

AerCap Holdings N.V. (NYSE: AER) – closing share price on July 10, 2024: \$93.91; dividend yield: 1.1%

AerCap Holdings is the world's largest aircraft lessor and aviation finance company. AerCap owns and manages more commercial aircraft than any other global company with over 1,700 aircraft, 1,000 engines and 300 helicopters, with hundreds more on order.

AerCap grew into the leading aircraft leasing company through opportunistic acquisitions and notable management execution. In 2014, the financial crisis took its toll on the global insurer AIG, forcing the company to liquidate assets quickly. Consequently, AerCap was able to purchase their aircraft leasing assets at a discount to book value.

Similarly, in November 2021, as General Electric Company ran into financial difficulties due to the pandemic, AerCap completed the acquisition of GE's aircraft leasing division (GECAS) at a discount to book value, combining the number one and number two market leaders.

In both instances, AerCap issued common shares and took on debt to fund these acquisitions. Subsequent to the acquisitions, AerCap used cash generated from operations to repurchase shares issued to the selling companies. As of this date, AerCap has repurchased a substantial portion of shares previously issued in these transactions, with an announced intention to purchase additional shares in the coming quarters.

Global travel is expected to continue its post COVID recovery with worldwide air travel having reached nearly 90% of pre-pandemic levels, showing recovery across all regions. Aircraft supply was negatively impacted by pandemic supply chain constraints and safety issues with Boeing's 737 Max. This has created a supply / demand imbalance, increasing AerCap's influence over leasing contracts and enabling AerCap to resell older aircraft at premium prices. AerCap management believes the supply issues could extend to 2030.

Additionally, leased aircraft has gained overall market share of the global aviation industry. In 2000, 30% of the global fleet was leased, increasing to over 50% of the overall market by 2021. Airlines utilize aircraft leasing to minimize debt, retain cash, increase financial flexibility, and gain access to high demand, more fuel efficient, new technology aircraft. Over 70% of AerCap's current fleet are new technology aircraft, which is expected to increase to 75% this year through new purchases.

AerCap is not immune to global geopolitical risk. When US and EU sanctions were announced against Russian entities in early 2022, AerCap was forced to terminate all aircraft lease agreements with Russian airlines. The company disclosed that approximately 5%, or \$3.3 billion, of its net book value was tied to aircraft leased to Russian airlines. AerCap subsequently reported a \$2.7 billion loss on those assets. In late 2023, AerCap settled insurance claims with Russian airlines and insurance companies, having recovered \$645 million. AerCap continues to pursue additional recovery of damages from "all risks" and "war insurance" policies.

AerCap Holdings N.V. is a core holding for our Growth and Growth & Income investment strategies. AerCap just recently initiated a quarterly dividend of \$0.25/share which equates to a 1% dividend yield.

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