



AerCap (NYSE: AER)

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Agenda



1 Company Overview

2 Industry Outlook

3 Investment Thesis

4 Valuation

5 Catalysts and Risks

6 Recommendation

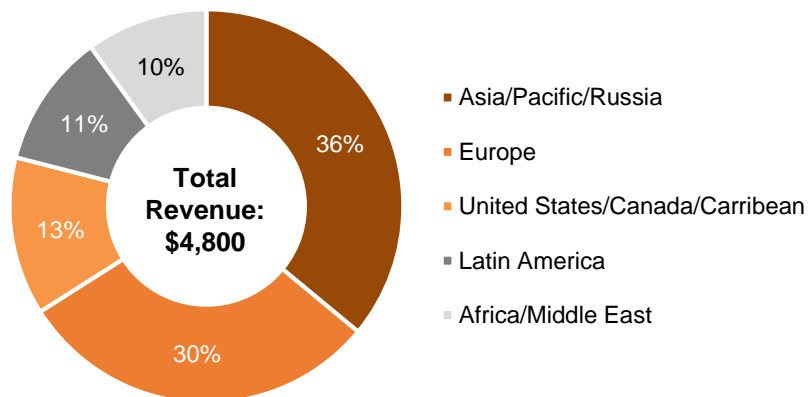
AerCap Holdings NV (NYSE: AER)

Business Description

- AerCap Holdings NV (NYSE: AER) is the most active aircraft trader and largest independent aircraft leasing company in the world
- AerCap focuses on acquiring in-demand aircrafts, funding them, hedging interest rate risk, and using its platform to deploy these assets
 - On average, AerCap purchases, sells or leases an aircraft once every 24 hours
 - Portfolio consists of 1,421 aircrafts with an average age of 6.2 years

2018 Geographically Segmented Revenue

\$USD millions



Management Team

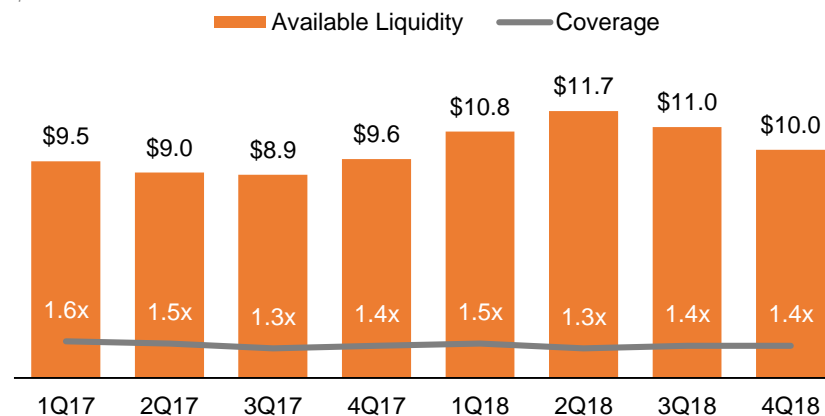


Name	Aengus Kelly	Philip Scruggs	Peter Juhas	Joe Venuto
Position	CEO	CCO	CFO	CTO
Years Exp.	20+	20+	19	30+

Background	Previously CEO and Group Treasurer of AerCap U.S.	Previously Executive VP and CMO at IFLC	Previously Global Head of Strategic Planning at AIG	Previously Senior VP of AerCap and AeroTurbine
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Available Liquidity

\$USD billions



Underlying Business Model

Business Model



Acquire Aircrafts

Because they are an independent aircraft lessor, they have the flexibility to acquire capital at attractive prices regardless of the manufacturer.



Operating Leases

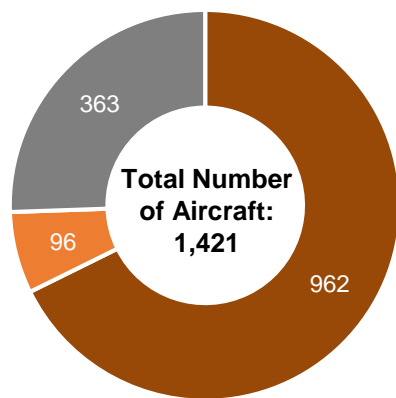
Lessee is responsible for maintenance and servicing, AerCap receives benefits and assumes risk of residual value.



Extend Lease or Sell Capital

At the end of lease period, AerCap either extends the lease or pursues a more favourable return on aircraft through sale

AerCap Aircraft Portfolio



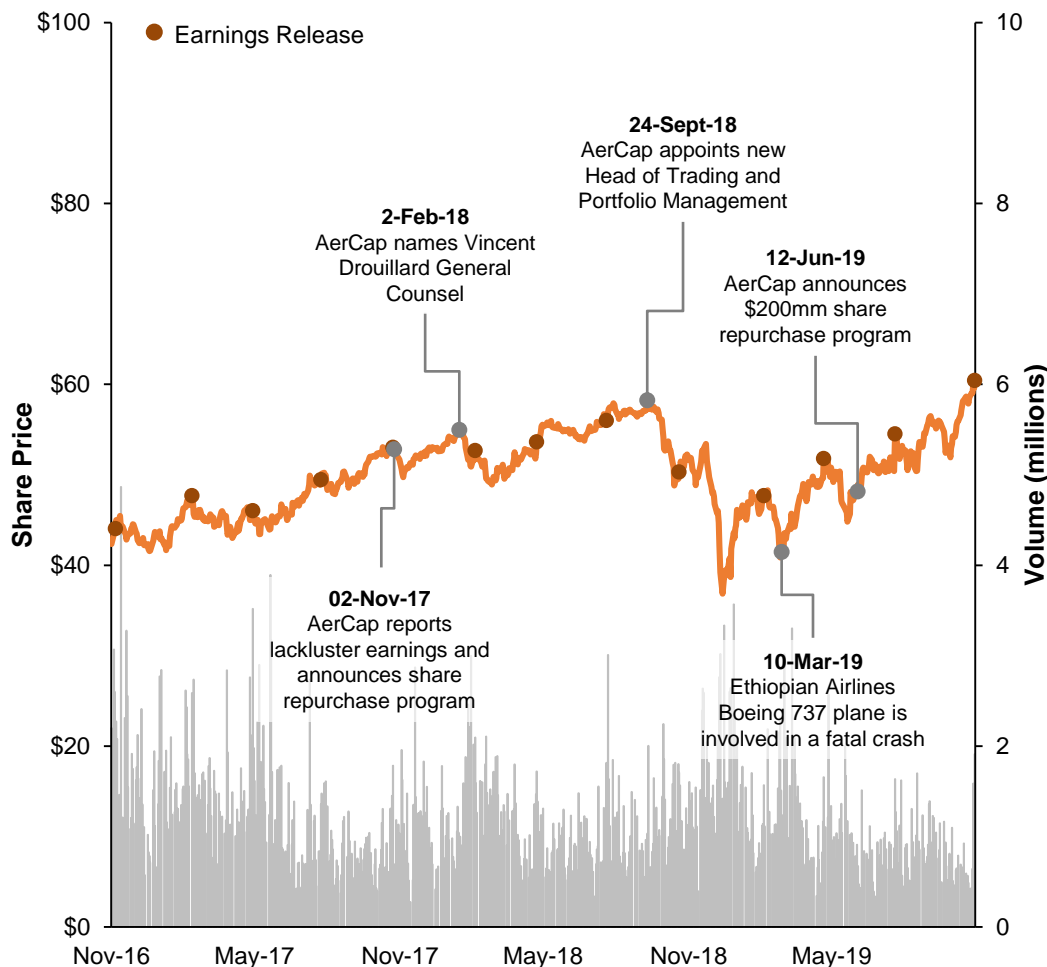
- Number of Owned Aircraft
- Number of Managed Aircraft
- Number of On-Order Aircraft

Principal Customers

Customer	% of 2018 Lease Revenue
American Airlines	7.1%
Air France	4.3%
China Southern Airlines	4.2%
Emirates	4.1%
LATAM Airlines	3.9%

PV Chart and Capitalization Table

Price-Volume Analysis



Market Data

(\$USD millions)

Capitalization		
Share Price (18-Dec-2019)	(US\$)	\$59.89
Basic Shares Outstanding ⁽¹⁾	(mm)	134.7
Diluted Securities	(mm)	23.8
Market Capitalization	(US\$ mm)	9,493
(-) Cash & Equivalents	(US\$ mm)	(1,047)
(+) Short-Term Debt	(US\$ mm)	116
(+) Long-Term Debt	(US\$ mm)	29,335
(+) Minority Interest	(US\$ mm)	65
Enterprise Value	(US\$ mm)	37,963

Trading Multiples		
P / 2018A BVPS	-	1.0x
P / 2019E BVPS	-	0.9x
P / 2020E BVPS	-	0.8x
P / 2018A EPS	-	8.8x
P / 2019E EPS	-	7.4x
P / 2020E EPS	-	7.8x

Market Data		
52-Week High	(US\$)	\$62.86
% of 52-Week High	(%)	95.3%
52-Week Low	(US\$)	\$36.16
Beta ⁽²⁾	-	1.10



Source(s): Capital IQ, Bloomberg, Press Releases, SEC Filings, CBC,CNN

1. Common Shares Outstanding derived from AerCap's 6-K Filing as of November 8th, 2019 and includes unvested restricted stock
2. AerCap's beta is derived from Bloomberg's 2-year adjusted beta calculations

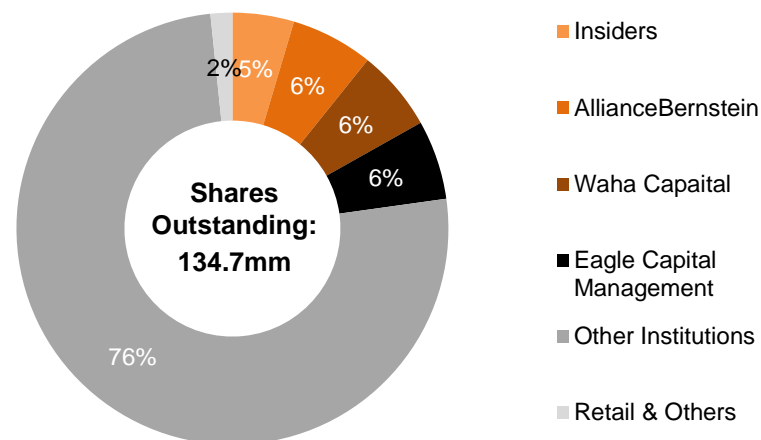
Shareholder Overview

Shareholder Summary

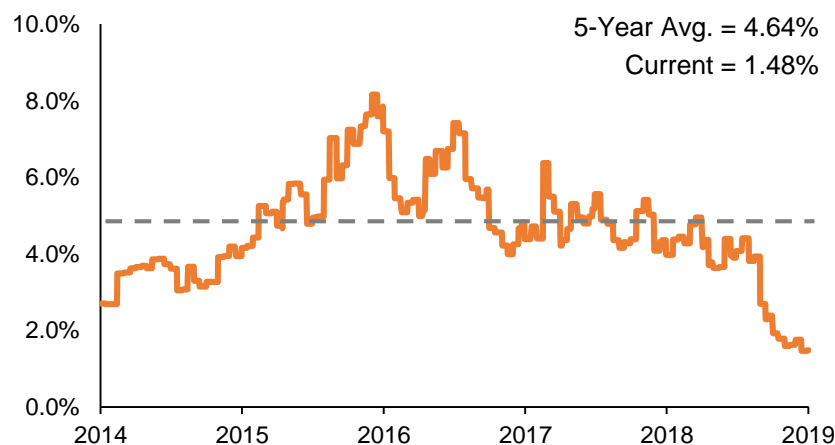
(in millions)

	# of Shares Held	% of Shares Outstanding
Insiders		
Kelly, Aengus	3.3	2.4%
Scruggs, Philip Gene	0.2	0.1%
Juhas, Peter	0.2	0.1%
Lawrence, James Arthur	0.1	0.1%
Other Insiders	2.4 ⁽¹⁾	1.8%
Total Insiders	6.2	4.6%
Institutions		
AllianceBernstein	8.3	6.2%
Waha Capital	8.2	6.1%
Eagle Capital Management	8.0	5.9%
Wellington Management Group	7.4	5.5%
BlackRock	6.3	4.7%
FMR LLC	6.0	4.5%
Lyrical Asset Management	5.9	4.4%
Donald Smith & Co	5.7	4.2%
State Street Global Advisors	3.7	2.7%
GreenLight Capital	3.5	2.6%
Neuberger Berman BD LLC	3.2	2.4%
Cambiar Investors	3.0	2.2%
Other Institutions	57.1	42.4%
Total Institutions	126.3	93.8%
Retail & Other Investors	2.2	1.6%
Public Float	128.5	95.4%
Total Basic Shares Outstanding	134.7	100.0%

Ownership Structure



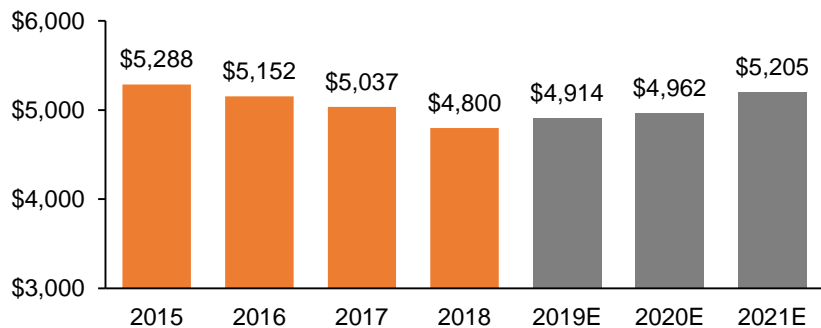
Short Interest



Operating Metrics

Revenue

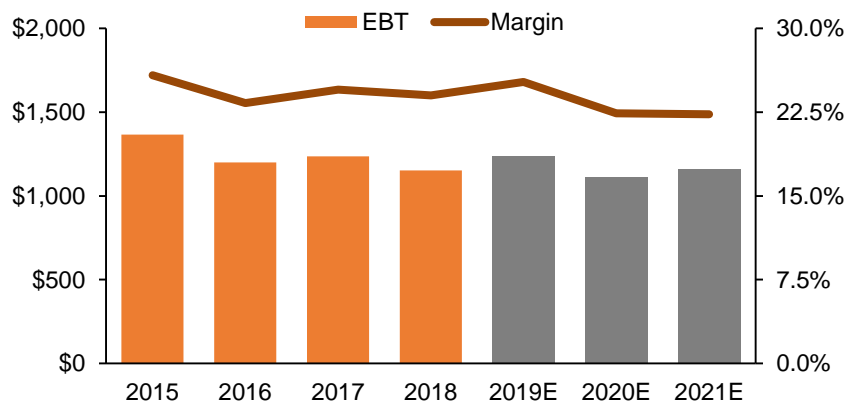
\$USD millions



Decrease in revenue can be attributed to a lower net gain on sale of assets and several lease terminations

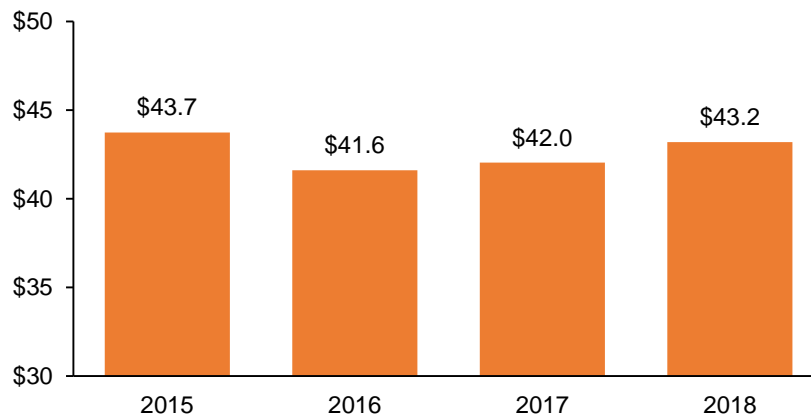
Pre-Tax Income

\$USD millions

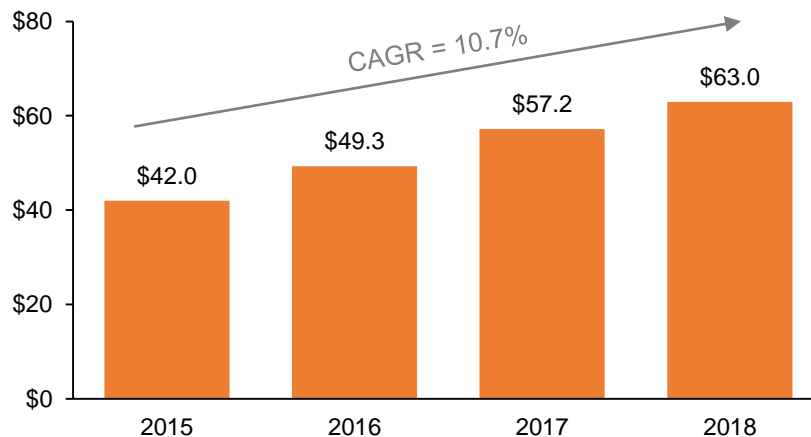


Total Assets

\$USD billions



Book Value Per Share



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The Economics of Commercial Leasing

Commercial Leasing Demand

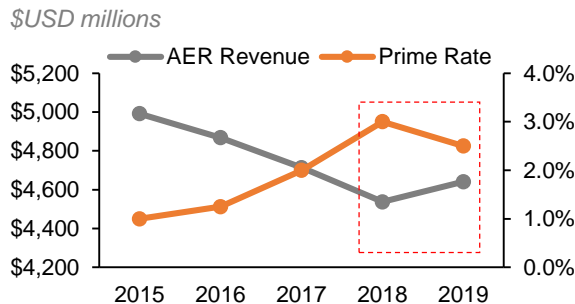
- Commercial airlines are the primary market for major aircraft lessors such as AerCap
 - Increases in airline trips prompt carriers to rapidly expand and update fleets to accommodate new demand more flexibly
- Lease demand remains steady throughout economic cycles, allowing airlines to avoid massive capex and depreciation expenses
- Volatile energy prices incentivize carriers to maintain access to the newest, most fuel-efficient aircrafts without needing to purchase entire aircrafts

Core Industry Drivers



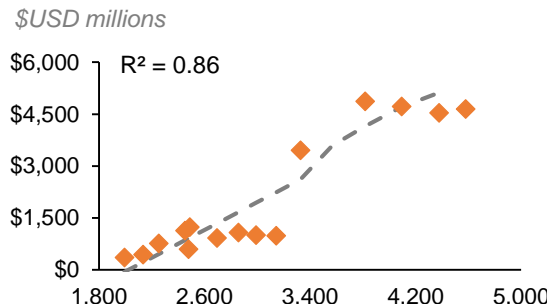
Macroeconomic Forces Driving Leasing Revenue

Effects of Borrowing Costs on Lease Demand



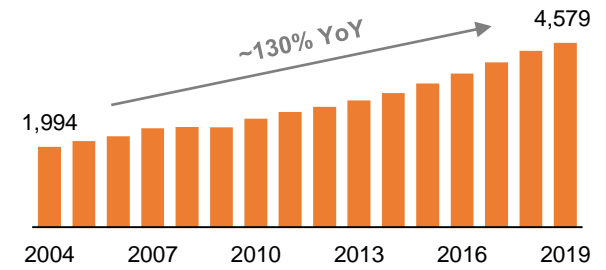
Decreasing borrowing costs as rates fall bolster downstream demand for leases

Revenue Correlation to Global Passengers



Clear relationship between leasing revenue and number of global airline passengers

Total Growth in Global Passenger Flights



Strong growth in passenger flights driven by globalization, to support lease revenue

Competitive Landscape

Increasing Industry Consolidation

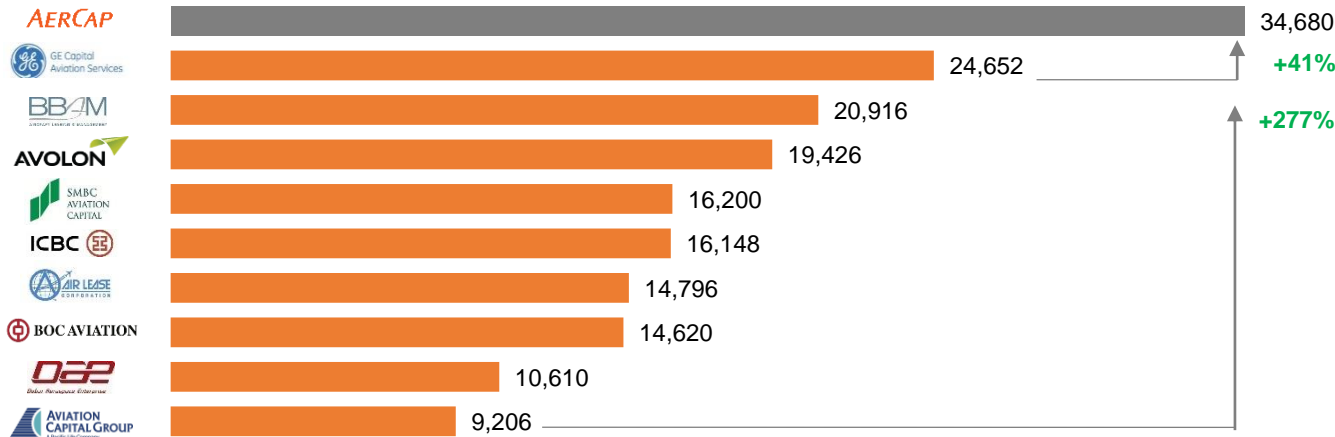
- Substantial financial resources, high barriers to entry, and established customer networks favour high market share concentration among key players
- Growing number of acquisitions as larger players absorb smaller operators
 - i.e. AerCap's 2014 acquisition of ILFC
- Lessors with the largest selection of aircrafts act as "one-stop shops" for carriers – pushing weaker firms out of the market

Substantial Barriers to Entry

Barrier	Dynamics
Access to Credit	Require favourable rates to finance fleet purchases – supporting those with existing large asset bases
Service and Upkeep Costs	Servicing aircrafts requires large capital outlays to ensure they align with regulatory standards
Stringent Regulatory Requirements	Regulatory bodies such as the FAA ¹ have stringent guidelines for regular aircraft maintenance
Established Customer Networks	Due to high supplier switching-costs, lessors with existing networks fare the best in this industry
Ability to Maintain Up-to-Date Aircraft Fleets	Technological changes, environmental concerns, and the demand for fuel-efficiency favour lessors that can adjust fleet composition the fastest

Fleet Value of Leading Aircraft Operating Lessors in 2018

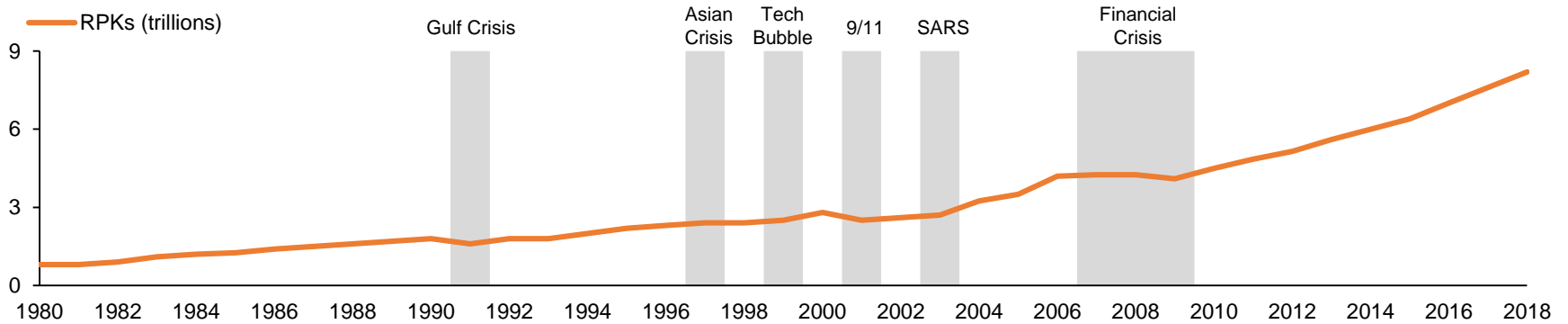
(In \$US millions)



AerCap's total fleet value is ~41% higher than the next leading lessor

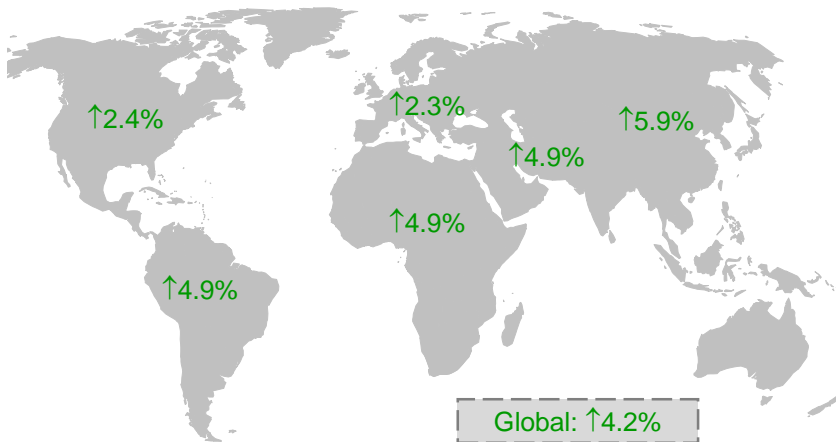
Structural Growth in Air Traffic

Resiliency of Air Travel



Since 1980, air travel has increased by 8x while enduring the cold war, 4 financial recessions, 2 financial crises, several oil shocks, 1 near pandemic (SARS) and over a decade of terrorism fears

Forecasted Passenger Volume CAGR by Region



Shift to Air Travel

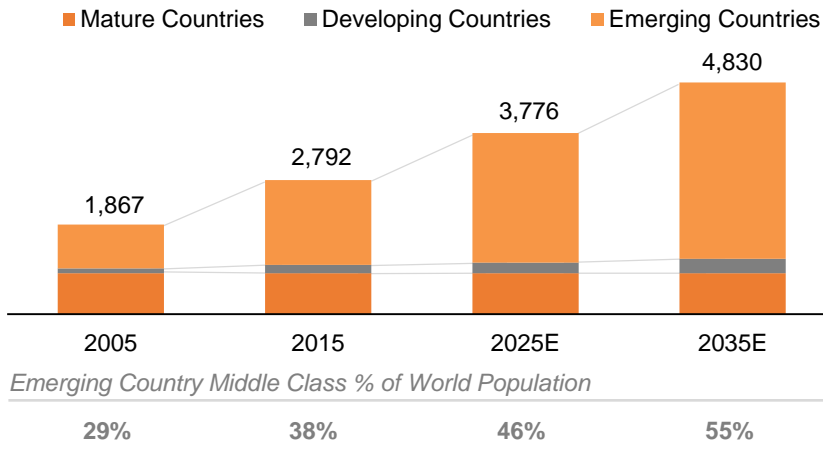
	2018	Change since 2011
Global Population	7.6 billion	↑8.4%
Global Rail Traffic Passenger Kilometres	3.9 trillion	↑17.5%
Global Air Traffic Passenger Kilometres	8.2 trillion	↑67.9%
Marine Transportation	Transatlantic ocean liners as the predominant mode of crossing the Atlantic was curtailed by the rise in air travel in the mid 20th century	

Structural Growth in Air Traffic (Cont.)

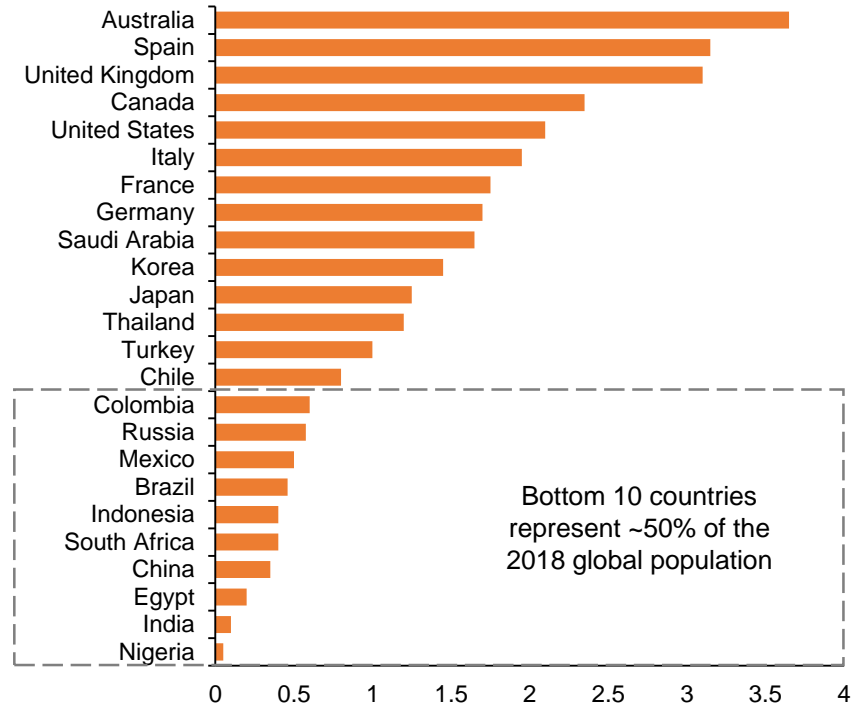
Emerging Middle Class

- A convergence between air travel and population should occur over time as developing and emerging countries gain economic strength
 - Phenomenon will be most noticeable through increased savings among the middle-class

Middle Class⁽¹⁾ (in millions of people)



Propensity to Fly by Country⁽²⁾



Increasing Affordability of Travel

- Budget airlines and sharing business are key factors that are increasing the ease and affordability of travel

Traditional Travel Options



Modern Travel Options



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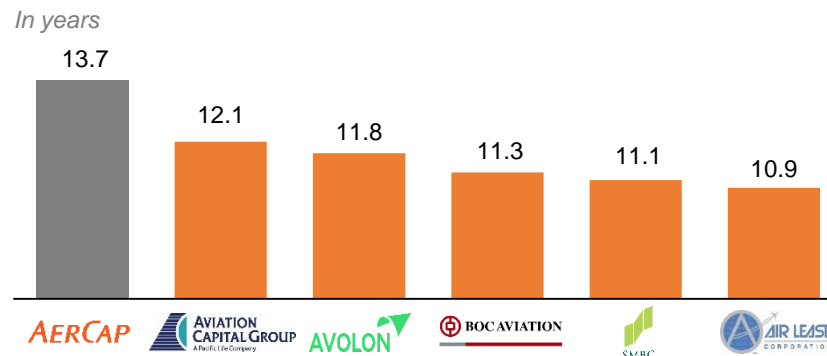
Argument I: Unparalleled Global Platform

Market Maker Advantage

Aircraft	Race To Market Position	Aircraft Type
A319/A320/A321	1 st	Narrowbody
B737-700	1 st	Narrowbody
B737-800	1 st	Narrowbody
A330	1 st	Widebody
A340/B747/B767	1 st	Widebody
B777	1 st	Widebody

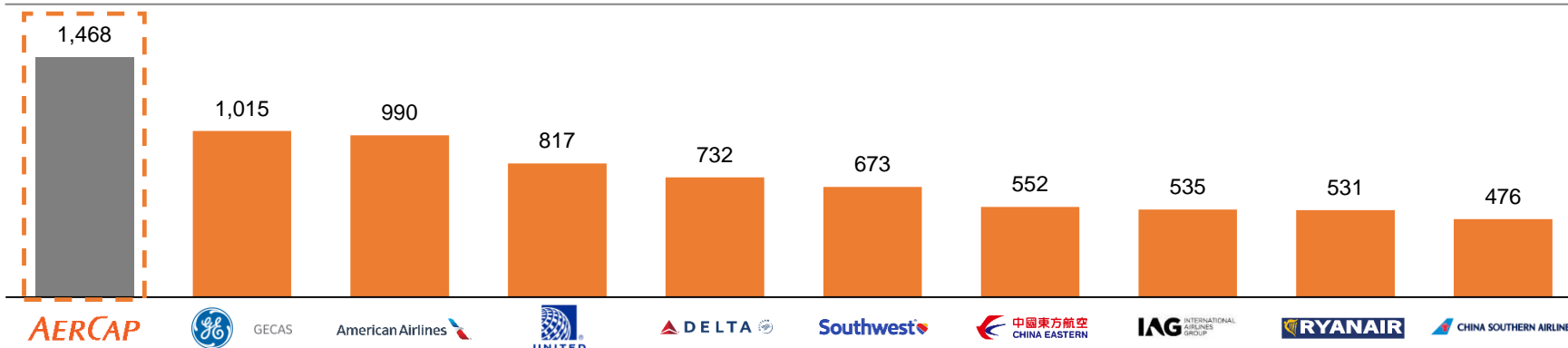
AerCap has consistently been first to market with new aircraft releases providing them with price setting abilities

Market Position Drives Favourable Leasing Terms



AerCap's ability to reach market quickly has allowed them to negotiate industry leading lease term lengths

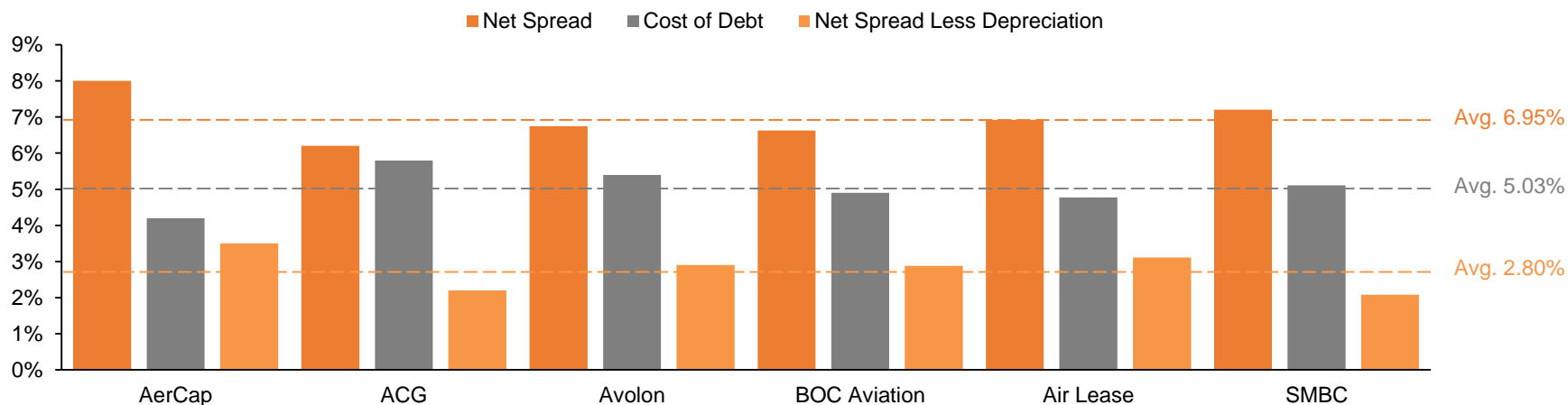
Superior OEM Relationships – Total Historical Deliveries (1994 – 2019)



AerCap serves as the largest customer to OEMs over the past 25 years with substantially higher total deliveries

Argument II: Significant Economies of Scale

Industry Leading Margins



Leading Market Position

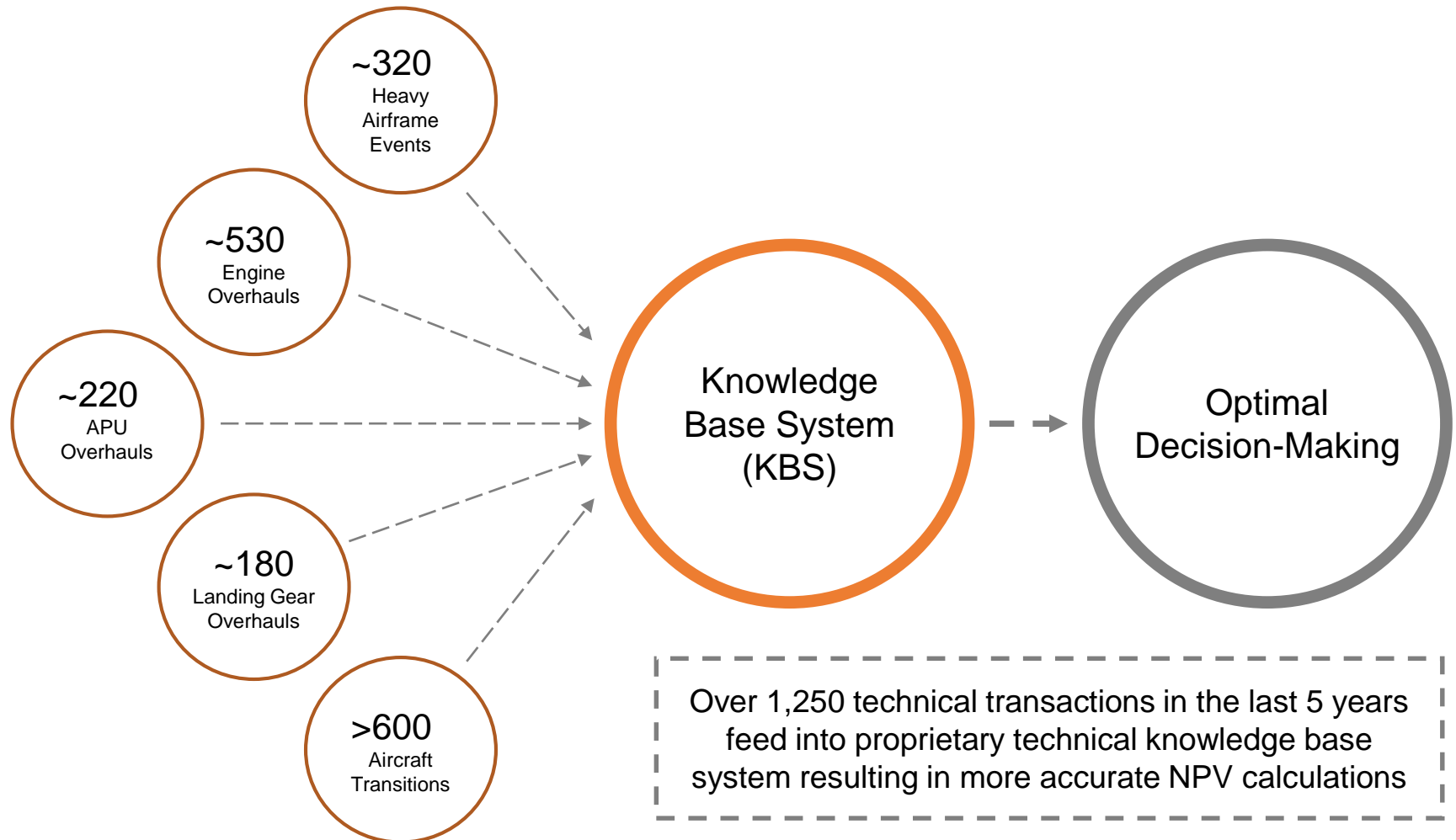
Customer	Years of Relationship	Number of Aircraft	Lessor Market Position
American Airlines	32	86	#1
CHINA SOUTHERN AIRLINES	27	76	#1
LATAM AIRLINES	22	23	#1
四川航空 SICHUAN AIRLINES	24	30	#1
Southwest	31	37	#1
spirit	16	21	#1
virginatlantic	31	13	#1

Access to Capital Markets

- AerCap remains one of few companies in the sector that has an investment grade credit rating
 - Offers more flexibility on financings
- Previously, leasing companies relied heavily of bank financing to manage their business
 - During the financial crisis, banks stopped lending and many industry players struggled to refinance their debt which resulted in bankruptcies

Argument II: Significant Economies of Scale (Cont'd)

Industry Leading Technical Expertise



Source(s): Company Filings

Argument III: Development of a Positive Feedback Loop

Each Aspect of the Feedback Loop Adds Tremendous Value to the Business

Transactions

- AerCap's size allows them to borrow capital at a cheaper rate; further improving ability to transact
- The more data AerCap receives, the better they will perform in negotiations with manufacturers and airlines

Relationships

- AerCap's strong ability to transact allows them to get invited to more deals and lends opportunity to build relationships
- AerCap's size allows them access to executives that few lessors can speak to



Information

- AerCap's larger size allows them access to more data than competitors
- Controlling more than 50% of global transactions, there are few deals that AerCap is unaware of in the marketplace

Size

- Management of key relationships with manufacturers and airlines allows AerCap to grow their network
- Each transaction allows AerCap to grow in size through balance sheet, relationship or data

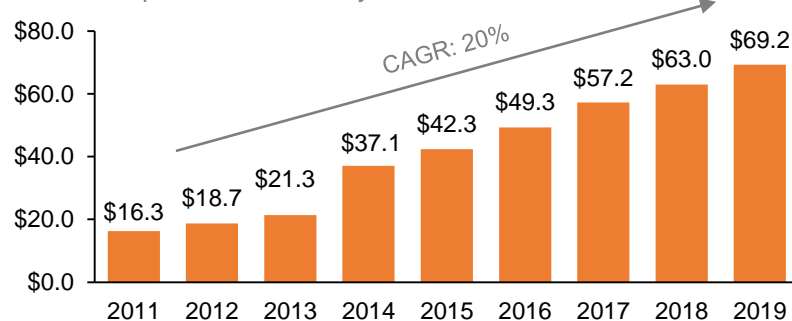
Argument IV: Superior Capital Allocation

Prudent Management Team

- Aegnus Kelly and the remainder of the C-suite hold a significant ownership in AerCap, aligning their decisions with those of shareholders
 - Market value of holdings are ~US\$250mm worth of common stock
 - No members of management has been disposing shares
- Aircraft utilization rate of 99.8% demonstrates the effective management of revenue-generating assets



Book Value per Share since Kelly became CEO



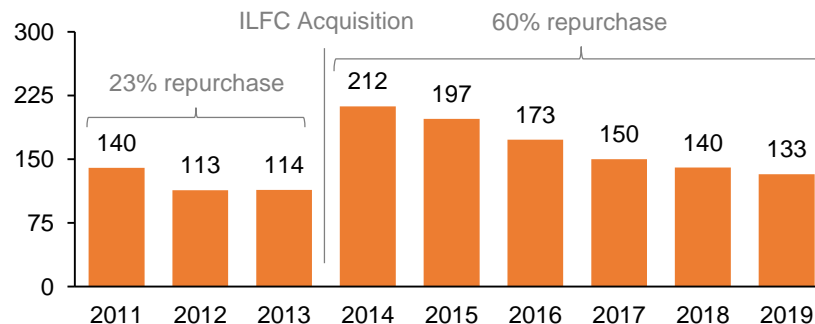
“We’re reinvesting the revenue from these aircraft sales at a premium over their book value in order to fund a significant amount of share buybacks at a discount” – Aegnus Kelly, CEO AerCap

Acquisition of ILFC in 2014

- As part of AIG’s urgent financial restructuring, AerCap was able to purchase International Lease Finance Corporation (ILFC) for US\$7.6n
 - Attractive purchase multiples of 0.5x P/BV and 0.85x EV/Fleet Value
- Quadrupling the size of AerCap’s existing aircraft fleet and gave access to an order book with new technology aircrafts sought after by airlines
- AerCap’s stock increased by 50% the day of announcement

Aggressive Stock Buyback Programs

Shares Outstanding (in millions)



- Share buybacks are funded through selling in-demand mid-life aircrafts at premium to book value

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Research Analysts

Select Valuation Commentary

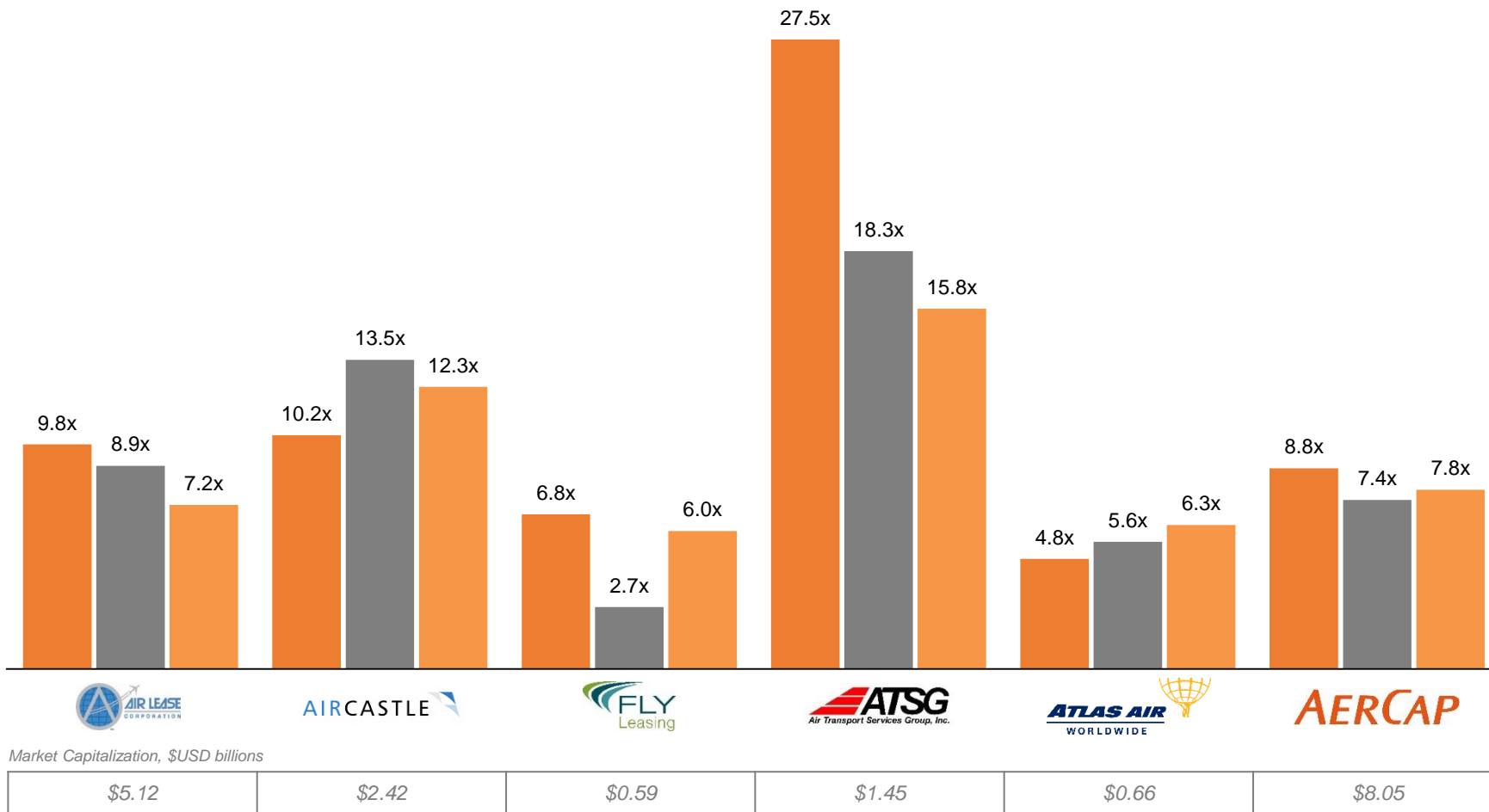
Brokerage Coverage	Valuation Methodology	Commentary
	<ul style="list-style-type: none"> 2020E P/BV 	<ul style="list-style-type: none"> “Our \$65 target price for AER is ~1x our 2Q20 tangible book estimate, in line with return on equity. We rate AER Outperform as we expect it to return more than its peers”
	<ul style="list-style-type: none"> 2020E EPS P/BV 	<ul style="list-style-type: none"> “AER’s equity continues to trade below book value. However, we now derive our PT by applying an ~11x P/E multiple to our 2020 GAAP EPS forecast as we roll our valuation analysis from our 2019 GAAP EPS forecast vs. AER’s historical 10x – 11x range”
	<ul style="list-style-type: none"> 2020E P/E 2020E P/BV 	<ul style="list-style-type: none"> “Our Dec 2019 price target of \$77.00 is based on a weighted average of two valuation methodologies, P/E and P/B. Our target P/E multiple is 9.0x on our revised 2020 estimate. We have also ascribed a 1.1x P/B multiple to our estimate of FY 2020 book value”
	<ul style="list-style-type: none"> Forward P/BV 	<ul style="list-style-type: none"> “AER’s forward P/B valuation of 0.72x versus our estimate is off of lows reached in December (0.57x) but still well below the 0.93x five-year average prior to last year’s selloff. The 0.95x multiple that we apply to value shares is based on AER’s improved portfolio composition, leverage profile, and growth outlook since acquiring ILFC assets”
	<ul style="list-style-type: none"> 2020E P/BV 	<ul style="list-style-type: none"> “Our price target is based on ~0.9x our projected year end 2019 book value per share”

Comparable Analysis

Price / Earnings Multiples for Comparable Universe

Aircraft Leasing 2020E Median: 8.8x

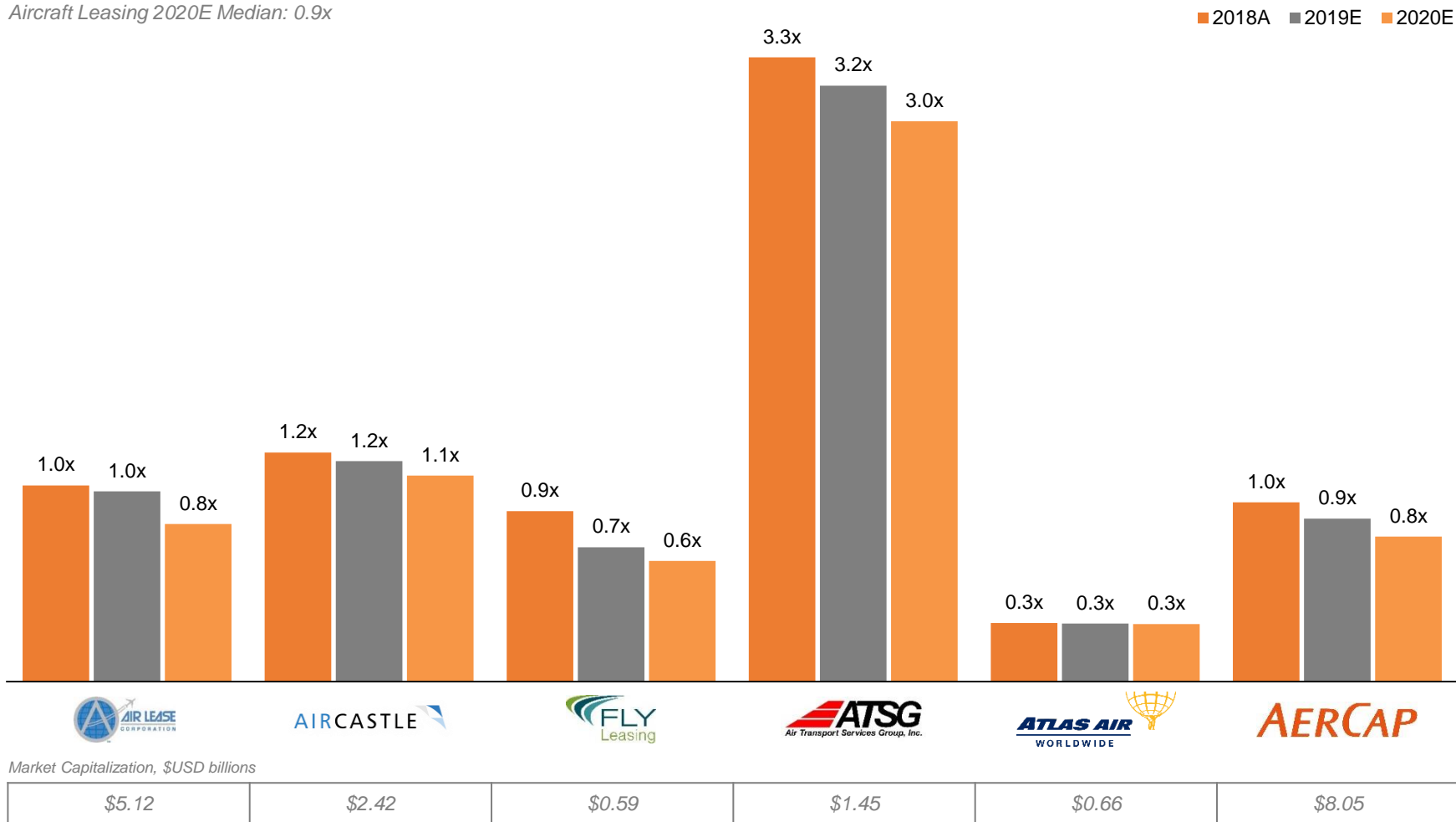
2018A 2019E 2020E



Comparable Analysis

Price / Book Value for Comparable Universe

Aircraft Leasing 2020E Median: 0.9x



Abnormal Earnings Model

Abnormal Earnings Summary

(USD millions)	Forecast Period							
	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Earnings per Share	\$5.52	\$6.43	\$6.83	\$7.81	\$7.60	\$8.10	\$8.26	\$8.43
% Growth	-	16.5%	6.2%	14.3%	(2.7%)	6.6%	2.0%	2.0%
Dividends per Share	-	-	-	-	-	-	-	-
% Growth	-	-	-	-	-	-	-	-
Book Value per Share	\$48.37	\$56.08	\$61.88	\$69.69	\$77.29	\$85.39	\$93.65	\$102.08
% Growth	-	15.9%	10.3%	12.6%	10.9%	10.5%	9.7%	9.0%
Return on Common Equity				12.6%	10.9%	10.5%	9.7%	9.0%
Abnormal Earnings				\$0.38	\$0.24	\$0.22	\$0.16	\$0.10
Stub Period				0.13	1.00	1.00	1.00	1.00
Discount Period				0.06	0.63	1.63	2.63	3.63
Cost of Equity				7.8%	7.8%	7.8%	7.8%	7.8%
Discount Factor				100%	95%	89%	82%	76%
PV of Abnormal Earnings				\$0.05	\$0.23	\$0.19	\$0.13	\$0.08

Market Risk Premium: **5.4%**

Cost of Equity: **7.8%**

Perp. Growth Rate: **2.0%**

FDSO: **158.5 million**

Valuation Summary

Cumulative PV of Abnormal Earnings	\$0.65
% Value Contribution	0.9%
Continuing Value	
Continuing Value of Abnormal Earnings	\$1.83
Perpetuity Growth Rate	2.0%
PV of Continuing Value	\$1.40
% Value Contribution	2.0%
Q4-19 Book Value per Share	\$69.24
% Value Contribution	97.1%
Implied Share Price	\$71.29
Current Share Price	\$59.89
Premium to Current Share Price	19.0%
Basic Shares	134.7
(+) Diluted Securities	23.8
Fully Diluted Shares Outstanding	158.5
Implied Equity Value	11,300

Valuation Takeaways

- The Abnormal Earnings model yields an implied price of \$71.31 (+19.1%), with a range of \$73.96 (+23.5%) to \$69.24 (+16.0%).
- The base case uses a 7.8% Cost of Equity with a 2.0% perpetuity growth rate
- Analyst consensus is used to estimate forward EPS
- AerCap's dividend policy is kept constant

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Short-Term Tailwinds Won't Lead to Turbulence

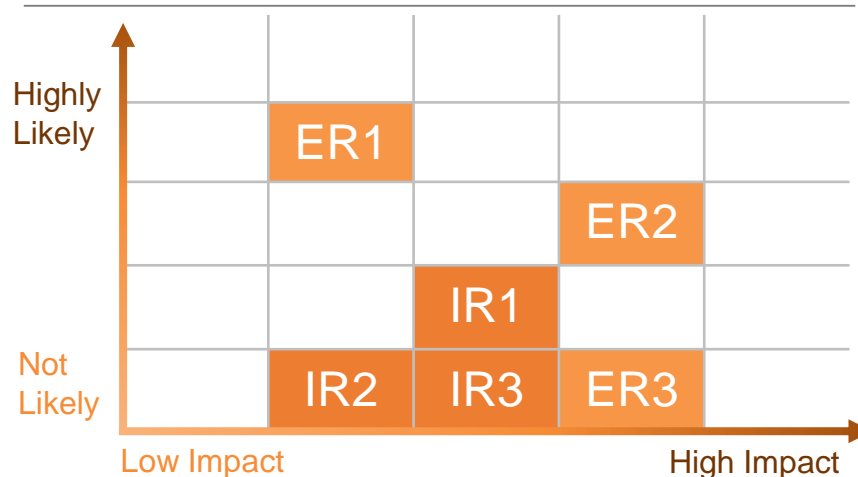
Near-Term Catalysts

- **Refocusing Portfolio Toward Fuel-Efficiency:**
By 2021 AerCap expects that new-generation, fuel-efficient aircrafts will represent ~66% of the company's total fleet, helping drive new contracts
- **Returning Excess Capital to Shareholders:**
AerCap authorized a \$200 million share repurchase program which will run through Q2 2020

Long-Term Catalysts

- **Expansion of Existing Customer Networks:**
First-mover advantages in purchasing new airline technology expected to attract new air carriers to AerCap's flexible and diverse portfolio
- **Increased Leasing Industry Consolidation:**
As more small players with the leasing space get absorbed or pushed out due to competitive pressures, AerCap will have a more favorable environment in which to compete
- **Focus on Future M&A and Inorganic Growth:**
Indicated interest in eventually pursuing additional M&A opportunities, such as the previous ILFC purchase

Risks



External Risks

Fluctuations in interest rates disrupting carrier demand (ER1)

Discretionary nature of air travel may limit carrier demand (ER2)

Increased competition from new market entrants (ER3)

Internal Risks

Inability to renew contracts with key customers (IR1)

Failure to meet regulatory requirements (IR2)

A downgrade in credit ratings may affect borrowing capacity (IR3)

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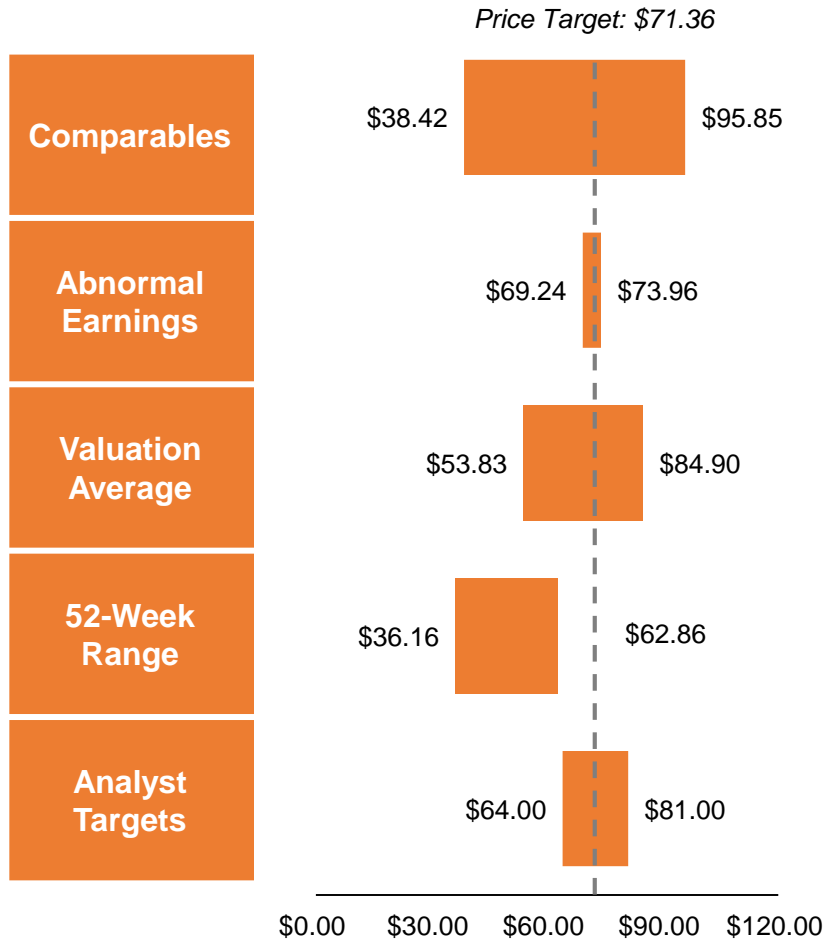
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RECOMMENDATION

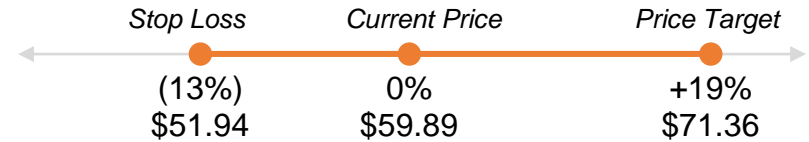
Buy With a Price Target of ~\$71 (+19%)

Indicative Valuation Range

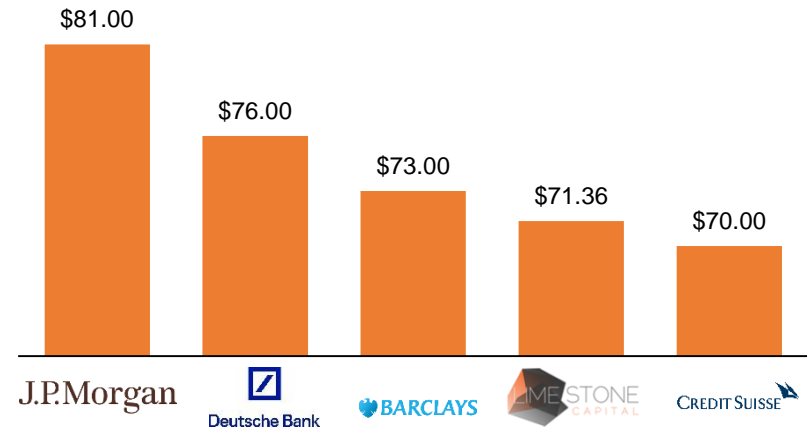


Price Target

Valuation Summary		
Analysis	Price	Weight
Comparables	\$71.03	40%
Abnormal Earnings	\$71.31	40%
Street Consensus	\$72.13	20%
Average	\$71.36	100%



Selected Broker Summary



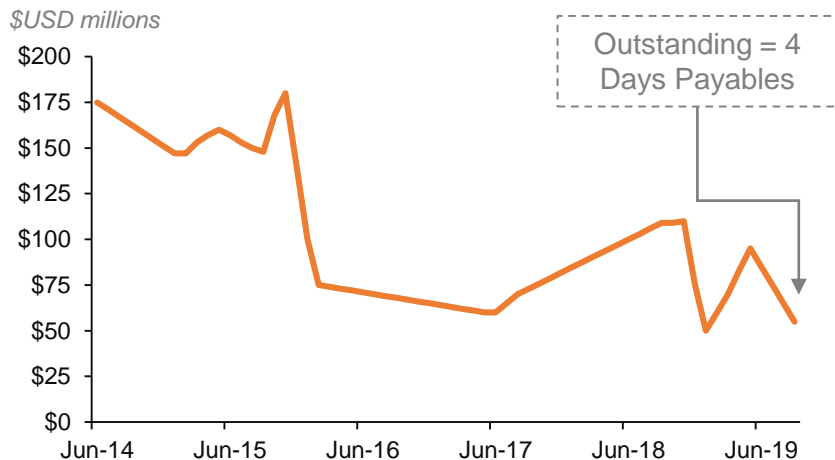
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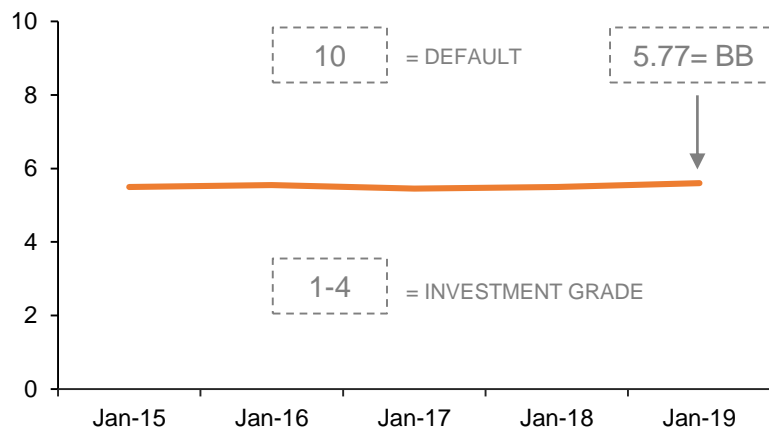
Appendix

Credit Strength and Diversity






Trade Receivables (\$ mm)








Strong Portfolio Credit Score



Customer Diversity

Customer	% Rent	Dominant Position
American Airlines 	7.1	✓
AIRFRANCE 	4.3	✓
CHINA SOUTHERN AIRLINES 	4.2	✓
Emirates 	4.1	✓
LATAM AIRLINES 	3.9	✓

Customer Geographic Diversity

Country	% Rent	# of Carriers
	14.1	20
	11.6	8
	7.3	12
	6.7	7
	4.7	8

Source(s): Company Filings

Aircrafts – Airbus

Airbus A320 Family

A319	96 aircrafts
A320	185 aircrafts
A320neo Family	270 aircrafts
A321	69 aircrafts
581 Owned/On Order; 39 Total Managed	

Airbus A350

A350	26 aircrafts
26 Owned/On Order; 0 Total Managed	

Airbus A330 Family

A330-200	49 aircrafts
A330-300	33 aircrafts
71 Owned/On Order; 11 Total Managed	

Airbus A330 In Flight



Aircrafts – Boeing

Boeing 737 NG/MAX

Boeing 737 NG	291 aircrafts
Boeing 737 MAX	104 aircrafts
359 Owned/On Order; 36 Total Managed	

Boeing 777

Boeing 777	50 aircrafts
44 Owned/On Order; 6 Total Managed	

Boeing 787 Dreamliner

Boeing 787-8	22 aircrafts
Boeing 787-9	95 aircrafts
116 Owned/On Order; 1 Total Managed	

Boeing 777 In Flight



Aircrafts – Embraer

Embraer E190/195-E2

Embraer E2

50 aircrafts

50 Owned/On Order; 0 Total Managed

Embraer 195-E2 In Flight

