

FINAL TRANSCRIPT

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AER - Q2 2011 AerCap Hldg NV Earnings Conference Call

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PRESENTATION

Operator

(Audio in progress) the AerCap Holdings 2011 Second Quarter 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'll now hand the call over to Peter Wortel, Head of Investor Relations. Please go ahead, sir.

Peter Wortel - *AerCap Holdings N.V. - Head of Investor Relations*

Thank you very much. Good day, everyone. Welcome to the 2011 second quarter 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 second quarter 2011 earnings and also recent announcements we made on the purchase and leaseback transaction with American Airlines, the sale of AeroTurbine to ILFC and our share repurchase program.

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.

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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 impact the performance related to forward-looking statements can be found in AerCap's earnings release, dated August 5, 2011. 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 Aengus Kelly.

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

Thank you, Peter. Good morning to everyone in the US and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today.

Our second quarter results and activities illustrate how AerCap continues to deliver industry leading results. Net profit after tax for the quarter was \$73 million or \$0.49 per share, after adjusting for the one-time GECAS termination fee, the impact of mark-to-market adjustments and share based compensation. This industry leading profitability is driven by the excellence of our platform, the quality of our portfolio and the efficiency and robustness of our funding structures.

During the quarter, we terminated the Genesis servicing contract with GECAS. We continued our disciplined approach to portfolio management by selling older out of production aircraft, and taking advantage of a strong bid that currently exists from new entrants for new technology equipment. We also commenced our share buyback program, albeit on a small scale, with the acquisition of 118,000 shares.

These transactions are consistent with our objective of increasing long-term shareholder value. In line with this objective, we have entered into a number of significant transactions since the quarter end. Firstly, we closed the sale-leaseback transaction with American Airlines for up to 35 Boeing 737 800 next generation aircraft.

This deal provides AerCap with 35 of the most in demand aircraft in the world on attractive terms. Very importantly, these aircraft do not require us to pay hundreds of millions of dollars in pre-delivery payments. This transaction demonstrates the capability of the AerCap platform to execute on transactions that create long-term shareholder value without exposing the Company to undue risk.

Secondly, we signed an agreement with ILFC to sell AeroTurbine. The primary reason for this transaction is that we acquired AeroTurbine in order to efficiently prune our portfolio of older out of production aircraft. This has now been accomplished and we can redeploy the capital released in accretive shareholder transactions, such as share buybacks and selective aircraft acquisitions. Thirdly, and with immediate effect, we have increased our 2011 share buyback program from \$25 million to \$50 million.

Now, turning to the general aviation market. In terms of our own portfolio, we are not observing any elevated levels of lessee restructurings or repossessions. The current level of restructuring activity is consistent with historical experience and the AerCap platform has demonstrated that these restructurings and repossessions have not had a material impact on our results, as we have been able to rapidly transition aircraft from one lessee to another.

Furthermore, we have always told you that diversification is a key risk management tool in this business. It is important to note that AerCap is one of the most globally diversified leasing companies in the world. We generate 75% of our revenue outside the Euro zone and less than 5% of our revenue comes from Portugal, Ireland, Greece and Spain combined. But also, very importantly, the vast majority of the revenue from these countries actually comes from the national carriers.



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So in conclusion, AerCap has delivered another quarter of industry leading profitability and we've entered into a series of transactions that will generate long-term shareholder value by combining attractive asset acquisitions with the return of capital to our shareholders.

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

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

Thanks, Gus. Good morning, everyone. I'll take you through the earnings call presentation now, which will give you the highlights of our second quarter financial performance.

Let's start on page 4. Our reported net income in the second quarter 2011 was \$30.8 million. Adjusted net income, which excludes the non-cash charges relating to the mark-to-market of our interest rate caps and share based compensation, and also, in this quarter, excludes a one-off charge relating to the buyout of the Genesis portfolio servicing rights, was \$72.8 million in the second quarter 2011, as compared to \$59.6 million in the same period of 2010.

For the first half of 2011, adjusted net income was \$148 million as compared to \$106.3 million in first half 2010, an increase of 39%.

On page 5, reported earnings per share was \$0.21 in second quarter 2011, including all items. Adjusted earnings per share was \$0.49 during the same period. For the first half 2011, adjusted earnings per share was \$0.99. The increase in the average shares outstanding to \$149 million was due to the completion of the Waha transaction in fourth quarter of 2010.

Page 6, the total revenue in second quarter of 2011 was \$364 million. As you can see, sales revenue was down as compared to second quarter 2010, but revenue, excluding sales revenue, increased to \$290 million in second quarter of 2011 as compared to the same period in 2010. Net spread, the margin earned on leased assets, was \$187 million in second quarter of 2011, as compared to \$174 million in the same period of 2010.

Page 8, total sales revenue in the second quarter of 2011 was \$75 million. Revenues relating to the sale of aircraft was \$9 million, the sale of engines was \$17 million and part sales were \$48 million. Total gain from sales in first quarter of 2011 -- excuse me, the second quarter of 2011 was \$21 million on a pretax basis. The revenues relating to the sale of aircraft was generated from the sale of a 50% interest in a joint venture containing three A330 aircraft.

Because it was a sale of a joint venture position, only the gain from the sale is recorded as sales revenue and no cost of goods sold is recorded.

On page 9, the total amount of AerCap leasing expenses and SG&A for the second quarter of 2011 was \$88 million, as compared to \$54 million in the second quarter of 2010. SG&A in the second quarter of 2011 includes a one-off charge of \$24.5 million relating to the buyout of the Genesis portfolio servicing rights.

On page 10, leasing expenses were \$23 million for second quarter 2011, up from \$16 million in second quarter 2010. The largest driver of the increase in leasing expenses was \$4.3 million of expenses, which relate to the airline defaults or repossessions, which occurred in either 2010 or 2011.

On page 11, in the first half 2011 we incurred a positive \$4.4 million pretax impact relating to airline defaults and repossessions, driven primarily by maintenance reserves we held, which are recorded as revenue at the time of the default. For full year 2010, the impact from airline defaults and repossessions was a negative \$9 million, driven by cost and impairments relating to the defaults.



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Our blended tax rate for second quarter 2011 was a charge of 8%. The tax rate for aircraft assets was a charge of 8.9% and the tax rate on our engine and parts assets was a credit of 38.1%. Our estimated full year tax rate for 2011 is also 8%.

Page 13, AerCap's total assets as of second quarter of 2011 are \$9.6 billion. The number of aircraft in our portfolio is 335, including the owned aircraft, managed aircraft and the aircrafts on order or under contract or subject to LOI. The number of aircrafts is 370, including the recently announced purchase-leaseback transaction with American Airlines.

Page 14, we completed \$638 million of purchases of Aviation assets during the second quarter of 2011, including the purchase of nine aircraft. As of second quarter 2011, we had \$838 million of committed purchases of aviation assets for the full year, including 11 aircrafts. This amount will exceed \$1 billion, including the recently announced purchase-leaseback transaction with American Airlines.

Page 15, the utilization rate remained at 98.3% for the second quarter of 2011, and the yield generated by aircraft lease portfolio was 13.5%.

Page 16, AerCap's unrestricted cash balance at the end of the second quarter 2011 was \$344 million, and our total cash balance including restricted cash was \$535 million. Operating cash flows were \$142 million for the second quarter of 2011.

At the end of second quarter 2011, AerCap's debt balance was \$6.5 million and our debt-to-equity ratio was 2.8 to 1. Our book equity amount is approximately \$2.3 billion or \$15.50 per share. The average cost for debt for the second quarter of 2011 was 3.7%.

Page 18, the EPS impact in the first half 2011 from the sale of aircraft and other one-off was approximately \$0.6. For the second half of 2011, the EPS impact from the sale of aircraft and other one-offs is expected to be approximately \$0.2.

Page 19, with regard to our full year 2011 financial outlook, committed purchases of Aviation assets, as I mentioned, will exceed \$1 billion, including the recently announced deal with American Airlines. 2011 basic rents is expected to increase 10% to 15% over 2010, and the maintenance contribution to income is expected to increase \$10 million in 2011 compared to 2010.

The average cost of debt in 2011 is expected to be approximately 3.5% to 4% and the tax rate is expected to be approximately 8% in line with 2010. The 2011 ROE is also expected to be comparable to 2010.

Okay, moving to page 21. I like to give you some updates here on some commercial activities. I'll start first with the American Airlines transaction. As you know, American entered into a purchase-leaseback arrangement with American Airlines to finance 35 Boeing 737 800 next generation aircraft. We will purchase the aircraft from American and immediately lease back the aircraft to American.

The financing of each aircraft will be subject to certain terms and conditions. The aircraft will be delivered from 2011 through 2014, and the size of the transaction is approximately \$1.5 billion to \$1.6 billion based on the appraisal values from Ascent.

Page 22, as you saw this week, AerCap has entered into agreement with ILFC for the sale of our AeroTurbine subsidiary. The closing of the transaction is expected to occur in the coming months after regulatory approvals are received and other conditions are met. The purchase price for 100% of the share is \$228 million. AerCap will continue to guarantee AeroTurbine's \$425 million revolving credit facility until December 14, 2011.

ILFC will provide counter-guarantees to AerCap for any payments made under the AerCap guarantee. It is expected that AeroTurbine will amend the credit facility prior to December 14, 2011.

The amount drawn on the credit facility of \$299 million as of July 31, 2011, plus the purchase price of \$228 million, represents an EBITDA multiple of approximately 10 to 11 times.



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Page 23, the financial impact from the sale of AeroTurbine is as follows. The sale of business will create a pre-tax book loss of about \$20 million. In addition, there's an \$8 million tax asset that will no longer be recoverable and as a result of the sale will need to be written off. We will incur approximately \$22 million in transaction expenses.

After completion of the sale, we expect to include all of these items in the single line item in our profit-loss statement for easier disclosure going forward.

Although a small loss will be incurred upon the sale of AeroTurbine, the net amount of cash received by AerCap from AeroTurbine during the time we owned the business will be approximately \$40 million cash positive after completion of the sale.

Page 24, in 2010, AerCap initiated a share repurchase program. During the second quarter of 2011, just over 118,000 shares were repurchased under this program for consideration of approximately \$1.4 million. As you saw with our announcement today, AerCap is now initiating another share repurchase program. The new program will allow AerCap to acquire up to \$50 million of shares in 2011, inclusive of the amounts acquired in second quarter of 2011.

Page 25, during the second quarter of 2011, AerCap amended its \$775 million non-recourse revolving debt facility, which was originally put in place during 2006. The amendment will allow for an additional 2-year revolving period with a 3-year term out to 2016. This facility is very flexible and allows for the acquisition of a range of aircraft types.

Those are the commercial updates. I'll now open it up to Q-and-A. Operator, if you could set that up, please.

Peter Wortel - *AerCap Holdings N.V. - Head of Investor Relations*

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Aengus, can you tell us how you arrived at the number of \$50 million for the share buyback program? Looking at your balance sheet, I think your leverage is as low as it's ever been. You're looking at maybe \$200 million of net proceeds from AeroTurbine. Could this just be a placeholder and then we see another one in 2012?

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

Certainly, Gary. I mean, this is another step in returning capital to our shareholders. Originally, it was 25; we've doubled it to 50. Now, we certainly will consider additional share buybacks if the share price remains at these depressed levels. You can take that as a given as we go into 2012. But also, we want to make sure that we prudently manage the balance sheet, and very importantly, that AerCap is in a position to take advantage of any market weakness that may develop over the coming six to nine months.

Gary, as you know, we don't only want to survive in a downturn, we want to thrive. And that's why the balance sheet is where it is with low leverage, with significant cash balances to enable us to do additional transactions like American if the opportunities present themselves.

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Gary Liebowitz - Wells Fargo Securities - Analyst

Okay. And then if I can ask on the American Airlines deal, it seems like an awful lot of aircraft of yours going to a questionable credit. I mean, what kind of protections are you taking, because this looks like they'll be like almost a 10% customer for you. I mean, do you retain the right to sell these aircrafts at a future date or just can you tell us what types of precautions you're taking?

Aengus Kelly - AerCap Holdings N.V. - CEO

Sure, Gary. Of course. Now we have always said to our shareholders, and to yourself, that any transaction we enter into there has to be a fair balance between reward and risk. Now, American on the reward side is very attractive because, firstly, we are getting 35 of the most sought after aircraft in the world. These 800s are prime real estate.

Secondly, we are getting the aircraft on very attractive terms. Thirdly, and very importantly, we do not have to make any pre-delivery payments versus probably \$500 million plus of dead money in pre-delivery payments if we placed a [spec] order for 35 aircraft. Fourthly, there is no payment risk. So that's the rewards.

Now, how do we protect ourselves against the downside? Firstly, we put in place a robust debt structure already for the first tranche of deliveries, which is the extension of our UBS warehouse, which, as you know, is the only warehouse of the public companies that survived the downturn that was absolutely available throughout the downturn. That has been extended.

Secondly, we looked at the American fleet and said, "Look, if there is a Chapter 11 event, we do not believe it is likely that they will return brand new 737 800 aircraft." We believe that if that happens, it's far more likely that the 250 plus 20 year old airplanes that are the MD-80s and the 75s will be returned.

So we figured, "What will we face?" We'll face a regular Chapter 11 event on the delivered aircraft, which is effectively 60 days of no rent and some renegotiation. We are very confident that the price that we are buying these airplanes at more than compensates us for this risk.

And finally, in the unlikely event that the new 800s do get returned by American, we have every confidence that our platform will rapidly redeploy these aircraft, and I think we've proven that time and again over the last few years that this platform can rapidly move aircraft.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, thanks again. Just one quick one for Keith. Keith, what's the payback period on unwinding the GECAS servicing agreement?

Keith Helming - AerCap Holdings N.V. - CFO

We were paying about \$6 million to \$6.5 million per annum. So about four years.

Gary Liebowitz - Wells Fargo Securities - Analyst

Thank you very much.

Operator

Scott Valentin, FBR.

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Scott Valentin - *FBR - Analyst*

Regarding the American deal, can you give us a rough idea? I know you said attractive prices and attractive returns. Maybe in terms of kind of a return on equity or even a range? Is it in line with the current returns on equity generating? Is it better than what you currently generate?

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

Yes. Look, firstly, AerCap does not pay out for assets. You can take that as a given. The return on equity that we'll generate of these transactions, even in the event of a potential Chapter 11 event with American Airlines, is in excess of the ROE that we are generating. If it wasn't, we couldn't justify doing this deal rather than returning capital of the shareholders. It has to cross that hurdle before we would do it.

Scott Valentin - *FBR - Analyst*

Okay. Thanks. That's helpful. And then just to confirm, the AeroTurbine sale proceed it's about \$200 million of cash?

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

Yes, \$200 million of proceeds, give or take, yes.

Scott Valentin - *FBR - Analyst*

Okay. And then just looking forward, you mentioned you take some delivery this year of the American Airlines aircraft and then there's some more next year. Can you describe financing conditions? I mean, obviously, the European banks have traditionally been a big source of financing for the leasing industry, and there's concerns around sovereign debt and financial condition of the European banks. Can you maybe talk about what you're seeing in the markets right now, and maybe other banks that are stepping up or other regions are stepping up to maybe step in the void?

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

Sure. Maybe just one other comment I should have made on American is that these aircraft don't deliver now. It's one aircraft a month effectively for the next three years. So the exposure ramps up over time, and we can certainly dispose of these assets over time also.

Now on the banking side, it's our approach to these transactions, as we've always said to you. Before we consider any asset acquisition, we need to make sure that there's a robust liability structure in place first. And that's what we did when we extended the UBS warehouse, which as I said, withstood 2009, 2010 without any difficulty. So that is a very flexible facility. So we know that's able to deal with all the deliveries in 2011.

Furthermore, as we've always said, a competitive strength of AerCap is our diversified funding around the globe, be it in Taiwan, Singapore, China, the United States and all throughout Europe. We have raised funds and we continue to raise funds there. And we have a number of syndicates that are very interested in financing significant numbers of the 2012 aircraft and possibly into 2013 for the American transaction.

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Scott Valentin - *FBR - Analyst*

Okay. Thank you. Then just a final question on the buyback. You mentioned it's \$50 million. You're willing to increase it if the opportunity presents itself with the stock price. Are there any covenants that limit the ability to buyback more stock or have you addressed all the covenants?

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

Well, if you recall what we said, you needed the \$25 million -- the \$25 million deal is that there was a restrictive covenant that limited it to \$25 million a year. At the same time, we told you that we would be able to increase the covenant to the level we wanted to, which is exactly what we did. We increased it to \$50 million for 2011, and now there is only five months left in 2011 and we can do another \$50 million straightaway in 2012.

Furthermore, I have every confidence that if we get through the \$50 million and the share price stays at these depressed levels, that we will be able to go back to the lenders once again and increase that limitation.

Scott Valentin - *FBR - Analyst*

Okay. Thanks. And then on the credit front, any change in the 30-day past due list or any watch list airlines? Any increase there?

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

As I said in the prepared comments, we are not experiencing any elevated levels of restructurings and customers on the watch list than is the norm over the course of the last three years. And I think it's very important to note that if you look at 2010, we repossessed nine airplanes. Every single one of them was repossessed within 60 days and put back on lease, and it had no material impact on the results of the Company and the same is true for 2011 year to date.

Scott Valentin - *FBR - Analyst*

Okay. Thanks very much.

Operator

Helene Becker, Dahlman Rose.

Helene Becker - *Dahlman Rose - Analyst*

Is American making maintenance payments on the aircraft in addition to the regular lease rents?

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

Helene, as you can imagine, there are certain terms of the transaction that just we cannot disclose for confidentiality reasons. What we can tell you is that the overall transaction, as we've always said to you, one of the pillars this Company is built on, is we deal with the non-investment grade customer base.

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Helene Becker - *Dahlman Rose - Analyst*

Right.

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

So rather than focusing on the probability of default, we focus on the loss given default. And I think we've demonstrated to you time and again that when we do have default that the collateral we possess, either in the low purchase price of the assets or other sources, is more than adequate to compensate us for the risks that we take in the transaction.

Helene Becker - *Dahlman Rose - Analyst*

Okay. I actually saw them the other night and they indicated that they were not intending to file for bankruptcy. So that makes it a more better.

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

Sure they're not. Helene, I'm sure they're not. It's not the point. It's how we look at the deal. With every one of our customers we have to be extremely prudent, particularly -- it doesn't matter what customer it is. When we take on this level of concentration in a single customer, we must consider the potential for an event like that. Well, we certainly assume that they are not planning for it as well or else we wouldn't have done it.

Helene Becker - *Dahlman Rose - Analyst*

Exactly. The other -- you answered the delivery schedule question. Thank you. What was your utilization rate in the second quarter? I saw your (technical difficulty).

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

Well, second quarter was 98.3% as well. It hasn't changed much at all.

Helene Becker - *Dahlman Rose - Analyst*

Okay. And then have you thought -- or maybe you could discuss on the thought behind the share repurchase program versus a dividend?

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

Sure. At the moment, Helene, we consider the dividend. We continue to consider the share repurchase, and we consider asset acquisitions. Now we believe that at the moment, given the depressed level of the share price that it represents at standing value. And that's why the Board decided to proceed with the share buyback program here. That is not to say that the Board will not consider dividends at future dates. But for now, with the share price at these levels, it represents a very compelling investment opportunity.

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Helene Becker - *Dahlman Rose - Analyst*

Okay. And then just one point of clarification. In the response to the last question, where you said that, in 2009, you repossessed nine aircraft. And then you went on to say that you had no problem placing them, and the same is true for 2011. Did you intend to imply that you've repossessed nine aircrafts to share as well?

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

No, we haven't. What I said is that we'll repossess nine in 2010 primarily through the Mexicana default. As you recall, there we've have five airplanes. They were all taken out within a week and they were up on lease within 60 days, and no one noticed in the earnings.

Helene Becker - *Dahlman Rose - Analyst*

Right.

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

Now, as of year to date, 2011, as we told you on the prior earnings calls, we had a number of aircraft that were in the Middle East with the Arab Spring that we had to take out. Those aircraft have all been taken back and are back on lease already. So the point that I wanted to communicate was that the platform of AerCap is second to none when it comes to dealing with these issues.

Helene Becker - *Dahlman Rose - Analyst*

Okay. Great. Thank you for your clarifications and your help.

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

My pleasure.

Operator

Arren Cyganovich, Evercore.

Arren Cyganovich - *Evercore - Analyst*

The recent large order by American beyond your purchase-leaseback was directly financed by the OEM. Do you see that as any kind of competitive threat for the leasing industry that the OEMs would be backing that amount of aircraft, and what do you think about that in terms of, if it's a more of a one-off event?

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

The reality is that the OEMs have always provided backstop funding of some description to the US majors, because they are the key global customer still. They are still the biggest airlines. So what you see happening for an American or say someone like a Delta or a US Air, what Airbus has done for them in the past I don't see that being replicated elsewhere in the world.



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And furthermore, as often happens, it actually turns out that these aircraft don't end up being financed by the OEMs. It is a backstop facility, and actually this tends to open up opportunities for the leasing community.

Arren Cyganovich - *Evercore - Analyst*

Okay. That's helpful. And then also given expected re-fleeting with other large legacy carriers in the US, are you in discussions or do anticipate being able to take advantage of other purchase-leaseback deals with other legacy carriers?

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

Well, we are certainly in discussions. I think we had alluded to the fact over the course of the last six to nine months that we were chasing this type of transaction. This is a transaction that's much harder to do than just walking up to Seattle or Toulouse, and saying, "Give me 50 airplanes." So they're quite difficult to do, and they take a lot of time. But you can rest assured that we are pursuing opportunities like this around the world.

Arren Cyganovich - *Evercore - Analyst*

Okay. That's helpful. And then, lastly, the impairment revenue -- I'm sorry, not the impairment. The maintenance revenues were a little higher than expected. Where there any early lease terminations that was driving the increase in that line?

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

Yes. A portion of them are related to the repossessions or the defaults that occurred in the quarter. But we'll have the corresponding expenses incurred later in the year.

Arren Cyganovich - *Evercore - Analyst*

Thank you.

Operator

Sameer Gokhale, KBW.

Sameer Gokhale - *KBW - Analyst*

I guess the first one is in terms of this American deal. You had mentioned that the terms seem to be pretty attractive for you. And I was wondering if you could just give us a little bit of a flavor for why those terms seem to be so good? I mean, weren't there other competitors similarly trying to engage in discussions with American or there's something you brought to the table that others didn't? Was there anything specific associated with this that makes it a particularly favorable and attractive deal for you guys?

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

Well, this goes back to one of the things we've been saying to you, is that, while we've had a lot of new entrants into the market, combine all of them together, they're not the size of any of the giants that have really left the market as a competitive force at the moment. If you look at those left the markets -- [RBF], CIT no longer really involve in the sale-leaseback game; ILFC. These

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are giants who are gone, replaced by much smaller entities. So the competitive playing field for AerCap today is much better than it's been before.

And the only real competitor potentially on the American transaction was GECAS. Now GECAS already has very significant exposure to America. So the reality is there weren't very many people who could take on a transaction like this with a balance sheet strength and the reputation and the track record to do it.

Sameer Gokhale - *KBW - Analyst*

Okay. That's helpful, yes. Because I guess CIT has gone the route of placing orders for a large number of aircraft, and from their conference call, it sounded like they weren't interested in sale-leasebacks. I think your commentary would be consistent with their comments.

On a different note, the impairment charges that you recorded doing this quarter, maybe I missed it. But what kinds of aircraft did you take those impairment charges on?

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

The impairment charges were actually on three engines in the AeroTurbine business. And these were engines that they came up to be either repaired or effectively written off. It did not make sense to put the repairs back in, so the assets were impaired.

Sameer Gokhale - *KBW - Analyst*

Okay. Thank you for that. And then in terms of the provision for doubtful account. Aengus, you talked about troubled credits earlier, and I believe, saying that, it didn't seem like there was anything out of the ordinary there. But if I look at the charge that you recorded, the provision this quarter of \$2.4 million, I believe that number was \$1.6 million last quarter.

Certainly, the run rate of those provisions seems to be higher than what you booked in '10 and more consistent with maybe what you had in '08, which was perhaps a more difficult time. Just going back through history, I mean this does seem -- those provisions do look a little elevated. So I just wanted to see if you could provide a little bit of context relative to your earlier comments?

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

I'll start and then hand it over to Keith. I mean, look, if you go back to '09 and '10, the percentages as a percentage of net income of what we are talking about for the total impact of defaults, repossessions, restructurings, et cetera, is less than 3 to 4% of net income. So the fact that it's up by 800 grand or so is not a material event. And that's what I mean. In terms of the net income of this Company, which runs at a run rate of approximately \$75 million a quarter, an increase of \$800,000 in the doubtful debts, et cetera, is not really a material number.

Sameer Gokhale - *KBW - Analyst*

Okay. No, that's fair. I was just I guess looking at the trend line relative to '09, and that's what the comparison in absolute dollars, but as a percentage, you're probably right, it isn't that much higher. If anything, maybe a little bit lower compared to those --

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

And Sameer, just one other item. In the line called provision for doubtful accounts and such, there's a limit to the amount of costs that actually run through that particularly line on default. Again, if you go to page 11 of the presentation, you see that most of the cost relating to default appear in the lease and expense line or the impairment line, or potentially, reduced revenues, if you redeploy the aircraft at a lower rental.

Sameer Gokhale - *KBW - Analyst*

Okay. That's terrific. It's helpful. And my last question was, in terms of your transaction expenses related to this AeroTurbine sale, I mean, the \$22 million seem to be kind of high relative to the amount of cash you're expected to get from this. I mean, are those all banker's fees? What kinds of transaction expenses are included in there?

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

There's a combination. And because the debt facility had to stay in place, there was an amendment fee to the debt providers. There was investment banking advice, there was legal fees and then there was management compensation as well for the management team in AeroTurbine.

Sameer Gokhale - *KBW - Analyst*

Got it.

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

The only other thing to add there is that on any particular transaction where we would monetize the capital from AeroTurbine, the fees would have been at least its level, if not greater.

Sameer Gokhale - *KBW - Analyst*

Okay. Terrific. Thank you.

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

Welcome.

Operator

Gary Chase, Barclays Capital.

Gary Chase - *Barclays Capital - Analyst*

If I could engage you a little bit on the concept of a new aircraft and new technology and just ask a couple of questions related to it. One, could you give us a rough sense of what your exposure is going to be rolling over narrow body leases between here and -- I don't know -- mid decade, when that new technology is supposedly going to be right in front of people?

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And second, whether or not you think it's going to affect your ability? I mean, I note in your slides that the average term on new leases is still rising. Is that something you think will be sustainable as we approach production on some of these new aircraft?

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

Sure, Gary. Now to talk about our lease rollovers, as you know, we don't have much of a speculative order book left. In fact, everything on our order book is placed, with the exception of a handful of 737 800s in 2015, which we don't envisage any difficulty whatsoever placing. So we don't have a very big speculative order. We took our deliveries in 2009, 2010. And those aircraft all went out really on 10, 12 year leases. So they won't roll off until into the start of the next decade, actually.

I think the issue would be much more acute if you had a big stack order book that was delivering in 2014, 2015, where lessees will probably be saying, "Look, a lot of the technology is coming. I'm happy to take the airplane, but I want to take it only for maybe six years or so." I think that's how I would see the issue there. From our standpoint, as we got into the airplanes in 2009, 2010 and put them out in the long-term leases, it isn't as much of an issue for us, I don't believe.

Gary Chase - *Barclays Capital - Analyst*

Well, I'm just looking, Gus, I see -- I forget what the average term was. Wasn't it like 70-80 months on existing leases? So you will definitely have some, right?

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

For sure. But on the new aircraft, Gary, the existing leases will have already had an original long-term lease. By the time the existing leases roll off, say, their average term is six years -- I mean, the average age of those airplanes will be significant regardless of whether or not the NEO comes out or not. They would always be in a different market. They wouldn't be competing against the new technology of the newer airplanes in any event.

So there's -- you've got to look at the portfolio between the brand new equipment and which we place, which goes out to the beginning of the next decade. And then the equipment that's going on at second or third lease. And, those lease terms tend to have an average of five or six years. But when they roll off, Gary, they were never going to be competitors of brand new A320s or NEOs anyway, because those assets will be much older at that point.

Gary Chase - *Barclays Capital - Analyst*

Yes. Thanks, Gus. I think I misunderstood you at first.

Okay. So you don't have meaningful exposure on what you would consider to be competitive product until we get into that time period, 2020 and beyond.

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

Yes. And of course we have some placements, Gary. Don't get me wrong. We have to deal with that. But they're not -- again, like I said, given the size of AerCap, these aren't material to the numbers of AerCap.

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Gary Chase - *Barclays Capital - Analyst*

Okay. And then, from the comments you're making, specifically, Aengus -- you referenced a couple of times the strong bid for new product. Should we be thinking that incremental capital deployment is going to be predominantly in the older aircraft?

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

No, absolutely not. Absolutely not. Deployment of capital will be in new technology equipment. That doesn't mean I'm going to go and order airplanes that will deliver in seven years time and put \$500 million down as dead money in PDPs. What it means is that we will focus on transactions such as the American transaction, where we know that we have a lessee in place on a long-term basis in production modern technology equipment. And that's what it means.

And the strong bid that's in the market at the moment from the new entrants, we'll certainly continue to take advantage of that, as and when the opportunities arise.

Gary Chase - *Barclays Capital - Analyst*

Are there pockets where, say, it's new technology, just not brand new, that you think will be of interest for you?

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

On the acquisition side, Gary, unless it's a portfolio transaction, I don't really see us buying aircraft that are more than three or four years old. The reason for that, Gary, is quite simply -- the reason, Gary, is that once an aircraft rolls off a couple of leases, and say, 10 odd years of age, you've really got to understand the maintenance condition of those engines and exactly what exposures you're running. And these require very in-depth analysis, and even with that, it's always an issue whether or not you're going to get a good deal or not on the maintenance side.

Gary Chase - *Barclays Capital - Analyst*

Okay, guys. Thank you very much.

Operator

Rich Fitzgerald, Jefferies.

Rich Fitzgerald - *Jefferies - Analyst*

My first question was about the 2011 financial outlook. I just want to make sure I understand some of the changes here sequentially. It seems like basically revenue growth is going from 15% to 10%-15%. Is all of that decline related to the impact of AeroTurbine or is there another factor involved in what appears to be a decline?

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

No, the decline is -- it is AeroTurbine effectively. So the numbers have been adjusted just for that.

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Rich Fitzgerald - Jefferies - Analyst

Okay. And then, secondly, on the outlook. Over the last few presentations, you guys talk about expected gains from committed aircraft sales and other one-offs.

Aengus Kelly - AerCap Holdings N.V. - CEO

Right.

Rich Fitzgerald - Jefferies - Analyst

Right now that's expected to be \$10 million to \$15 million this year. But if I just look at sales revenue net of cost of goods sold, you generated over \$10 million in Q1 and over \$20 million in Q2. So that doesn't quite appear to be apples to apples. Is the difference that your outlook is just on committed aircraft sales and excludes more impromptu type transactions?

Keith Helming - AerCap Holdings N.V. - CFO

Well, some of the numbers that you're looking at includes the portion that goes to partners and JVs and the like. So some of that gain is backed out effectively and what's referred to as non-controlling interest.

Rich Fitzgerald - Jefferies - Analyst

Okay. But I think minority interest has been less than \$1 million year to date. So I'm just -- I was just finding it hard to square those numbers, because you had over \$30 million gross and then maybe less than \$1 million minority interest, because your full year guidance is \$10 million to \$15 million, it just seems like a big disconnect.

Keith Helming - AerCap Holdings N.V. - CFO

Well, let me get back to you on that one.

Rich Fitzgerald - Jefferies - Analyst

Okay. Yes. Maybe, Keith, we can circle up post the call. Then on another note, the Company has obviously done very well at building its value over time. As you guys indicated, the stock is undergoing a period of weakness. It seems like the case for share buybacks has done nothing but improve over time, given the book value generation and the share price weakness, notwithstanding the fact that the authorization was effectively doubled. It's still only 3% of the market cap.

So from an investor's perspective, if you could help me understand how you guys arrived at only 3% of the market cap and what we could expect going forward on that front, given the growing gap between book value and share price.

Aengus Kelly - AerCap Holdings N.V. - CEO

Sure. Absolutely. There's a few things at play here. Firstly, the \$50 million is just for the remainder of 2011. Now if we get through the \$50 million in the next couple of months, and the share price is still at these very depressed levels, we will certainly consider ways to increase that. Furthermore, come 2012, the Board will certainly consider again another program on the share buyback side.



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But also, very importantly, we have to be very realistic about the macro environment we're facing. If we do see a downturn over the course of the next six to nine months, it is very important that this Company, not only survives, but thrives in that downturn. And that is why we want to make sure that we don't just commit everything to share buyback. We want to make sure that there's plenty of capacity to take advantage of any weakness that comes in the coming six to nine months.

Rich Fitzgerald - *Jefferies - Analyst*

On that note, to the extent that there is macro weakness, holding everything else equal, that should probably have somewhat of an adverse impact on the aircraft leasing business more generally so. Correct me if I'm wrong, but if there's macro weakness, wouldn't that make the case for share buybacks more rather than less compelling.

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

No. We'll have to see. The share price is at a very low level at the moment. I suspect that the share price today is factoring in an awful lot of market weakness. But we just want to make sure we're prudent and that we have the capacity to take advantage of opportunities on the asset side, if and when they present themselves. We're always able to increase the share buyback program if we need to.

Rich Fitzgerald - *Jefferies - Analyst*

Okay. And then just one last one and then I'll jump out of the queue. Switching gears a little bit, share buybacks clearly reward shareholders who are by definition exiting the Company. Whereas dividend recurrent shareholders, you stay with the business. It seems like given how earnings are performing and how CapEx is coming down versus prior years, you're reaching a bit of a tipping point with respect to free cash flow generation. It seems like now might be an auspicious time to institute a dividend, given your cash flow dynamics, and also, just kind of given lower interest rates, more generally, and the paucity yield out there. What's the Management's thoughts on that topic?

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

Certainly. I mean, when we have CapEx to deploy there were three alternatives. There is buying assets, there is doing share buybacks or there is implementing a dividend program. Now we think at the moment the most prudent one to do is to buyback our own shares because they are an outstanding value proposition for the Company today.

But the dividend policy will be kept under review by the Board as we go forward.

Rich Fitzgerald - *Jefferies - Analyst*

Okay. Thanks, guys. I appreciate it.

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

You're welcome.

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

All right.



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Operator

(Operator Instructions).

Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - Wells Fargo Securities - Analyst

On page 30, where you have the chart of the portfolio, it looks like you either sold or had LOIs to sell a number of your out of production aircraft. First, is that out of the owned portfolio or your managed portfolio, and second, are those sales going to be -- are they going to be some asset impairments that accompany those sales?

Aengus Kelly - AerCap Holdings N.V. - CEO

Gary, that is predominantly in the owned portfolio. Four of those have already closed. There is no material impact. There's a very slight gain on the four. They were all old aircraft, all average age of around 20 years. And then there's a number of other aircraft that are under LOI. Again, we're focusing on the older aircraft.

Gary, again, look, there's a bid on the old aircraft at the moment. People want to buy them. And if they're willing to pay up, we'll sell them.

Gary Liebowitz - Wells Fargo Securities - Analyst

Do you anticipate future write-downs on those remaining that are under LOI?

Aengus Kelly - AerCap Holdings N.V. - CEO

No, we don't.

Keith Helming - AerCap Holdings N.V. - CFO

No, we don't.

Aengus Kelly - AerCap Holdings N.V. - CEO

I mean, they're already under accelerated depreciation.

Gary Liebowitz - Wells Fargo Securities - Analyst

Thank you very much.

Operator

There seem to be no further questions. Please continue with any other points you wish to raise.

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

Thank you very much of you for dialing in and taking the time, and we look forward to talking to you again in three months time at the Q3.

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

Thanks everyone.

Operator

Thank you. This concludes the AerCap Holdings 2011 second quarter results conference call. Thank you for participating. You may now disconnect.

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