AerCap Presentation
2021 Deutsche Bank 11th Annual Aircraft Finance & Leasing Conference

September 14, 2021

Corporate Speakers:

- Doug Runte; Deutsche Bank AG; MD and Head of Aircraft Debt Research
- Aengus Kelly; AerCap Holdings N.V.; CEO & Executive Director

PRESENTATION

Doug Runte: I'm very pleased to start off the afternoon session. We have quite a few people who are speaking today who require no introduction, I think Gus is certainly perhaps at the pinnacle of that, along with others. Gus Kelly needs no more introduction than CEO of AerCap. Gus?

Aengus Kelly: Doug, thanks very much. I'd like to echo Mark's words. This conference is always one of the most important each year. But this year, it is the most important. It is a leadership position taken by Deutsche Bank, bringing people together who invest and make a living out of aviation. If we're not going to lead the world forward, then who will? So, I'd like you all just to give Deutsche Bank a round of applause.

Doug Runte: And please send e-mails to my risk managers.

Aengus Kelly: Now I want to talk obviously today about AerCap, our acquisition of GECAS and how that is progressing and how we see things in the future. So, there's 3 messages to get across. One, air travel is recovering on a global basis far quicker than we had envisaged when we did the deal with GECAS, which was the end of last year, beginning of this year. We see that in our cash collections, and we see that in the demand for aircraft.

Now, I do have to acknowledge that here in the United States, there has been a decline in air traffic over the last 6 weeks due to the Delta variant. However, that was a reasonably small decline of, on average, a few hundred thousand passengers a day. This is transitory; it will pass. What's more important, however, for the aircraft leasing business is the global picture. And the global picture, as I'll show you shortly, is we've seen a big recovery, primarily driven out of Europe, and that has really taken hold over the summer.

Second, of course, is that our combination with GECAS will enhance the revenues, the cash flows, the quality of our portfolio. These 2 things, the recovery that we're seeing in aviation, the combination with GECAS and the attributes that it brings, along with our own extremely strong balance sheet mean that we will put AerCap on a higher ratings trajectory. This isn't hollow words or idle talk. I've done it before.

This team has done it before. Seven years ago, we sat -- stood here and told you we would move the ratings into investment-grade in short order, which we did, and we will move our ratings up. We will do all we can to move them up in short order as well on the far side of the GECAS transaction. That is a priority of the company and of mine.

So why do I say travel is happening faster than what we thought? When we were analyzing the acquisition during our underwriting case, it was December, January of last year. The vaccine was in its formative stages, to say the least. However, we were very confident from what we had seen in our position of having a lot of visibility of what was happening in the airlines that they felt there was going to be a strong rebound in traffic once things opened.

But it opened much faster. So here are the 3 markets that make up 67% of all 2019 traffic. United States, Europe, and China. The entire rest of the world is 1/3. So, these are the key markets. And in the U.S., there you see driven by vaccines, a sharp recovery in travel this year. Interestingly, Europe had the sharpest recovery last summer, then there was a big outbreak following the summer. But once the vaccines came in, you see the quick recovery in the European markets.

And China got there the quickest. In China, now we are at 108 odd percent of where they were in 2019. But this is what I want to show you that while the U.S. slipped a couple of hundred thousand passengers, that was exceeded by multiples by what's happened in Europe. The Chinese market is about 14,000 flights a day at 110% of 2019 traffic. If you look at the European chart and it's online, we're almost doing 27,000 flights every Friday in Europe, and that's only 70% of that market.

So that's been the huge driver. And so, I know that when we're here in the U.S., like everyone, whatever jurisdiction you're in, you listen to those headlines. For the aircraft leasing business, you have to look at the global position and what's happening globally. And we see this, as I will show you, reflected in the demand for our product later in the presentation.

Now, as an industry as a whole, what do I think is going to happen as we come through the pandemic? Aircraft leasing has grown significantly over the course of the last 30 years. The industry has matured, and its market share has grown significantly. Now, on the far side of this pandemic, there is no airline in the world that's going to tell you we are going to lease less aircraft. They are all going to lease more.

Two reasons: one is the flexibility it brings, that was brought home clearly in the pandemic; and two, they just can't. They don't have the money; everything is levered up. In sharp contrast, as you'll see later on, today AerCap has the lowest debt equity ratio we have ever had. And as we go forward, I firmly believe that aircraft leasing will cross 50% of all aircraft some point in 2024, for sure, by value. That is just something structural out there that aircraft leasing will come out of this as a product that is in high demand from the airlines.

Now, how do those things that I mentioned at the macro level impact what do I see here that gives me the confidence to say, the demand for our product is increasing? So, the leasing activity, that chart on the left-hand side, that is the key one. That's a forward indicator of what's happening in the world. And it was this that gave me confidence towards the end of last year regarding GECAS. You can see there in the first half of 2020, of course, we had the lowest quarter we've ever had.

We only leased 38 airplanes. Now -- and many of those candidly were, of course, tied to deferral agreements and what have you. We saw it pick up slightly in second half of 2020. But what we saw, because of the view we have of the global industry, we were negotiating a lot of deals in the fourth quarter of 2020 that we knew were going to close in the first quarter of '21.

So, we could see what the airlines were thinking 18 months out. When an airline signs a lease, on average, it's for an aircraft delivery in 18 months; some are shorter, some are longer, but on average. So, we could see what they were thinking, and the recovery was coming.

And you see there in the first half of '21, we leased over 110 airplanes. But we knew that was in the pipeline in the fourth quarter. That gave us the confidence, and we knew that things would recover eventually. We just didn't realize how quickly. Another indicator near closer in is deferral requests. They've obviously fallen significantly.

Now, it's not going to be a smooth recovery for all jurisdictions. We know that. There will, of course, be airlines that will need more deferrals or some help. But as you can see from the trend, that's going to be the exception. And then you see the operating cash flows. That's cash coming in the door every quarter. That's rising significantly also. So these are the things that we can see tangibly in our business, why we're so confident in the recovery of air traffic.

To talk about the GECAS transaction, a bit like 8 years ago when we acquired ILFC, we didn't just wake up one morning and say, let's go out and spend $30 billion. There was years of work went into analyzing all the competitive landscape, what were the attributes of each of the different competitors out there. So what was attractive about GECAS? On the portfolio side, at a high level, same strategy as AerCap: barbell approach to the book.

If you're going to buy airplanes, buy new ones, do not buy end-of-line current technology aircraft. I've said that too many times. You think the age of a portfolio is an indicator of risk, it may, but it may show you extreme risk.

If you had an average portfolio age of 4 years, composed of 777s, 330s, A320s and 737s, you would have an extremely high-risk portfolio. You need to understand a strategy of current tech. I want it old. I think they're going to be around for the next 8 or 9 years. So I'll make sure your average age of that portion of your portfolio is old, and then the rest is new tech.

Don't confuse the 2; they're different products. So -- but in GECAS, we had a portfolio that was highly narrow-body focused. The biggest engine leasing business in the world focused on the narrow-body engines, leading freighter/lessor in the world also, and we didn't have as much customer overlap as we thought we would have. We got it at the right price, we believe. Now GE themselves, just like AIG, are going to do very well out of this.

They saw how AIG performed. They wanted to monetize a very big part of their balance sheet for the same reasons AIG did. And GE realized, well, look, here is an efficient way to do this, and we have significant upside as the industry recovers, which they firmly believe themselves because they have an eye, obviously, just as good as ours into it from the engine business, and they did not want to just sell the business out for cash at those prices. But the price we're getting will, of course, drive attractive returns for our shareholders based on the book values that we're buying and the synergies we will get.

Now timing. As I said, since we bought it, the recovery has happened faster than we had expected. Two, when we were buying it, there was a very different expectation around interest rates and the cost of credit. That has changed. Credit spreads have fallen, the forward curve that was implied in our treasury yield curve at the beginning of the year didn't materialize. So, we will be financing this in its entirety in the very near future. And we have an asset book that was written over the course of the last 10 years. And we don't have to pay any breakage charge to GE for taking out the existing funding. So that's a windfall gain if you will.

And then going on to what will the company look like after closing of the transaction. Of course, we'll obviously be the world's #1 aircraft lessor. There is a very long remaining lease term, an enviable position in the freighter business and a very large order book of the most in-demand assets.

On the engine side, we'll be the world's #1 lessor, GECAS' two engine leasing businesses. One is its wholly owned business and the other is the joint venture with CFM. CFM is the manufacturer of the engine that powers every 737, every 737 MAX, 50% of all A320s and 50% of all A320neos.

Then we have the helicopter business. Again, since the transaction closed, a key part of the helicopter business, what's driving it is oil and gas demand. Oil and gas has changed significantly since we were negotiating the deal in September. There has been a rebound in the oil market, which has helped this business also. So overall, as I said, this will create the most important player in aviation leasing.

Now, some of you have asked a lot of questions about the price and how it is constructed. So, we want to lay it out here for you today. At December 31, GECAS had $34.2 billion of assets. We agreed to pay $25 billion in cash, plus 111.5 million shares in AerCap. Using a share price of $55, you get to $31 billion for that. Now, what does that mean in terms of discount? So, if you look at the bars on the left, GECAS is, of course, just funded internally from General Electric.

A normal leasing company will have 75% of its balance sheet funded by third-party debt and trade credits such as maintenance reserves, et cetera, and 1/4 of it comes from equity. And on that basis, you can see there the numbers of the GECAS equity basis, $8.6 billion. Now, I showed you the price we're paying for that $34.2 billion. It's 31%.

However, and very importantly, in addition to that, AerCap under the terms of the sale purchase agreement is entitled to all earnings and cash flows of GECAS from October 1, 2020 through closing; there is no sales price adjustment for those earnings. In addition, we expect to be able to eliminate several hundred million of the deferred tax liabilities. In total, that will give us a discount of over $4 billion, which will be equivalent to paying approximately 50% of book.

Now, to talk about the timeline. As you're aware, we had the shareholder approval, the DOJ approval, the European Union Commission approval and quite a few more have also come in. We have 1 or 2 still outstanding, which we're working on, and we expect closing, as we'd originally announced still to occur in the fourth quarter of this year.

The integration process is well underway. This is something we have done before; as you recall, 7 years ago, bringing together ILFC and AerCap. We are doing the same here today with the GECAS team as well, but that is well underway in terms of systems, processes, IT, et cetera.

Now, something that is very important to us, and I know to many of you, is ESG, and particularly, of course, for ourselves, our impact on the environment and our emissions. As the largest owner of commercial aircraft in the world, it's something we take very seriously. And we have to lead the world, and we do. No other lessor or airline has invested more in the most environmentally friendly aircraft in the world. We have spent $25 billion on modernizing our fleet.

No one else has approached anything like that. And you can see the impact of that both in the absolute level of GHG emissions there on the first chart and then beneath it the intensity. Also, we do believe there is a big future for sustainable aviation fuels, SAF. We have cooperated on numerous flights for our customers on this, doing the longest delivery flight ever on a 787 and also on an A321LR.

And we do believe that as we move forward over the course of the next 10 to 15 years, SAFs will play an important role. And we will be at the front of that as we have been at the front of the evolution of the global fleet, which is on the next page. We have been the biggest buyer of new technology airplanes and the earliest buyer. We were buying new technology assets in 2014, 2015, 2016.This is my point.

What you want to own earlier on, 3 or 4 year old 330s, 777s or 5 or 6 year old 787s and Airbus neos? Of course, you want the last one, not the former. And you'll see that at the end of this year, we'll be 60% new tech going to 75%. And I should add that in our current technology block there, you will see that includes our freighter fleet from the combined business with GECAS. Now, freighters naturally have an older age because you convert them when they're about 20 years and you add 20 years of life on to them.

So that's why it's so important when you as investors in this space look at a leasing business, analyze what is the portfolio and what are the attributes of it and what is the right age for each part of that portfolio. So, as I'm sure, Joe McGinley, our Head of IR, will share with you how that is broken down in the coming days and weeks.

Now, I want to talk about the credit profile of AerCap. We went through the worst stress test imaginable for aviation last year. And how did we get on? The key one, the leverage ratio up there, you'll see on the top left-hand side, that shows how it's evolved since 2015. We are now at the lowest debt equity ratio we have ever had as a business.

And as you are aware, we took a charge last year on our assets, even though we had never engaged in overpriced M&A. We're the only company that on multiple occasions has bought other businesses at big discounts to book. So we have a lower book value probably -- well, we do because we've bought them at a discount than anyone else in the business. And we still took our charges last year, and our debt equity ratio is still 2.4%.

Our secured debt to total assets, we did not put a lot of secured debt on the balance sheet at all, more or less the same, just under 25%. We have $25 billion of unencumbered assets. So, this is in stark contrast to an airline balance sheet, of course, where everything has been levered or equity has been issued. And then you look at our sources to uses in terms of the amount of available liquidity we have, one of the highest as well over the course of the last 6 years. We went up to 2x in the crisis, but now at 1.7x. So a huge amount of liquidity behind the business.

And look, as I've always said to you, the balance sheet comes first. There's plenty of growth opportunities in this industry, lots of them. You just have to know what you're doing and be aggressive when the timing is right. They're going to come to you. But to be able to act on that, you must have a strong balance sheet. And as I said to you, a key priority, the first priority to me is to move the ratings upwards post closing, which, as I look at the company and where we're going and the industry, I feel confident in that.

One thing I do want to touch on, though, is, as I mentioned to you, the commonality with GECAS and the asset acquisition strategy. GECAS grew organically along with our -- well, along with ILFC and buying airplanes from the manufacturers and buying them reasonably well over time. They did not purchase other companies in the aircraft leasing space at big premiums to book.

If I was buying a business that had bought other businesses at, say, 1.2x, 1.3x book, just to get flat to me on a best case scenario that they were able to start at the same point as me, I'd have to buy them at 80% and to get them down to where I'm buying them at 50% because they paid a premium, you have to be buying them at 30% or 40% of their book equity.

You have to realize that not all equity is equal if you've been overpaying for it, but you haven't taken your charges, you're inflating it AerCap hasn't done that, and GECAS didn't do it. The 1 business they bought at a premium, the helicopter business, they took the charge on that before we bought it.

So, going forward, the credit profile of the company, which is key. Without the strong balance sheet, we couldn't have done what we did in the financial crisis. We couldn't have done what we did here with GECAS, and we couldn't have managed the business the way we did. So that's why it's so important. We'll have higher free cash flow to debt, interest coverage, the diversification of the customer base, the business model will increase to extremely high liquidity. There'll be over $50 billion of unencumbered assets.

Our secured debt will go to less than 20% of total assets. So AerCap is ready for takeoff and this flight is leaving. Travel is returning quickly. You've seen that. Our cash collections, the demand for the product is up. Structurally, I don't think anyone could argue that the demand for aircraft leasing is going to go down. It's going up from the airlines. The GECAS transaction is going to add a lot to the business in terms of the portfolio, the returns that we're going to generate. And as I said, like we were 7 years ago, we're committed to a higher ratings trajectory also.

With that, delighted to take any questions at all, Doug.

QUESTIONS AND ANSWERS

Doug Runte: Sure. Thank you very much, Gus, for that. Always insightful, very useful information as well. And congratulations on the pending transaction. I have to start with this question, harking back to our conference 2 years ago. I asked you a question about economies of scale in the leasing business and particularly theoretical diseconomies of scale.

And you tossed out then somewhat casually seemingly, oh, I think somewhere between 2000 and 2,500 airplanes, which at the time happened to be about A plus G. So now that you've grown somewhat, as you look at further opportunities, as you look at the leasing industry, as you get your arms around what you've about to purchase. Where do you think there might be diseconomies of scale going forward? And are you at as big as you can get?

Aengus Kelly: Look, I think there are several things. I mean first and foremost, in our mind, is just to make the success of the GECAS acquisition. Now, why did I feel confident in that quantum of aircraft? The thing was, when we actually -- when we initially acquired ILFC, the combined fleet was significant, including the order book, we are around 1,500 assets. There's a lot. And that was going back to 2013, '14. We were a much smaller company acquiring ILFC.

We didn't have the same infrastructure as we do today and the same experience, and the market was smaller. So, given that, we felt that we could certainly manage the aircraft business that we are at today. I do think, Doug, as the business expands, of course, there's room for bigger businesses. From our perspective here, as I said, the #1 thing is just making sure GECAS, the acquisition is well integrated. We start to run the portfolio the way we want to. And I think it will be a while now before you'd see us contemplate anything else.

Doug Runte: We'll revisit that quote in a couple of years at our 13th annual conference. So that should be some fun. You've mentioned several times a higher rating trajectory. I guess, going back with the ILFC acquisition, there was the brief dip before the return to IG. Now congratulations, the IG has been kept in place. Looking a little bit further, where is the sweet spot for a aircraft leasing company such as yours or others, BBB category solidly, single A? Where do you think it should be over time?

Aengus Kelly: Well, I mean, look, the -- I mean, it depends on your -- the different businesses, of course, Doug. Certainly, we feel that we would want to move it up a couple of notches, and that will be our target over the next year as we'll be striving for. Of course, we will have to demonstrate the success of the transaction over that period of time, similar to what we did in 2014, 2015.

Doug Runte: Another question. We'll hear about this, I think, a bit in our next presentation, eVTOL, electric aircraft. You're obviously busy with an acquisition. People upstairs on the 10th floor. The airlines are doing stuff. A number of your peers, competitors are doing stuff. What's your view on that part of the market, which, frankly, I'm wrestling with?

Aengus Kelly: Look, I mean, of course, there are quite a number of people looking at that business. We did look at one of them carefully, but of course, we're doing the GECAS transaction. So that put paid to that. I do think in time that there will be a role for us. As I said, we ended up not doing and not pursuing it due to the hurdles we saw. But there's an opportunity to -- I think it's just getting the pilots out of the drone. That's the key because it just adds so much cost, and you got to try and get the pilots out of it.

Doug Runte: I hope you're flying private on the way back because a pilot may want to visit you with that comment. Do we have questions from the audience? Perhaps Hillary in the front?

Unidentified Audience Member: (Inaudible) regulatory approvals and processes?

Aengus Kelly: Sure. So, you have line of sight. There are different processes for each country. Some of them, you know you're there because they'll inform you, and they have no further questions, and they'll say they're writing an opinion, and then you're pretty confident where you are.

So, we have line of sight, either it's fully received or approved in almost all the jurisdictions. But there's nothing left that we think from the questions that are inbound from the last couple that concern us at this point. We have a CFIUS one here in the

United States. I would assume that won't be an issue. That's a timeline one. So, look I would hope that we'll have all those approvals in early in the fourth -- well, I can't say, but sometime in the fourth quarter.

Doug Runte: I'm glad to hear that while EU citizens may not be able to travel here yet, we don't yet have CFIUS issues with Ireland. So that's somewhat encouraging for cross-border relationships. Do we have other questions from the audience? You obviously have quite a bit of financing transactions going forward.

One of your predecessors or peers, I should say, when it did an acquisition made fairly extensive use of the aircraft ABS market. As you're looking at how to finance this transaction, as you're looking at potentially how to adjust the portfolio on dealing with diversification issues, how do you see that cap structure and which financing tools do you expect to be using?

Gus Kelly: Look, I think out of the gate, it will be focused on the unsecured bond market. We may take advantage of the euro market; we've had tremendous interest from Europe in the transaction. And again, I suppose, it's a bit like being in the indices here as well because we're going to be in the index of the indices. Certain funds are obligated to take some of the bonds. And so those investors are spending more and more time looking at it and are keener and very keen to understand their knowledge and see if they can go beyond their waiting their minimum waiting and so they can go beyond that.

And we've seen a lot of uptick out of Europe for that for sure. So -- but the vast majority will be here in the unsecured bond market, Doug. And then in terms of ABSs, look, I've always been a huge fan of ABS. I was there right in a prospectus in 1996 for Airplanes Group, which is the biggest ABS deal still ever done at 4 billion. And GECAS obviously used them quite a bit over the last few years as well. So we'll certainly look hard at that when we get past closing.

Doug Runte: Do we have other questions from the audience? Hillary, others? Gareth? Costa?

Unidentified Audience Member: (Inaudible)

Doug Runte: The question was about aircraft leasing and the Chinese market in particular.

Aengus Kelly: And of course, China, of the single markets, of course, is the biggest buyer of aircraft in the world, bigger than the U.S. or you're probably similar, maybe they're doing 23%, 24% of everything that Boeing or Airbus buy.

So huge buyers. I think they will always be big, big users of the leasing product. It's the Chinese plans, as you are very familiar with, are drawn up every 5 years and seem to be amended a bit more frequently than that. And the airlines historically have tended to under-order. Generally, a central order can be made. That central order is then distributed.

And I should say that task, the entity that helps make those central orders is our joint venture partner in a JV we have in China, Dragon Leasing. But we've always seen that the Chinese airlines under those central orders have tended to under-order demand, and then they supplement that and then augment these orders -- with placements from the aircraft lessor order books, the major lessors. And I think we'll continue to see that.

Of course, there is competition from the Chinese institutions there, be it BOC or CDB. I suspect we're going to see some consolidation in the Chinese lessors at some point as well. I think the pandemic has shown that the management teams are experienced and know what to do. There's a real premium on a platform that has that skill set. So, I think in China, there are some very good platforms. And I wouldn't be surprised if over time, we see some coalescing around those more experienced platforms.

Doug Runte: Great. I have a page full of questions. But I think, regretfully, we're out of time. So, Hillary, I think take it offline. Fascinating questions. Great Q&A. Great presentation. Gus, I think we share the same views on in-person conferences. It's great to see you in person. It's fantastic to see you in 3 dimensions. And I look forward to seeing you in person again very soon.

Aengus Kelly: Thank you all very much. Thank you, Doug.