as a result of lease terminations, as well as effectively income on a note receivable that was paid off early. So, these were two as we refer to them nonrecurring items. And obviously, we don't expect to see those significantly in future, period.

Now, in terms of going forward, whenever we have this sort of thing, we will break out those items and make sure that people understand what's in the numbers, what's recurring, what isn't recurring. And to the extent, obviously, that we know in advance what the numbers will be in the forecast, we would provide that as well.

So, even though we're going to a different way of reporting here, the information, we will be as transparent with this as we always have been.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Great. That's super helpful. Thank you.

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Operator

Andrew Light, Citi.

Andrew Light - *Citi - Analyst*

Yes, hi there. Got a question on European airlines. You've got some fairly significant exposure to two or three airlines in Europe that are in somewhat distressed situation. Do you expect in general in Europe to see more defaults and/or restructuring initiatives to affect AerCap this year?

Aengus Kelly - *AerCap Holdings NV - CEO*

Andrew, Europe is doing fine for us and has done so for the last couple of years actually. We've moved a lot of aircraft in Europe. There's always -- Europe is a highly fragmented market. And so, that leads itself naturally to some weaker players. But, will we have some restructuring defaults? Possibly, but I don't see anything out of the ordinary.

I think the area where there is obviously concern at the moment is more around Turkey than anywhere else, given the events there during last summer and the decline in traffic in Turkey due to the tragic events there recently.

But, having said that then, we have seen a turn in Russia. Two years ago, Russia was in a really tough spot. And we were taking lots of airplanes out of Russia, far greater than anything that's going on in Europe at the moment. And those did not have a material impact on the results of this Company during that period of time.

And now, with the stronger ruble and people just have -- once people travel, they want to travel again. That's why it's so resilient. And people have adjusted their budgets. And we still -- we see tremendous demand from the Russian traveler again to go abroad. They experienced it for the first time over the last decade. And people adjust their budgets so that this is one of the last things that gets cut in a household. And we're seeing the resilience of that in the Russian market.

But, I would say, at the moment, on a global basis, Turkey is somewhere where there are definite stresses there for sure and parts of the Mediterranean Africa. But, these are not anything beyond the norm that we experience every year. There's unfortunately some part of the world that always has its issues.

Andrew Light - *Citi - Analyst*

Thanks. Can I ask a follow up? On your forward order book, you've got a fairly healthy pipeline of deliveries through to 2021. And then it drops down quite considerably. At what point do you -- will you think about an order placement still to 2022 onwards?

Aengus Kelly - *AerCap Holdings NV - CEO*

Only when we feel that there is a fair risk and reward from the manufacturers. We certainly are not here to fill their backlogs. We're here to make money for our shareholders. And if there is an attractive transaction with the manufacturers, then that's fine. If not, I have no problem not buying a single airplane from them ever again. But, it has to be something that makes money for our shareholders. And if their deals are there tomorrow that makes that happen, great. And if they never come, I don't care.

Andrew Light - *Citi - Analyst*

That's fair enough. Thanks a lot.

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Operator

Arren Cyganovich, DA Davidson & Co.

Arren Cyganovich - *DA Davidson & Co - Analyst*

Thanks. Gus, how is the strong dollar impacting your customer base? Is there any discussion about changes in US trade policy, etc., that would make you a little worried about stressing some of your customer base with the strengthening dollar?

Aengus Kelly - *AerCap Holdings NV - CEO*

I think it's too early to tell if there will be protectionism around the world. All I can say is that the benefits of liberalization of air travel have been extraordinary boost for the consumer globally. As I just mentioned, it is cheaper now to fly anywhere in the world in absolute dollar terms than it was 20 years ago, even without adjusting for inflation. That's a tremendous boon for the customer. And that's the result of liberalization.

Protectionism will -- I can assure you the customer will pay an awful lot more for air travel once there is protectionism. That's what created Southwest. It created Ryanair. It created Emirates. All of these airlines have changed the face of air travel, or Air Asia in Asia. So, I think that, if that were to happen, it would really hurt the average guy on the street.

Now, the strong dollar itself that has happened, certainly in some jurisdictions, particularly in Mexico, of course, we have seen the impact there. The airlines are so far coping with it. It may well -- there's two sides to it, of course. Look, if an airline is weak, this may push it over the edge. We don't see anything unusual there in that level of activity beyond the norm with airline stress.

However, it does, of course, mean that airlines in those jurisdictions are somewhat less likely to buy the asset themselves, as the large dollar expenditure may not be as financeable as it was. And therefore, the leaseback may be a more attractive alternative.

Arren Cyganovich - *DA Davidson & Co - Analyst*

Thanks. And then looking at your maintenance rents for the quarter, they were elevated. Were there any defaults or lease terminations that were unexpected that generated that this quarter?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, we had a higher level of lease terminations that we -- essentially due to negotiated terminations with airlines. And so, that led to -- what happens in those cases is we tend to sweep the maintenance reserves because the maintenance isn't performed on the aircraft. So, the aircraft's returned to us, and we recognize those revenues. So, that's why you saw both the higher level of maintenance revenues in the quarter and also a higher level of leasing expenses.

Arren Cyganovich - *DA Davidson & Co - Analyst*

Got it. And then just lastly, for modeling purpose, what's the dollar amount of CapEx looking like on a quarterly basis for the next few quarters?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Well, it moves around quarter to quarter. But, as I said, for the full year, it will be about $6 billion for 2017.

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Keith Helming - *AerCap Holdings NV - CFO*

Of which probably about 40% is in the first half.

Arren Cyganovich - *DA Davidson & Co - Analyst*

Okay. Thank you.

Operator

Scott Valentine, Compass Point.

Scott Valentine - *Compass Point - Analyst*

Thanks for taking my question. Just with regard to the Moody's upgrade, does that impact your outlook at all for your kind of your cost of funds outlook? I know you'd given guidance in November for a net spread. I'm just wondering if the upgrade has any positive impact or no impact at all.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Well, we had factored in a little improvement relative to where we were back in November when we gave the forecast. So, we expected to see some improvement there. I'd say we have seen spreads come in a little, obviously, since we did our deal, our bond deal, and since we had the Moody's upgrade.

On the other hand, we've also seen some higher interest rates as -- higher rates in the meantime. So, those probably offset each other in terms of where we are. So, in terms of our forecast overall, we're pretty much still within the range that we gave you in November.

Scott Valentine - *Compass Point - Analyst*

Okay. Thanks. And then just a follow up on that point. The decision to move away from the adjusted earnings, just present GAAP earnings, how should we think about the previous guidance? I think it was $5.60 to $5.80 was kind of a core number before the gain on sale of any aircraft. Just wondering, is that kind of a number to use going forward for -- and add an assumption on gain on sale to get to kind of the GAAP number? That the way we should think about it?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, I would still use that number. So, I'd say we're still within the range that we gave you then. If you think about the adjustment items we have included, those were really two.

One was the maintenance rights amortization impact that we talked about earlier of $150 million. So, I'd factor that in. The other was AeroTurbine losses of around $25 million. So, if you kind of add those back, that would -- or those would -- or adjust for those, that would give you the core on a reported basis. And then yes, I would add gains to that, whatever your expectation is on gains.

Scott Valentine - *Compass Point - Analyst*

Okay. Thanks very much.

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Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes.

Operator

Christopher Nolan, FBR & Co.

Christopher Nolan - *FBR & Co - Analyst*

Hey, thanks. Gus, your earlier comments in terms with people traveling once and want to go again, I'll put the exception if anyone has gone on a long trip in the back of an MD80. I think that'll put you off traveling for a little while.

Another point, the CapEx for $6 billion, the slide deck on page 12 shows $5 billion for 2017. What's the difference there?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

$5 billion of cash is what we expect. In terms of contracted CapEx, that's a little over $6 billion.

Aengus Kelly - *AerCap Holdings NV - CEO*

You've got the PDPs to be added on.

Christopher Nolan - *FBR & Co - Analyst*

Gotcha. And then also, the $350 million share repurchase program, is this just upscale of the $250 million that was previously announced to go through 3/31? Is this -- or is this a separate announcement?

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

This is a new program in addition to that one.

Christopher Nolan - *FBR & Co - Analyst*

Okay. So, we've got $250 million through 3/31 and $350 million on top of that.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

That's correct.

Christopher Nolan - *FBR & Co - Analyst*

Finally, on the lease sale margins, which are up, are you seeing the value or are these aircraft being sold with leases I presume? And that is driving prices now than just the metal?

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Aengus Kelly - *AerCap Holdings NV - CEO*

All aircraft that we sell are with leases attached.

Christopher Nolan - *FBR & Co - Analyst*

So, what's driving up the margins? I think you addressed this earlier, but I wasn't quite clear.

Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, the -- so, we had a higher margin in the fourth quarter. But, again, I think it's really due to -- we just had some aircraft -- most of these were part of big sales, big portfolio sales, and that we had lower margins in the third quarter, higher in the fourth quarter. They tend to even out. And so, that's why I say I think you -- if you look at -- the reason why we gave -- provided the margin for the full year is I think that's more representative of what you would see rather than any particular quarter.

Christopher Nolan - *FBR & Co - Analyst*

Okay. Final question on the order book, again. And I know you answered this a little bit earlier. Is the strategy -- it seems like the order book is running down by 25% is -- or running off in 2017 by value. Is the strategy here to start capitalizing on potential deferrals or airlines that might've over-ordered, because it looks like the early order slots for the A320neo and the MAX are pretty much taken up?

Aengus Kelly - *AerCap Holdings NV - CEO*

Yes, it's about 20% give or take. I suppose the total CapEx, we'll go through it in 2017. But, that's plenty. Look, as I said earlier on, if there's a deal there to be done with the OEMs that's attractive, that's fine. If there isn't, I couldn't care less. There'll be plenty of opportunity for the Company. We've always demonstrated that in the past. I'm not particularly bothered about the OEMs.

Christopher Nolan - *FBR & Co - Analyst*

Okay. Thanks for taking my questions.

Operator

Jason Arnold, RBC Capital Markets.

Jason Arnold - *RBC Capital Markets - Analyst*

Hi, guys. Sorry for the telecom issue there. Just curious, any aircraft types in particular that you're seeing stronger appeal for or perhaps lack of interest from your airline customers at present?

Aengus Kelly - *AerCap Holdings NV - CEO*

I think, on the new technology stuff, the A320neo is certainly extremely liquid asset and is proving itself to be a very liquid airplane. We're moving -- in fact this week, just earlier on Sunday of this week, we agreed a deal for another five airplanes in 2021. That's I suppose the most liquid asset out there.

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Then you have the 737 MAX 8 is doing well. We don't have any MAX 9s. We don't have any MAX 7s. We think the MAX 8 is a very good airplane. On the 787s, you heard my commentary earlier. We think that the -9 is a liquid machine. And on the A350 side, we think the 900 is a liquid machine. And that's evidenced by our own actions in that all of our 350s are 900s. And on the 787 side, everything we could, we put into -9s and have no -10s.

Jason Arnold - *RBC Capital Markets - Analyst*

Okay. Super. Thanks. And then I guess the other one I was curious on is, any updated thoughts on Iran as an opportunity set, or is kind of the complications from a geopolitical factor there problematic?

Aengus Kelly - *AerCap Holdings NV - CEO*

Once we have more clarity on Iran, it is a market that we will carefully look at, but under no circumstances will we violate any sanctions. And the issue is that, while you could say sanctions are lifted, its day one risk has been eliminated of your lease. However, we are entering into a transaction for a multiyear period.

And when we put an airplane in, there are other parties as part of that transaction. There's the financiers, and there's the insurers and ourselves, the owners, or you guys, the owners. And what we have to look at is, what is -- happen in the event if there were to be a snapback of sanctions, how would that impact your insurance policy or your financing structure? And you need to have clarity over there. So, it's multiple parties have to get comfortable with that potential. And that process is ongoing. Once there's clarity around that, we'll know what action to take.

Jason Arnold - *RBC Capital Markets - Analyst*

Okay. Super. Thanks very much for the color, guys.

Aengus Kelly - *AerCap Holdings NV - CEO*

You're welcome.

Operator

Kristine Liwag, BofA Merrill Lynch.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Hi, good morning, everyone. Can you quantify if any late payments your your airline customers today and how they compared to last year? And are there particular regions of the world where -- that may be on your watch list this year that you didn't have last year?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, Kristine, we know there's been no great movement in receivables. And you can see that when we file the quarterly report one way or the other. The jurisdictions have moved each year. Unfortunately, some part of the world is always in trouble. It's a big world, and things happen.

So, at the moment, Turkey, as I mentioned earlier on, is under pressure. We are starting to see a turn in Brazil. It's a slow turn, but it's coming we feel. And we are also seeing a real turn in Russia. It generally takes these markets a couple of years to turn. But, on a global basis, there's no absolute change. And in terms of regions, shifted more, as I said, to Turkey and some parts of the Mediterranean Africa.

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Kristine Liwag - *BofA Merrill Lynch - Analyst*

And earlier, you mentioned how protectionism is a key risk to global airline industries. So, when you discuss this with your airline customers, to what degree are they thinking about the risk of possible renegotiations of US open skies agreements? And how much flexibility are they building into their fleet planning?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, I think, look, no one is willing to change their fleet plan at the moment. It's too uncertain. Every action has a reaction. So, I think many of them would hope in their heart of hearts for the status quo. Even though some may be tempted by an oligopoly, I think in their heart of hearts, they would be afraid of what would happen if there was to be a return to protectionism across the world.

It certainly wouldn't do any favors for the traveling public, that's for sure.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great. And maybe one last question for me. With the $1 billion placeholder for aircraft sales this year, can you discuss the expected profile of this fleet compared to your existing fleet? And also, is a 5% gain on sales still a reasonable expectation in 2017?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, the gain on sale is driven by the type of airplanes we sell. I would just look back, Kristine, over the last decade. And you can see a consistent gain on sale in the business.

In terms of the type of assets we'll sell, I would expect it'll be more of the same of what we saw last year with a focus on the midlife assets between 10 and 16, 17 years of age.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Thank you very much.

Aengus Kelly - *AerCap Holdings NV - CEO*

You're very welcome.

Operator

Gary Liebowitz, Wells Fargo.

Gary Liebowitz - *Wells Fargo - Analyst*

Yes, thanks, operator. Pete, not to beat a dead horse here, but going back to the guidance of $5.60 to $5.80 for this year that was on a core EPS basis, are you saying we should reduce that by about $1 a share for the items that are included in GAAP that you had excluded, then on top of that add our estimate of trading gains?

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Peter Juhas - *AerCap Holdings NV - Deputy CFO*

Yes, so if you -- Gary, what I'm saying is, if you were to -- we gave that outlook on an adjusted basis, obviously, right? So, if you were to convert that to reported, really, there are two main items in that. One is the maintenance rights amortization impact, which was -- which is $150 million. So, depending on your assumption about share count, right, that's -- you would factor that in.

And then the other one is the AeroTurbine results, which we gave was $25 million. So, if you were going from adjusted to reported, you would deduct both of those I think. And then obviously, you have to think about what you would expect in terms of gains on sale. I think those are the three items.

Gary Liebowitz - *Wells Fargo - Analyst*

Okay. And then just one, Gus. You stopped disclosing the average duration of new leases and re-leases. What kind of trends are you seeing there, especially with respect to widebody aircraft?

Aengus Kelly - *AerCap Holdings NV - CEO*

Nothing different, Gary. To be fair, we're still seeing the new stuff. As I said, we just signed a handful of them on Sunday for 12 years. And the used stuff bounces around the four-, five-year category, nothing different there.

Gary Liebowitz - *Wells Fargo - Analyst*

Were those widebody placements for 12 years?

Aengus Kelly - *AerCap Holdings NV - CEO*

They were narrowbodies.

Gary Liebowitz - *Wells Fargo - Analyst*

Okay. I thank you very much.

Aengus Kelly - *AerCap Holdings NV - CEO*

You're welcome.

Well, thank you, all, very much for joining us on the call. We look forward to seeing a number of you tomorrow in New York and on Thursday and speaking again in May. Thank you very much. Thank you, operator.

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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