Air Lease Corporation (NYSE: AL)

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CEO	*CSO*	*CIO*	*Sr. Portfolio Manager*	*Sr. Portfolio Manager*	*Portfolio Manager*	*Portfolio Manager*	*Analyst*

Company Overview

1	Company Overview
2	Industry Overview
3	Investment Thesis
4	Valuation
5	Risks & Catalysts
6	Recommendation

Air Lease Corporation (NYSE: AL)

Business Description

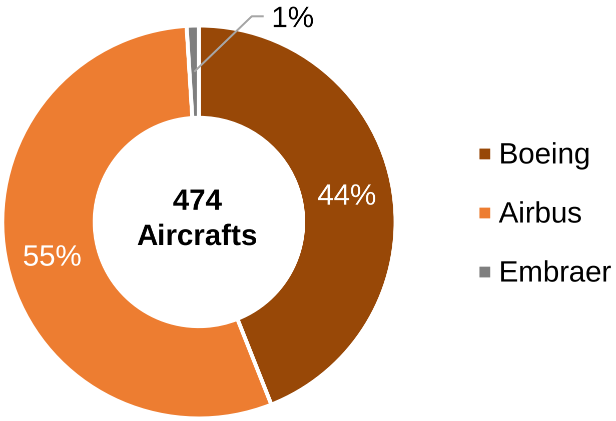
- Air Lease Corporation (AL) is a global leader in aircraft leasing; headquartered in Los Angeles
- Founded in 2010 by Steven Udvar-Házy and John Plueger, AL has grown to become a $50+ billion aircraft leasing platform with $31 billion in total assets
- The company engages in purchasing commercial aircrafts from manufacturers and leases them to airline customers worldwide through net operating leases
- Went public on the NYSE in 2011

Management Team

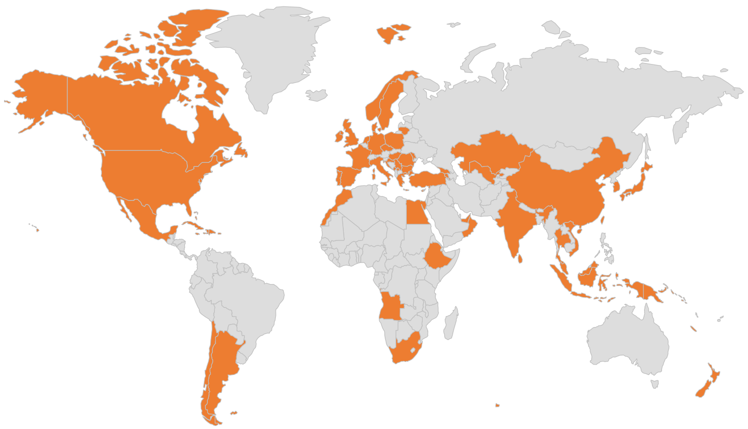



Name	Steven Udvar-Házy	John Plueger	Gregory Willis	Carol Forsyte
Position	Founder and Chairman	CEO and President	CFO	CCO
Experience	55	37	25	34
Background	Founder of International Lease Finance Corporation	Former CEO of International Lease Finance Corporation	Director at International Lease Finance Corporation	General Counsel of Motorola Mobility Inc.

Airframe Manufacturers



Operational Geography



Source(s): Capital IQ, Company Filings, Company Website

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Business Model Overview

Aircraft Leasing Value Chain

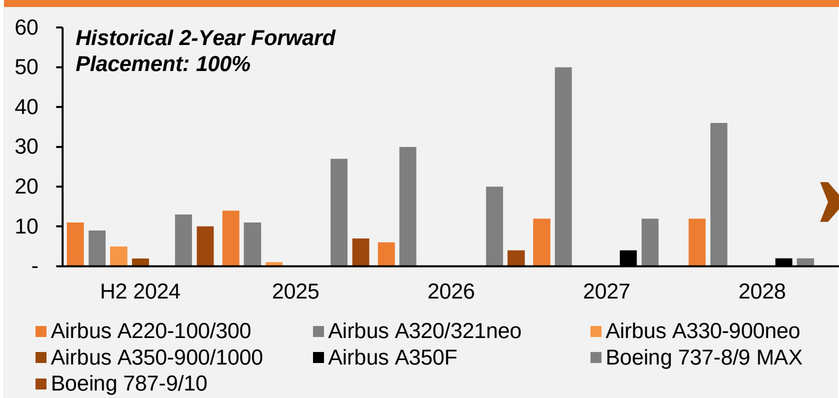
OEM's	AL	Airline
Purchases / orders aircrafts directly from aircraft manufacturer's using debt	Gains revenue through leasing aircraft; responsible for servicing and residual risk	Pays lease and takes on all expenses while using; can purchase aircraft after expiry
AIRBUS	AIR LEASE CORPORATION	Virgin

Top Five Lessees

Airline	% of Net Book Value
Virgin Atlantic	5.7%
Air-France-KLM Group	5.4%
ITA	5.1%
EVA Air	4.7%
Aeromexico	4.3%

AL Utilizes a Flexible Orderbook Model

Contractual Commitment Schedule (# of planes)



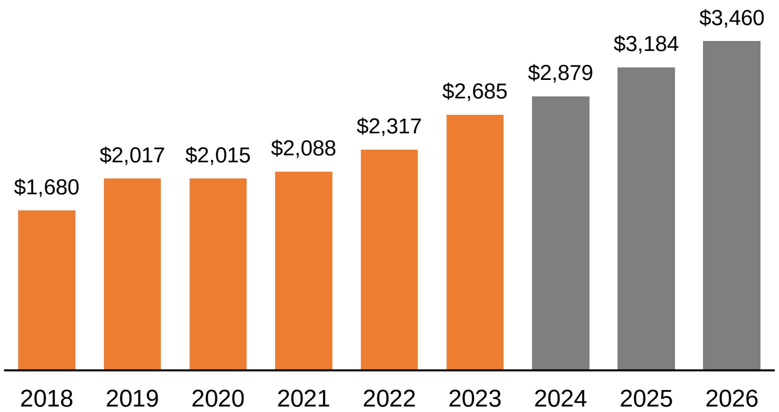
Flexible Growth and Predictable Fleet Manageability

- Visibility provides airline customers preferred delivery positions among other lessors
- Aircrafts are allocated to airlines 18-36 months prior to delivery and AL is currently 96% placed through 2026
- AL offers broad / modern portfolio of fuel-efficient aircrafts
- Enables cost advantages through negotiation with manufactures for high quality products and competitive pricing

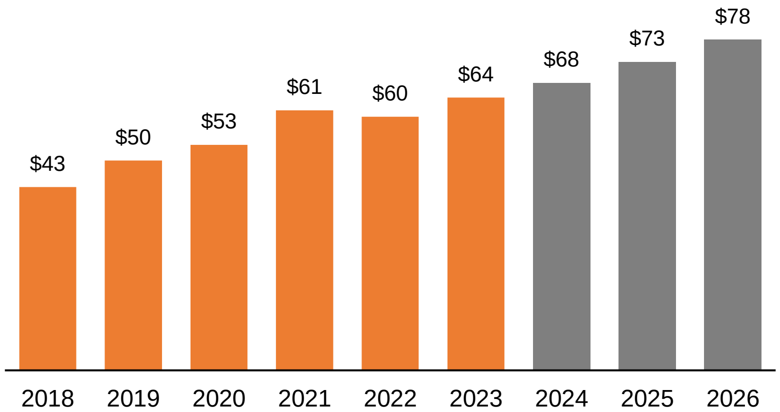
Source(s): Company Filings

Operating Metrics

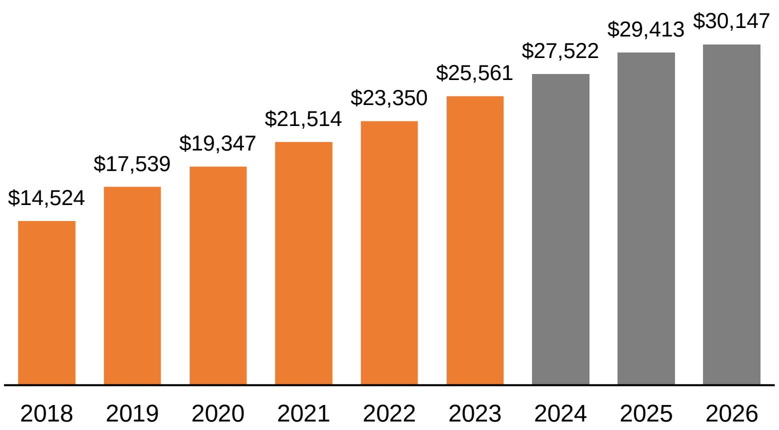
Revenue ($US mm)



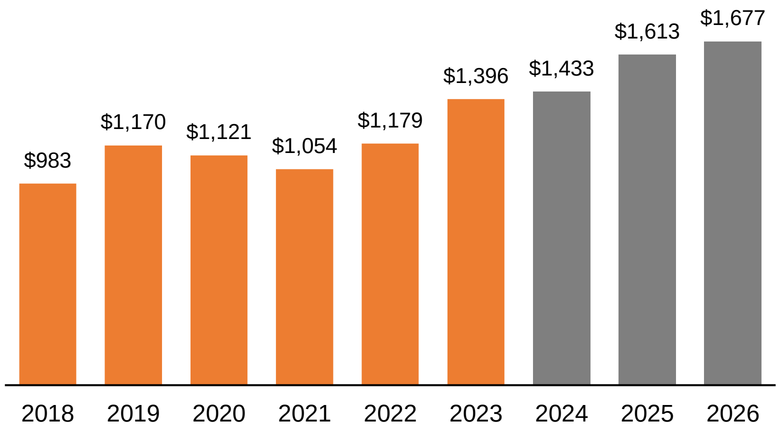
Book Value Per Share



Net Book Value of Aircraft Lease Assets ($US mm)



Operating Income ($US mm)



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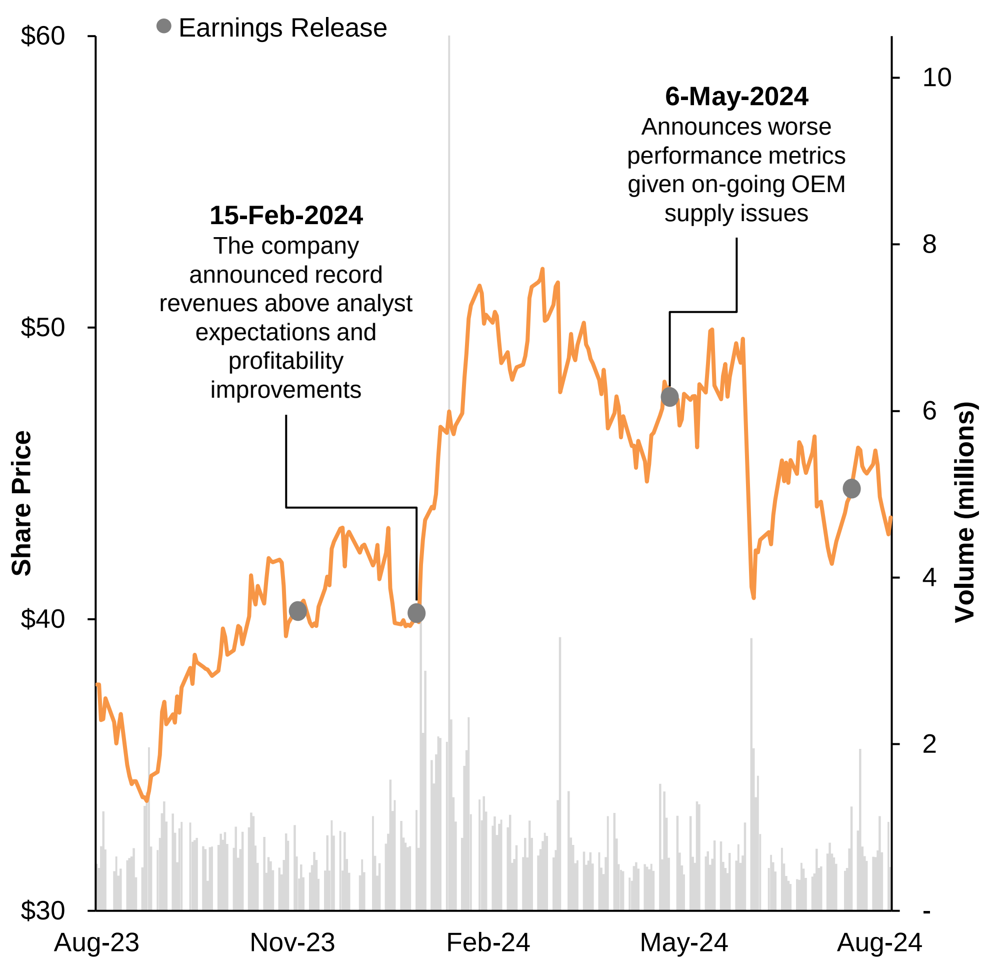
Source(s): Capital IQ, Company Filings

PV Chart and Capitalization Table

Price-Volume Analysis



Market Data

(in USD$ millions)

Capitalization

Share Price (04-Oct-2024)	(USD$)	$59.09
Basic Shares Outstanding	(mm)	111.4
Dilutive Securities	(mm)	4.6
Market Capitalization	**($ mm)**	**6,853**
(-) Cash & Equivalents	($ mm)	(622)
(+) Short-Term Debt	($ mm)	2,322
(+) Long-Term Debt	($ mm)	24,612
(+) Minority Interest	($ mm)	-
Enterprise Value	**($ mm)**	**33,165**

Trading Multiples

P / 2024A BVPS	-	1.3x
P / 2025E BVPS	-	1.1x
P / 2026E BVPS	-	1.0x
P / 2024A EPS	-	8.7x
P / 2025E EPS	-	12.7x
P / 2026E EPS	-	9.5x

Market Data

52-Week High	(USD$)	$71.08
% of 52-Week High	*(%)*	*83.1%*
52-Week Low	(USD$)	$45.29
Beta	-	1.16

Source(s): Capital IQ

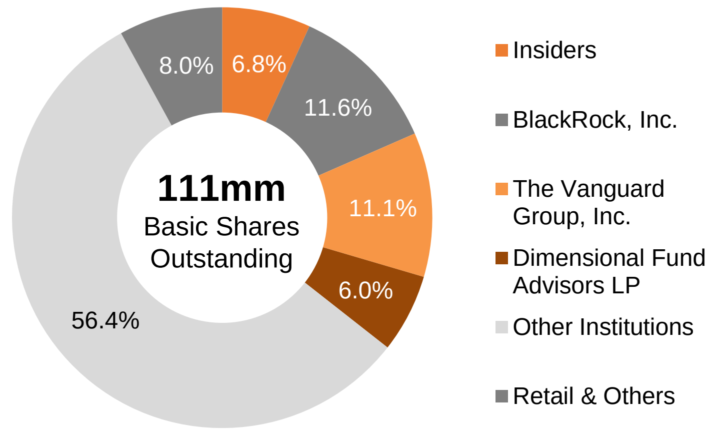
Shareholder Overview

Shareholder Summary

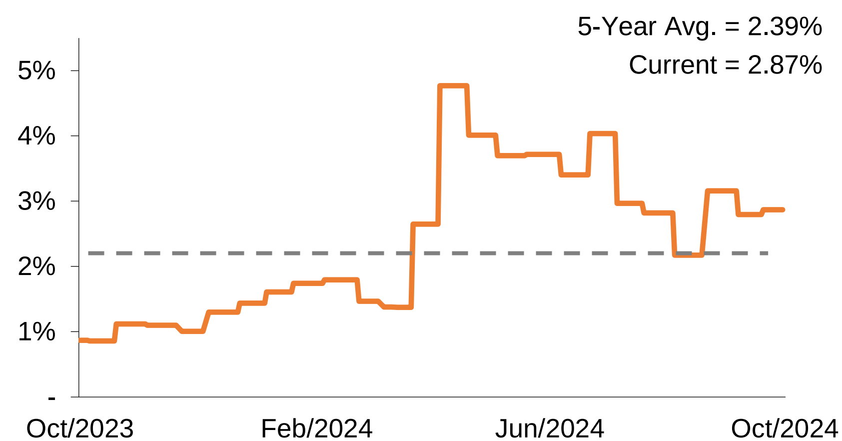
(in millions)

	# of Shares	% of S/O
Insiders		
Udvar-Hazy, Steven F.	5.8	5.2%
Plueger, John L.	0.8	0.7%
Chen, Jie	0.3	0.3%
Levy, Grant A.	0.1	0.1%
Other Insiders	0.6	0.5%
Total Insiders	**7.6**	**6.8%**
Institutions		
BlackRock, Inc.	13.0	11.6%
The Vanguard Group, Inc.	12.4	11.1%
Dimensional Fund Advisors LP	6.7	6.0%
JP Morgan Asset Management	5.5	4.9%
Wellington Management Group LLP	5.2	4.7%
Invesco Ltd.	4.3	3.9%
State Street Global Advisors, Inc.	3.4	3.0%
Royce & Associates, LP	2.8	2.5%
American Century Investment Management Inc	2.4	2.2%
EARNEST Partners, LLC	2.3	2.0%
Other Institutions	62.8	56.4%
Total Institutions	**109.6**	**98.4%**
Retail & Other Investors	8.9	8.0%
Public Float	103.8	93.2%
Total Basic Shares Outstanding	**111.4**	**100.0%**

Ownership Structure



Short Interest



Source(s): Capital IQ

Industry Overview

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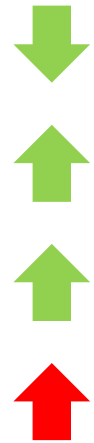
The Economics of Commercial Leasing

Commercial Leasing Demand

- Commercial airlines are the primary market for major aircraft lessors such as AL
  - 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



Interest Rates

Demand for Passenger Flights

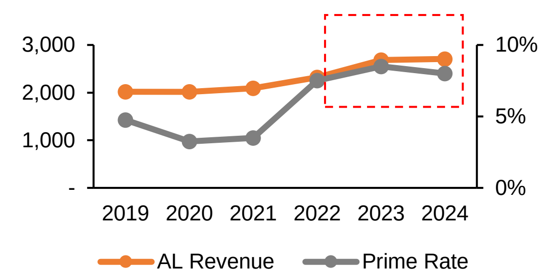
Global Air Freight Shipments

Global Fuel Costs

Macroeconomic Forces Drive Leasing Revenue

Effects of Borrowing Costs on Lease Demand

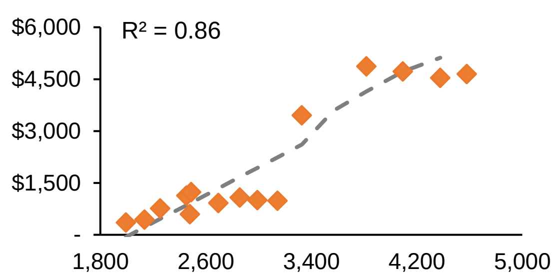
$USD mm



Decreasing borrowing costs as rates fall bolster downstream demand for leases

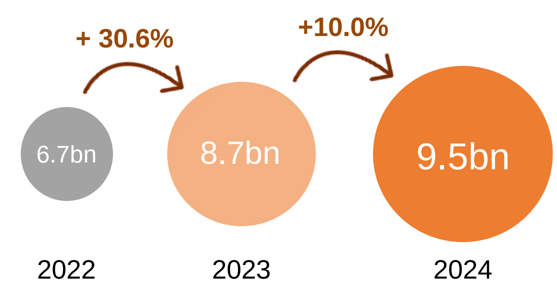
Revenue Correlation to Global Passengers

$USD millions



Clear relationship between leasing revenue and number of global airline passengers

Growth in # of Global Passenger Flights



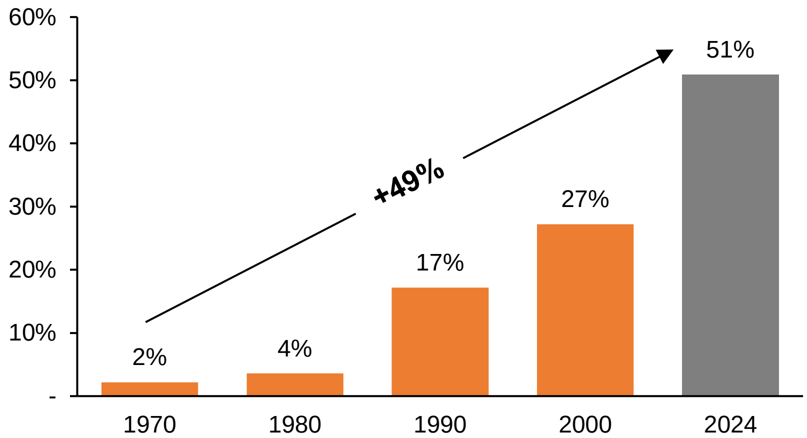
Strong growth in passenger flights driven by globalization, to support lease revenue

Source(s): U.S. Treasury, Statista, IBIS World, Company Filings

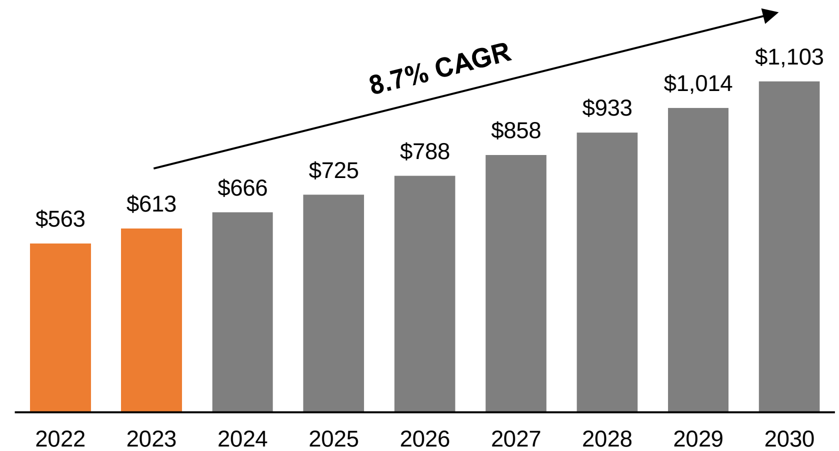
The Economics of Commercial Leasing (cont.)

Favored Form of Aircraft Financing for Airlines

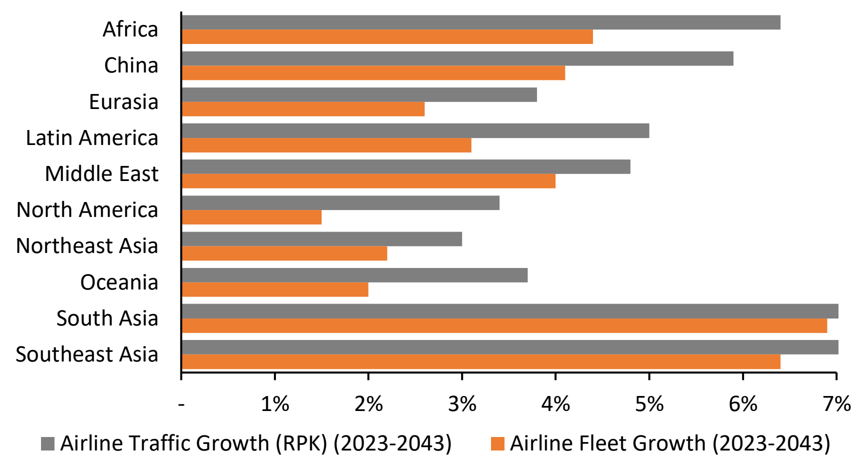
% of Aircraft Financed Through Lessors



Total Passenger Traffic Spend ($USD bn)



Fleet Growth Expected to Continue, Globally



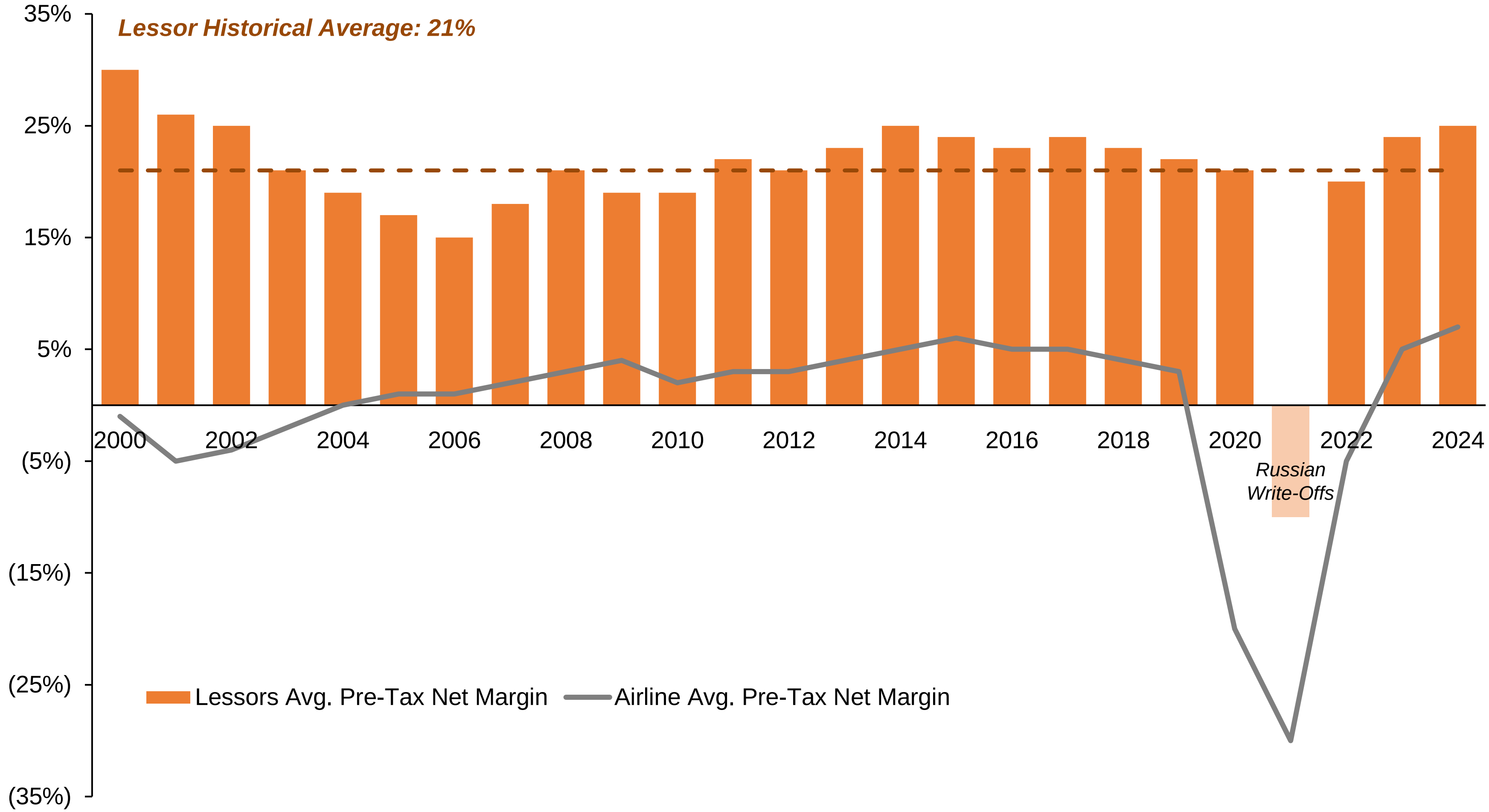
Why Do Airlines Lease Planes?

1. Avoid the capital outlay, freeing up cash for other operations or expansions
2. Adjust fleet size or switch aircraft models to meet changing demand, without long-term commitments
3. Transfer residual value risk to the lessor, reducing financial exposure in uncertain markets

Source(s): McKinsey, IATA, Boeing

Weaker Airline Margins Boost Aircraft Leasing Demand

Airline Lessor vs. Airline Pre-Tax Margin (%)[1]



Source(s): Company Filings, IATA

1. Pre-tax margin lessor figures represents annual and 2024 YTD figures for AL, AER, AYR, ILFC, and Boc Aviation

Competitive Landscape

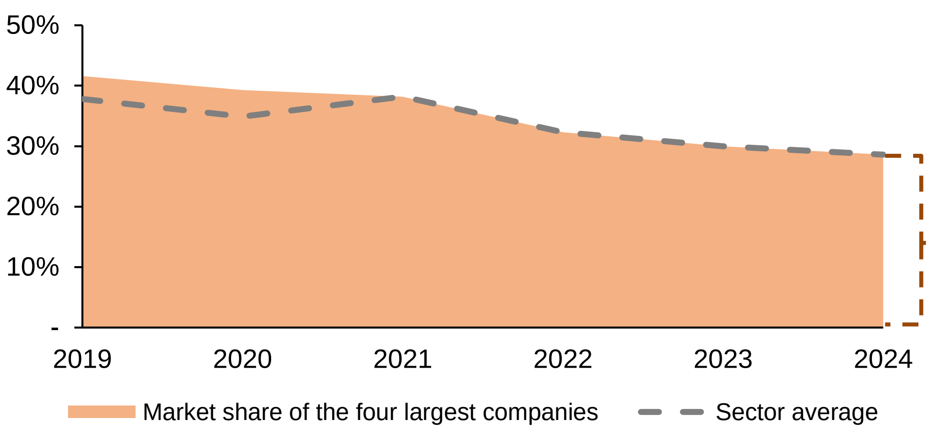
Current Industry Dynamics

- Substantial financial resources, high barriers to entry, and established customer networks favour high market share concentration among key players
- Airline fleet planning is long-term in nature
  - AL's young fleet has market advantage
- Production delays have sold out Airbus and Boeing models well into 2030, boosting demand for new orders (notably for old aircraft replacement)
- Supply constraints expected to continue for 3-4 years

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

Slowing Demand for Large Lessor's



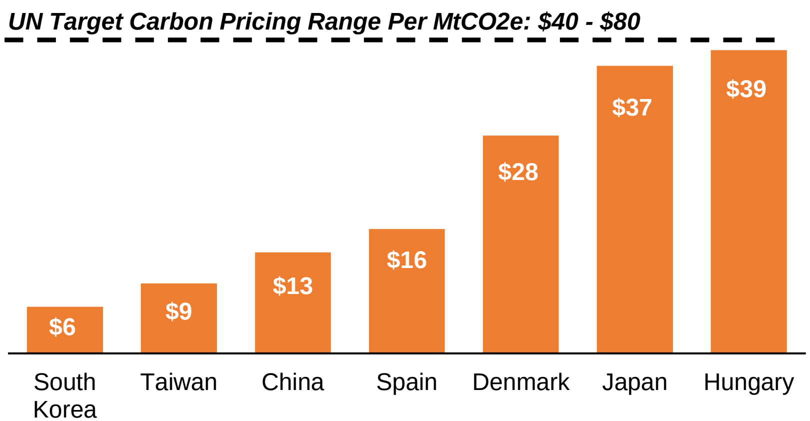
Since 2019 (when the CY team pitched AerCap), the total market share of the largest players has declined, giving way to significant growth to mid-range players such as Air Lease Corporation

Source(s): Statista, IBIS World, Company Filings

Investment Thesis

Fleet Age Management Drives Long-Term ESG Value

AL's Customers Are Located In Geographies With Extremely Cheap Emissions…



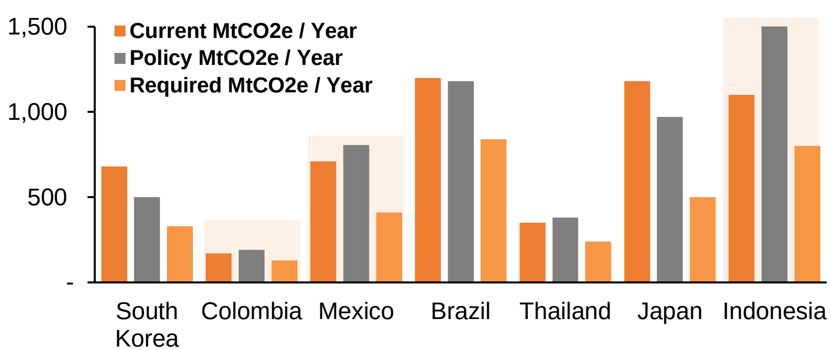
The majority of AL's customers operate in countries where governments are currently underpricing carbon emissions

Aircraft leasing is particularly prevalent in less developed geographies, correlating with relaxed ESG regulations

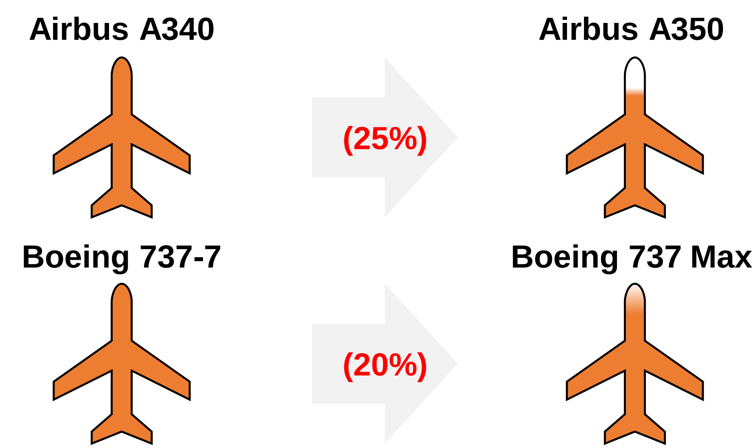
Almost all these countries have made net zero commitments and thus should have to increase pricing

However, Net Zero Is A Catalyst For Change

Key geographies for AL customers are currently undervaluing the importance of emissions targets, thus undervaluing the age of AL's fleet.



New vs. Legacy Airliner Emissions Footprint



Source(s): National Public Utilities Council, Climate Action Tracker, Company Websites

An Industry Debate Driven by Government Change

AerCap Fleet vs. Air Lease Fleet

Plane	# of Planes	Average Age (Years)
Airbus A320	1,120	9.1
Boeing 737-Max	578	6.5
Boeing 787	126	10.1
Airbus A330	84	17.9
Embraer E170	64	7.9
Boeing 777	62	14.9
Other	156	16.3
Total	**2,190**	**9.4**

What We Know

1. Air Lease has an average fleet age of 4.7 years, half that of AerCap
2. AerCap's scale creates hurdles towards the swift fleet transition towards new gen planes
3. Carbon emissions pricing is forecasted to trend upwards, globally

Result: opportunity for AL to continue gaining market share, especially as cost sensitive airlines prefer nimbler / newer fleets

Elections & UN Developments are Positioned To Drive ESG Concerns in 2025

UNDP Climate Promise 2025 First Year of Implementation

+

In 2025, there is 64 national elections scheduled to run

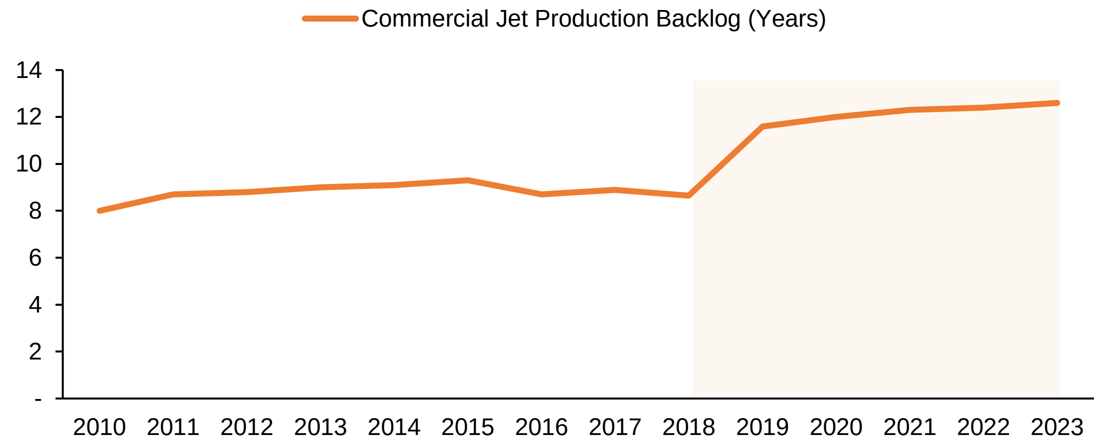
2024 Elections Underscore What Is Possible

South Africa	Leading party was able to maintain their position and stay on track with transition plans
Mexico	Elected a PhD of Environmental Engineering, has immediately ramped up climate change policies
France	Right-wing party who does not acknowledge emissions as a concern grew to 30% of the popular vote

Source(s): AerCap 10-K, AL 10-K, World Resources Institute

The Market Refuses to Accept Structural Change in Aviation

Largest Ever Production Backlog Drives Rapid Increases Demand for Single & Twin-Aisle Jets

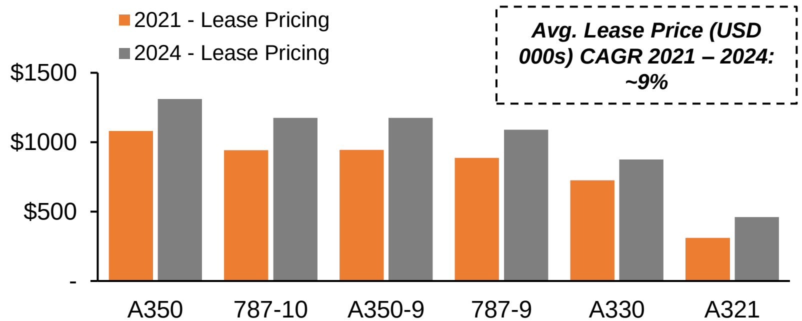


Air Lease % of Aer Cap Portfolio

Total Portfolio
~30% of Portfolio
Single & Twin-Aisle Jets
~33% of Portfolio

With a global supply shortage, the incremental asset quality benefit AL has in the current narrow-body focused market is being undervalued on a multiple's basis

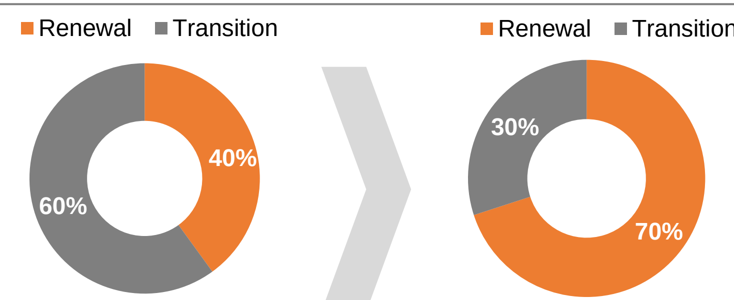
Leasing Prices Have Grown Rapidly Since COVID…



Avg. Lease Price (USD 000s) CAGR 2021 – 2024: ~9%

With the Street only pricing in consensus ~5.5% revenue growth on average, we believe that the 9% price increases and supply shortage driving volume will ensure AL can beat revenue expectations

…With Favorable Mix Changes as Well



Historical Trend **Current Market (2024)**

Supply shortages have enabled AL to increase the share of renewals which have no downtime and minimal CapEx, which should materially impact margins through ~50 contract renewals over the next 2 FYs

Source(s): AerCap 10-K, AL 10-K, CAPA – Centre for Aviation, International Bureau of Aviation, KPMG

Capital Injects Support Journey To Stronger Credit

Why is Aircraft Leaser's Credit Rating Important?

AL borrows funds from bank to buy the plane & leases it to the airline

AIR LEASE CORPORATION → ① → Bank → ② → Plane → ③ → WESTJET

Credit Rating's Impact

Credit Rating	Effective Yield
AL's yield	4.72%
BB	5.51%
B	6.66%
CCC	12.24%

Commercial Airline's Credit

B	B-	CCC+
British Airways, Air Canada	WestJet, Hawaiian Airlines, jetBlue	Aerolíneas Argentinas, SAS Scandinavian Airlines, Spirit

CY's Variant View

Key Debate	Consensus View	Variant View
Will Air Lease focus on aircraft growth amid supply chain delays?	AL will focus on capital expenditures to grow its fleet and backlog.	AL will focus on deleveraging to reduce debt and strengthen its credit profile

Although still investing in new aircraft, given supply delays, AL is will prioritize deleveraging to reduce debt and strengthen the credit profile for immediate returns.

AL is Well-Positioned to Benefit from Recovery of Short-Term Macro Headwinds

Russia Insurance Recoverables

After AL's Russian fleet was written-off, it is expected to recover ~$706.6 million from insurance claims related to, potentially boosting its 2024 Book Value per Share by 9%, a key capital injection that has already seen partial recovery

Full recovery would inject enough capital, allowing AL to reduce its Debt to Equity (D/E) ratio from 2.7x to its target of 2.5x.

Aircraft Delivery Delays

Ongoing production delays from Boeing and Airbus are extending delivery timelines, which will reduce AL's capital expenditures and acquired debt over the next few years, creating flexibility in capital deployment

With fewer capital commitments, AL can reallocate funds toward debt reduction instead of financing new fleet growth.

Reducing the D/E ratio would improve AL's credit profile toward a BBB+ rating, lowering its cost of capital and enabling share repurchases below book value.

Source(s): Air Lease Annual Report's, Bloomberg, CapIQ, Mergent

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AIR LEASE CORPORATION →① → →② → →③ → WESTJET

Credit Rating's Im

Credit Rating	Eff Y
AL's yield	4
BB	5
B	6
CCC	12

CY's Variant View

Key Debate	Consensus View	Variant View
Will Air Lease focus on	AL will focus on capital ... o ... d	AL will focus on deleveraging to reduce debt and strengthen its credit profile

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AL is Well-Posit

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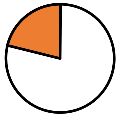
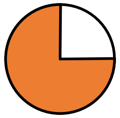
Underlying Rational Behind Thesis — Conviction

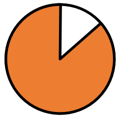
1 **Management ambiguity:** Equity research shows uncertainty around AL's strategy, as management often avoids directly answering key investor questions, suggesting the market may misinterpret their plans



2 **Industry trend:** Competitors like AerCap and Dubai Aerospace are focusing on deleveraging and have received credit upgrades. It's logical that AL will follow this industry trend



3 **Historical leverage control:** With AL's D/E ratio at 2.7x, above their target of 2.5x, and a strong track record of managing leverage, we believe they'll prioritize returning to target levels through debt reduction



Source(s): Air Lease Annual Report's, Bloomberg, CapIQ, Mergent

Valuation Mismatch on AL's Credit

Narrowing of AL's Yield-to-Call Gap will Boost its Credit Profile

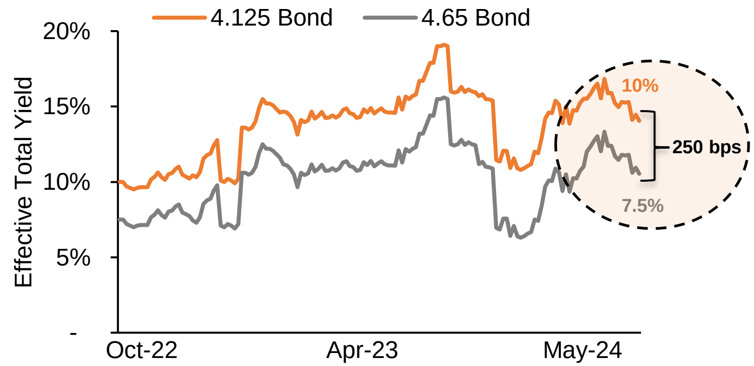
Situation Overview

AL holds two perpetual bonds: one with a yield of 4.260% & the other with a yield of 4.125%

The market expects AL to call the 4.65s & extend the 4.125s because the 4.650s dividend is ~100 bps higher than the 4.125s

Result: The market is undervaluing AL's 4.125% perpetual bonds, causing them to trade at a discount and widening the yield gap between the 4.125s & the 4.650s by 250 bps

AL's Two Perpetual's vs Perpetual Index



Outcome

The **market's discount** on the 4.125% bond **signals higher perceived funding costs,** making Air Lease **appear riskier** and **weakening its credit rating, increasing its cost of debt**

Two Catalyst's that Will Promote the Narrowing of The Spread Between the Perpetuals

1

The **opportunity cost-driven demand dynamics** also could help pull the 4.125s' credit spreads closer

4.125% Bonds	4.650% Bonds
Trading at 88%	Trading at 95%
Implied total yield: ~9%	Implied total yield: ~7.5%

4.125s yield 2% more than normal due to trading below face value

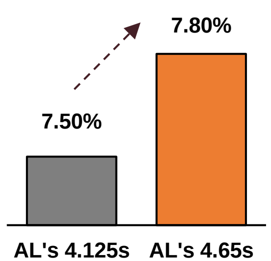
Outcome

As rates decline, **investors seeking higher returns** will recognize the opportunity in the **4.125% bond's elevated yield**, driving demand and narrowing the **yield spread with the 4.650% bonds**

2

Investors are **overestimating** the **extension risk** on the 4.125s & undervaluing them as a result

Refinancing Cost (yield %)



Since refinancing costs are higher for the 4.125s, AL may find it more economical to redeem & replace them over the 4.650s. As we move towards call date, this supports a market correction and a narrower yield gap

Source(s): Air Lease Annual Report's, CapIQ, Bloomberg, Mergent

LIMESTONE CAPITAL

Valuation Mismatch on AL's Credit

Narrowing of AL's Yield-to-Call Gap will Boost its Credit Profile

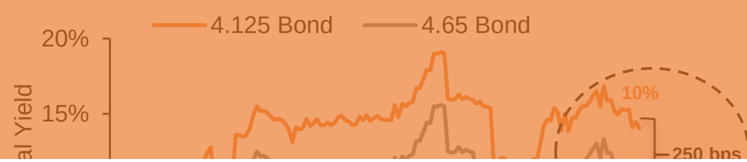
Situation Overview

AL holds two perpetual bonds: one with a yield of 4.260% & the other with a yield of 4.125%

The market expects AL to call the 4.65s & extend the 4.125s because the 4.650s dividend is ~100 bps hig

Result: The market is 4.125% perpetual bond trade at a discount and w between the 4.125s & th

AL's Two Perpetual's vs Perpetual Index



Outcome

The **market's discount** on the 4.125% bond **signals higher perceived funding costs,** making Air Lease **appear riskier** and **weakening its credit rating, increasing its cost of debt**

Take Away	❯	As we approach the call date of the 4.65% bonds, the market is likely to correct its mispricing, leading to tighter senior debt credit spreads for AL. This should further strengthen AL's credit profile, providing further justification to support its upgrade to a BBB+ rating from BBB
Limits	❯	Due to the 4.125s lower reset coupon, We don't have conviction that they will converge with the 4.65s, but they should trade ~130-150 bps wide

Two ... petuals

1

The **opportuni** also could help

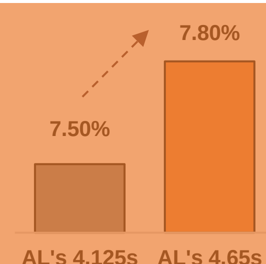
imating the **extension risk** ervaluing them as a result

4.125% Bond

Trading at 88%	Trading at 95%
Implied total yield: ~9%	Implied total yield: ~7.5%

4.125s yield 2% more than normal due to trading below face value

opportunity in the **4.125% bond's elevated yield**, driving demand and narrowing the **yield spread with the 4.650% bonds**



Since refinancing costs are higher for the 4.125s, AL may find it more economical to redeem & replace them over the 4.650s. As we move towards call date, this supports a market correction and a narrower yield gap

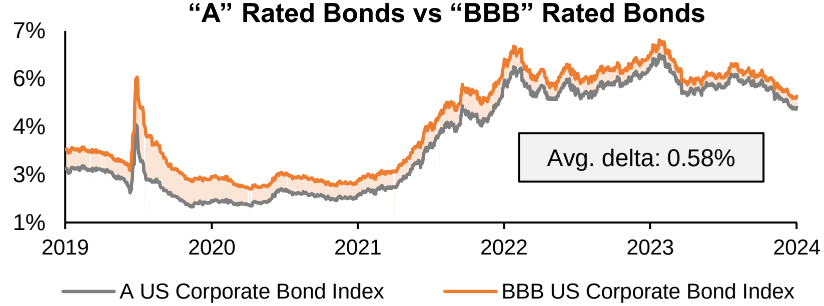
Source(s): Air Lease Annual Report's, CapIQ, Bloomberg, Mergent

The Impact of Stronger Credit

New Drivers of Value Created for Air Lease

1 Access to Cheaper Debt

“A” Rated Bonds vs “BBB” Rated Bonds

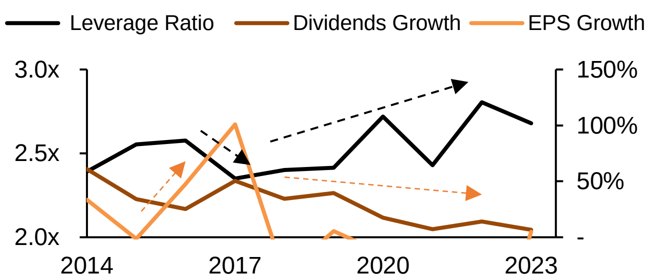


Outcome of AL’s Credit Upgrade

AL’s WACC Decreases
AL’s cost of debt should decrease 0.15bsp

Increase in Earnings
AL’s current debt; would decrease interest expense by ~$44M

2 Greater Capital Returned to Shareholders



AL’s Debt-to-Equity is inversely correlated to their EPS & Dividends Growth

Reducing debt allows for greater capital to be returned to shareholders due to lower interest payments

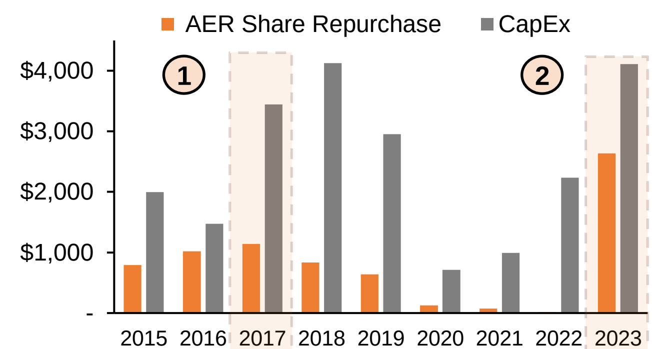
AerCap (NYSE: AER) as A Case Study

By June 2024 **AerCap’s** credit was upgraded by **S&P Global & Moody’s** making it officially rated **BBB+**

Why AER was upgraded:
1. Increased margins
2. D/E below 2.7x over 5yrs – current D/E: 2.5x
3. EBIT coverage at 2x

Historically AER has seen benefits from credit upgrades

AER Share Repurchases & CapEx ($ millions)



1 & 2 Moody’s & Fitch upgraded AER’s debt rating

As of Q2‘24, AER spent >$1B on repurchases & >$3B on Capex

After the announcement of AER’s Debt upgrade in June 2024

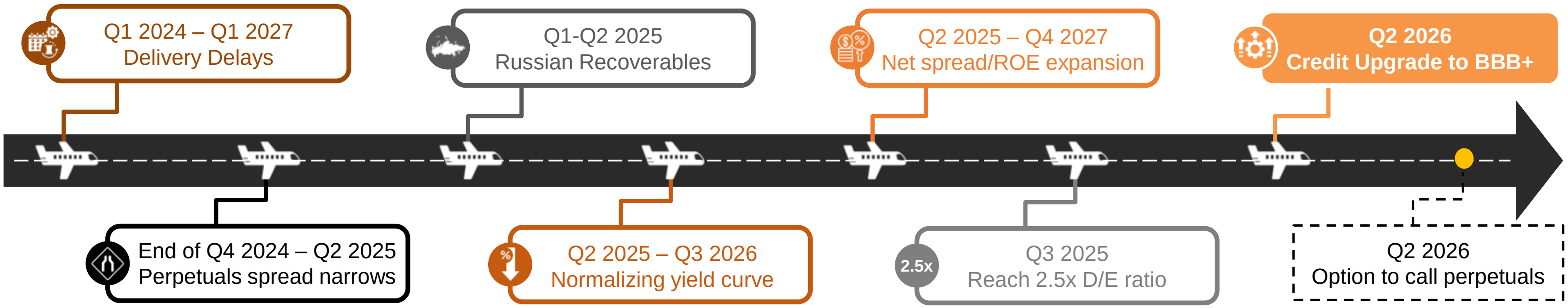
1. AER’s CEO announced higher expected earnings for the next quarter
2. Management announced net spread should narrow from 7.9% to 7.5%
3. During the quarter AER repurchased 3.9mm common shares
4. AER’s share price increased 4% the day after the announcement
5. AER’s WACC & CAPM decreased 0.25% & 0.9% respectively

Source(s): AerCap’s Annual Report’s, Bloomberg, Bank of America, CapIQ, Mergent, Federal Reserve Bank

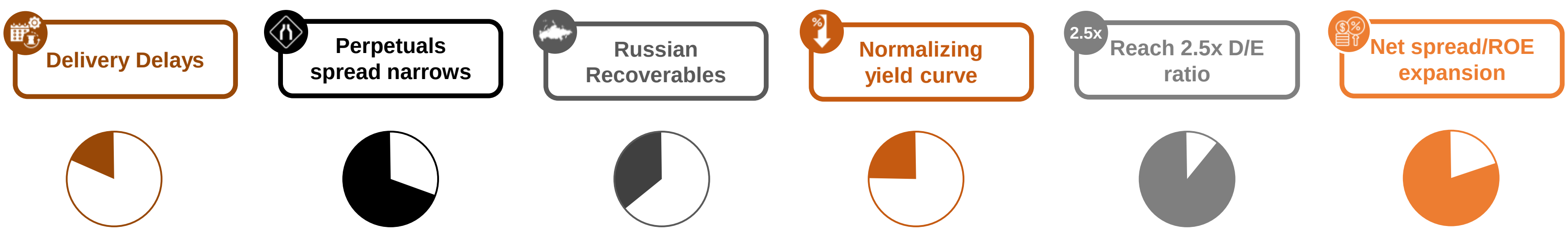
INVESTMENT THESIS III: UPSIDE POTENTIAL ON UPGRADE OF AL'S CREDIT PROFILE

Unlocking AL Upside

The Runway to AL's Credit Rating



Impact of Each Catalyst towards Market Upgrading AL's Credit to BBB+



As each catalyst plays out, it will help to increase AL's earnings, BV and returns to shareholders, while decreasing their cost of capital, which will help the market to realize their mispricing leading to a correction

Valuation

Trading at a Discount to Peers

Company	Equity Value	EV / Revenue		EV / EBITDA		Revenue Growth	EBITDA Margin
		2024E	2025E	2024E	2025E	2025E	2024E
AerCap	$23,853	7.9x	7.7x	9.3x	8.9x	3.7%	86.9%
FTAI Aviation	$18,472	10.1x	8.6x	20.3x	16.5x	39.5%	52.1%
BOC Aviation	$7,624	24.1x	22.4x	25.4x	24.2x	19.2%	92.4%
Bohai Leasing	$3,609	6.8x	6.8x	10.1x	10.1x	9.0%	62.8%
Willis Lease	$1,303	7.2x	7.2x	12.8x	12.8x	35.0%	60.6%
Median		10.1x	8.6x	20.3x	16.5x	19.2%	86.9%
Mean		11.2x	10.5x	15.6x	14.5x	21%	87%
Air Lease Corporation	$6,477	8.8x	7.9x	10.1x	8.6x	9.5%	91.3%

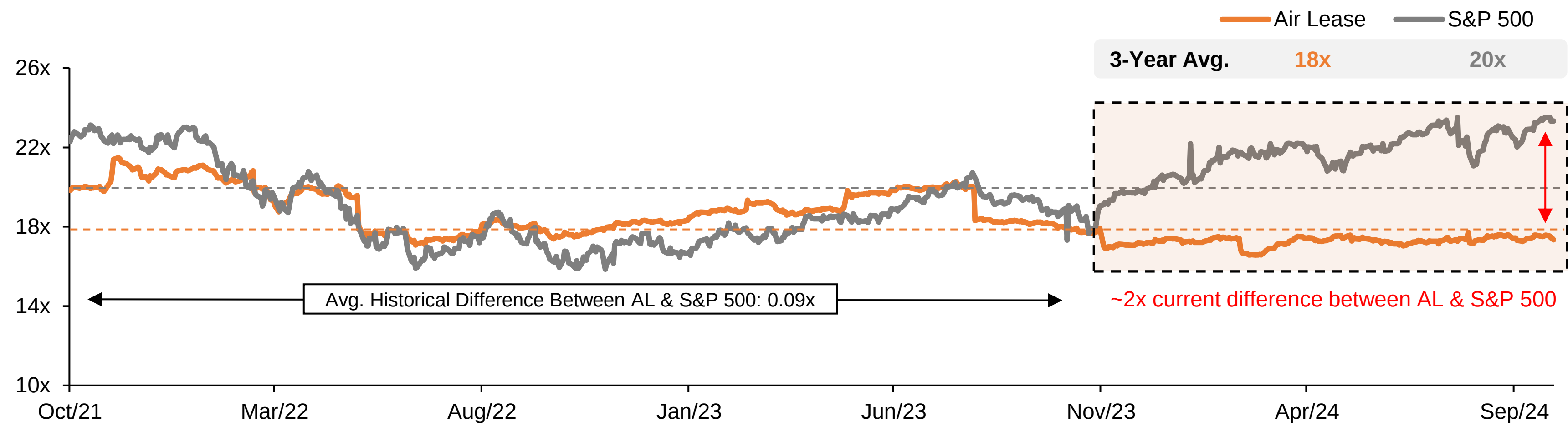
Air Lease trades at a slight discount to peers, although facing slightly slower growth, yet higher margins

Source(s): Capital IQ, Company Filings

LIMESTONE CAPITAL

An Attractive Time to Buy

AL's TEV/EBIT Multiple Compresses While S&P 500 Average Expands – Currently Inverted



Implied Return

AL's multiple compression and discount to peers / S&P 500 avg. creates an attractive buying opportunity

	Multiple			Implied Share Price			Implied Share Price		
Metric	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit
P / 2024A EPS	6.7x	8.3x	19.8x	$31.45	$39.07	$92.66	(28.2%)	(10.9%)	111.4%
P / 2024E EPS	8.4x	12.5x	23.5x	$36.04	$53.98	$101.25	(17.8%)	23.2%	131.0%
P / 2025E EPS	7.8x	9.4x	19.8x	$42.93	$51.71	$108.85	(2.1%)	18.0%	148.3%
P / 2024A BV	0.9x	1.3x	2.0x	$56.35	$81.40	$125.23	28.6%	85.7%	185.7%
P / 2024E BV	0.8x	1.1x	1.5x	$52.60	$68.88	$93.92	20.0%	57.1%	114.3%
P / 2025E BV	0.8x	1.0x	1.3x	$48.21	$62.61	$81.40	10.0%	42.9%	85.7%

AL is smaller compared to COMPS → As such, we calculated its weighted premium using (20%) lower limit & (80%) median, **yielding an implied 29% return**

Source(s): Capital IQ, Company Filings

Forecast Assumptions

Revenue	Air Lease Corp	▪ Revenue is reported in one segment due to the singular business function of purchasing planes from OEMs and then leasing them to airlines on a rental basis ▪ Revenue for the period 2024E-2026E is adjusted to reflect an average of 25 basis points higher than current street forecasts due to a more aggressive approach to the annualized lease rate factor %, along with adjustments in the average net book value of aircraft lease assets. ▪ Annualized lease rate factor % sensitized up 125 bps relative to street forecast due to theses 1 then a taper down to terminal ▪ The average net book value of aircraft lease assets is guided lower than street forecasts given thesis 1, which predicates lower fleet investment (CapEx) and long-term D&A while having higher disposal rates
EBIT Margin	SG&A + SBC	▪ **SG&A**: Street estimates minus 50 bps for first 5 years due to thesis 3, then straight line ▪ **SBC**: Street estimates for first 5 years then straight line to 0% growth in the terminal year
	D&A	▪ Street estimates minus 25 bps for first 5 years due to thesis 3, then straight line to 65% of CapEx
Capital Expenditures		▪ Street estimates minus 50 bps for first 5 years due to thesis 3, then straight line to 85% of Revenue
Terminal Value		▪ 2.00% PGR based on long-term growth forecasts within the Air Lessor industry and 9.5x EMM based on discounted comparables
WACC	Cost of Equity	▪ Cost of equity of 11.1% calculated using a Beta of 1.60, 3.75% RFR, and 4.60% ERP
	Cost of Debt	▪ After tax cost of debt calculated at 3.5% using AL interest yield and 21% statutory tax rate

Source(s): Capital IQ, Company Filings

Discounted Cash Flow Analysis

Discounted Cash Flow Summary

- Revenue forecasts are driven by **1)** net book value of aircraft lease assets and **2)** annualized lease rate factor (%)
- EBIT margins projected to compress given the increased D&A attributed to the steady uplift in total aircrafts within AL's fleet
- UFCF increased throughout the forecast given maintenance CapEx reaching terminal value
- D&A forecasted as a % of CapEx; CapEx forecasted as a % of total revenue

WACC: **7.15%**

Perp. Growth Rate: **2.0%**

FDSO: **113 million**

Statutory Tax Rate: **21%**

Valuation Assumptions

							Forecast Period										
(USD millions)	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Terminal
Revenue	**1,680**	**2,017**	**2,015**	**2,088**	**2,317**	**2,685**	**2,879**	**3,184**	**3,460**	**3,716**	**3,974**	**4,188**	**4,391**	**4,583**	**4,762**	**4,884**	**4,982**
% Growth		20%	(0%)	4%	11%	16%	7%	11%	9%	7%	7%	5%	5%	4%	4%	3%	2%
EBITDA	**1,565**	**1,873**	**1,902**	**1,937**	**2,145**	**2,464**	**2,645**	**2,926**	**3,194**	**3,445**	**3,701**	**3,912**	**4,113**	**4,303**	**4,481**	**4,602**	**4,694**
% Margin	93%	93%	94%	93%	93%	92%	92%	92%	92%	93%	93%	93%	94%	94%	94%	94%	94%
(-) D&A	582	703	781	883	966	1,069	1,059	1,115	1,223	1,312	1,407	1,635	1,882	2,146	2,426	2,698	2698
EBIT	**983**	**1,170**	**1,121**	**1,054**	**1,179**	**1,396**	**1,586**	**1,811**	**1,971**	**2,133**	**2,293**	**2,277**	**2,231**	**2,157**	**2,054**	**1,904**	**1,996**
% Margin	59%	58%	56%	50%	51%	52%	55%	57%	57%	57%	58%	54%	51%	47%	43%	39%	40%
(-) Cash Taxes	199	236	226	203	355	257	333	380	414	448	482	478	469	453	431	400	419
Tax rate (%)	20%	20%	20%	19%	30%	18%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
NOPAT	**784**	**933**	**895**	**851**	**824**	**1,138**	**1,253**	**1,431**	**1,557**	**1,685**	**1,812**	**1,798**	**1,763**	**1,704**	**1,623**	**1,504**	**1,577**
(+) D&A	582	703	781	883	966	1,069	1,059	1,115	1,223	1,312	1,407	1,635	1,882	2,146	2,426	2,698	2,698
(-) CapEx	(3,776)	(4,839)	(2,678)	(3,233)	(3,640)	(4,528)	(4,877)	(4,077)	(3,553)	(4,100)	(2,882)	(3,142)	(3,404)	(3,667)	(3,929)	(4,151)	(2,200)
(-) Change in NWC	55	115	(226)	(119)	(85)	479	283	(75)	(90)	(101)	(119)	(125)	(132)	(146)	(151)	(145)	(145)
(+) Russian Insurance Cla	-	-	-	-	-	-	175	525	-	-	-	-	-	-	-	-	
UFCF	**(2,465)**	**(3,318)**	**(777)**	**(1,380)**	**(1,764)**	**(2,800)**	**(2,673)**	**(931)**	**(683)**	**(1,002)**	**456**	**418**	**373**	**330**	**272**	**196**	**2,220**
Stub Period							0.16	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Discount Period							0.09	0.68	1.68	2.68	3.68	4.68	5.68	6.68	7.68	8.68	
WACC							0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	
Discount Factor							99%	95%	89%	83%	78%	72%	68%	63%	59%	55%	
PV of UFCF							**(2,656)**	**(888)**	**(608)**	**(833)**	**353**	**302**	**252**	**208**	**160**	**108**	

Source(s): Capital IQ, Company Filings

Indicative of Room for Appreciation

Valuation Summary

Exit Multiple Method	
Terminal Multiple	**9.5x**
Terminal EBITDA	4,602
Terminal Value	**$43,720**
Discount Period	8.7
Discount Factor	55%
PV of Terminval Value	**$24,003**
(+) PV of FCF	(3,601)
Enterprise Value	**$20,401**
(-) Long Term Debt	13,883
(+) Cash	456
Implied Equity Value	**$6,973**
Fully Diluted Shares Outstanding	113.1
Implied Share Price	**$61.6**
Current Share Price	$43.5
Premium to Current Share Price	**41.7%**

Gordon Growth Method	
Perpetuity Growth Rate	**2.0%**
Terminal Year UFCF	2,148
Terminal Value	**$41,682**
Discount Period	8.7
Discount Factor	55%
PV of Terminval Value	**$22,884**
(+) PV of FCF	(3,601)
Enterprise Value	**$19,282**
(-) Long Term Debt	13,883
(+) Cash	456
Implied Equity Value	**$5,855**
Fully Diluted Shares Outstanding	113.1
Implied Share Price	**$51.8**
Current Share Price	$43.5
Premium to Current Share Price	**19.0%**

Sensitivity Tables

Equity Value Per Share

Discount rate \ Exit Multiple	8.5x	9.0x	9.5x	10.0x	10.5x
2%	$79.38	$81.91	$84.51	$87.20	$89.97
7%	$69.99	$72.22	$74.52	$76.88	$79.33
2%	$57.18	$59.00	$61.65	$66.51	$70.26
7%	$52.45	$54.12	$55.84	$57.62	$59.45
2%	$44.26	$45.67	$47.12	$48.62	$50.17

Implied Return

Discount rate \ Exit Multiple	8.5x	9.0x	9.5x	10.0x	10.5x
6.2%	82.5%	88.3%	94.3%	100.5%	106.9%
6.7%	60.9%	66.1%	71.3%	76.8%	82.4%
7.2%	31.5%	35.7%	41.7%	52.9%	61.6%
7.7%	20.6%	24.4%	28.4%	32.5%	36.7%
8.2%	1.8%	5.0%	8.3%	11.8%	15.4%

Equity Value Per Share

Margin Sensitivity \ Revenue Growth Sensitivity	1.5%	1.5%	2.0%	2.5%	3.0%
6.2%	$122.69	$83.46	$51.32	$26.88	$5.92
6.7%	$122.99	$83.72	$51.54	$27.05	$6.09
7.2%	$123.25	$83.94	$51.76	$27.23	$6.26
7.7%	$123.56	$84.20	$51.97	$27.44	$6.40
8.2%	$123.86	$84.46	$52.19	$27.62	$6.57

Implied Return

Margin Sensitivity \ Revenue Growth Sensitivity	1.0%	1.5%	2.0%	2.5%	3.0%
6.2%	182.1%	91.9%	18.0%	(38.2%)	(86.4%)
6.7%	182.8%	92.5%	18.5%	(37.8%)	(86.0%)
7.2%	183.4%	93.0%	19.0%	(37.4%)	(85.6%)
7.7%	184.1%	93.6%	19.5%	(36.9%)	(85.3%)
8.2%	184.8%	94.2%	20.0%	(36.5%)	(84.9%)

Source(s): Capital IQ, Company Filings

Indicative of Room for Appreciation

Residual Income Model Summary

				Forecast Period									
(USD millions)	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Earnings per Share	**$3.57**	**($1.24)**	**$5.14**	**$5.79**	**$7.80**	**$9.08**	**$10.38**	**$11.66**	**$11.67**	**$11.48**	**$11.08**	**$10.48**	**$9.52**
% Growth	-	*(134.8%)*	*(513.7%)*	*12.5%*	*34.9%*	*16.4%*	*14.3%*	*12.3%*	*0.1%*	*(1.6%)*	*(3.5%)*	*(5.5%)*	*(9.1%)*
Dividends per Share	**$0.64**	**$0.74**	**$0.80**	**$0.84**	**$0.84**	**$0.84**	**$0.84**	**$0.84**	**$0.84**	**$0.84**	**$0.84**	**$0.84**	**$0.84**
% Growth	-	*15.6%*	*8.1%*	*5.0%*	-	-	-	-	-	-	-	-	-
Book Value per Share	**$48.37**	**$56.08**	**$64.49**	**$69.43**	**$76.40**	**$84.64**	**$94.19**	**$105.00**	**$115.83**	**$126.48**	**$136.72**	**$146.35**	**$155.04**
% Growth	-	*15.9%*	*15.0%*	*7.7%*	*10.0%*	*10.8%*	*11.3%*	*11.5%*	*10.3%*	*9.2%*	*8.1%*	*7.0%*	*5.9%*
Return on Common Equity				**9.0%**	**11.2%**	**11.9%**	**12.3%**	**12.4%**	**11.1%**	**9.9%**	**8.8%**	**7.7%**	**6.5%**
Abnormal Earnings				**($0.12)**	**$0.01**	**$0.07**	**$0.12**	**$0.15**	**$0.00**	**($0.14)**	**($0.26)**	**($0.36)**	**($0.44)**
Stub Period				5.13	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Discount Period				2.56	5.63	6.63	7.63	8.63	9.63	10.63	11.63	12.63	13.63
Cost of Equity				11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Discount Factor				76%	55%	50%	45%	40%	36%	33%	29%	26%	24%
PV of Abnormal Earnings				**($0.48)**	**$0.01**	**$0.04**	**$0.05**	**$0.06**	**$0.00**	**($0.04)**	**($0.08)**	**($0.10)**	**($0.10)**

Valuation Summary

Cumulative PV of Abnormal Earnings	**($0.65)**
% Value Contribution	*(1.0%)*
Continuing Value	
Continuing Value of Abnormal Earnings	($4.91)
Perpetuity Growth Rate	2.0%
PV of Continuing Value	**($1.17)**
% Value Contribution	*(1.7%)*
Q4-23 Book Value per Share	**$69.24**
% Value Contribution	*102.7%*
Implied Share Price	**$67.42**
Current Share Price	$43.49
Premium to Current Share Price	**55.0%**
Basic Shares	111.4
(+) Diluted Securities	1.7
Fully Diluted Shares Outstanding	**113.1**
Implied Equity Value	**$7,627**

Market Risk Premium: **4.6%**

Cost of Equity: **11.1%**

Perp. Growth Rate: **2.0%**

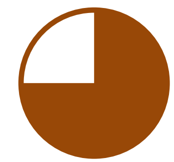
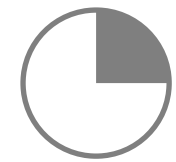
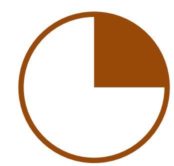
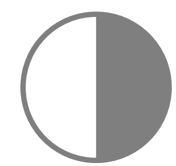
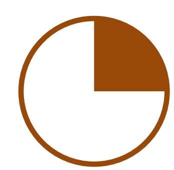
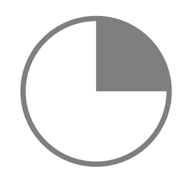
FDSO: **113 million**

- The Residual Income model yields an implied price of $67.42
- The base case uses a 11.1% Cost of Equity with a 2.0% perpetuity growth rate
- Analyst consensus is used to estimate forward EPS
- AL's dividend policy is kept constant

Source(s): Bloomberg, Capital IQ

Risks & Catalysts

Key Industry and Business Risks Remain Important to Consider

	Risks	Mitigants	Impact	Likelihood
1	The aircraft leasing business has experienced periods of oversupply, leading to declines in lease rates and aircraft values. Future oversupply could affect AL's revenue	The aircraft leasing industry is entering a structural shortage of airplanes due to OEM backlogs, which mitigates the risk of oversupply. This gives lessors significant pricing power over airlines trying to meet increased demand		
2	Air Lease's revenue depends partly on the financial strength of its lessees - the airlines. Widespread defaults or other credit issues among airline customers would negatively impact Air Lease's financial performance	The strongest airlines, having survived the pandemic and benefitting from bottomed-out lease rates, will now be the primary customers of Air Lease, driving future revenue growth as the company reaches an inflection point		
3	Interest rate fluctuations can negatively impact Air Lease's financial results, growth prospects, and share price by increasing the cost of servicing it ~$20B in debt	Management plans to reduce the debt-to-equity ratio to 2.5x, which should improve their credit rating to BBB+ and provide cheaper credit. Additionally, the rate-cutting cycle will lower SOFR, reducing costs for their floating debt		

Source(s): Capital IQ, Company Filings, Equity Research

Macroeconomic Shifts Driving Demand for Efficient Jets Globally

ESG Trend Favors Lessors with Modern Fleets

1. During COVID-19, the share of the global passenger aircraft fleet under operating leases increased from 55% to 60% as airlines adopted a capital-light model by outsourcing ownership to lessors like Air Lease

2. The Canadian government's Aviation Climate Action Plan aims to improve aircraft fuel efficiency by implementing measures like Sustainable Aviation Fuel use by 2030 and enforcing airlines to renew fleets

3. To stay competitive, lessors must refresh their fleets more frequently for aesthetic and environmental reasons, as stricter net-zero regulations are adopted, and customer requirements shift

4. Air Lease's fleet averages 4.5 years, compared to AER's 16 years, highlighting their exposure to newer and more fuel-efficient aircrafts such as the A320/321

This strategy is expected to positively impact their annualized lease factor percentage, as reflected in the operating model given the inflection point which will ultimately driving top-line revenue growth and future AL outperformance

Resolution of Boeing's Delivery Crisis to Drive Lease Rates Higher

Boeing, a key supplier for Air Lease, has faced significant production delays due to supply chain disruptions, particularly challenges at Spirit AeroSystems. These issues have slowed the production of non-787 aircraft, compounded by past company scandals

With Air Lease's order book showing ~3.5x more B737-8 and B737-9 compared to B787-9/10, delays in delivery are inevitable, or there may be cancellations to reallocate capital elsewhere

While significantly affecting Air Lease due to its exposure to newer aircrafts, this issue also poses a structural challenge for the industry. In 2023, total traffic, increased by 36.9% from 2022, reaching 94.1% of pre-pandemic 2019 levels globally

The significant supply-demand imbalance will inevitably drive higher lease factor percentages for lessors like Air Lease, returning to or exceeding pre-pandemic levels due to stagnant supply and surging demand for both air travel and leasing

Source(s): KPMG, Company Fillings, Reuters

Recommendation

The Four W's

1 What do we like?

- Robust Rental Revenue Stream: Air Lease generates 92.3% of its revenue from the rental of flight equipment, supported by long-term leases and a 100% aircraft utilization rate in Q2 2024
  - This consistent income stream provides stability even during market fluctuations
- Diverse Customer Base: With over 118 customers across 59 countries, Air Lease benefits from geographic and operational diversification, which mitigates risks associated with regional downturns and enhances demand for its services
- Strong Order Backlog and Market Position: The company's order book is 96% placed through 2026, indicating strong demand for aircraft
  - This backlog not only secures future revenue but also positions Air Lease favorably against competitors amid industry recovery

2 What do we not like?

- High Debt-to-Equity Ratio: This elevated leverage could hinder financial flexibility and limit options for capital deployment, including share repurchases or additional investments
- Potential Earnings Pressure: With rising costs and interest rates impacting profit margins, the company's adjusted pretax profit is expected to decline in 2024
  - This outlook could lead to increased scrutiny from investors regarding sustainability and growth potential
- Execution Risks Related to Supply Chain Delays: Air Lease is susceptible to supply chain disruptions affecting aircraft deliveries
  - Delays can hinder growth plans and impact the company's ability to fulfill lease agreements on time

3 What needs to happen?

- Credit Rating Upgrade to BBB+: Improved credit ratings would lower borrowing costs, allowing the company to access cheaper capital and potentially increase shareholder returns through buybacks or dividends
- Strengthened Profit Margins: As delivery delays ease and lease rates stabilize, expanding the net spread between lease rents and interest expenses will be vital

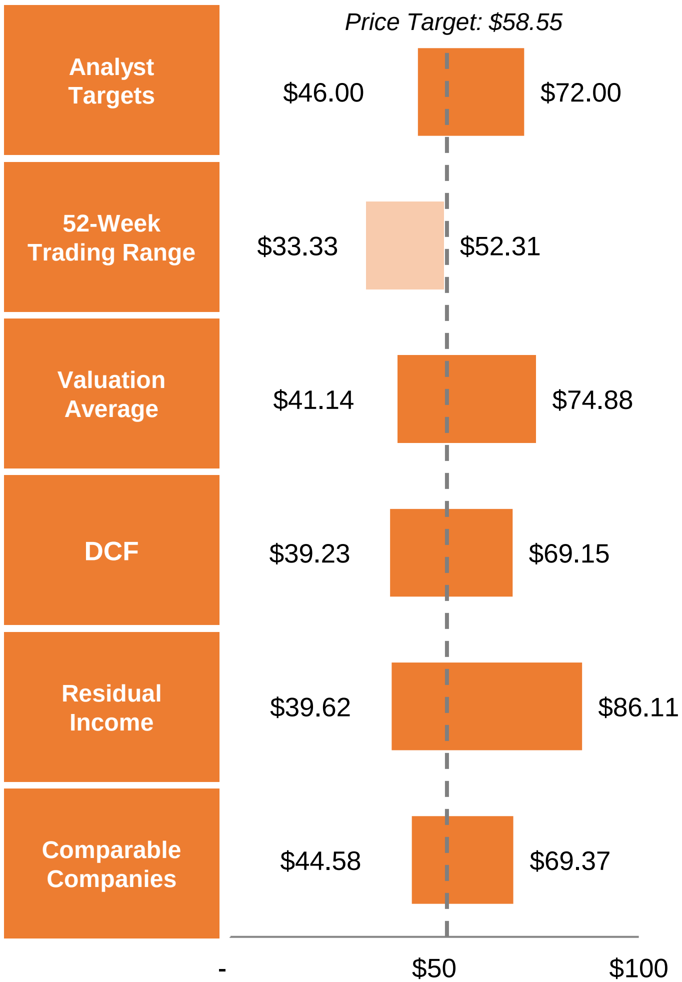
4 What do we need to learn more about?

- Sustainability of Lease Rates: Analyzing the durability of current lease rates amidst potential economic fluctuations will be essential. Understanding how rising interest rates and airline profitability influence Air Lease's pricing power is crucial for future growth prospects
- Management Team Plan: Investigate plan on debt pay-down; often avoided questions in ER regarding this material

RECOMMENDATION

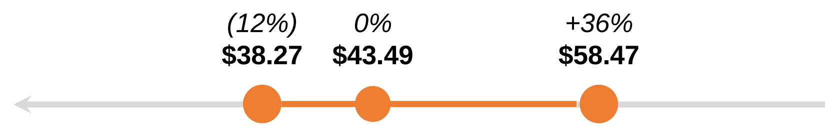
Buy With Price Target of $58.55 (+34.6%)

Indicative Valuation Range

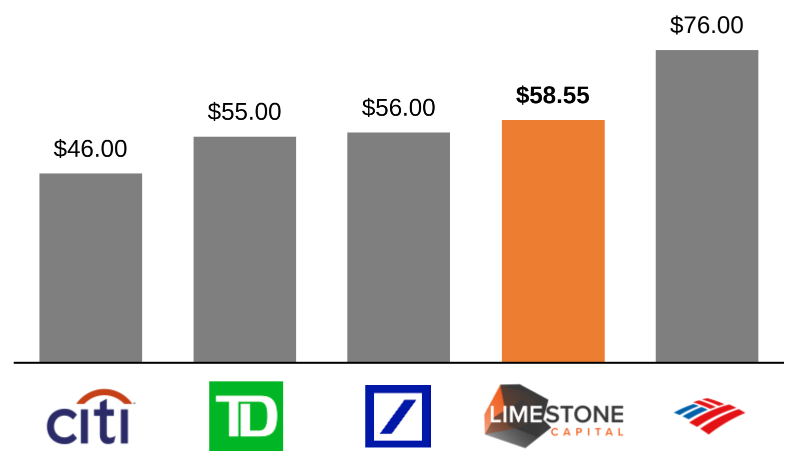


Price Target

Valuation Summary		
Analysis	**Price**	**Weight**
Comparables	$56.10	20%
Discounted CF	$56.70	50%
Residual Income	$67.42	20%
Street Consensus	$55.00	10%
Average	**$58.55**	**100%**



Select Broker Summary



Source(s): Capital IQ, Company Filings

Appendix

Revenue Model

		Historical						Forecast									
For the Year Ending Dec 31		**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
In USD Millions		Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Revenue Forecast																	
Rental of Flight Equipment Revenue	**$mm**	**1,631**	**1,917**	**1,947**	**2,003**	**2,215**	**2,478**	**2,732**	**3,104**	**3,374**	**3,625**	**3,878**	**4,088**	**4,287**	**4,476**	**4,653**	**4,775**
2: Base	%		17.5%	1.6%	2.9%	10.5%	11.9%	10.3%	13.6%	8.7%	7.4%	7.0%	5.4%	4.9%	4.4%	4.0%	2.6%
3-Year CAGR	**%**	**-**	**-**	**-**	**7.1%**	**4.9%**	**8.4%**	**10.9%**	**11.9%**	**10.8%**	**9.9%**	**7.7%**	**6.6%**	**5.8%**	**4.9%**	**4.4%**	**3.7%**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**7.9%**	**6.6%**	**8.8%**	**11.6%**	**11.1%**	**10.0%**	**9.2%**	**7.1%**	**6.2%**	**5.4%**	**4.7%**	**4.0%**
										12	12	10	8	6	5	5	5
Net Book Value of Aircraft Lease Assets	**$mm**																
Net Book Value of Aircraft Lease Assets - BoP	$mm	13,280	15,707	18,704	20,380	22,899	24,538	26,231	28,813	30,013	30,282	30,945	31,105	31,373	31,764	32,294	32,978
(+) Additions	$mm	3,776	4,839	2,678	3,233	3,640	4,528	4,877	4,077	3,553	4,100	2,882	3,142	3,404	3,667	3,929	4,151
(-) Depreciation in Lease Assets	$mm	(582)	(703)	(781)	(883)	(966)	(1,069)	(1,059)	(1,115)	(1,223)	(1,312)	(1,407)	(1,635)	(1,882)	(2,146)	(2,426)	(2,698)
(-) Sale of Lease Assets	$mm	(391)	(995)	(151)	(138)	(235)	(1,685)	(948)	(1,534)	(1,879)	(1,932)	(1,192)	(1,118)	(1,014)	(881)	(718)	(519)
(-) Other Adjustments	$mm	(376)	(144)	(70)	306	(799)	(82)	(288)	(228)	(183)	(193)	(123)	(121)	(116)	(109)	(100)	(83)
Net Book Value of Aircraft Lease Assets - EoP	$mm	**15,707**	**18,704**	**20,380**	**22,899**	**24,538**	**26,231**	**28,813**	**30,013**	**30,282**	**30,945**	**31,105**	**31,373**	**31,764**	**32,294**	**32,978**	**33,829**
Net Book Value of Aircraft Lease Assets - Average	**%**	**14,524**	**17,539**	**19,347**	**21,514**	**23,350**	**25,561**	**27,522**	**29,413**	**30,147**	**30,613**	**31,025**	**31,239**	**31,568**	**32,029**	**32,636**	**33,404**
3-Year CAGR	**%**	**-**	**-**	**-**	**14.0%**	**10.0%**	**9.7%**	**8.6%**	**8.0%**	**5.7%**	**3.6%**	**1.8%**	**1.2%**	**1.0%**	**1.1%**	**1.5%**	**1.9%**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**12.6%**	**9.9%**	**9.2%**	**8.1%**	**6.6%**	**4.6%**	**3.0%**	**1.5%**	**1.2%**	**1.1%**	**1.3%**	**1.7%**
Annualized Lease Rate Factor, %	**$mm**	**11.2%**	**10.9%**	**10.1%**	**9.3%**	**9.5%**	**9.7%**	**9.9%**	**10.6%**	**11.2%**	**11.8%**	**12.5%**	**13.1%**	**13.6%**	**14.0%**	**14.3%**	**14.3%**
1: Bear	%	-	(2.7%)	(7.9%)	(7.5%)	1.8%	2.2%	1.9%	5.8%	5.3%	4.8%	4.3%	3.6%	2.9%	2.2%	1.4%	-
2: Base	%	-	(2.7%)	(7.9%)	(7.5%)	1.8%	2.2%	2.4%	6.3%	6.1%	5.8%	5.6%	4.7%	3.8%	2.9%	2.0%	0.3%
3: Bull	%	-	(2.7%)	(7.9%)	(7.5%)	1.8%	2.2%	2.9%	6.8%	6.8%	6.8%	6.8%	5.8%	4.7%	3.7%	2.6%	0.5%
4: Tegus Forecast	%	-	(2.7%)	(7.9%)	(7.5%)	1.8%	2.2%	1.2%	5.1%	0.0%	0.0%	0.0%	-	-	-	-	-
3-Year CAGR	**%**	**-**	**-**	**-**	**(6.1%)**	**(4.6%)**	**(1.2%)**	**2.2%**	**3.6%**	**4.9%**	**6.1%**	**5.8%**	**5.3%**	**4.7%**	**3.8%**	**2.9%**	**1.7%**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**(4.1%)**	**(3.0%)**	**(0.3%)**	**3.2%**	**4.2%**	**5.1%**	**5.9%**	**5.5%**	**5.0%**	**4.2%**	**3.3%**	**2.2%**

1. Capital IQ, Company Filings

APPENDIX B

Revenue & Expense Model

		Historical						Forecast									
For the Year Ending Dec 31		**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
In USD Millions		Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Revenue Forecast																	
Aircraft Sales, Trading and Other Revenue	**$mm**	**49**	**100**	**69**	**85**	**103**	**207**	**147**	**80**	**86**	**91**	**96**	**100**	**103**	**106**	**108**	**109**
1: Bear	%	-	106.2%	(31.2%)	23.6%	20.9%	101.7%	(29.2%)	(45.5%)	5.0%	4.3%	3.6%	2.9%	2.1%	1.4%	0.7%	-
2: Base	%	-	106.2%	(31.2%)	23.6%	20.9%	101.7%	(29.2%)	(45.5%)	7.0%	6.1%	5.3%	4.4%	3.6%	2.7%	1.9%	1.0%
3: Bull	%	-	106.2%	(31.2%)	23.6%	20.9%	101.7%	(29.2%)	(45.5%)	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%
4: Tegus Forecast	%	-	106.2%	(31.2%)	23.6%	20.9%	101.7%	(29.2%)	(45.5%)	-	-	-	-	-	-	-	-
3-Year CAGR	**%**	**-**	**-**	**-**	**20.6%**	**0.9%**	**44.4%**	**19.9%**	**(8.0%)**	**(25.5%)**	**(14.8%)**	**6.1%**	**5.3%**	**4.4%**	**3.6%**	**2.7%**	**1.9%**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**20.7%**	**20.0%**	**20.8%**	**(1.5%)**	**(4.5%)**	**(18.6%)**	**(10.1%)**	**5.7%**	**4.9%**	**4.0%**	**3.1%**	**2.3%**
Total Revenue	**$mm**	**1,680**	**2,017**	**2,015**	**2,088**	**2,317**	**2,685**	**2,879**	**3,184**	**3,460**	**3,716**	**3,974**	**4,188**	**4,391**	**4,583**	**4,762**	**4,884**
Consolidated Revenue Growth %	%	-	*20.1%*	*(0.1%)*	*3.6%*	*11.0%*	*15.9%*	*7.2%*	*10.6%*	*8.7%*	*7.4%*	*6.9%*	*5.4%*	*4.9%*	*4.4%*	*3.9%*	*2.6%*
3-Year CAGR	**%**	**-**	**-**	**-**	**7.5%**	**4.7%**	**10.0%**	**11.3%**	**11.2%**	**8.8%**	**8.9%**	**7.7%**	**6.6%**	**5.7%**	**4.9%**	**4.4%**	**3.6%**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**8.4%**	**7.4%**	**9.3%**	**11.1%**	**10.5%**	**8.5%**	**8.4%**	**7.1%**	**6.1%**	**5.4%**	**4.6%**	**3.9%**
Expense Forecast																	
SG&A	**$mm**	**97**	**124**	**96**	**125**	**157**	**186**	**200**	**223**	**232**	**237**	**240**	**242**	**244**	**246**	**247**	**248**
1: Bear	%	-	27.0%	(22.6%)	30.9%	25.2%	18.6%	8.3%	12.9%	5.0%	3.2%	2.0%	1.8%	1.6%	1.4%	1.2%	1.0%
2: Base	%	-	27.0%	(22.6%)	30.9%	25.2%	18.6%	7.3%	11.9%	4.0%	2.2%	1.0%	0.9%	0.8%	0.7%	0.6%	0.5%
3: Bull	%	-	27.0%	(22.6%)	30.9%	25.2%	18.6%	6.3%	10.9%	3.0%	1.2%	0.0%	0.1%	0.1%	0.2%	0.2%	0.3%
4: Tegus Forecast	%	-	27.0%	(22.6%)	30.9%	25.2%	18.6%	7.3%	11.9%	4.0%	2.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
3-Year CAGR	**%**	**-**	**-**	**-**	**8.8%**	**8.3%**	**24.8%**	**16.8%**	**12.5%**	**7.7%**	**5.9%**	**2.4%**	**1.4%**	**0.9%**	**0.8%**	**0.7%**	**0.6%**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**12.7%**	**10.7%**	**20.2%**	**15.6%**	**10.3%**	**6.3%**	**4.7%**	**2.0%**	**1.2%**	**0.9%**	**0.8%**	**0.7%**
SBC	**$mm**	**17**	**21**	**18**	**27**	**16**	**35**	**34**	**34**	**34**	**34**	**34**	**34**	**34**	**34**	**34**	**34**
1: Bear	%	-	18.7%	(15.0%)	50.4%	(41.2%)	121.8%	(1.5%)	(0.3%)	(0.2%)	(0.1%)	(0.0%)	0.1%	0.2%	0.3%	0.4%	0.5%
2: Base	%	-	18.7%	(15.0%)	50.4%	(41.2%)	121.8%	(1.5%)	(0.3%)	(0.3%)	(0.2%)	(0.2%)	(0.2%)	(0.1%)	(0.1%)	(0.0%)	-
3: Bull	%	-	18.7%	(15.0%)	50.4%	(41.2%)	121.8%	(1.5%)	(0.3%)	(0.3%)	(0.4%)	(0.4%)	(0.4%)	(0.4%)	(0.5%)	(0.5%)	(0.5%)
4: Tegus Forecast	%	-	18.7%	(15.0%)	50.4%	(41.2%)	121.8%	(1.5%)	(0.3%)	-	-	-	-	-	-	-	-
3-Year CAGR	**%**	**-**	**-**	**-**	**14.9%**	**(9.1%)**	**25.2%**	**8.8%**	**29.6%**	**(0.7%)**	**(0.3%)**	**(0.2%)**	**(0.2%)**	**(0.2%)**	**(0.1%)**	**(0.1%)**	**(0.0%)**
4-Year CAGR	**%**	**-**	**-**	**-**	**-**	**(2.8%)**	**13.7%**	**17.9%**	**6.4%**	**21.4%**	**(0.6%)**	**(0.3%)**	**(0.2%)**	**(0.2%)**	**(0.1%)**	**(0.1%)**	**(0.1%)**

1. Capital IQ, Company Filings

APPENDIX C

Capex & Depreciation Model

		Historical						Forecast									
For the Year Ending Dec 31		**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
In USD Millions		Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Capex & Depreciation																	
Capex % of Revenue	**%**	225%	240%	133%	155%	157%	169%	169%	128%	103%	110%	73%	75%	78%	80%	83%	85%
1: Bear	%	225%	240%	133%	155%	157%	169%	170%	129%	104%	111%	74%	77%	80%	83%	87%	90%
2: Base	%	225%	240%	133%	155%	157%	169%	169%	128%	103%	110%	73%	75%	78%	80%	83%	85%
3: Bull	%	225%	240%	133%	155%	157%	169%	168%	127%	102%	109%	72%	73%	75%	77%	78%	80%
4: Tegus Forecast	%	225%	240%	133%	155%	157%	169%	174%	133%	108%	115%	78%	78%	79%	79%	80%	80%
Total Capex	**$mm**	**3,776**	**4,839**	**2,678**	**3,233**	**3,640**	**4,528**	**4,877**	**4,077**	**3,553**	**4,100**	**2,882**	**3,142**	**3,404**	**3,667**	**3,929**	**4,151**
Sale of Lease Assets % of CapEx	**%**	10%	21%	6%	4%	6%	37%	19%	38%	53%	47%	41%	36%	30%	24%	18%	13%
1: Bear	%	10%	21%	6%	4%	6%	37%	24%	43%	58%	52%	46%	40%	33%	27%	21%	15%
2: Base	%	10%	21%	6%	4%	6%	37%	19%	38%	53%	47%	41%	36%	30%	24%	18%	13%
3: Bull	%	10%	21%	6%	4%	6%	37%	14%	33%	48%	42%	37%	32%	26%	21%	15%	10%
4: Tegus Forecast	%	10%	21%	6%	4%	6%	37%	17%	35%	50%	41%	60%	56%	52%	48%	44%	40%
Total Sale of Lease Assets	**$mm**	**391**	**995**	**151**	**138**	**235**	**1,685**	**948**	**1,534**	**1,879**	**1,932**	**1,192**	**1,118**	**1,014**	**881**	**718**	**519**
Other Adjustments % of CapEx	**%**	22%	7%	3%	(15%)	34%	3%	6%	6%	5%	5%	4%	4%	3%	3%	3%	2%
1: Bear	%	22%	7%	3%	(15%)	34%	3%	6%	6%	5%	5%	5%	4%	4%	4%	3%	3%
2: Base	%	22%	7%	3%	(15%)	34%	3%	6%	6%	5%	5%	4%	4%	3%	3%	3%	2%
3: Bull	%	22%	7%	3%	(15%)	34%	3%	6%	6%	5%	4%	4%	3%	3%	2%	2%	1%
4: Tegus Forecast	%	10%	3%	3%	(9%)	22%	2%	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Capex	**$mm**	**376**	**144**	**70**	**(306)**	**799**	**82**	**288**	**228**	**183**	**193**	**123**	**121**	**116**	**109**	**100**	**83**
Depreciation % of Capex	**%**	15%	15%	29%	27%	27%	24%	22%	27%	34%	32%	49%	52%	55%	59%	62%	65%
1: Bear	%	15%	15%	29%	27%	27%	24%	24%	30%	37%	34%	51%	53%	55%	57%	58%	60%
2: Base	%	15%	15%	29%	27%	27%	24%	22%	27%	34%	32%	49%	52%	55%	59%	62%	65%
3: Bull	%	15%	15%	29%	27%	27%	24%	19%	25%	32%	29%	46%	52%	58%	64%	69%	75%
4: Tegus Forecast	%	21%	18%	44%	32%	31%	26%	24%	30%	37%	34%	51%	56%	61%	66%	70%	75%
Total Depreciation	**$mm**	**582**	**703**	**781**	**883**	**966**	**1,069**	**1,059**	**1,115**	**1,223**	**1,312**	**1,407**	**1,635**	**1,882**	**2,146**	**2,426**	**2,698**

1. Capital IQ, Company Filings

APPENDIX D

Debt Schedule & Net Income Waterfall

		Historical						Forecast									
For the Year Ending Dec 31		**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
In USD Millions		Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Total Debt - BoP, mm	**$mm**																
Total Debt - BoP	$mm	9,699	11,539	13,579	16,518	17,022	18,641	19,183	18,572	17,982	17,409	16,856	16,319	15,800	15,298	14,811	14,340
(+/-) Change of Debt	$mm	1,840	2,040	2,939	504	1,619	542	(610)	(591)	(572)	(554)	(536)	(519)	(503)	(487)	(471)	(456)
Total Debt - EoP	$mm	**11,539**	**13,579**	**16,518**	**17,022**	**18,641**	**19,183**	**18,572**	**17,982**	**17,409**	**16,856**	**16,319**	**15,800**	**15,298**	**14,811**	**14,340**	**13,883**
Total Debt - Avg. of Period	**$mm**	**10,641**	**12,760**	**14,821**	**16,774**	**18,190**	**18,975**	**18,878**	**18,277**	**17,696**	**17,133**	**16,588**	**16,060**	**15,549**	**15,054**	**14,575**	**14,112**
Interest Expense	**$mm**	3.2%	3.4%	3.2%	3.1%	3.0%	3.7%	3.8%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
1: Bear	%	3.2%	3.4%	3.2%	3.1%	3.0%	3.7%	3.9%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
2: Base	%	3.2%	3.4%	3.2%	3.1%	3.0%	3.7%	3.8%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
3: Bull	%	3.2%	3.4%	3.2%	3.1%	3.0%	3.7%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.4%	3.4%	3.3%	3.3%
4: Tegus Forecast	%	3.2%	3.4%	3.2%	3.1%	3.0%	3.7%	3.9%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Total Interest Expense	**$mm**	**343**	**434**	**475**	**513**	**546**	**709**	**718**	**658**	**637**	**617**	**597**	**578**	**560**	**542**	**525**	**508**
EBITDA																	
EBITDA	$mm	1,565	1,873	1,902	1,937	2,145	2,464	2,645	2,926	3,194	3,445	3,701	3,912	4,113	4,303	4,481	4,602
(-) D&A	$mm	(582)	(703)	(781)	(883)	(966)	(1,069)	(1,059)	(1,115)	(1,223)	(1,312)	(1,407)	(1,635)	(1,882)	(2,146)	(2,426)	(2,698)
(-) Interest Expense	$mm	(343)	(434)	(475)	(513)	(546)	(709)	(718)	(658)	(637)	(617)	(597)	(578)	(560)	(542)	(525)	(508)
(-) Taxes	$mm	(129)	(149)	(130)	(104)	42	(139)	(182)	(242)	(280)	(318)	(356)	(357)	(351)	(339)	(321)	(293)
(-) Preferred stock dividends	$mm	0	(12)	(15)	(28)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)
Net Income to Common Shareholders	**$mm**	**511**	**575**	**501**	**408**	**(139)**	**573**	**644**	**869**	**1,012**	**1,156**	**1,298**	**1,300**	**1,279**	**1,234**	**1,167**	**1,061**
Net Income Margin %	**%**	***30%***	***29%***	***25%***	***20%***	***(6%)***	***21%***	***22%***	***27%***	***29%***	***31%***	***33%***	***31%***	***29%***	***27%***	***25%***	***22%***
Earnings Per Share	**$**	**4.60**	**5.09**	**4.39**	**3.57**	**(1.24)**	**5.14**	**5.79**	**7.80**	**9.08**	**10.38**	**11.66**	**11.67**	**11.48**	**11.08**	**10.48**	**9.52**

1. Capital IQ, Company Filings