

# Second Quarter 2014 Earnings Call »

August 12, 2014



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# Operational Update



- ILFC Integration on track:
  - Smooth day one transition
  - End-state organization has been designed with a clear path to execution
- Net spread for the second quarter was a 5-year high of 10.1%.
- As of June 30, 2014, we had committed to purchase 350 aircraft with scheduled delivery dates up to 2022. Over 90% of our committed aircraft purchases delivering 2014 through December 2016 and approximately 50% of our committed aircraft purchases delivering 2014 through 2022 are placed, either under lease contract or a letter of intent.
- We executed 122 aircraft transactions during the second quarter of 2014.
- Targeted aircraft sales of ~\$1 billion per year on average are ahead of plan: ~\$2 billion completed since the ILFC transaction announcement in December 2013.
- 90% of ILFC aircraft have been transferred to our existing operations in Ireland.
- Available liquidity of \$6.5 billion as of June 30, 2014. Since the announcement of the transaction \$7 billion of funding has been raised: unsecured revolver, term loan and ILFC acquisition related take-out financing.

# Second Quarter Highlights



- Adjusted net income was \$212.4 million for the second quarter of 2014 and adjusted earnings per share were \$1.29 for the second quarter of 2014, an increase of 118% over the same period in 2013.
- **Key Highlights:**
  - The adjusted debt to equity ratio increased to 3.7 to 1 at June 30, 2014, from 2.6 to 1 for the same period in 2013, reflecting our acquisition of ILFC.
  - We executed \$3 billion of financing transactions, including the previously announced private placement of \$2.6 billion of notes for the ILFC acquisition related take-out financing.
  - During the second quarter of 2014, we purchased ten aircraft with a total value of \$0.7 billion.
  - Our fleet utilization rate was 98.8% for the second quarter of 2014. The average age of the owned fleet as of June 30, 2014 was 7.6 years and the average remaining contracted lease term was 5.5 years.
  - We completed the sale of 100% of the class A common shares in Genesis Funding Limited (GFL), an aircraft securitization vehicle with a portfolio of 37 aircraft with an average age of 13 years valued at approximately \$750 million.
  - Subsequent to the second quarter of 2014, we exercised an option to purchase 50 A320neo family aircraft from Airbus.

# Purchase Accounting Update

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- The financial statements for AerCap Holdings N.V. reflect the fair value of the assets acquired, the liabilities assumed, and non-controlling interest from ILFC based upon preliminary valuations. The most significant areas include flight equipment, the forward order book, outstanding debt and maintenance rights asset.
- The impact on the purchase price from the significant increase in AerCap's share price from announcement of the ILFC transaction to closing is reflected in the purchase price allocation to the assets acquired and liabilities assumed.
- The fair value of assets acquired and liabilities assumed were determined using the market and income approaches and are based upon a preliminary valuation. Our estimates and assumptions are subject to change within the measurement period. The primary areas that are not yet finalized are related to the aircraft, maintenance related assets and liabilities, the forward order book, and income taxes.
- The fair value of the flight equipment was determined based on their actual physical condition as the acquisition date using and income approach based on the present value of the expected cash flows over the aircraft's remaining useful life.

# Purchase Accounting Update

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- The forward order book fair value was determined by discounting the difference between the estimated fair value of the aircraft and their contractual purchase price at the respective future delivery dates. The order book fair value will be included in the cost basis of the aircraft when delivered.
- The fair value of debt is estimated using quoted market prices where available. The fair value of certain debt without quoted market prices is estimated using discounted cash flow analysis based on current market prices for similar type debt instruments.
- The maintenance rights asset represents the difference between the actual physical condition of the aircraft at the acquisition date and the value based on the contractual return conditions in the lease contract and is reflected as a maintenance rights asset on the balance sheet.
- After discussions with the staff of the Securities and Exchange Commission, we concluded that our reported net income and earnings per share should reflect expensing the maintenance rights asset during the remaining lease term.

# Maintenance Rights Asset



- In determining adjusted net income, an adjustment will be provided which reflects the difference between expensing this asset during the remaining lease term as compared to expensing this asset straight-line over the remaining economic life of the aircraft as shown below.
- We believe this measure may further assist investors in their understanding of our operational and financial performance.
- The difference in the two methods will have no economic impact as it is non-cash and equalizes over time.

(\$ Millions)	<u>May14- Dec31 2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 +</u>	<u>Total **</u>
<b>Maintenance Rights Asset Expensed During the:</b>						
Remaining Lease Term* (Avg. of ~5 Yrs)	(10) <sup>***</sup>	(540)	(410)	(350)	(1,846)	(3,156)
Remaining Economic Life (Avg. of ~14 Yrs)	(180)	(260)	(270)	(260)	(2,186)	(3,156)
Pre-Tax Expense Difference	170 <sup>***</sup>	(280)	(140)	(90)	340	\$0
After-Tax Expense Difference	<b>\$140</b>	<b>(\$230)</b>	<b>(\$130)</b>	<b>(\$80)</b>	<b>\$300</b>	<b>\$0</b>

Average of ~(\$80m) per year

\* The amounts are estimates based on a July 2014 forecast of expected claims and end of lease compensation and are subject to change.

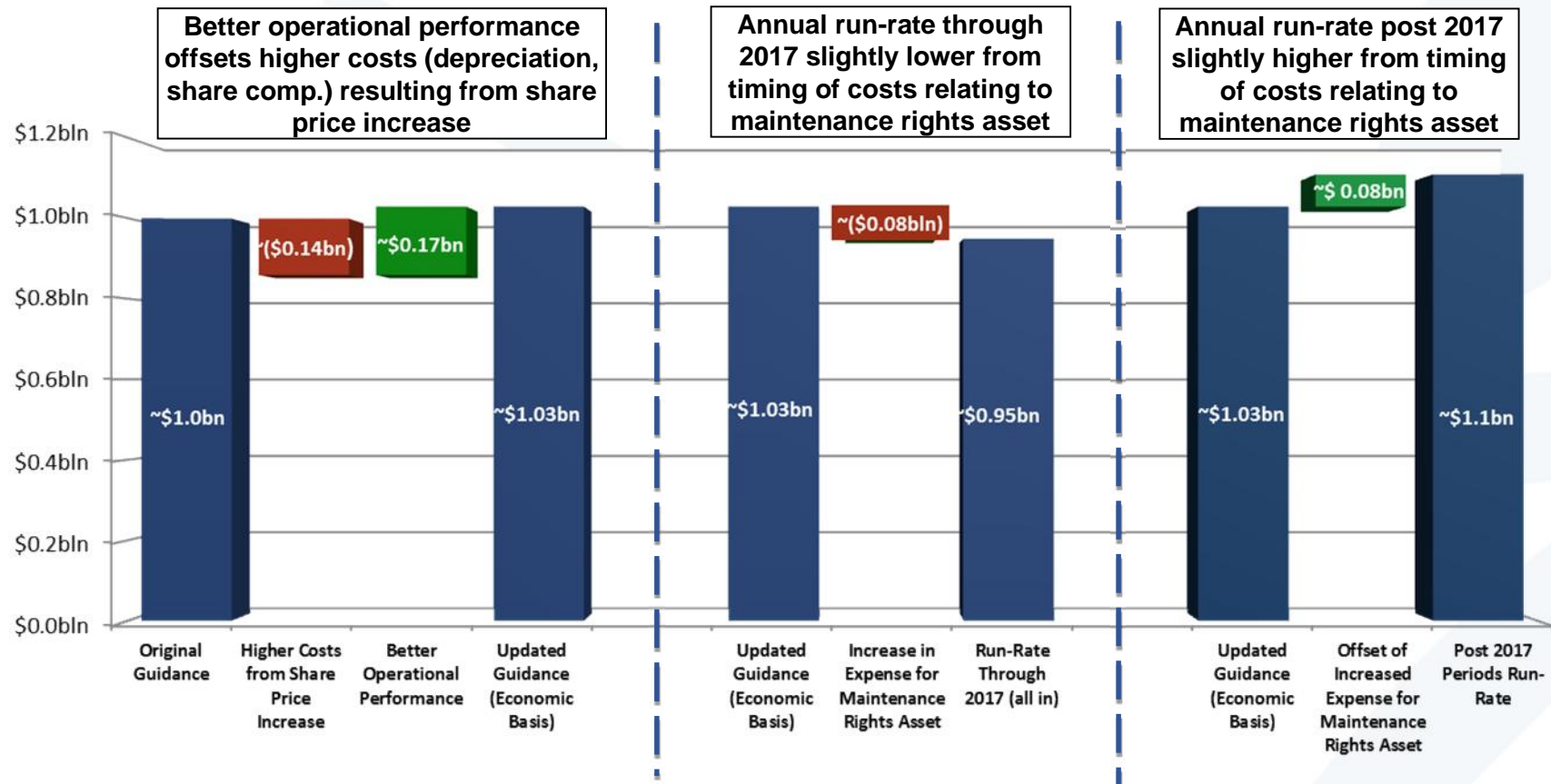
\*\* Reflects estimated cash receipts of ~\$1bn on end-of-lease contracts which is applied against/reduces the maintenance rights asset.

\*\*\* The lower amount of expense in 2014 is the result of having a limited number of claims for maintenance events which were completed post acquisition (a time lag exists between the completion of the maintenance event and the claim for reimbursement, which is the trigger for expensing the maintenance rights asset). Claims for events completed pre-acquisition are included as part of the aircraft value and not expensed (other than through depreciation expense).

# Earnings Outlook



## Annual run-rate of earnings including synergies:





# Net Income



(\$ Millions)	<u>2Q 2014</u>	<u>2Q 2013</u>	<u>H1 2014</u>	<u>H1 2013</u>
<b>Reported Net Income</b>	<b>138.3</b>	<b>75.7</b>	<b>193.0</b>	<b>143.1</b>
<b>Adjusted* for:</b>				
mark-to-market on interest rate caps/swaps	5.7	(10.7)	10.0	(12.0)
cost of share-based compensation	13.3	2.1	15.3	4.0
ILFC transaction related expenses	88.4	-	107.2	-
maintenance rights related expenses	<u>(33.3)</u>	=	<u>(33.3)</u>	=
<b>Adjusted Net Income**</b>	<b>212.4</b>	<b>67.1</b>	<b>292.2</b>	<b>135.1</b>

\* The adjustments are reduced for the estimated tax impact.

\*\* Second quarter 2014 adjusted net income increased 217% over the same period in 2013 driven primarily by the ILFC transaction.

# Basic Earnings Per Share



	<u>2Q 2014</u>	<u>2Q 2013</u>	<u>H1 2014</u>	<u>H1 2013</u>
<b>Earnings Per Share</b>	<b>\$0.84</b>	<b>\$0.67</b>	<b>\$1.39</b>	<b>\$1.26</b>
<b>Adjusted for:</b> mark-to-market on interest rate caps/swaps, share based compensation, ILFC transaction related expenses and maintenance rights related expenses	<b><u>\$0.45</u></b>	<b><u>\$(0.08)</u></b>	<b><u>\$0.71</u></b>	<b><u>\$(0.07)</u></b>
<b>Adjusted Earnings Per Share*</b>	<b>\$1.29</b>	<b>\$0.59</b>	<b>\$2.10</b>	<b>\$1.19</b>
<b>Average Shares Outstanding (Million)</b>	<b>164.4</b>	<b>113.4</b>	<b>139.1</b>	<b>113.4</b>

\* Second quarter adjusted earnings per share increased 118% over the same period in 2013 primarily driven by the ILFC transaction.

# Revenues and Other Income



<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Basic Lease Rents*</b>	<b>716.7</b>	<b>219.5</b>
<b>Maintenance Rents and Other Receipts</b>	<b>46.6</b>	<b>10.3</b>
<b>Net Gain on Sale of Assets</b>	<b>19.0</b>	<b>10.5</b>
<b>Other Income**</b>	<b><u>24.5</u></b>	<b><u>6.7</u></b>
<b>Total Revenues and Other Income</b>	<b>806.8</b>	<b>247.0</b>

\* Second quarter 2014 basic lease rents increased by 227% over the same period in 2013 primarily driven by the ILFC transaction.

\*\* Increase driven by the ILFC transaction and related primarily to income from our AeroTurbine subsidiary.

# Net Interest Margin (Net Spread)



<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Net Interest Margin (Net Spread)*</b>	<b>550.8</b>	<b>160.1</b>
<b>Average Lease Assets</b>	<b>21,955</b>	<b>7,570</b>
<b>Annualized Margin %</b>	<b>10.1%</b>	<b>8.5%</b>

\* *Net Interest Margin (Net Spread) is basic lease rents less interest expense, excluding the non-cash charges relating to the mark-to-market of interest rate caps and swaps.*

# Sales of Assets



**AerCap continues to optimize its portfolio through the sale of assets:**

<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Pre-tax Gain from Asset Sales</b>	<b>19.0</b>	<b>10.5</b>

- In 2Q 2014: we sold our 42% equity interest in AerData. In addition we sold the GFL portfolio of 37 aircraft and four aircraft from our owned portfolio (one Airbus A330-300, one Airbus A340-300, one Boeing 737 classic and one Boeing 767-300ER) and seven aircraft from our managed portfolio (four Boeing 737 classics, one Boeing 767-300ER, one B757-200 and one Airbus A320-200).
- In 2Q 2013: we sold eight B737-800s aircraft from our owned portfolio.

**We have sold over 350 aircraft since 2006 with an average age of 13 years.**

**Targeted aircraft sales of \$1 billion per year ahead of plan: over 100 aircraft valued at ~\$2 billion were sold/disposed or parted-out since the ILFC transaction announcement.**

# Other Expenses and Taxes



<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Leasing Expenses</b>	<b>22.6</b>	<b>10.3</b>
<b>SG&amp;A</b>	<b>63.3</b>	<b>24.1</b>
<b>Transaction Related Expenses*</b>	<b>101.0</b>	<b>-</b>
	<b><u>YTD 2014</u></b>	<b><u>FY 2013</u></b>
<b>Blended Tax Rate**</b>	<b>18.0%</b>	<b>8.4%</b>

\* *Transaction related expenses are costs that were incurred in relation to the ILFC transaction including banking fees, professional fees and severance and other compensation costs.*

\*\* *The blended effective tax rate in any year is impacted by the source and amount of earnings among AerCap's different tax jurisdictions. The increase is driven primarily by the ILFC acquisition.*

# Cash



<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Cash and Cash Equivalents at June 30</b> (Excl. Restricted Cash)	<b>1,731.4</b>	<b>156.9</b>
<b>Total Cash Balance at June 30</b> (Incl. Restricted Cash)	<b>2,530.3</b>	<b>410.6</b>
<b>Operating Cash Flow for the second quarter</b>	<b>455.2</b>	<b>156.2</b>

**Strong operating cash flow generation on track with expectations.**

# Liquidity Position as of 6/30/14



Sources (for 12 Months to 6/30/2015)	(\$ billions)
Unsecured Revolvers	\$2.8
Undrawn Commitments	1.0
AIG Revolver	1.0
Unrestricted Cash	1.7
Estimated Operating Cash Flow	3.1
<b>Total Sources</b>	<b>\$9.6</b>

**Sources do not include additional financing for deliveries of new aircraft purchases.**

Uses (for 12 Months to 6/30/2015)	(\$ billions)
Debt Maturities	\$(3.6)
CapEx	(3.3)
<b>Total Uses</b>	<b>\$(6.9)</b>

<b>Excess Coverage</b> (Sources less Uses)	<b>\$2.7</b>
<b>Ratio of Sources to Uses</b>	<b>1.39x</b>



# Capital Structure



<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Total Debt at Quarter-End</b>	<b>31,341</b>	<b>6,024</b>
<b>Average Cost of Debt</b> (including ~0.2% and ~0.4% relating to amortization of debt issuance costs)*	<b>3.5%</b>	<b>3.9%</b>
<b>Equity</b>	<b>7,274</b>	<b>2,274</b>
<b>Adjusted Debt / Equity Ratio **</b>	<b>3.7 to 1</b>	<b>2.6 to 1</b>

\* Interest expense divided by average debt balance, excluding mark-to-market on interest rate caps and swaps and other charges not reflective of on-going interest costs of debt.

\*\* Adjusted debt/equity ratio is obtained by dividing adjusted net debt by adjusted shareholders' equity. Adjusted net debt means consolidated total debt less cash and cash equivalents, and less a 50% equity credit with respect to \$1.0 billion of subordinated debt. Adjusted shareholders' equity means total shareholders' equity, plus the 50% equity credit.

# Financial Outlook for Second Half 2014



**Set forth below are the expected drivers for AerCap's second half 2014 financial performance, which are subject to change.**

- Lease revenues of ~\$5.0 billion on an annualized basis.
- Costs on an annualized basis as follows:
  - Depreciation of ~\$2.1 billion excluding impact of maintenance rights adjustment;
  - Interest expense of ~\$1.1 billion;
  - Leasing, SG&A, and share compensation costs of ~\$0.6 billion.
- Tax rate of ~18%.

# Supplemental Information



# Aircraft Transactions Second Quarter 2014



- 36 lease agreements executed
- 28 aircraft delivered to lessees
- Ten aircraft purchased
- 41 aircraft sold from our owned portfolio and seven from our managed portfolio

# High Quality and Well-Diversified Portfolio



## Aircraft Portfolio as of June 30, 2014

	Number of Owned Aircraft*	% Net Book Value	Number of Managed & AerDragon Aircraft	Aircraft on Order**	Aircraft under Sale / Purchase Contract	Total Aircraft
Airbus A319	143	8%	14	-	-	157
Airbus A320	241	17%	48	105	-	394
Airbus A321	96	7%	15	56	-	167
Airbus A330	121	18%	9	1	-	131
Boeing 737 (NG)	292	26%	61	34	(1)	386
Boeing 767	48	2%	-	-	-	48
Boeing 777	71	15%	4	-	-	75
Boeing 787	9	4%	-	75	-	84
Other	113	3%	44	79	-	236
	<b>1,134</b>	<b>100%</b>	<b>195</b>	<b>350</b>	<b>(1)</b>	<b>1,678</b>

- High share of liquid / remarketable aircraft
- Significant number of new technology aircraft on order
- Average age of owned aircraft fleet is 7.6 years
- Average remaining lease term 5.5 years

\* Excluding AeroTurbine which had seven aircraft at June 30, 2014.

\*\* Excludes five Boeing purchase rights, 50 Airbus A320neo options which were exercised post quarter end and 13 spare engines.

# Committed Aircraft Purchases



	<u>Actual YTD</u> <u>2Q 2014</u>	<u>Remaining</u> <u>2014</u>	<u>Total</u> <u>Remaining as</u> <u>of June 30,</u> <u>2014*</u>
<b>Aircraft Purchases (\$ Billions)</b>	<b>0.9</b>	<b>1.7</b>	<b>26.9</b>
<b>Number of Aircraft Purchases (Units)</b>	<b>13</b>	<b>21</b>	<b>350</b>

\* Consists of \$3.6 billion in 2015, \$4.4 billion in 2016, \$5.9 billion in 2017, \$5.9 billion in 2018, and \$5.4 billion between 2019 and 2022. Excludes five Boeing purchase rights, 50 Airbus A320neo options which were exercised post quarter end and 13 spare engines.

# Portfolio Management Metrics for Owned Aircraft



<u>Lease Portfolio</u>	<u>2Q 2014</u>	<u>2Q 2013</u>
<b>Utilization Rate*</b>	<b>98.8%</b>	<b>99.7%</b>
<b>Portfolio Yield**</b>	<b>13.9%</b>	<b>12.1%</b>
<b>Average Lease Term (Previous 12 Months)</b>		
• <b>New Leases for New Aircraft (Months)</b>	<b>155***</b>	<b>166</b>
• <b>Leases for Used Aircraft (Months)</b>	<b>55****</b>	<b>58</b>

\* Utilization rate weighted by book value of flight equipment divided by total days in the period.

\*\* Lease revenue divided by average book value of flight equipment and maintenance right intangible.

\*\*\* Reflects lease agreements for 22 new aircraft signed in the previous 12 months.

\*\*\*\* Reflects lease agreements for 68 used aircraft signed in the previous 12 months.

# Leasing Expenses



<b>(\$ Millions)</b>	<b><u>2Q 2014</u></b>	<b><u>2Q 2013</u></b>
<b>Default and Restructuring Related*</b>	<b>2.8</b>	<b>0.8</b>
<b>Normal Transition Costs</b>	<b>5.5</b>	<b>3.3</b>
<b>Lessor Maintenance Contributions</b>	<b>10.3</b>	<b>4.4</b>
<b>Other Leasing Costs</b>	<b><u>4.0</u></b>	<b><u>1.8</u></b>
<b>Leasing Expenses</b>	<b>22.6</b>	<b>10.3</b>

*\*Default costs incurred in the second quarter 2014 related to four aircraft, one of which defaulted in the second quarter of 2014, one in first quarter of 2014 and two of which defaulted in 2013. Default costs incurred in the second quarter 2013 related to one aircraft, which defaulted in 2012.*



(\$ Millions)	<u>2Q 2014</u>	<u>2Q 2013</u>
Share-based compensation expenses	15.1	2.4
Other selling, general and administrative expenses	<u>48.2</u>	<u>21.7</u>
<b>Selling, General and Administrative Expenses</b>	<b>63.3</b>	<b>24.1</b>

The increase in SG&A , period over period, reflects the ILFC acquisition.