

## Q4 2020 Earnings Call

### Company Participants

- Aengus Kelly, Chief Executive Officer and Executive Director
- Pete Juhas, Chief Financial Officer
- Joseph McGinley, Head of Investor Relations

### Other Participants

- Andrew Lobbenberg
- Catherine O'Brien
- Helane Becker
- Jamie Baker
- Koosh Patel
- Moshe Orenbuch
- Ronald J Epstein
- Ross Harvey

### Presentation

#### Operator

Good day and welcome to the AerCap Holdings and the fourth quarter 2020 financial results. Today's conference is being recorded and a transcript will be available following the call on the company's website. At this time, I would like to turn the conference over to Joseph McGinley, Head of Investor Relations. Please go ahead, Sir.

#### Joseph McGinley

Thank you, Operator and hello, everyone. Welcome to our Fourth Quarter 2020 Conference Call. With me today is our Chief Executive Officer Aengus Kelly; and our Chief Financial Officer Peter Juhas. Before we begin today's call, I would like to remind you that some statements made during this conference call which are not historical facts may be forward-looking statements.

Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events information our circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated March 2, 2021. A copy of

our earnings release and conference call presentation are available on our website at [aercap.com](http://aercap.com).

This call is open to the public and is being webcast simultaneously at [aercap.com](http://aercap.com) and will be archived for replay. We will shortly run through earnings presentation and will allow of time at the end for Q&A As a reminder, I would ask analyst that they limit themselves to one question and one follow-up. I will now turn the call over to Aengus Kelly.

## **Aengus Kelly, CEO**

Good morning everyone, and thank you for joining us for our fourth quarter 2020 earnings call. I am pleased to report another strong quarter of cash collections for the company where we continued the significant progress we made in Q3. Operating cash flows in Q4 were almost double the Q2 level. So, while we expect the airline sector has a couple of choppy quarters ahead of it, the resilience and necessity of this industry to the global economy is clear from our operating cash flow numbers.

With 2020 now in the books, we are focused on returning the business to healthy levels of profitability and executing on the growth opportunities that are in front of us as the vaccine rollout gains traction and as the health of our airline customers continues to improve.

Given this, we believe that the worst effects of the pandemic are firmly behind the aviation industry and at AerCap we are looking to the future with increasing confidence.

Our conviction is based on the fact that airlines are implementing new strategies that will be required to succeed in the post pandemic world. The first priority for all airlines is to deleverage their balance sheets and increase their fleet flexibility going forward, both of these objectives mean asset light balance sheets for the airlines. On our last earnings call, we highlighted that AerCap will have significant growth opportunities in the post pandemic world. We strongly believe that is the case and these opportunities are materialising now.

So, the four things I want to focus on for today's call are:

1. The significant structural shift towards leasing aircraft, as airlines look to rebuild their balance sheets, creating significant growth opportunities
2. The importance of the vaccine rollout, and impact of vaccine passports
3. The resilience of consumer demand
4. And, lastly, we remain completely focused on disciplined management as we navigate the pandemic.

Regarding the structural shift to leasing aircraft, it is clear that the pandemic has had a lasting impact on many airlines' balance sheets, and so their appetite for deploying large amounts of scarce capital to aircraft purchases will remain muted for some time. Their priority will be to repay debt, or government subsidies - not to send money to the OEMs. This will result in an increased dependence on accessing the lessor's order books for new aircraft, and also for lessors to execute sale lease backs of their existing aircraft. The sale-leaseback channel is used not only to finance their new deliveries; this channel is also an effective way for airlines to raise capital from their existing fleet. We see this trend as a tailwind for AerCap in 2021...and beyond.

We are pleased to report that we have begun to capture opportunities in this market recently, agreeing LOIs for 10 aircraft to be delivered over the next 18 months. These transactions take time to bring to fruition, however, I believe the opportunity will be even greater when the OEMs get back to delivering aircraft in significant numbers. Airlines will not repair their balance sheets overnight, and so the flexibility that comes from leasing will remain attractive to airlines for years into the future, such that we see a number of very strong years ahead for the industry.

Secondly, with numerous successful vaccine rollouts taking place around the world, an end to the pandemic is in sight. Of course, it won't be a seamless or linear return to normality, given the sheer scale and complexity of administering a global vaccination program, and not every airline will make it through unscathed, but we believe they will get there.

In the last 2 months alone, over 250m vaccine doses have been administered around the world. This is likely to grow exponentially in the coming months, creating an inflection point, as further government approvals of new vaccines take place and significantly greater supply enters the market, which can only be good news for the airline industry.

The vaccine rollout is also shaping our conversations with customers, who are buoyed by the improving sentiment. The improved outlook gives consumers the confidence to book further ahead, improving the cash flows of the airlines immediately. It has also helped a number of airlines to raise capital on more attractive terms.

There have also been a number of other positive initiatives, like the "clean corridors", which were trialled by several US majors and the rollout of health passports and certificates. In the last few weeks, Iceland became the first country to issue vaccination certificates to citizens who have had both vaccine doses, with Poland following suit shortly after. Other countries reliant on tourism like Spain, Portugal, Greece, Cyprus, Denmark and Sweden are also putting their support behind the initiatives, as well as the European Commission. Separately, IATA has also rolled out a health passport app to help airlines with the administration around this, with 20 airlines taking part in the initial trial, and many more likely to adopt it in the coming months.

Third, on the passenger side, which is what ultimately drives the airline industry, we see no reduction in the desire to travel going forward. The consumer wants to travel. If anything, the recent travel restrictions have heightened the desire to travel, and we believe there will be a strong snap-back in demand as restrictions are eased over time. We witnessed the impact of this most clearly in Europe, the US and China during the summer of 2020. For example, in Europe, air travel increased from 2,000 daily flights to over 18,000 flights in just 4 months, showing the pent-up demand created from the first lock-downs. This was shown once again in the UK last week when Boris Johnson outlined their roadmap for re-opening air travel. Tour operator TUI said reservations for popular European holiday destinations increased 6-fold overnight. EasyJet also noted a four-fold increase in ticket sales.

And, lastly, we want to make it clear that we remain highly focused on managing the growth potential of the business and increasing shareholder value with every decision we make. In terms of capital allocation, which we are often asked about, we continue to review all options. Please know that any decision on this front will be made in keeping with managing the business for the long term and maintaining the strongest balance sheet possible.

As you have heard me say, the best way for a company to navigate a crisis like the pandemic is from a position of strength. Over the past year, we have done exactly that. Despite all the turbulence this pandemic has thrown at the industry, I am pleased by how well AerCap has managed its way through the crisis.

In the fourth quarter, our operating cash flow increased a further 21% to \$653 million, representing a doubling of operating cash flow from the Q2 lows. Our cash collection rate for Q4 improved to 96% and this strengthening cash flow profile wouldn't have been possible without the extraordinary work of our employees around the world, who've had relentless focus on cash collection.

Additionally, on the deferral side, I'm encouraged that the level of support being requested reduced sharply in the fourth quarter. In fact, over the period our deferral balance increased by only \$5 million dollars. As I have said many times, the airlines will be in a position to pay their cash expenses long before they are profitable, and that is being borne out in our results.

So, while our profitability has clearly been impacted during the last couple of quarters, it's notable that our cash generation has remained solid. This places us in a very strong position to offer helpful solutions to our airline customers coming out of the crisis.

Importantly, we have an especially strong balance sheet. We've gained this position by taking a series of deliberate steps over the course of 2020. These included extending the duration of our debt, accessing very competitive financing from multiple sources, and maintaining our Investment Grade Ratings with all three major rating agencies, all of which will have positive benefits to shareholders into the future.

These factors have also supported our placement activity in the fourth quarter, during which we signed lease agreements for 22 narrowbodies and 9 widebodies. This included significant multi-year extensions and long-term lease agreements on narrowbody and widebody aircraft. In addition, we have signed lease agreements for a further 24 aircraft since year-end and closed 5 further sales including 3 widebodies.

So, in summary, it is clear that the worst is behind us, and while there may be some choppiness for the industry – and, accordingly, for us – in the next couple of quarters, it is clear that a number of growth opportunities are before us. We have already begun to deploy a small amount of capital into SLBs, the first time we've done so since 2013, and we won't hesitate to act on other attractive opportunities as they arise.

We have always managed the business with the long term in mind, and with a backdrop of increased demand for leasing, vaccination rollouts continuing apace and confidence in the return of consumer demand, we see a very bright future for industry ahead. AerCap has a robust balance sheet, deep customer relationships and a strong track record to take advantage of these opportunities.

I'll now hand the call over to Pete for a review of the financials.

## Pete Juhas, CFO

Thanks Gus. Good morning everyone. In the fourth quarter, AerCap generated net income of \$28 million dollars, or \$0.22 cents a share.

Net income for the fourth quarter was affected by a number of items, including a cash accounting impact of \$117 million dollars, loss on debt extinguishment of \$76 million dollars, and loss on investment of \$29 million dollars.

The cash accounting impact related primarily to airlines that are in restructuring or bankruptcy. The loss on debt extinguishment related primarily to the premiums we paid on the debt tenders that closed in October and December.

The loss on the Norwegian investment in the fourth quarter was offset by maintenance revenue related to the termination of Norwegian leases during the quarter. We sold the remainder of our Norwegian shares during the first quarter, so we're now fully out of that position.

Our total revenues for the fourth quarter were \$1,032 million dollars, compared to \$1,257 million dollars for the fourth quarter of 2019. Total revenues for the full year were \$4,494 million dollars, down 9% from \$4,937 million for the full year 2019.

Basic lease rents were lower in the fourth quarter due to lease restructurings, aircraft transitions and the impact of airline bankruptcies. This includes the impact of cash accounting, which as I mentioned was \$117 million dollars for the quarter.

Maintenance rents were \$110 million dollars in the fourth quarter, which was a decrease from \$133 million dollars in 2019, primarily due to lower end-of-lease compensation recognized during the quarter.

In terms of aircraft sales, during the fourth quarter we sold 12 of our owned aircraft for a total of \$97 million dollars. The average age of the aircraft we sold was 21 years old, and our net gain on sales for the quarter was \$14 million dollars. For the full year, we sold 46 aircraft for a total of \$613 million dollars and generated gains on sale of \$90 million dollars. Both were lower than 2019 due to the lower volume of sales in 2020. And other income was \$22 million dollars for the fourth quarter, mainly due to higher interest income.

Despite the increase in travel restrictions in the fourth quarter, we saw another significant increase in our cash collections, as Gus has mentioned. Our operating cash flow for the quarter was \$653 million dollars, which was a 21% increase from the third quarter, and more than double that of Q2. This took operating cash flow for the full year 2020 to over \$2.1 billion dollars.

The vast majority of our customers continue to pay us every month and during the fourth quarter we saw a meaningful reduction in new deferral requests. Our deferral balance was \$490 million dollars as of December 31st, which was a \$5 million increase over September 30th. Trade receivables decreased by \$19 million dollars during the quarter, so on an overall basis, including both accounts receivable and deferrals, we had a net decrease of around \$15 million dollars.

Our cash collection rate continued to improve and was 96% for the fourth quarter, with no adjustment for deferrals.

Turning to the next slide, Other Expenses. We had asset impairments of \$27 million dollars in the fourth quarter, which related to lease terminations and asset sales and were partially offset by maintenance revenue.

As I mentioned last quarter, having completed our comprehensive full fleet impairment review in the third quarter, we don't expect any significant further impairments as we're comfortable with the cash flows and associated book values of our fleet. It's worth noting that the impairment analysis we carried out in the third quarter was completed before any vaccine announcements came out, and we remain comfortable with the assumptions we made.

Our SG&A expenses were around \$64 million dollars for the fourth quarter, which was about 10% lower than the fourth quarter of 2019. For the full year 2020, our SG&A expenses were around \$242 million dollars, which was a 9% decrease from 2019.

Our maintenance rights expense was \$6 million dollars for the fourth quarter, down from \$25 million in 2019. This was primarily driven by the lower maintenance rights asset balance and the level of maintenance activity during the quarter.

Other leasing costs were \$85 million dollars for the quarter, an increase from \$62 million in 2019, primarily due to higher expenses related to lease terminations.

As a result of all the actions we've taken to date, and the improvement in our cash flows, we ended the year with a very healthy liquidity position. Our total sources of liquidity were \$9.1 billion dollars, resulting in a next 12 months' sources-to-uses ratio of 2.3x, which is well above our target of 1.5x. Our excess cash coverage was also high at \$5.2 billion dollars.

We continue to maintain a very strong balance sheet. Our leverage ratio is currently 2.6 to 1, which is below our target ratio of 2.7 to 1, and is in-line with where we began 2020.

Our secured debt percentage continues to remain low, at 26% of total assets. And we currently have around \$26 billion dollars' worth of unencumbered assets.

In January, we raised \$1 billion dollars of 5-year senior unsecured bonds with a coupon of 1.75%, the lowest coupon in the company's history. This reflects the prudent actions we've taken, and will continue to take, in managing our balance sheet.

So, in closing, 2020 was the most challenging year in the history of aviation, and we've seen the impact of those challenges come through our results.

Despite this, we ended the year with a strong balance sheet, with a debt-to-equity ratio that's the same as where we began the year, with a liquidity position that is higher than where we began the year, and with funding costs that are lower than where we began the year.

We also took a number of important proactive steps during 2020 to position the company for the future. So, while we'll still see some ongoing impact of Covid-19 over the next few quarters, we enter 2021 well-positioned to capitalize on future opportunities as the recovery continues.

And with that, operator, you can open up the call for Q&A.

## Questions And Answers

### Operator

## Question And Answer

Thank you.

[Operator Instructions] And we'll now take our first question from Jamie Baker of JP Morgan. Please go ahead.

### **Q - Jamie Baker**

Hey, good afternoon, everybody. So, Mark and I were wondering a year ago operating cash flow was projected at \$3.1 billion today its \$2.4 billion.

So, call that a decline of about a third and, naturally some of that's going to be due to deliveries being pushed off and rent deferrals and such. So besides the variance in CapEx, the \$2.4 billion guide today is up only about 13% from the \$2.1 on you realized in 2020. So, I guess the question is how much of 2021 rent recapture is being offset by lost rent to bankruptcy and lower lease rates. Basically, the improvement from \$2.1 to \$2.4, what are the building blocks of that? Positives obviously include deferrals being paid back. Negatives include, the bankruptcy, lower leases, and the other stuff that you mentioned. Any way to address that?

### **Pete Juhas**

Yeah, sure Jamie. So, I think that the building blocks of that are: 1. we've got a number of airlines that are still in restructuring and those will come back online during the course of the year. So, we would expect them to start contributing operating cash flow during the year. So, that will build up over time. And then you're right, we'll see some repayment of deferrals during the year and then as we place aircraft that are currently AOG that will build up as well. I mean, I think that as we look at the \$2.4 billion, we say that's a conservative estimate on our part because we assume that while the recovery will continue that it may not be a smooth line, right? And we'll see some fits and starts but that's really how we projected that, I mean as you look at in general winter tends to be weaker as you know, right? And so we assume that just given some of the lockdowns that you still see in Europe and elsewhere that maybe say we were just conservative in our projection.

### **Jamie Baker**

Okay. And as a follow-up any thoughts is to \$53 million write-downs and seven-year-old A330s and why that's not a risk for AerCap?

### **Aengus Kelly**

Yes. Well Jamie, first of all, we've been very clear about the portfolio strategy for many, many years. At all costs avoid end of line airplanes.

They're very tempting because, they give you a big lease rental for a short period of time. But, if you have been buying A330s or 777s in the last five or six years you're going to get what's coming to you. Because, those airplanes are going to be replaced, you won't get 25 years out of them and you'll have seen that we have been avoiding that very deliberately for a decade and it's what we've been warning you about. You can avoid near-term impairments while the airplanes are on lease. But, once they come off lease reality bites.

## **Jamie Baker**

That's an excellent point. Thank you guys. I

appreciate it. Yeah, go ahead. Sorry.

## **Aengus Kelly**

If you look at our own book, you'll see that we have, I believe it's in the appendix there. We have 3% of our fleet in A330s, which are all very old and 4% in 777s, which are all very old and declining rapidly and we've been very clear about that strategy for many years.

## **Jamie Baker**

That's perfect. Thanks for that color guys, really do appreciate it. Just wanted to clear that issue up because, it has percolated in the last couple of days.

Thank you.

## **Operator**

We'll take our next question from Ross Harvey of Davy. Please go ahead.

## **Q - Ross Harvey**

Hi. Thanks for taking my question. Gus, despite the P&L difficulties in 2020, it's obviously quite pleasing to see the leverage below target and I won't just wondering as excess capital begins to rise can you discuss the different capital deployment opportunities and how buybacks or de-levering would compare to the the lease back opportunity to mentioned.

## **Aengus Kelly**

Sure, of course, Ross and look clearly the focus in 2020 was to make sure, we delever the balance sheet and make sure it was rock solid and the benefits of that manifested themselves in the 1.75% unsecured coupon we achieved quite recently but that had to be done at that time, now, you're correct as we go forward the balance sheet continues to de-lever and I do believe that the suite of opportunities that are available to the company will be there for

quite some period of time because structurally we just see the demand for aircraft leasing increasing, airlines will have to be asset lighter companies going forward. They're already levered up coming out of the pandemic, we can't see them adding more and I think from our perspective, we are analyzing all the time, all the opportunities that are available to us in relation to distribution of capital.

### **Ross Harvey**

That makes sense. And as the follow-up, can I ask about the, you mentioned the positive marketing campaigns in the presentation and a lot of that momentum has carried into Q1. Can you just share your thoughts on where that demand is coming from, maybe the economics or what aircraft are being favored, any sort of insight would be helpful. Thanks.

### **Aengus Kelly**

Certainly, look of course, you're not getting the same lease rentals, as you would have got a couple of years ago, but the most important thing in the recovery of any market is liquidity.

The worst thing that can happen is a frozen market. So, liquidity is coming back. During the quarter, we delivered a couple of 787s that we had taken out of Norwegian. We sold a 787 since the quarter end a 787-8, we sold at 330. We are leasing 320s, 737s. And, the activity is coming out of Europe and North America, I would say and elsewhere. So look, it's been fairly across the board. There's been a lot of extensions to with customers, but I think again it's that airlines are looking to the future and saying they see the vaccine. Those that are well run, they see that it's coming.

Yes. Okay. It's going to be a choppy couple of quarters, but there is demand out there and they can see that and so, their view is look if I can if I can lock in some attractive deals fine. I'm going to go and do it and, I presume or probably we're leasing more airplanes than anyone in the world.

That's our business and we're the biggest at it.

### **Ross Harvey**

Very helpful. Thanks Gus.

### **Aengus Kelly**

Pleasure.

### **Operator**

We'll take our next question from Helane Becker of Cowen. Please go ahead.

## Q - Helane Becker

Thanks very much. Hi everybody.

I'm thank you very much for your time this morning. I just had a question about the shift to leasing. Can you make the argument that an airline should never own an aircraft and should just always lease aircraft?

## Aengus Kelly

I don't know, like there was there are very successful business models Helene, on owning nothing which I would point to say Wizz Air in Europe owns pretty much nothing.

I would point to Indigo in India, which owns pretty much nothing. Then at the other side you have Southwest which has moved from complete ownership to starting to lease more. I would say from an airline's perspective owning the majority of their fleet is the wrong way to go and shareholders should push back on it and say is this the best you can do with our funds? Sit on money in metal for 20 years. You don't know the airplane market, you don't trade airplanes, you're putting our equity at risk, invest in the business or give us back the cash. We don't want to see you making big bets on airplanes and you see the difference for an airline is. They have to order a large number of aircraft to get attractive pricing that will deliver four, five years, six years into the future. And the huge risk is that the airline most airlines are in their domestic market.

It could be take Ryanair, Ryanair in Europe, that's their market. Great, they bought airplanes for the next six years. But the problem for Ryanair is that's their market, that's their only market. They are not going to be able to go to North America. They're not going to Australia, they're are not going to Thailand. And so if they get over their skis on the order book, yes, okay, they're financially strong enough to do it. But, my point is it really ties their hands and what happens to these airlines so often is then when they have a problem, which you don't hear about, is they go back to Boeing and Airbus on bended knee and say please help us. The Boeing and Airbus say well, okay, you could defer your deliveries, but you're going to pay us an extra 2 million a year in escalation for the pleasure and there's no free lunch with them.

And so, I think with airlines too often, they get fixated with Boeing and Airbus on a large order and they don't realize the risks that entails. Now Ryanair is one of the best run airlines in the world. So they'd be better at it than the vast majority, but the vast majority I believe take out sized risk for the potential benefit that's coming at them. And yeah, okay they could argue well, if I lease the airplane I have to pay a little bit more sure but no airline ever went out of business for having too few airplanes plenty them go out of business for having too many.

## Helane Becker

Yeah, exactly. So thank you for that. And then just as a follow-up you mentioned an inflection point is coming and I'm wondering if you've thought about when that might be

especially in Europe where, well you mentioned the comments about Boris Johnson and EasyJet and TUI and so on, and I saw that too which I get supposes May -- mid-May, I mean do you think that the summer will be rescued or do you think vaccine rollout in Europe is still fall or late fall or early winter away?

### **Aengus Kelly**

I think in Europe Helene, the vaccine role is happening and I think they'll get ~~that~~ done.

I think what the most important thing is the vaccine travel agreements. Do you need a passport that is being discussed by the European Commission at the moment and the idea is that would apply ideally to all the European Union and to the UK they're talking about as well. I would say the sooner that gets up will dictate whether or not there is a good summer for the European airlines that can start in June for an average summer or less than average summer, that is August, September, October before they get anything in the course, then you're back to school September/October.

So like we said at the start the recovery is coming driven by the vaccines, but there could be a couple of quarters of choppiness depending on how the major markets implement the travel on the back of having vaccines distributed and on the long haul market the biggest one of all by far as the North Atlantic market, that's the most important long-haul market in the world and, hopefully we will continue to see what has been fairly glacial progress so far between the Europeans and the Americans but hopefully that will start to pick up now as well as there's greater visibility on the rollout of the vaccines.

### **Helene Becker**

Got it. Okay. Well, thanks for your help.

I appreciate your answer. Thank you.

### **Aengus Kelly**

You're welcome.

### **Operator**

We'll take our next question from Moshe Orenbuch with Credit Suisse.

Please go ahead.

### **Q - Moshe Orenbuch**

Great. Thanks. I guess you talked a little bit about the combination of growth opportunities and helpful solutions for airlines.

I guess, I was hoping you could put a little more specifics around that. As you look at now, do you see this coming in the form of transactions for half a dozen planes at a time or are there going to be, is there still the potential for the kind of larger deals like you've done in the past and how you think about that evolving over the next few quarters?

### **Aengus Kelly**

I would think Moshe, it's more than over the next few quarters because, what we can see is that the airline's now are coming out of 2020 the first quarter of course, which has been their most difficult in history. They're trying to say, okay. I need to simplify all aspects of my business.

I need to become a more Nimble business than I've been before. Flag carriers and many other airlines are just huge employers very stuck in their ways and this is shook them all to their core. And flexibility starts with the fleet flexibility and I think what you'll see is a simplification of fleets of major airlines and downsizing perhaps the number of shells but, very importantly downsizing the different types of families of airplanes they have with the thrust towards the newer type airplanes. And when I say the growth opportunity, they may not be growing in the overall number of shells, but they'll be growing within certain families of shells, I think that will happen.

In terms of how that manifests itself in the size of the opportunity that faces us, I think it's something that will be structurally there for another year or two. Just think about somebody walking into a board of an airline any time in 2021 and saying I want to buy a hundred airplanes from Boeing and Airbus delivering in the next five years. I just can't see any Airline board saying that sounds like a great idea. It'd be very rare for them to do that because of the leverage they put on their balance sheet, there are exceptions, there are airlines that are exceptions that had an extraordinarily strong position coming into the pandemic and were able to absorb the additional leverage without threatening themselves.

But I do think that what we will see is a greater reliance on lessor order books and on the sale-leaseback channel going forward.

### **Moshe Orenbuch**

Thanks, and as a follow-up, given what you see now and recognizing, we are two-thirds of the way through the first quarter and the progress that you saw in the net deferral balance. And we do you think that continues into 2021, how that plays out maybe, depending on, if you could kind of frame it relative to, the potential for a summer rebound.

### **Pete Juhas**

Sure, I think that the deferral balance, as I said it was \$490 million at the end of December and I expect that we should continue to see that come down.

Right, so that will come down over the course of the year. I don't expect it to come down, all at once but I think gradually over the course of the year we'll see that come down.

There will still be some balance at the end of this year, but I think we should see steady progress in that because remember these deferral agreements, these are agreements that we've reached with the airlines and so the airlines are honoring those and repaying according to the schedules. So, based on those schedules, even if things, even if traffic recovery picks up faster, I would still expect them to be paying on those schedules.

I wouldn't expect them to accelerate it. So, we should see a gradual reduction in it during the course of the year.

### **Moshe Orenbuch**

Great. Thanks very much.

### **Aengus Kelly**

Sure.

### **Operator**

We'll take our next question from Andrew Lobbenberg of HSBC. Please go ahead.

### **Q - Andrew Lobbenberg**

Oh, hi there. Can I ask about what Gus was saying in previous quarters, about how are you expecting tourist capital to disappear from the sector.

Is it going to happen or are the manifest attractions of the sector that you laid out in your presentation, too good and are they going to tempt in more new entrants. So, we're going to get exit, get M&A, how is the structure of the sector going to play out from here, please?

### **Aengus Kelly**

Well as a glib comment, I'm dying to see tourists globally to start with. But to be more serious when I reference the tourist Capital that had entered aircraft leasing over the last few years it had done so without the benefits of the platform.

It had done so in the belief that this was a spread business and it had done so in the belief that because it was a spread business that the credit risk of a startup in India carried the same credit risk as US treasuries. That has proven not to be the case and it has hurt those more, who came into the sector looking for that quick pick up in yield, but without willing to build a global platform or an infrastructure that was a suitable to the level of risk they were taking on. This is a difficult business and to build a platform for a sub scale fleet, it doesn't justify it. So for example, few 30, 40, 50 airplanes, you're at a level of risk where you do need to have some level of global coverage, in order to manage that portfolio, but whether a portfolio of that size can make it an economic investment, I don't believe is the case.

So what I do think we will see is those sub-scale players realize this isn't the business for me. I did like the business maybe a better way to get in is on a managed fleet basis if I want to be in it, but being outright bidders against experts in the industry with global infrastructure. I think many will have said that hasn't worked and in that regard is what I mean of the tourist capital leaving and of course, given the world that we're in today, because of COVID, there may be other opportunities in other sectors be it real estate or whatever for them to invest into.

### **Andrew Lobbenberg**

Okay.

Thanks. And then the follow-up, I guess as we see progress towards maybe removing the tariff on aircraft between the EU and the US, to fight with Boeing and Airbus, does that make any difference to you guys or did you manage to navigate your way through it? So the tariffs are irrelevant?

### **Aengus Kelly**

We can't comment on specifics between ourselves and Boeing and Airbus and the different markets, those are confidential but what I can say is that it is a necessity for both governments. The biggest exporter in the United States is the Boeing Company. Europe is an enormous market.

There are tens and tens of thousands of US and high-tech manufacturing jobs dependent on it. It has to get resolved. There are no winners out of this and the same is true the other way around. In that Airbus is one of the biggest exporters in Europe and the US is a huge market for it. There are tens of thousands of jobs.

And I know the people who run both of these businesses. I know that that's what they want to see and the world is a better place for us when we have competition. The American consumer does not benefit from their airline not having a choice other than Boeing and the European consumer does not benefit from the European only having the choice of Airbus equipment. So, I would be hopeful that this will get resolved, there are no winners on the manufacturing side or the consumer or the average Joe paying his taxes.

It's just degrees of loss.

### **Andrew Lobbenberg**

But, you're optimistic we get there?

### **Aengus Kelly**

I am, I think they will, particularly Covid, when if you're realistic about Boeing, I saw the Chinese market last night, they didn't approve the MAX. That's another big market shot.

I think to try and shoot the European market to would be naive in the extreme.

### **Andrew Lobbenberg**

Fair enough. Thank you.

### **Operator**

And we'll take our next question from Catherine O'Brien of Goldman Sachs.

Please go ahead.

### **Q - Catherine O'Brien**

Hi there. Thanks for the time. A slightly different take on the competitive environment question, with the seemingly significant opportunity to deploy capital into the sale leaseback market, I was just hoping to hear an update on the competitive landscape there.

I know we were already seeing some participants pull back before COVID and for a period last year some of the debt markets that certain lessors used to finance their growth were not open. So, how do you see the competitive set that actually has available dry powder to execute on the sale leaseback deals available in the market today versus what that competitive sale leaseback market looked like pre-COVID, thanks.

### **Aengus Kelly**

Well Catherine as I said, I don't believe that you will have as many people chasing it as you did pre-COVID because there were the aforementioned tourists were present. Now what I do believe going forward is that until we see the OEMs ramp up the deliveries.

The opportunity in the sale-leaseback market is still reasonably limited. You have to remember Boeing aren't really delivering any airplanes at the moment and Airbus will struggle to deliver to their targets for this year as well. I just don't see that and so it will be something that will be with us, for I think several years into the future.

### **Catherine O'Brien**

Okay understood and then need more of a modelling one for my second question, any view on what 2021 CapEx will be this year?

Are you still thinking \$1.8 billion is the right number and, if so at this point do you think there is upside or downside risk to that due to either OEM's delivery risk or incremental sale leaseback opportunities respectively?

### **Pete Juhas**

So for 2021, I think cash CapEx, Catie will be around \$1.5 billion and total CapEx, if you include the delivery at delivery, what will it be \$2.1 billion that includes the use of PDPs

that we already have on the balance sheet. I think that, of that \$1.5 could some of that slide I think there's a possibility more likely than not that slides, but for now, that's our best estimate as to what it will be.

### **Aengus Kelly**

And then, Catie we may pick up some other stuff along the way as well. In terms of sale-leaseback et cetera, that wouldn't be material.

### **Catherine O'Brien**

Understood. You said that will be material or won't be material?

Sorry.

### **Aengus Kelly**

No, it won't be.

### **Catherine O'Brien**

Understood. Thank you very much.

### **Operator**

We'll take our next question from Ron Epstein of Bank of America. Please go ahead.

### **Q - Ronald J Epstein**

Hey, good morning, good afternoon.

Gus how are you feeling about the 6 787s you're supposed to get this year? When do you think we'll start to see some of those things flow out of South Carolina? And are you expecting to get all six?

### **Aengus Kelly**

That will be dependent obviously on how Boeing get on with the repairs and with the FAA, all of our airplanes are leased. Look, the 787-9 has proven itself to be an excellent airplane. And they're the only ones we have an order. We don't have -10 or -8 but look, I do think Boeing will fix those issues.

They'll get them resolved. It's an extraordinarily difficult time for the company. I do believe in them and that they resolve these issues. They have tremendous capability, but it's an extremely difficult time.

And so of the six it's hard to say so, that what we just referenced a few minutes ago, could one or two of them slide a bit. I'm sure they could, will they all slide some period of time further than the current delivery date I expect that will be the case. But, and then we will negotiate with Boeing what to do next, but it's a difficult time ahead of them.

I'm sure they'll get through it and in summary, I would say that those 787s could slide a bit to the right.

### **Ron Epstein**

Yeah, and then if I can maybe a follow on. On a previous call you mentioned that with fuel prices where they are and the cost reduction programs at the airlines that you expected that the airlines could cover their cash operating costs at around 60% of 2019 air traffic levels. Now fuel prices have gone up so if you were to rejigger that equation with fuel prices where they are now, how much 2019 traffic do you think we need to cover the cash operating costs at the airlines?

### **Aengus Kelly**

I still think we'd be in the mid-60s there Ron, as well, that comment I made was in reference to last year.

I think we can see yields getting a little bit better out there as well. But I would still say we be in the mid 60's or so. And to be fair, kind of reflective of a more optimistic outlook in the global economy.

### **Ron Epstein**

Got it. And then if I can just squeeze in one more follow on. China Eastern placed a firm order for C919s. What do you think about the 919 as a platform and would you guys ever want to finance those?

### **Aengus Kelly**

Look, I think Ron, the C919 is the first important step for Chinese aviation to compete someday with Boeing and Airbus and it has to be done, you have to start somewhere. It was the same for both of the two Boeing and Airbus that they had to start somewhere and it obviously needs a domestic market to seed itself, to trial itself.

And I think, it is likely that over the next 40 years or so we might see a family of airplanes that may compete with Boeing and Airbus, but that's what it takes, in the late 1980s the A320 was launched and that was after many many years of effort from the Europeans to create Airbus. So, I think there's a long road ahead before we see a family of airplanes coming out of China, but I've no doubt they'll get there and this is a very important milestone on that trip.

### **Ron Epstein**

Great. Thank you so much.

### **Operator**

We'll take our next question from Koosh Patel of Deutsche Bank. Please go ahead.

## Q - Koosh Patel

Hey, good morning, guys. I wanted to talk about your order book and how wide bodies would sit in the portfolio in the longer term, we've spent some time I guess talking about the shift from owning to leasing and when I look at your current order book, it's primarily weighted towards the narrow bodies, but I just wanted to get a sense of where in the next cycle you kind of see the wide bodies coming back into favor. It just seems like there are a large number of widebodies parked in 2020 and most of the lessor's capital seems to be focused on investing in the narrow-body aircraft.

So just wanted to see if there comes a point where the economics begin to look attractive and, maybe what are some of the factors that would cause you to look to place an order?

## Aengus Kelly

Certainly, I mean we obviously are a very big lessor with a lot of wide-bodies. Now when you look at our order book, there's only 23 wide-bodies left at a 286 aircraft. That's because this the 787 program which is being the backbone of our wide-body order book started delivering much sooner and you delays with the A320neo and delays with the 737 MAX. Otherwise a lot more of these airplanes would have delivered into our portfolio, but look we're a big believer in the wide-body markets. For sure, it's been hit, of course, by the lack of international long-haul travel, but that will come back and for sure the wide body market will come back and we would be very confident in the 787-9 in particular and that would be the most popular and then on the Airbus side, the best seller they have is the A350-900.

They'd be the two airplanes. I think that the very large aircraft the 777Xs and the A380s. They take a little bit longer, for those assets to find a sweet spot, but I think we'll be surprised, people will want to go on long-haul holidays, trips of a lifetime and I think we're going to see that.

So yeah, I definitely we're big believers in the widebody market when you're in the right ones.

## Koosh Patel

Okay, and then can you just give us an update on where you're at on remarketing the aircraft coming out of Norwegian or whether you've completed all those?

## Aengus Kelly

Sure, we've leased two 787s already and delivered those two and then we've signed LOI's for several more. They will have to be converted into lease contracts, but that's where we stand on those aircraft.

Again, look the 787s are assets that have a long-term future ahead of them and we will lease those assets.

## Koosh Patel

Okay. Thanks a lot for the call.

**Aengus Kelly**

Very welcome.

**Operator**

And there are no further questions at this time. I would like to hand the call back to our host for any additional or closing remarks.

**Aengus Kelly**

Thank you all very much for your time today and we look forward to talking to you in three months and maybe God willing we might actually see some of you in person before that happens. Thanks very much.

**Operator**

Thank you. That now concludes the call. Thank you for your participation. You may now disconnect.