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AER - Q4 & Full Year 2011 Aercap Holdings NV Earnings Conference Call

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OVERVIEW:

AER reported 2011 total revenue of $1,094m. 4Q11 total revenue was $276m. 2011 adjusted net income was $303.1m. 4Q11 adjusted net income (excluding certain items) was $79.8m. 2011 unadjusted net income was $172m. 4Q11 reported net income was $76.4m. 2011 adjusted EPS was $2.07. 4Q11 adjusted EPS was $0.57. 2011 unadjusted EPS was $1.17. 4Q11 reported EPS was $0.54.

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PRESENTATION

Operator

Good morning, and good afternoon, ladies and gentlemen, and welcome to the AerCap Holdings 2011 fourth quarter and full year results conference call. At this time, all participants are in a listen only mode.

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

Peter Wortel - *AerCap Holdings NV. - Head IR*

Thank you. Good day, everyone. Welcome to the 2011 fourth quarter and full year results conference call. With me today are Aengus Kelly, AerCap's CEO, and Keith Helming, AerCap's CFO. In today's call, we will discuss the fourth quarter and 2011 full year earnings. In addition to this earnings call, AerCap will host a lunch for analysts and investors today at the New York Palace. The lunch presentation will not be webcasted, but the copy of the presentation will be made available on the website.

Before we begin, I want to remind you that some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. In addition, this conference call contains time-sensitive information that reflects management's best judgment only as of the date of the live call.

AerCap does not undertake any ongoing obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call. Further information concerning issues that could materially affect performance related to forward-looking statements can be found in AerCap's earnings release dated February 22, 2012. A copy of the earnings release and conference call presentation are available on the 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'll now turn the call over to Gus.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

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

Adjusted net income for the full year 2011 was $303 million, or $2.07 per share. This record profit is testament to the success of our leasing strategy, the excellence of our platform, the quality of our aircraft portfolio, and the efficiency and robustness of our funding structures.

We had a strong fourth quarter, with an adjusted net income of $80 million, or $0.57. On an unadjusted basis, full year net income was a healthy net profit of $172 million, or $1.17 per share. And Q4 unadjusted net income was $76 million, or $0.54 a share.

This level of profitability not only demonstrates the earnings power of the AerCap platform, but is also further evidence of the resilience of the earnings profile of the aircraft leasing sector as a whole.

As some of you will have seen from our investor presentations, we often show you the five year historic profitability of 11 aircraft leasing companies. This provides you with the results of 55 years, and in those 55 years, 49 of them were profitable, despite the fact that the period under review included the worst downturn we have ever seen in aviation, and a virtual closure of the funding markets in 2009.

The principal reasons for the historic and current strength of the aircraft leasing industry are, one, the growth of emerging markets. Two, the growth of operating leasing. Three, the replacement requirements for new aircraft from developed market. And four, the financeability of modern technology aircraft throughout the aviation cycle.

These trends are extremely resilient, and have proven time and again that a well managed and disciplined aircraft leasing business provides investors with a handsome and critically consistent return on investment.

Returning to AerCap, our disciplined growth strategy, our continuous portfolio optimization via aircraft sales, and our diverse long-term robust funding structure has enabled us to establish one of the most modern and profitable platforms in the industry. The value of the AerCap platform was significantly enhanced during 2011 through the execution of a number of key strategic transactions.

First, we sold our aftermarket subsidiary, AeroTurbine, for $228 million, or an equivalent EBITDA multiple of 11 to 12 times. AeroTurbine helped prune our portfolio of older, out of production aircraft, and since we now have one of the most modern fleets in the industry, it is no longer core to AerCap. Secondly, we executed a $100 million share buyback program, at an average price of $10.50.

Third, we entered into the American Airlines purchase/leaseback transaction. And fourth, we acquired the Genesis servicing contract from GECAS for $24 million. This provides us with full control of the Genesis portfolio that we acquired in 2009, and by taking possession of the contract, we will generate annual savings of $6 million in servicing fees.

On the funding side, we raised $1.5 billion during 2011, including a $400 million credit facility in Q4 in the midst of the Eurozone crisis. This transaction once again demonstrates AerCap's unrivaled access to the aircraft financing market, and this facility is being used to finance 12 of the American Airlines Boeing 737-800 aircraft, the most in demand aircraft in the world.

The American deal remains highly attractive, despite the November Chapter 11 filing by AMR, their parent. As you know, this transaction gives us the most in demand aircraft in the world, and we are not required to pay pre-delivery payments. Furthermore, the deal was structured in such a way that any obligation for the remaining aircraft automatically terminated in the event of a bankruptcy filing by American.

American is current on all payments on the delivered aircraft, and we have agreed to fund new aircraft deliveries on a one by one basis, subject to our approval. Since the Chapter 11 filing, we have taken delivery of two additional aircraft, and funded both, and expect to take delivery of a third in the coming days. This transaction will provide AerCap with stable and profitable growth through 2014.

Turning to the customer base, since we last spoke three months ago, we have repossessed three aircraft, two from Kingfisher, and both of these aircraft have been placed and will be delivered to the next lessee in the coming weeks. And we also repossessed one aircraft from Global prior to their Chapter 11 filing. This aircraft will be returned to its original owner in the coming weeks.

Again, these actions show how and why a well managed and disciplined aircraft leasing business can produce long-term stable cash flows and profits throughout the aviation cycle.

Additionally, more than 75% of our lease revenue is generated outside the Eurozone. Our fleet utilization has remained steady, at 98% or greater, since 2006, and with an average age of 5.5 years, our portfolio is made up of the youngest and most attractive aircraft available.

Long term, we expect overall air traffic growth to remain strong. Growth is primarily driven by emerging markets, fleet replacements in mature markets, and the ongoing demand for operating leases. And as I previously mentioned, these are extremely resilient trends.

In conclusion, excluding the one-off non-cash items, AerCap has delivered another year of industry leading profitability, and we have completed a series of transactions in 2011 that will generate significant long-term value for our shareholders, and due to our strong balance sheet with a debt/equity ratio of 2.7 times, we are very well positioned to take advantage of any opportunities that may arise in 2012.

With that, I will hand you over to Keith to take you through the financials.

Keith Helming - *AerCap Holdings, NV. - CFO*

Thanks, Gus. Good morning, everyone. Like Gus said, I'll take you through the details on the fourth quarter financials and full year results. I'll start on page 6 of the presentation.

Our reported net income for fourth quarter 2011 was $76.4 million. Additionally, our adjusted net income was $79.8 million in the fourth quarter 2011, as compared to [$56.6 million] (sic -- see Investor Presentation) in the same period of 2010. Adjusted net income excludes non-cash charges relating to the mark to market of our interest rate caps, and share based compensation, and excludes discontinued operations and a onetime charge relating to the buyout of the Genesis portfolio servicing rights.

For the full year 2011, adjusted net income was $303.1 million, as compared to $223.9 million for the full year 2010, an increase of 35%.

Page 7. Reported earnings per share were $0.54 in fourth quarter 2011. Adjusted earnings per share were $0.57 during the same period. For full year 2011, adjusted earnings per share was $2.07. The average shares outstanding during fourth quarter 2011 was $140.6 million. After completion of our share repurchase program during the fourth quarter, the number of shares outstanding is 139.8 million.

Page 8. Total revenue in fourth quarter 2011 was $276 million. For full year 2011, total revenue was $1.094 billion, an increase of 14% over 2010. Beginning again in fourth quarter, our sale results are now being reported on a net basis in revenue, which is the amount of sales proceeds less cost of goods sold. This is how our sales results reported prior to the acquisition of AeroTurbine, and will be the way we report going forward now, after the disposition of AeroTurbine.

Page 9. Net interest margin or net spread was $178 million in fourth quarter 2011. The annualized margin, as a percent of average lease assets, was 8.97% in the fourth quarter.

Net interest margin was $718 million for full year 2011, an increase of 13% over 2010. The annualized margin as a percent of average lease assets was 9.05% for the full year.

The total gain on sale for full year 2011 was $9 million. There were 18 older aircraft sold in 2011, including three A320s, one A330, six 737 Classics, three 757s, and five MD80s. In addition, we sold ten older aircraft as part of the AeroTurbine disposition, and also, sold three A330s through the sale of a 50% interest in a joint venture.

Page 12. Total leasing expenses and SG&A for fourth quarter 2011 were $41 million, as compared to $49 million in the same period of 2010. The full year 2011 total leasing and SG&A expenses were $191 million. The increase in these expenses in 2011 was driven primarily by several onetime SG&A charges.

Page 13, leasing expenses. Leasing expenses were $15 million for fourth quarter 2011. For full year 2011, leasing expenses were $58 million, which is essentially flat with 2010. However, leasing costs relating to defaults and restructurings increased from $9.8 million in 2010 to $30.9 million in 2011. This increase was essentially offset by a decrease in all other leasing costs.

Page 14. SG&A expenses were $23 million in fourth quarter 2011, flat with the same period in 2010. For full year 2011, SG&A expenses were $121 million. The increase from 2010 was driven by several one-off charges, including $24 million for the buyout of the Genesis portfolio servicing rights, $5 million for severance and termination payments, and a $5 million change in the mark to market of foreign currency hedges and other derivatives.

Page 15. The financial impact from defaults, restructurings and early terminations in 2011 was a pretax gain of $24.1 million. This was driven by nearly $64 million of revenue recorded as a result of maintenance reserve we held when the leases were terminated or restructured, or where we facilitated early terminations. This was offset partially by approximately $40 million of leasing expenses, lost rents, and impairments. For these same defaults, we expect another $12 million of leasing expenses to be incurred in 2012.

Our blended tax rate for full year 2011 was a charge of 6.7%, but then the tax rate for 2012 is expected to be similar to the blended tax rate of 8.6% in 2010.

Page 17. AerCap's total assets as of fourth quarter 2011 was $9.1 billion. The decrease in assets from 2010 was driven by the sale of AeroTurbine, as well as the sale of the 50% interest in the joint venture.

The number of aircraft in our portfolio is 350. This includes owned aircraft, managed aircraft, the aircraft on order under contract or subject to LOI, and inclusive of the American Airlines purchase/leaseback contract, where the remaining aircraft are subject to confirmation on an aircraft by aircraft basis.

Page 18. For the full year 2011, we completed $894 million of purchases of aviation assets, which consists of 13 aircraft. For full year 2012, we expect another $986 million of purchases, consisting of 17 aircraft. These amounts include 11 aircraft relating to the American Airlines transaction.

Page 19. The utilization rate remained at 98.4% for the full year 2011, and the yield generated by our aircraft lease portfolio was 13.2%. The average term of new leases for new aircraft entered into during 2011, inclusive of LOIs, was 137 months. The average term entered into during the full year 2011 for new leases on the existing portfolio was 74 months.

Page 20. AerCap's unrestricted cash balance at the end of fourth quarter 2011 was $411 million, and our total cash balance, including restricted cash, was $648 million. Operating cash flows were $622 million for full year 2011.

At the end of fourth quarter 2011, AerCap's debt balance was $6.1 billion, and our debt/equity ratio was 2.7 to 1. Our book equity amount is approximately $2.3 billion, or $16.30 per share. The average cost of debt for fourth quarter 2011 was 3.8%.

Page 22. The EPS impact for full year 2011 from the sale of aircraft and other one-offs was approximately $0.10. Currently, there is no identified sales or other one-offs that is expected to impact earnings per share in 2012.

Page 23. The net maintenance contribution for full year 2011 was a positive $41 million pretax. Net maintenance is defined as the amount of maintenance rents recorded as revenue, less leasing expenses. As mentioned previously, when a default or a restructuring or early termination occurs, the maintenance rents we hold as security is recorded as revenue, and the expenses relating to the defaults, restructuring or early terminations is incurred in subsequent periods.

The net maintenance contribution in 2012 is expected to be a negative $25 million, as many of the expenses from 2011 activity will be incurred in 2012.

Variance per share impact from net maintenance will decrease from a positive $0.24 in 2011 to a negative $0.16 in 2012. All of this is really just timing related.

Page 24. With regard to our full year 2012 financial outlook, committed purchases of aviation assets will be approximately $1 billion, including the 11 aircraft on the American Airlines transaction.

2012 basic rents is expected to increase 2% to 5% over 2011. The maintenance contribution is expected to decrease by $66 million, as I just mentioned in a previous chart. The average cost of debt in 2012 is expected to be 3.5% to 4%. The blended tax rate is expected to be 8.5% to 9%. And the 2012 ROI is expected to be approximately 10% as well.

So, those were the 2011 financial highlights, and I'd now like to open it up to the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions) And our first question comes from the line of Gary Liebowitz with Wells Fargo Securities. Please go ahead, sir.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you, and good morning, gentlemen.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Good morning, Gary.

Keith Helming - *AerCap Holdings, NV. - CFO*

Hey, Gary.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Gus, I wonder if you can talk about what borrowing costs have done since you struck your -- the October deal for the financing of the 12 737s. If you were to pursue a similar type of transaction today, I mean, have you priced out where your borrowing costs would be?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Gary, obviously, we closed that transaction in the midst of the issues surrounding the French banks, the Eurozone, and one of our strengths has been our diversified funding structures. And the fact that money for this one came from Europe, Asia, Australia, and as we said, it priced at less than 300 basis points with an LTV level over 80%.

So, we believe, given the quality of the asset, our purchase price, we could replicate that today. And to give you another example, we're in the market right now for a much smaller ticket in Asia, and the deal is three times oversubscribed.

So I think there's a huge difference -- there's certainly stress in the funding market. Don't get me wrong, Gary. But I think there's always a bid for quality. And the banks are the entities who have dealt with the aircraft leasing companies for the longest period of time. They're not subject to any insider information restrictions. They see everything that all the companies do before they lend. And our ability to attract debt capital is unrivaled, I believe.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. And then for Keith, you had a significant other income item in the quarter, [$8 million]. What was that?

Keith Helming - *AerCap Holdings, NV. - CFO*

That was effectively compensation for the termination of the -- for the termination of the freighter program.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Oh, okay.

Keith Helming - *AerCap Holdings, NV. - CFO*

So that particular revenue item was obviously offset by some impairments and such on the aircraft and other costs.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. And then finally, it looked like your average borrowing cost ticked up a little bit from the third quarter. Is this just a function of some of your very low rate debt getting paid off quickly?

Keith Helming - *AerCap Holdings, NV. - CFO*

No, we continue to put in fixed rate debt as much as possible. So, we're quite interested, obviously, in locking in the low rates for 10 years and such. So fixed rate debt is slightly more expensive than the others.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

I mean, Gary, as you've heard us say before, there's a low tolerance for risk in this company. So we make very strong profits, and we decided that given the yield curve where it is, that we would continue to fix debt now so that we ensure the long-term profitability of the business, and that's why you see the uptick in the fixed rate debt. And our fixed rate debt includes all the costs -- fees, undrawn fees, upfront fees, etc.

Keith Helming - *AerCap Holdings, NV. - CFO*

(multiple speakers) the rate, the cost for our debt next year is supposed to be in the range of 3.5% to 4%, so it's not going to move much.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, and then just one last one. How much of your debt now is fixed versus floating?

Keith Helming - *AerCap Holdings, NV. - CFO*

We have, I think, $2.6 billion out of the $6.1 billion -- $2.7 billion of the $6.1 billion is fixed.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

And then there's a further $2.6 billion covered by interest rate caps, Gary, and there's $800 million that is matched with floating rate leases, where the lease/rental payment moves with 6 month LIBOR. So when you put that all together, that's how we account for the $6.1 billion. We're not running a naked book here.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you very much.

Operator

Thank you. And our next question comes from the line of Arren Cyganovich with Evercore. Please go ahead.

Arren Cyganovich - *Evercore - Analyst*

Ah, thank you. Your committed aircraft amount of around $1 billion, do you have capacity to make additional purchases above that, if you have any plans to do that? It sounds like the financing environment is decent for you, so now do you have additional ability to raise debt to fund new purchases?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

We certainly do, and our debt/equity ratio at 2.7 times, I believe, if it's not the lowest in the industry, it's very close to it. So we have paid down a substantial amount of debt over the course of the last couple of years, and as we look forward now to 2012, we see a situation where there's probably some good buying opportunities, and with our strong balance sheet, our access to funds, and the fact that we don't have a huge spec order book that requires massive PDPs, we believe we're well situated to take advantage of any opportunities that will arise in 2012.

Arren Cyganovich - *Evercore - Analyst*

Okay. Could you -- do you anticipate that you'd be seeking to add to the $1 billion, or are you kind of comfortable with that amount for the foreseeable --

Aengus Kelly - *AerCap Holdings, NV. - CEO*

No, we will certainly seek to add to it. Given the strength of the balance sheet, we will seek to add to it.

Arren Cyganovich - *Evercore - Analyst*

Okay. And then also, maybe you could talk a little bit about the impact on some of your customers of the higher oil prices that we're seeing in the environment right now, and maybe how that's impacting the lease rate on the newer, narrow body aircraft.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Sure. Clearly, there's been a recent spike in oil, and that may be driven by geopolitical issues rather than the supply and demand equation. However, if I look back to post 9/11 environment, or the Q4 '08 -- 2009 environment, what we're seeing now in the customer base is nothing like that. And during that period, the impact of customer defaults for the last five years for AerCap has averaged less than 60 basis points of revenue. That's the net impact.

So I am sure we will see customer defaults, but what you have seen in the past, time and again, from AerCap, is that the collateral package we have, the global reach of our platform, has enabled us to come out of these situations with a minimal impact, and move the aircraft rapidly to the follow-on lessee.

So, I'm sure we'll see some issues with the airlines over the course of the next year, but will it have a material impact on the profitability of AerCap? I don't believe so, and I think history has shown that that's the case.

Arren Cyganovich - *Evercore - Analyst*

Okay, thank you.

Operator

Thank you. And our next question comes from the line of John Godyn with Morgan Stanley. Please go ahead.

John Godyn - *Morgan Stanley - Analyst*

Hey, guys, thanks. I was hoping you could just clarify some of the 2012 financial outlook. You know, you listed a few overhangs, just the maintenance contribution, there's no forecast for gains, at least as of now. And now with the benefit in 2011, ROE and tax rates don't imply meaningful upside to 2011. But the commentary suggests that you guys feel strongly about EPS growth in 2012 versus 2011. Can you just help me kind of bridge those issues? And is there a piece that I'm missing?

Keith Helming - *AerCap Holdings, NV. - CFO*

Yes, I think in terms of the core leasing business, there you'll see an increase in earnings per share. The things like this maintenance activity, that's effectively just how the accounting works. When a lease is terminated, when a restructuring is completed, when we have an early termination, we're required to record it as revenue right away. And then obviously, all the cost activity happens months later.

So, we had a lot of this activity toward the end of 2011, so 2011 is somewhat overstated, to be -- well, or effectively, a windfall in terms of income, as a result of the maintenance reserves. And again, the costs, then, will come later.

So that's just a timing issue relative to the way the accounting works on this activity. So when you levelize that, effectively, you will see earnings per share growth in the core leasing business.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

And as I said, the business is well positioned with the strength of the balance sheet to take advantage of opportunity in 2012.

John Godyn - *Morgan Stanley - Analyst*

Okay, thanks. And then, could you just elaborate on the no forecast for gains in 2012? I mean, is that intended to reflect a less optimistic view on aircraft values or is that just reading into it too much?

Keith Helming - *AerCap Holdings, NV. - CFO*

No. I mean, at this point, obviously, it's early in the year, so there's always typically transactions that happen throughout the year. We're focused primarily on sales that are helping us manage our portfolio, so some of the older aircraft, we will continue to sell down. So we're not selling for gains, but at this point, we just -- we don't have anything identified, but you could see things later.

John Godyn - *Morgan Stanley - Analyst*

Okay. And you guys were pretty successful with the buyback program just recently. Could you update us on your plans for returning capital to shareholders, and specifically, do you think that adopting a more consistent shareholder return strategy, whether it's buybacks -- I know that you don't have a history of dividends, but, just theoretically, dividends. Could doing something more consistently reduce your cost of equity? Is that something you've given thought to?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

The Board is continually analyzing how we deploy our capital, whether we give it back to our shareholders, or whether we reinvest in the business.

Now, we took the first step in returning capital to shareholders last year with the $100 million program. And of course, we had the capacity to do more. But what we didn't want to do was exhaust the Company of its resources, and that it would not be in a position to take advantage of opportunity on the asset side in 2012.

So, the only asset acquisition we did in 2011 was the American transaction, and that -- because that was the only one where we could see a risk/reward that was superior to returning capital to the shareholders. And as we go through 2012, any capital that we deploy on the asset side of the business will have to meet that threshold as well.

John Godyn - *Morgan Stanley - Analyst*

Okay. Thanks.

Operator

Thank you. And our next question comes from the line of Greg Lewis with Credit Suisse. Please go ahead.

Gregory Lewis - *Credit Suisse - Analyst*

Yes, thank you. Good morning.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Good morning, Greg.

Gregory Lewis - *Credit Suisse - Analyst*

Real quick, you mentioned that the three aircraft that were repossessed from Kingfisher and Global, could you talk a little bit about where lease rates were trending for those assets, versus where they were previously contracted at?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Sure, sure. On the two Kingfisher aircraft, we had a small amount of time left to run on the leases. Actually, it was only six or seven months. So there was a decline in the lease rate for six or seven months, but again, that's not a material number, you know. We're talking about a few hundred thousand dollars over the period, so it doesn't have any meaningful impact on how we would have forecasted the income of the company.

And in the case of the MD11 that we took back from Global prior to the bankruptcy -- we didn't wait for the bankruptcy, we took it out in advance, and that is actually being returned to its original owner, which is CIT. We had that airplane for 20 years, leased in from CIT, and now we return it to them. So that's what happened there.

The key with the restructuring, when you have airline difficulty, as you've seen from AerCap time and again, be it in the case of Mexicana, Kingfisher, Global, Zoom Airlines, when there is an issue, you've got to go in there and fix it, and fix it quickly. It's the speed of your response to the problem, of the ultimate magnitude of your response that really determines how you do. And we've demonstrated, as I said earlier on, that the net impact of default, even going through '08, '09, '10, is less than 60 basis points of our lease revenue, because of how we act quickly.

And that's why, as I said, a well managed and disciplined aircraft leasing business will generate consistent returns on investment for its investors throughout the aviation cycle.

Gregory Lewis - *Credit Suisse - Analyst*

Okay, and (inaudible) that point, just given the fact that clearly you guys are keeping -- well, good tabs on your customers, are there any clouds out there, where you're thinking about getting aggressive, and maybe sort of offering the paid back aircraft from any of your existing customers at this point?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

No. I mean, like I said, if I compare this environment to post 9/11, or the post Lehman situation, we're not there at all. And you saw the results of this Company in 2009, worst you have ever seen in aviation, we made net income after tax with no -- with everything in there, of $165 million.

Gregory Lewis - *Credit Suisse - Analyst*

Okay, great. And then just really quick, one last question on the fleet. I mean, right now, it looks like you have fleet equipment of about, I guess, close to $8 billion. What do you think is sort of the sweet spot in terms of how big AerCap would like to be? In other words, what I mean by that is, is it a $15 billion fleet, or is it a $10 billion fleet, or are you sort of comfortable where you are?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Well, we're not here to grow for the sake of growth. We're here to be the most profitable aircraft leasing business on a risk adjusted basis. That's our target.

Now, you certainly need some minimal scale to have diversification, to have buying power, and you have probably above the $7 billion range. And I think operationally, you could probably get up to around close to $20 billion if you wanted to. You'd be subject to some financing issues there, but I think we're a long way off the maximum. I think, however, it's crucial, we are not here for growth. We are here for the shareholders to increase shareholder value.

Gregory Lewis - *Credit Suisse - Analyst*

Okay, perfect. Thank you for the time, gentlemen.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Very welcome.

Operator

Thank you. And our next question comes from the line of Gary Chase with Barclays Capital. Please go ahead.

Unidentified Participant

(inaudible) [Cossini] for Gary. Just a couple quick questions. The guidance that you gave for 2012, basically, the revenue came in a bit light (inaudible) our expectations, and I realize some of that could be the timing of when the aircraft come on the books. But I'm just trying to confirm if that was the case, and then also maybe get some commentary on what you're seeing in the lease rate markets, in terms of lease rates.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Do you want to start with --

Keith Helming - *AerCap Holdings, NV. - CFO*

Yes. They're 2% to 5%, as effectively based on the contracted level of CapEx that we have. So, yes, you're correct. There is activity more in the second half of 2012, so the full year benefit is not there.

Obviously, the 2% to 5%, if we did additional transactions, as Gus has mentioned, you know, that would add to that growth level.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

And on lease rates, if you look at the most popular aircraft in the world, number one is the 737-800. And lease rate is not the number to look at. It's lease rate, minus the underlying interest rate to give you your margin. Clearly, a $400,000 lease rate in a 7% interest rate environment is nothing nearly as accretive as a $350,000 lease rate in a 1% interest rate environment.

So what I would say on the 737-800 is that the net spread, the net interest margin on 737-800 is now above where it was probably in 2007.

On the A330, the next most in demand aircraft in the world, it's flat. On the A320, the new technology A320s, which are, say, if you're looking at less than 10 years old, you're at 90%, 95% of where they were. And 777-300 (inaudible) are a little bit different. They're a very large airplane, and you tend to do those on a sale/leaseback basis with big carriers. And they'd be pretty consistent too, but they're much more -- they're a much smaller market. So that's where the lease rates are at the moment.

Unidentified Participant

Okay, that's helpful. And then I guess just going back to a question that was asked before, on the committed aircraft sales, I realize that you identify -- you don't have anything identified in terms of sales right now, and that could change given that we're still in the beginning of 2012. But wanted to get some sense of what you're seeing in the secondary market in terms of sale activity, just to gauge what we could potentially end the year with in terms of sales of (technical difficulty).

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Well, as Keith said, you know, we sell for various reasons. One is to make sure we keep the portfolio young, so you must be disciplined. As I said, there's a low risk tolerance in this business, in AerCap, and we keep the portfolio young. We'll sell older planes, although we don't have that many, really, anymore. Including AeroTurbine's disposition, we sold 31 aircraft in 2011. That's because, as you know, there was a very strong bid in the market for both new aircraft and older aircraft, due to the influx of capital.

A lot of that capital has been spent now. To the extent there's any left, and they're willing to pay a good price, we'll sell it to them.

But I think that this year, I would say that we'd probably be net buyers of assets, as I look around the aviation environment at the moment, and the banking environment, given our access to funding and our low leverage, and the absence of a big order book that requires large PDPs.

Keith Helming - *AerCap Holdings, NV. - CFO*

And the only thing I would add to that is at the beginning of 2011, we had about 40 aircraft that were 15 years or older, and at the end of 2011, we have around 20. So we got rid of a significant amount of the older aircraft. But again, they're not -- it's not large, in terms of the book value. But those were the aircraft that we sold in 2011.

Unidentified Participant

Okay, thank you very much. Thank you.

Operator

Thank you. And our next question comes from the line of Michael Linenberg with Deutsche Bank. Please go ahead.

Michael Linenberg - *Deutsche Bank - Analyst*

Oh, hey, guys, just a couple here. I guess with respect to the three aircraft that you repossessed, you took two from Kingfisher, and I did see this morning they had some comments out, how they indicated that there were two Kingfisher planes that the permits were cancelled on request of the aircraft lessor. Are those your two airplanes, and if they're not, do you have more aircraft with Kingfisher at present, or are you completely out?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

We can't comment on the specific issues, on what we're doing when the aircraft is on lease at the moment, Michael. And we do have aircraft at Kingfisher. We have [four] there. But what you will see, Michael, is that the security package we have on the airplanes we've taken back has covered the exposure we have to Kingfisher.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, very good. My second question, when -- I know earlier, there was a question asked about any other aircraft that were at risk of being, I guess, repossessed, and I think, Gus, you said none. I know in the past you've talked about maybe the number of airplanes or lessees that you're looking at closely, or maybe monitoring more closely, given the financial backdrop.

Is -- can you give us maybe a number of aircraft that you would say are on that list of being monitored, even rough numbers, just to give us a feel for, sort of, where things stand?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

No, Michael, it's not anything above the norm. As I said, in fact, if I compare the environment to where we were in Q4 of '08, Q1 of '09, Q2 '09, it's not that type of environment. And we'd be looking at less than 10 airplanes, and really, as I've shown you in the past, for a platform the size of AerCap, even if all of those were to come back, the impact on profits, as you've seen, is not something that would materially move the net income of AerCap. We've shown time and again, there's not an aircraft we can't take back and remarket. And as you can see, the net impact of defaults, when you look at the collateral position that we have, is not material either.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, good. And just one last one. You know, Gus, you did say, I think, earlier -- I think I'm going to know the answer to this question. You said a bunch of things about the environment, and you also said you'd be net buyers of assets. And so given where we are now, as you look out to 2012, and you look at the size of the opportunities, would you say that the opportunities are similar, worse, or greater for 2012, versus 2010 and 2011?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

For the buy side, they are better, Michael.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

We -- in 2011, there was an off -- say, in the -- from early -- from, say, Q2 2010 through Q4 2011, a lot of new money came into the sector, both for old and new aircraft. And you know, you would -- there was a sale/leaseback that would come out every week, request from an airline. And you might have 20, 30 bids on it.

In today's environment, it's very different. There isn't that level of capital still available, and those who do have capital find that the banks are more choosy in who they lend to. And so, I think that as we've shown, AerCap's access to the debt market for aircraft financing is unrivaled. We have a very low debt/equity ratio. So I think we're very well positioned to take advantage of the right transactions for our shareholders. But it has to make sense for our shareholders. It has to increase shareholder value.

And if we can replicate transactions such as what we saw with American, and they're the right deals for us, you know, as we look around the world in general at the moment, clearly, there are issues in Europe. But Europe is starting to coalesce around five airlines. So it's a couple of years behind the US, which has already done that. The US market has -- obviously, the impact of rationalization has been a very healthy thing for the US market. You can see the ability of fare rises to stick, the durability of their profits now, and their cash flows.

Europe is a few years behind that, but the consolidation is happening. The consolidation does put the brakes on capacity, and it does improve the pricing environment for the airlines.

Asia has a lot of growth, so it's not an immediate impact, but Asia, no doubt, will have some big winners and some big losers out there too. But as you look around the world at the moment, the US market is pretty stable.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, very good -- thanks. Thank you.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Thanks, Michael.

Operator

Thank you. And our next question comes from the line of Helane Becker with Dahlman Rose. Please go ahead.

Helane Becker - *Dahlman Rose - Analyst*

Thank you very much, operator. Hi, gentlemen. Thanks for taking the question. Actually, most of mine were -- have been answered. I just have one clarifying question on the American agreement. I think you said that you were doing it on an aircraft by aircraft basis. Does that mean that you renegotiate or you negotiate the lease rate on every aircraft, or does that mean that you have the option of putting that aircraft in another -- you know, to another airline? Does the agreement you have with American mean that you do the same lease rate that you would have negotiated last summer?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Yes. Helane, just to be clear, on American, it's on their order book, not mine. If it was on mine, I'd have to do the PDPs, which, for a leasing company, would probably be about $700 million of dead money. And now, what we do is, as each aircraft delivers from Boeing to American that was originally under the 35 deal, 35 aircraft deal, we have the right to take the aircraft or not take the aircraft. The terms so far as the same as what we agreed originally in the transaction, and it's our intention to work with American to continue this transaction.

We've taken two since bankruptcy. I expect to take another one in the coming days. This is a transaction that's good for both American and AerCap, and will provide long-term profitable growth for AerCap through 2014.

Helane Becker - *Dahlman Rose - Analyst*

Okay. And then I think you said that you'd finished the share repurchase program last year? Did you --

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Keith Helming - *AerCap Holdings, NV. - CFO*

Yes. We had $100 million --

Helane Becker - *Dahlman Rose - Analyst*

Would you do another share repurchase program, or would you consider a dividend?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

We are always looking at ways to return capital to the shareholders, or to deploy capital investing in assets. So the first step was taken last year in the $100 million program, which was executed at $10.50, which was great value. Clearly, a share buyback program, and the lower the share price helps the more accretive it is, of course.

Now, we will continue, and we do it every Board meeting, we analyze what's the best use of our funds. And we will only invest in new aircraft if it's in the best interest of the shareholders and creates shareholder value. I've said it numerous times, Helane, we're not here to make growth for the sake of growth, headlines with the OEMs. We're here for our shareholders.

Helane Becker - *Dahlman Rose - Analyst*

Great. Thank you so much.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

You're welcome.

Operator

Thank you. And our next question comes from the line of Scott Valentin, with [FRB] Capital Markets. Please go ahead.

Scott Valentin - *FBR Capital Markets - Analyst*

Good morning, gentlemen. Thanks for taking my question. Just, with regard to maturities schedule for 2012, could you give us maybe a -- kind of a plane count, maybe how many planes you see coming off lease in 2012?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

All that will be in the 20F when it's filed, and you'll see it in detail. But the vast majority of the aircraft are placed (multiple speakers).

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, so most are already placed --

Aengus Kelly - *AerCap Holdings, NV. - CEO*

[The vast]. In fact, our entire order book, actually, I should note, through 2015 is placed. And one other thing I should note is that during the quarter, we also got our first NEOs. We didn't order them direct from the OEM. An airline needed our help, and we said we will give you the help, but in return, we want a call option, over five of your NEOs in 2016 at pre-agreed terms, and it's purely our option. So if we don't like the airplane or what's happening with the airplane, we have the right to walk away. But it's a long-term lease that we have the call option on at good prices, and without any PDPs.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay. And then earlier, I think, Keith, you mentioned as part of the freighter termination program, there was an impairment. I think there's $4 million of total impairment during the quarter. Is all that associated with the freighter program?

Keith Helming - *AerCap Holdings, NV. - CFO*

There was about $1 million of that related to an engine, but the rest of it was the program.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay. And then in terms of -- with higher fuel prices, have you noticed -- and again, it's not -- at least, you guys mentioned you have 20 planes that are over 15 years. It's not a big impact for you. But have you noticed the rate of depreciation accelerating at all on the older aircraft, maybe if you compare that with the newer generation of aircraft?

Keith Helming - *AerCap Holdings, NV. - CFO*

On the depreciation side, let me give you kind of how we look at it. When an aircraft that we have reaches 15 years, we will evaluate it for additional depreciation, if needed. And typically, when we do have an aircraft that hits that particular age level, we do accelerate the depreciation.

Our standard depreciation policy is around 3.5%. We may increase it to 3.8%, 3.9%. But there's very -- there's only about 25% of our aircraft actually reach the 15 year mark. The other 75% is sold well earlier in its life.

And we look at the sales, and the results that we had on our sales, effectively, and we adjusted the depreciation schedule based on our sales results. We should be recording depreciation at a rate of 2.8% annually.

So, 75% of our aircraft is going out on a depreciation schedule at 2.8%, and 25% is going out at 3.8%. So the standard policy that we use, which is about 3.5%, continues to make sense to us.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

I think the best example I can give of this is, over the course of the last seven years, we've sold an aircraft every three weeks. On average, we've made over $2 million gain on sale. And why have we done that? Because we bought the aircraft at the right price, we depreciate them appropriately, and we get out of them before the big maintenance issues happen, and you have a declining customer base as they age.

And if I look at the percentage, in terms of value, that over 15 year old aircraft make up of our portfolio, it's only a few percent. It's not a material part of the portfolio. The vast, vast majority of our portfolio, over 90%, is concentrated in the most in demand aircraft in the world, the 800, the 320, the 330.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, (multiple speakers) --

Keith Helming - *AerCap Holdings, NV. - CFO*

And just one more comment. When people think about depreciation, they also think about whether the residual value is right at 20 year mark, 25 year mark, I mean, the depreciation schedule is -- it really should be based on, effectively, how you manage your portfolio, when the aircraft exit the portfolio. And also, what the input price is to your portfolio. So you're buying aircraft at the right price.

If you're buying aircraft, you know, at below current market value, and you're exiting the portfolio, the aircraft at the right time, your depreciation, your required depreciation, is a lot less.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay. And just one final comment. I notice you took a provision for doubtful accounts, about $1 million, not a material amount. Was that just a general provision, or was there a specific asset that you in mind when you took that provision?

Keith Helming - *AerCap Holdings, NV. - CFO*

It was specific to a potential termination.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay. All right. Thanks very much.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Very welcome.

Operator

Thank you. And our next question comes from the line of Glenn Engel, with Bank of America. Please go ahead.

Glenn Engel - *Bank of America Merrill Lynch - Analyst*

Good morning. You restated some earnings and cash flow, and can you talk about the nature of the restatement?

Keith Helming - *AerCap Holdings, NV. - CFO*

Sorry. The reclassification?

Glenn Engel - *Bank of America Merrill Lynch - Analyst*

That's right. So the cash flow doesn't really add up, the quarters, and -- the change. It's all AeroTurbine?

Keith Helming - *AerCap Holdings, NV. - CFO*

Exactly. We had to restate for the AeroTurbines piece. I mean, if you want -- I can provide you more details on that, if you can give me your specifics offline.

Glenn Engel - *Bank of America Merrill Lynch - Analyst*

What's the right level of cash, and why?

Keith Helming - *AerCap Holdings, NV. - CFO*

Well, the cash that we have now, the $400 million plus of free cash, as well as restricted cash, a lot of net cash is still earmarked for the CapEx that we have this year, and next year. So we have about $1 billion of purchases this year, $1 billion of purchases next year.

We'd like to probably maintain a free cash balance not earmarked for CapEx of probably around $100 million, in terms of just being able to have the right level of cushion, right level of liquidity to run the business.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

But you know, as well as the cash balance, look at our debt/equity ratio, it's so low, 2.7 times, as we are paying down the debt very rapidly. That also gives us the ability to generate cash as we finance that, as I mentioned. And we are in the market in Asia for a small ticket for refinancing of two airplanes, but the deal is 3x oversubscribed.

Glenn Engel - *Bank of America Merrill Lynch - Analyst*

Finally, can you talk about secured versus unsecured debt? Your competitors, a bunch of them, like the unsecured market. Why don't you seem to like to tap that one?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Well, no one has issued a non-secured bond so far. Nobody. Not one of our competitors. And what they're issuing is what's called senior unsecured paper. And what it is, is secured debt, really.

So you would take -- you would raise $100 million of senior unsecured paper, and in the loan documentation, you would pledge that you would not encumber $150 million of assets, or whatever the number is agreed with the lenders. So it is purely secured funding. It's just called senior unsecured.

A true unsecured loan, which is for -- without any negative pledge covenants, or encumbering any assets, or agreeing not to encumber the assets in the future, no one has done that yet. We have done quasi deals like that on a private basis, and we are certainly monitoring that. But this senior unsecured stuff is really quite expensive secured funding.

Glenn Engel - *Bank of America Merrill Lynch - Analyst*

Thank you very much.

Operator

Thank you. (Operator instructions) And our next question comes from the line of Rich Fitzgerald with Jefferies Investment Advisors. Please go ahead.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Hey, guys. Thanks for taking the question. I just wanted to clarify the guidance around EPS growth. Is your expectation of EPS growth in 2012 versus 2011, is that on ex-maintenance contribution basis?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

I'm sorry, say that again? On an active (multiple speakers) --

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Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

No, no. I'm sorry. Excluding maintenance contribution, is that the context in which you're saying EPS growth will be positive? So in other words --

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Keith Helming - *AerCap Holdings, NV. - CFO*

Yes, yes. Absolutely.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

-- adjusted EPS (multiple speakers)?

Keith Helming - *AerCap Holdings, NV. - CFO*

Yes, absolutely.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Okay.

Keith Helming - *AerCap Holdings, NV. - CFO*

When you pull the maintenance piece out, and you pull the sale activity out, yes. When you put the CapEx growth, that's where you're going to see the earnings per share growth.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Okay. And so just to clarify, then, on an ex-maintenance contribution basis, you guys did $1.83 last year, and you're expecting a $0.16 drag this year. So you think you'll do more than $1.83 on an ex-maintenance contribution basis, and more than $1.67 all in? Is that (multiple speakers) about it?

Keith Helming - *AerCap Holdings, NV. - CFO*

Those are the -- I mean, we laid out the numbers so you guys could do the math effectively, yes. So -- but we don't actually give earnings per share guidance, so to speak. But because these things are so unique, and very unlevel year over year, we provided the maintenance contribution, so you could do your adjustments for your modeling, as well as the sales activity.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Okay, okay. And then, just versus the last quarter in particular, am I correctly picking up on a change in tone with regard to the attractiveness of doing additional aircraft acquisitions in this current market, versus returning capital, as an alternative use of capital?

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Well, we -- like I said, we've been extremely disciplined over the last 18 months when it came to aircraft acquisitions. There were sale/leaseback transactions out there ever week, and it will be the same next year. We only executed one, where we felt the risk/reward balance was the right thing to do, and that was the American deal.

Now, as you go into 2012, I think the fact that a lot of the new money has been spent in the sector, and the ability of some -- of other players in the sector to access debt capital is probably more restricted than it is for AerCap, and some others have tied up themselves at very large orders and predelivery payments.

I think that we will see opportunities, but the opportunity has to be accretive to our shareholders. And the threshold it has to meet is that, what's a better use of our funds? Is it to return it to the shareholders, or is it to use it to buy aircraft?

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Okay. And then just finally, and I apologize if I missed this. But what's the update with regard to ALS II, and any thoughts about potentially refinancing that facility?

Keith Helming - *AerCap Holdings, NV. - CFO*

Well, ALS II, it continues to pay down quite rapidly as well. I mean, the vehicle is performing quite nicely, just as ALS I has. ALS II is an opportunity for us to lever the (inaudible) effectively and use the cash for -- you know, CapEx, or return of capital, what have you.

Until we find a particular use for it, we'll probably keep that as is, and then once there's an identified purpose for the funds, then we would go through the refinancing activity.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Okay, sounds good --

Keith Helming - *AerCap Holdings, NV. - CFO*

But more than (multiple speakers), we wouldn't refinance the vehicle itself, more than likely. We would do as we did with ALS I, and also, with the Genesis securitization, where we used the (inaudible) as collateral, and extracted -- and basically levered up the vehicle through that.

Rich Fitzgerald - *Jefferies Investment Advisors - Analyst*

Okay, that makes sense. I appreciate it. And congrats on a nice quarter. Thanks, guys.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Thank you.

Keith Helming - *AerCap Holdings, NV. - CFO*

Thanks.

Operator

Thank you. And Management, there are no further questions in the queue at this time. Please continue with any closing remarks.

Aengus Kelly - *AerCap Holdings, NV. - CEO*

Well, thank you very much, everybody, for joining the call, and we look forward to talking to you in three months' time for the first quarter earnings.

Keith Helming - *AerCap Holdings, NV. - CFO*

Thanks, everyone.

Operator

Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you again for your participation, and you may now disconnect.
