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PRESENTATION

Operator

Good day, and welcome to the AerCap Third Quarter 2018 Financial Results Call. (Operator Instructions) Today's conference is being recorded. And a copy of the presentation will be available on the company's website following the call.

At this time, I'd like to turn the conference over to Mr. Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

Joseph McGinley ***AerCap Holdings N.V. - Head of IR***

Thank you, operator, and hello, everyone. Welcome to our third quarter 2018 conference call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

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

AerCap undertakes no obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call.

Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated October 30, 2018. 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. We will shortly run through our earnings presentation, and we'll allow time at the end for Q&A. As a reminder, I'd ask that analysts limit themselves to one question and one follow-up. I will now turn the call over to Aengus Kelly.

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

Thank you, Joe. Good morning, everyone, and thank you for joining us for our third quarter 2018 earnings call. I'm pleased to report another quarter of strong earnings and profitability. During the quarter, we generated earnings per share of $1.79 and net income of $263 million, both of which were driven by a strong underlying performance of the business. I'd like to remind everyone what the underlying business is. AerCap is the world's largest owner of commercial aircraft. This provides us with tremendous scale and insight to the entire aviation industry. We place our aircraft in long-term leases to 200 customers in 80 countries. This diversification, coupled with our proactive approach to risk management, has contained credit cost to 1% of revenue throughout the last decade. The relentless focus of the AerCap platform on a consistent strategy and operating excellence has resulted in double-digit earnings growth and 12 years of uninterrupted GAAP profitability. This has been achieved despite a $147 oil, the financial crisis, the Eurozone crisis, et cetera.

Furthermore, this unrivaled value-creation has been achieved without any large financial or industrial parent. This is the AerCap business.

The AerCap platform remained very active in Q3, executing 87 aircraft transactions, including 20 widebodies. Our utilization rate improved to 99.4%, reflective of the strong broad-based demand for our aircraft. Passenger traffic continues to grow strongly, with IATA reporting a 6.4% growth in RPKs for the month of August. Load factors reached record levels of 85.3%, edging closer to what we see as a natural ceiling. We took delivery of 12 new aircraft in Q3, comprised of 6 A320neos, 2 A350s, 2 787s and our first 2 737 MAX 8s. These aircraft types are the most in-demand variants of today's new technology aircraft family. This demand is reflected in our strong placement activity with 95% of our lease rents through 2021 already contracted. Our average remaining lease term is one of the highest in the industry at 7.1 years, up from 6.6 at the end of Q3 '17. Given the production delays in Airbus and Boeing, we now expect to take delivery of 33 aircraft in the fourth quarter as a small number of units have shifted into 2019.

Our training team remained active during the quarter as we continue to optimize our portfolio. We sold 13 aircraft in Q3. These included 2 A330s, 2 767s, 2 777s and 1 A340 as well as 6 narrow-body aircraft. Sales of midlife and older aircraft, coupled with the delivery of new technology aircraft, has decreased our average fleet age to 6.6 years, down from 7.1 in September of 2017. This will move towards the low 6s by the end of 2019 as our order book delivers. I would like to highlight, however, that we do not believe that newer aircraft are always better. It is far more nuanced than that. You have to make sure that you have the new aircraft that your customers want for the next 20 to 25 years, not just the next 8 to 10. We've been very careful with our portfolio management strategy to ensure that we only have the most in-demand aircraft and that age is a secondary consideration. There are plenty of excellent older aircraft, just like there are new aircraft that we would not purchase today. The average age of our current technology aircraft is over 10 years, and we are very confident that these aircraft will be in demand for the next 12 years, thereby consuming the remaining economic value and reducing any impairment risk. In contrast,, we believe that young variants of current technology assets will face residual value risk because in 12 years, these aircraft will be replaced in large numbers by new technology assets such as the Neo and the 787. We will continue to manage the fleet to maximize value rather than purely age. At a macro level, we see a generally healthy environment for airlines, notwithstanding the recent increase in oil prices. We continue to see solid demand for good aircraft. We've now placed over 90% of our order book through 2020. The 3 major markets of Europe, North America and China continue to perform well. Domestic travel in the U.S. and China grew 5.2% and 14.9%, respectively, in August, significantly ahead of GDP growth. While there have been a number of smaller bankruptcy events in the last couple of months such as Primera and Small Planet, these cases have been small in nature and reflect individual issues. We believe the airline industry is in a stronger structural position that it was a decade ago, which provides better scope for carriers to manage capacity and cash flows. Nonetheless, we will likely see some weaker airlines continue to struggle through the winter as they face higher fuel prices and in some cases, a decrease in the value of their local currency relative to the U.S. dollar. It should be remembered that we protect ourselves from these events by collecting security deposits and maintenance reserves and having an active approach to risk management. The culmination of these factors means that credit costs have averaged 1% of lease revenue in the last 10 years. This shows the power of the AerCap platform. On the liability side of our business, we closed on $750 million of debt facilities in the third quarter at attractive pricing. We continue to carry strong levels of liquidity, ending the quarter with $11 billion. We also ended the quarter with the leverage of 2.7x, which is the lower end of our 2.7 to 3x target range. Our share repurchase program continued during the quarter. In Q3, we spent $87 million buying back 1.5 million shares. This brought the total number of shares repurchased so far this year to 10.2 million shares for $540 million. Since June 2015, we've repurchased 35% of the company. As we highlighted on our Q2 earnings call, we continually evaluate our options for capital deployment. And today, we're announcing a new share repurchase program of $200 million effective through March 31, 2019. In closing, our third quarter results demonstrate once again the consistency of the AerCap business. We will continue to run AerCap to optimize shareholder value and generate long-term consistent returns for our shareholders. With that, I'll hand the call over to Pete for a detailed review of our financial performance.

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

Thanks, Gus. Good morning, everyone. I'll start on Slide 5 of the presentation. Our net income was $263 million for the third quarter and our diluted earnings per share was $1.79. Our net income was roughly flat year-over-year, while our EPS was up 10%, primarily driven by the repurchase of 20 million shares from July 2017 through September 2018. On Slide 6, over the past year, our book value per share has increased 11% from $55.06 to $61.24. In the third quarter, we repurchased $87 million worth of stock and this year-to-date through last Friday, we've repurchased 10.2 million shares as Gus said for a total $540 million. As Gus mentioned since 2015, we've repurchased 35% of the company's outstanding shares. On Slide 7, our total revenue for the third quarter was $1,167,000,000. Our basic lease rents were

$1,039,000,000, roughly flat year-over-year. Our maintenance revenues for the third quarter were $94 million. This is a decrease from the third quarter of last year when we had very high maintenance revenues as a result of the Air Berlin bankruptcy.

This quarter, our maintenance revenues were somewhat higher than normal as a result of the Shaheen lease terminations. We're seeing higher maintenance revenues coming through now, but these will be offset by additional leasing expenses in 2019. Overall, we expect that the net effect will be a timing shift of about $0.10 of EPS forward from 2019 into 2018.

Last year, we provided EPS guidance for 2018 of $5.30 to $5.50, which did not include any gains on sale, but we now expect to be at the top end of that range for the full year. For 2019, we had previously provided guidance of $6 to $6.20 of EPS, again with no gains on sale. And at this point, we are reaffirming our guidance for next year and continue to expect to be in this range. However, as a result of the $0.10 timing shift I mentioned, at this point, we're probably more likely to be in the lower half of that range.

Our net gain on sales was $20 million for the third quarter compared to $64 million a year ago. In the third quarter, we continued to sell midlife and older aircraft at attractive prices. We continue to see strong demand from buyers of used aircraft. However, our sales line was lower this quarter than in the third quarter of last year.

Our other income was $14 million in the quarter, which was slightly higher than last year.

Turning to Slide 8. Our net interest margin was $742 million for the third quarter and our net spread was 8.4%, the same as last quarter. The primary driver of the decrease from the third quarter of 2017 was the lower age of our fleet. Our average cost of debt was 4.1% for the quarter, an increase from 4% last year. As we continue to take delivery of new technology aircraft and sell older and mid-life aircraft, we are reducing the average age of our fleet, which is now 6.6 years down from 7.1 years. We're also increasing the average remaining lease term of our aircraft, which is 7.1 years, an increase from 6.6. As we take delivery of more new aircraft, we expect the average age to decrease to the low 6s by the end of 2019.

In line with the guidance we provided last year, we expect our net spread in 2019 to be around 8% and we expect our net spread less depreciation to be around 3%.

On Slide 9, our net gain on sales was $20 million for the quarter as we sold 13 of our owned aircraft with an average age of 17 years. That brought our total sales so far this year to around $1.7 billion. Our higher than expect a level of sales this year has been driven by the continued strong demand from mid-life and older aircraft. At this point, we expect to sell around $1 billion worth of aircraft in 2019, but, of course, the ultimate volume will depend upon the band from buyers of mid-life and older aircraft as well as the financing environment for those buyers.

Turning to aircraft purchases. We took delivery of 12 new aircraft in the third quarter, including our first 2 737 Max8s, 6 A320neo family aircraft and 2 A350-900s and 2 787-9s.

Our total CapEx for the quarter was around $1 billion. We had a few deliveries moved from September into October, and we now expect to take delivery of 33 aircraft in the fourth quarter, bringing our total for this year to 72 aircraft. For the full year, we expect our total CapEx to be around $5.7 billion.

In 2019, we expect to take delivery of 92 aircraft for CapEx of just over $6 billion. As a result, we expect our lease assets to grow by around $4 billion from now until the end of 2019, which will drive an increase in our lease rents in 2019.

Slide 10. Our maintenance rights expense was $34 million for the third quarter, down from $109 million in 2017. This was primarily driven by the lower maintenance rights intangible asset balance, which has been coming down over time and is now approximately $1.2 billion. We expect quarterly maintenance rights expense to remain generally around this level through the end of 2019. Of course, along with maintenance revenue and other leasing expenses, this can vary each quarter depending on the level of maintenance activity.

Our other leasing expenses were $51 million for the quarter, an increase from $29 million last year.

Our SG&A expenses were $63 million for the quarter, a decrease from $84 million last year. This is mainly due to a significant reduction in our stock-based compensation expense as I've mentioned in previous calls. It's also due to some other onetime items that reduced SG&A expenses this quarter.

Going forward, I would expect the run rate for total SG&A expenses to be around $75 million a quarter.

On Slide 11, we continue to maintain a very strong liquidity position. As of September 30, we had available liquidity of $11 billion. Together with our operating cash flows, that gives us total sources of $14.1 billion, which is 1.4x our cash needs of $10.1 billion over the next 12 months. This amounts to excess coverage of around $4 billion. We've reduced our secured debt to total assets percentage from 29% in September of 2017 to around 25% at the end of this quarter. And we ended the quarter with a debt-to-equity ratio of 2.7 to 1, which is at the lower end of our target range.

So to wrap up, we had a very strong third quarter. We continued to grow our EPS and book value per share at a double-digit rate. We continue to make good progress in placing our new aircraft and we're now over 90% placed through the end of 2020. We completed the transitions of a number of aircraft and our utilization rate returned to over 99%. We ended the quarter in a very strong liquidity and capital position, and we announced a new share repurchase program for $200 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Mr. Mark DeVries from Barclays.

Mark C. DeVries ***Barclays Bank PLC, Research Division - Director & Senior Research Analyst***

I was hoping to get some updated thoughts on best use of capital here, particularly in light of the discounted stock price here. Would you consider potentially selling more planes than you've discussed or even allowing the balance sheet to relever a little bit considering you're now at the low end of year target range, kind of taking it a little bit more aggressive on buybacks implied by the current repurchase authorization?

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

Sure, as you point out, we are increasing it by $200 million, and we have not been shy about taking advantage of the lower stock price. Over the last 3 years we've bought back 35% of the company. So I think that behavior will continue. Having said that though we want to make sure that we stay within the targeted range of our debt equity levels. As regards to aircraft sales, we continue to sell aircraft sales -- continue to sell aircraft, and we'll continue to do that. And so I don't think you'll see any change in the behavior going forward.

Operator

Mr. Harvey?

Operator

(Operator Instructions) We will now take our next question from Ross Harvey.

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

Can you hear me?

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

Yes, go ahead.

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

I've got 2 questions if I can. Just in terms of the placement activity, you've mentioned that over 90% of the aircraft deliveries through 2020 are leased. I just wondered in terms of looking out over kind of 26 months what would you see be your placement levels and in terms of where that might be different to history is it led by your sales trying to place ahead of any issues resolving on the OEM side, or is it market led? Is the demand there? Secondly, I might be repeating one of the questions that came earlier, but maybe a bit more about strategic plans. In terms of the younger fleet, there's slightly lower absolute net spread relative to history. I'm just wondering would you reconsider your leverage targets given that younger age of the fleet given the visibility that that provides or would it be too much of a threat on the credit rating?

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

If you can explain the second part of the question, you're saying the younger fleets versus...

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

Yes, no, I was just wondering in terms of the younger fleet, would you reconsider at any point your leverage target of 2.7 to 3x net debt to equity or would you look to relever higher given the younger aircraft and that the people can ascribe a higher visibility on that?

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

I'll let Pete answer that. In relation to the first part of that question. We -- as a policy part, we would -- generally through any cycle, we would tend to want to place on the used side everything pretty much 12 months out and on the new side 2-plus years out. So there's nothing unusual really about the -- where we stand at the moment in our placement activity.

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

Ross on the leverage question. So you're right. The fleet is obviously getting younger, and we believe when we look at the credit profile of the company, that is improving because of all the sales that we've done of older aircraft, because of the new technology aircraft that are coming in. Clearly, that's a positive for the credit profile. But as we look at the leverage ratio, we want to continue to stay within our range. As you've seen, we have tended to be around the 2.7 to 2.8 number. I'd say that's probably a good estimate about where we'll continue to be.

Operator

We will take our next question from Mr. Jamie Baker from JPMorgan.

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

Gus, so Michael O'Leary was quoted saying that there would be more airline failures this winter. You touched on this topic in your prepared remarks. Obviously, the market really plowed through Air Berlin and Monarch without missing a beat, but those failures weren't struck against sort of the current backdrop of global dislocation, however you want to describe it. To the extent that we do have another wave of shutdowns, how confident are you that the business manages through as easily as it did last round?

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

Jamie, of course, the Air Berlin was a big airline that went down, and on its own is the sum total of all the different smaller failures we've had over the course of the last few months. Now during the winter, do I think there will be some more stress in this sector? I do I think, but that's the normal cut and thrust of the industry. So I don't see any particular threat there. If you're talking about the ability to cope with defaults, I think I'd take you back, as I mentioned in my prepared comments, what we've gone through over the last 10 years when we've consistently generated significant earnings, significant growth in the equity value of the company throughout. So I think that's where the real benefits of scale, placement power, diversification show themselves versus smaller platforms that may lack that type of diversification and that placement power around the world.

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

I appreciate that. And as a follow-up, just on this issue of your portfolio, and look I don't want to exaggerate this issue, but do higher fuel prices make you think any differently about AerCap's exposure to the low-cost carrier space and whether you might want to dial down some of the exposure there? Or is it just too much to say that a rising fuel is predominantly a challenge just for that particular part of the airline market?

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

No, I think, rising fuel has an impact on all carriers, be they LCCs, full service carriers or charter operators. They have an impact. What I would say though is that the industry is in a better place than it was 10 years ago on a global basis to cope with this. And so far, it has to be stressed that we have not seen a significant wave of bankruptcies. We've seen small guys, we've not seen an inability to place our airplanes. So the major markets of the world in North America, Europe and domestic China are still extremely strong. And we are continuing to place airplanes. The key, Jamie, is to make sure, that you have aircraft though that your customers want, and that's where the consistent portfolio strategy will pay dividends as well.

Operator

We will take our next question from Mr. Gary Liebowitz from Wells Fargo.

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

Pete, at the Investor Day a year ago, you said not only will net spread margins go to the low 8% in 2019, and you're affirming that today, but that should be the bottom. Given what we've seen in lease rates and borrowing costs, are you still comfortable with that low 8% being the floor for net margins post 2019?

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

Thanks, Gary. Yes, I think that 8% is where we see it bottoming out at this point. So that's our estimate for '19, and I think there's where we'll bottom out. Look, there are obviously things that can affect this, for instance

[audio gap]

significantly, more in sales and sell off more higher-yielding aircraft than we currently expect and use the proceeds to buy back stock. That's going to have effect on our yield, but it is a good -- we'll do that because it's a good business decision. Similarly, if we put aircraft out on a very long-term leases, long-term extensions we have a straight-line rental impact, which affects net spread. But again, you're doing those type of things because it's a good deal. So -- and we won't let that deter us, right. So we're going to do the -- what's right for the business. But as of now, as we look out now, we see it bottoming out around 8%.

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

Okay, and my second question is around you mentioned Shaheen air. Can you tell us about your exposure? Is there a number of aircraft? How many are coming back early, how many are coming back for a scheduled or lease expiration? And what do you anticipate doing with those planes?

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

We took all our planes out of Shaheen some time ago, Gary, and they're already all under contract at this point. 6 airplanes there at the end. We've sold down a lot of our exposure already.

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

Just one more quick one. On average, how many months does it take for you to get your former Air Berlin and Monarch planes back into revenue-generating service and would that be a good -- whatever that number is, is that be a good proxy for your Primera narrowbodies?

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

No. Because narrowbodies move much faster, Gary, because you're not reconfiguring the interiors. In Air Berlin, you had quite a number of A330s, so you're doing more time on reconfiguring those airplanes. But it could be a mix, so some of them move very quickly. Some of them took a bit longer, 4 or 5 months, but one of them took over 6 months. But on the narrowbodies, they tend to move much faster.

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

I was really just asking about the narrowbodies.

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

There was one other thing that occurred last year was that a shortage of MRO capacity in the world because of the size of the Air Berlin and Monarch bankruptcies happening at the same time, and that probably added on 30 to 45 days extra across the board, just waiting for MRO slots.

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

Has that situation improved?

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

Yes. There's MRO capacity now out there. It was just that you had a lot of airplanes coming out at the same time.

Operator

We will now take our next question from Helane Becker from Cowen.

Helane R. Becker ***Cowen and Company, LLC, Research Division - MD & Senior Research Analyst***

So 2 questions here. One is, I know you guys have been raising a lot of capital, and I'm wondering if you're seeing any investor fatigue? That's my first question. And my second question is, did you say -- and I just missed the Primera aircraft that you were delivering this quarter, whether they've been released or not?

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

The Primera's are in the process of being moved at the moment and we don't expect any issues with them right now. Pete, do you want to talk about the capital?

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

Yes, sure, thanks, Helane. No, we're not seeing any investor fatigue. Our debt issuances have all been very well received. Obviously, we've been doing more on the unsecured side, but that's been very positive, and we also did a number of new secured facilities this year. And we continue to expand our banking group. So, no, no fatigue at all.

Operator

We will now take our next question from Mr. Scott Valentin from Compass Point.

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

Just with regard to the aircraft sold this quarter, can you give, I guess, the dollar amount that was sold so we can determine the gain on sale margin, or I don't know if you have the gain on sale margin handy?

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

Sure. It was about $190 million sold. So gain on sale margin was about 12% for the quarter.

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

And just a follow-up question. Obviously, you guys have a pretty full order book, but there are some portfolios reportedly available in the market. Any thoughts on M&A activity. Would you guys partake in that if you saw a good opportunity?

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

Look, we're always looking how we deploy the capital be it through buying ourselves, buying someone else or buying airplanes in the market, sale leasebacks, or with the manufacturers. At the moment, we continue to see very good value in buying AerCap. If we saw a better alternatives, of course, we'd look at it.

Operator

We will now take our next question from Michael Linenberg from Deutsche Bank.

Unidentified Analyst

This is Chris Patel on for Mike. Just had a couple of questions here. We've seen some recent headlines in the French press that multiple airlines...

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

Sorry, excuse me, we can't quite hear you there.

Unidentified Analyst

I'm sorry, we've seen some recent headlines in the French press that multiple airlines have deferred A330s. Is this more of a supply chain issue to your knowledge or is there something else going on here?

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

Sorry, if you could speak up, we can't hear you.

Unidentified Analyst

I'm sorry, guys. Is this is better?

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

Yes.

Unidentified Analyst

Okay. So we've seen some recent headlines in the French press that multiple airlines have been differing A330s. Is this a supply chain issue to your knowledge or is there something else going on here?

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

This is A330 neos, is it?

Unidentified Analyst

Yes.

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

I mean there are some issues around the engine, all right, at the moment on that airplane type, which is giving some airlines pause, I think, on the aircraft type. We don't have any on order, so we're not that close to it.

Unidentified Analyst

Okay. And then, a second one, we've heard from 1 major U.S. airline that they've elected to finance aircraft and put them on their own balance sheet because rates have begun to move up. How does that compare to what you guys have been seeing in the marketplace?

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

I think the decision to put it on their own balance sheet is a question of do they use -- off their own order book, do they use sale leaseback financing or do they own it themselves. We haven't done a sale-leaseback since our agreed one since 2013, November 2013. So there's plenty of opportunity out there without that. Having said that though, we do sell a lot of airplanes to airlines themselves and they put them on their balance sheet, generally used aircraft, they'd be big buyers of older airplanes, particularly in the U.S.

Operator

We will now take our next question from Moshe Orenbuch from Crédit Suisse.

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

Most of my questions have actually been answered. But to follow-up to the M&A thought, do you think that the increased stress on airlines would create kind of purchase opportunities where you could buy pieces of their fleet? Is that something that would be likely at this point in the cycle.

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

It may, but I'd say it would be marginal. Most of -- first of all, half the fleet would be leased at any rate, so it would go back to the lessors. The other half would, for the most part, be bank financed, and the banks would be taking it over, and sure, they would sell airplanes. But it's small fleets that we're seeing in those airlines. We haven't seen anyone significant get into trouble yet. And the backlog will be absorbed, the Boeing and Airbus backlog, it wouldn't be available for sale into the market by the airline.

Operator

We will now take our next question from Rajeev Lalwani from Morgan Stanley.

Rajeev Lalwani ***Morgan Stanley, Research Division - Executive Director***

Gus, I want to follow up on your comments earlier in response to Jamie's question. You were talking about airline weakness in the fourth quarter. Can you just provide some thoughts on where it's showing up and that what's driving it? Is it simply oil or is there something else at play? And then a brief follow-up.

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

I mean, what I would say, Rajeev, it's really part of the daily cut and thrust that we see every year. You're always going to have some airlines disappear. I don't think it'll be any different this winter. Generally, it's badly run businesses that got easy capital would be the ones who'd fall into category of going away. It's not specific to a particular business model. I think where it does hurt a bit more, of course, is where the currency is weakened significantly. That would most -- well-run airlines are able to cope with the higher fuel where -- and they're able to cope with some depreciation of their currency. Where you have a badly run airline with a significant increase in fuel and a significant weakening of the local currency, then the outlook could be fairly bleak. But those airlines, for the most part, are pretty small airlines and we wouldn't see them having a material impact on the results of the AerCap. And that's been the case for the last 12 years.

Rajeev Lalwani ***Morgan Stanley, Research Division - Executive Director***

Pete, question for you, can you just talk a bit about the debt maturity profile over the next couple of years? And then, the strategy you're deploying or considering deploying just to manage higher interest rates as that comes due?

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

Sure. Well, over the next year and in 2019, we've got about $4 billion maturing. So I mean, as we look out, it's a pretty -- we are basically replacing that debt with -- we're trying to go out and replace it with debt that matches our average remaining lease terms. So we're going out with debt on average around 7 years. That's our strategy. And you've seen that during the course of this year where the debt tenors that we're going out with have been longer. In terms of taking debt out and liability management, look that's something that we always look at. But at the moment, it's not something that we plan to do.

Operator

(Operator Instructions) We will now take our next question from Ms. Kristine Liwag from Bank of America Merrill Lynch.

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

Gus, following up on your comments that some airlines may struggle this winter. Can you quantify how much of your business is at risk? And how many airlines and aircraft are in your watchlist?

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

Kristine, nothing out of the ordinary. For the last 12 years, it's average 1% of lease revenue. And will it be less than that year? It's hard to say. But nothing out of the ordinary, Kristine. I want to stress that.

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

Great. And then, for this 1% or less than 1%, are you starting to see them make late rent payments? And then also what's your strategy to mitigate potential risk if they aren't unable to make payments through the winter?

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

We'll seize the airplanes and move them somewhere else, is what we've always done and what we'll continue to do, and what we did with Small Planet, what we do with Primera and what we did with Shaheen. But these are relatively small amounts in the scheme of the value of the business and the level of profitability.

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

Great and a follow-up on fuel costs. Can you provide color on how customer behavior has changed? And what percent of your lease terminations are extended by the existing lessee compared to what you would've expected a year ago?

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

In terms of fuel cost, I think, look, we're not seeing any different behavior because of the recent rise in fuel. I mean, airlines can't adjust their fleets overnight. It takes some time to do that. And we haven't seen any difference there really. I mean the key for the fleet to make sure it's in demand that you have assets that the customers are going to want and that you've been consistent in building a portfolio of assets that the customers want, and you've done that and over many, many years in advance, which is what we have done. That's how we have trimmed the portfolio, not only over the last 4 or 5 years, but long before that as well. Pete, do you want to comment on the extension?

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

Yes, so the extensions have been -- the percentage of extension has been higher Kristine. I think, it's around 70% now as we look at it, and previously had been closer to 50%. So we have seen that going up over the last year or 2.

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

Great and then lastly, for me. When you look at your lease placements through 2020. You kind of have 10% less that you have to place. I was wondering what's preventing you from selling those last 10% or are you giving yourselves like flexibility? Can you give a rationale as to why you're not fully placed?

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

Well, look, we'd like to be fully placed many years into the future, but there's only so much at any given time you can look at airlines, how far out they'll go. We have airplanes placed in 2021, 2022, 2023 also. And those airplanes that we have, remaining to be placed, they'll definitely get moved. Some of it though particularly on the 320neos, you're holding back slots actually because of demand for that airplane.

Operator

We will now take our next question from Mr. Kevin Crissey of Citigroup.

Kevin William Crissey ***Citigroup Inc, Research Division - Director and Senior Analyst***

Do you expect further consolidation in Europe? And if so, what are the implications of that and how are you positioned for that?

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

You're referring to airline consolidation, Kevin, are you?

Kevin William Crissey ***Citigroup Inc, Research Division - Director and Senior Analyst***

Yes, yes, I'm sorry, airline consolidated, yes.

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

You know I think we'll -- I think there's a good chance, we'll see some consolidation all right. It's a slow process, of course, consolidation. But I do think we'll see some of it over the next year or 2. From our perspective, what are the impacts? I mean, if it's a voluntary consolidation where 2 airlines agree to come together, it doesn't really have a huge impact. Whatever airplanes we have on lease with them, stay on lease with them. It doesn't change any of the terms. I think, look, we've seen the benefits of the strength -- the huge benefits of consolidation in the North American market and where it's been well executed in Europe as well, you see the benefits, particularly if you take the example of IAG and Lufthansa. There's, particularly in IAG there's been some excellent work on the consolidation side done. And I do think that, that is a role model for others to follow, and it would be a positive for us and for the industry overall if we continue to see that. But they are -- they take time. That's not easy to do as you know yourself. So it will be slow burn, I think, Kevin.

Kevin William Crissey ***Citigroup Inc, Research Division - Director and Senior Analyst***

And any improvement yet? And I'm guessing kind of not yet, but in the tourist competitive lessor supply environment?

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

You're referring to my prior comments of the tourist capital?

Kevin William Crissey ***Citigroup Inc, Research Division - Director and Senior Analyst***

Yes.

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

Look, I think what we're seeing definitely is that there's a couple of guys who had invested in us and they realized that a startup airline in Pakistan is not the same credit as U.S. treasuries. And that's the mistake some of them had made, that this is a risk-free business. It isn't. And in order to manage it, you do need a big platform. It is not a case of just showing up with capital. You have to be able to move assets around the world. And so we've seen 1 or 2 guys pull back a bit for sure, but there is still a lot of people who find it's a very investable asset class, and I think those that pair with someone with a big platform are at an advantage. It may cost a bit more, but it's definitely at an advantage than trying to do it on the cheap yourself.

Operator

(Operator Instructions) We will now take our next question from Mr. Vincent Caintic from Stephens.

Vincent Albert Caintic ***Stephens Inc., Research Division - MD and Senior Specialty Finance Analyst***

First, 2 questions. So first, I appreciate you reaffirming the guidance for next year ex gain from the sale. So I had a question on the gains from sales, understanding that it's more volatile than lease revenues. But would you expect the same trends that you saw in 2018 to continue in terms of the gain on sale margin? And just roughly speaking would you expect volumes to be about the same, or less, or more?

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

Yes, so Vincent on the volumes, I mentioned that we expect -- at this point, we would project to sell probably about $1 billion worth in 2019. So that would be lower obviously than this year. We'll see what the environment is. But at this point, I think, $1 billion is the most likely. And then, in terms of the margins, look, as we've said in the past, those will move around. This quarter it, was a higher-margin, some quarters it will be lower. So I wouldn't -- I don't think you can just take this quarter and say -- or this year and say, project that forward. So look, I think that we'll continue to sell at some gain, but it's hard to say what the margin will be.

Vincent Albert Caintic ***Stephens Inc., Research Division - MD and Senior Specialty Finance Analyst***

Okay, understood. And second question so nice to see that you have over 90% of your leases placed through 2020 and beyond. Just trying to see if there are any difference in yields or structure of the leases that you're seeing with your future leases? And I'm kind of thinking within the context of rising interest rates and the competitive environment.

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

Sure, I mean, look, I think, that -- it's customer dependent. If you have a customer that is an extremely strong credit and you're certainly not going to get security deposits and maintenance reserves that you would have had in the past and the overall terms of the deal reflect that. And where you have customers that aren't that strong then, it is a different proposition. So it's a mix across the board as well. But I wouldn't see any dramatic change in what we've been leasing at over the last year as to what we see in the current market.

Operator

There are no further questions in the queue. Mr. McGinley, I would like to hand the call back to you for any additional or closing remarks.

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

Thank you, operator, and thank you all for joining us for the third quarter call. We look forward to speaking to you again with the full year results in the new year. Thank you.

Operator

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