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AER - Q1 2013 AerCap Holdings N.V. Earnings Conference Call

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OVERVIEW:

Co. reported 1Q13 total revenue of $246m, reported net income of $67.5m, adjusted net income of $68m, reported EPS of $0.59 and adjusted EPS of $0.60.

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CORPORATE PARTICIPANTS

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Arren Cyganovich *Evercore Partners - Analyst*

Glenn Engel *BofA Merrill Lynch - Analyst*

Andrew Light *Citigroup - Analyst*

PRESENTATION

Operator

Welcome to the AerCap Holdings 2013 first-quarter results conference call. At this time, all participants are in a listen-only mode. The call is being webcast and an audio version of the call will be available on the Company's website. This call is also being recorded for replay purposes.

I now hand over the call to Peter Wortel, Head of Investor Relations. Please go ahead, sir.

Peter Wortel - *AerCap Holdings N.V. - VP of IR*

Thank you, operator. Good day, everyone. Welcome to the 2013 first-quarter results conference call. With me today are Aengus Kelly, AerCap's CEO, and Keith Helming, AerCap CFO.

In today's call, we will discuss our first-quarter earnings for 2013. And in addition to this earnings call, AerCap will also host a lunch for analysts and investors today at the Waldorf Astoria in the Peacock Alley West room. The lunch will not be webcasted.

Before we begin, I want to remind you that some statements made during this conference call that 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.

In addition, this conference call contains time-sensitive information that reflects management's best judgment only as of the date of the last call. AerCap does not undertake any ongoing obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call.

Further information concerning issues that could materially affect performance related to forward-looking statements can be found in AerCap's earnings release dated May 7, 2013. A copy of the earnings release and conference call presentation are available on our website at AerCap.com. This call is open to the public and is being webcast simultaneously at AerCap.com and will be archived for replay.

I'll now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Thank you, Peter. Good morning to everyone in the US, and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today for our first-quarter earnings call.

Net income for the first quarter of 2013 was a very healthy $68 million or $0.60 per share. This represents a 22% increase in earnings per share over Q1 2012.

The first quarter really highlights the results of our portfolio management strategy. The combination of our asset sales over the course of the last 24 months that were executed at or above book value and the subsequent purchase of our shares at a deep discounted book value has driven our earnings per share up by 22% year on year.

We also invest in new aircraft by acquiring prime assets like the American Airlines 737-800, a transaction we agreed at a time when no one else had the capability to do such a deal. This disciplined approach to both investing in and divesting of aircraft is a key pillar of AerCap's industry-leading results.

Furthermore, the combination of our active portfolio management strategy and our effectively covenant-free long-term financing structure have enabled us to not only convert our book equity into cash, but to also return a substantial amount of capital to our shareholders, reinvest in the most in-demand aircraft in the world, such as the Singapore Airlines A330s and the American Airlines 737-800s, and all the while maintaining an investment-grade credit rating.

As you know, over the course of the last two years, we have returned $420 million to the shareholders. If you are to annualize this since we went public in November 2006, it equates to an annual dividend yield of 4.5%. In the coming years, I am confident that AerCap will continue to generate industry-leading profitability and will also be able to return substantial amounts of capital to our shareholders, while investing in the most modern, fuel-efficient aircraft.

With this in mind, it is imperative to maintain a young portfolio. A young portfolio is achieved by both selling older equipment as well as acquiring new equipment. Aircraft sales are a core competence of AerCap. We have sold over 240 owned and managed aircraft, as well as AeroTurbine, in the last six years. In the first quarter, we sold three aircraft at a gain of $11 million, another indication of the conservative nature of AerCap's book values. As a result of these actions, AerCap's portfolio is among the youngest in the industry, with an average age of 5.1 years.

A further benefit of our sales strategy is that we often continue to manage the aircraft after the actual sale. At the quarter-end, we had increased our managed assets to $2.1 billion. By increasing the amount of managed assets, we are able to generate a long-term stable income stream without having to commit capital.

Turning to the buy side, we are currently committed to purchasing $1.1 billion of new aircraft in 2013, of which $400 million worth was acquired in the first quarter. The average lease term of the new aircraft acquired during the first quarter was 150 months. These long-term leases will drive long-term stable profits for the years to come.

I am also pleased to report that during the first quarter, we confirmed the remaining 11 737-800 aircraft with American Airlines on the same terms and conditions as originally contracted.

Now, turning to additional growth opportunities. We are very encouraged by the level of demand for aircraft financing from airlines around the world. Even though there have been a number of new entrants to the aircraft leasing industry over the last three years, there are still very few truly global aircraft leasing platforms in the business, probably 10 or 11 at the most. But against that, there are almost 800 airlines out there with record order books, all of which currently use and will continue to use the operating lease as a key financing tool.

As of today, we have $1.6 billion worth of committed purchases contracted. All of these aircraft are placed on long leases. In addition, as a result of the record orders that were placed in 2010 and 2011, we believe that the opportunities for large-scale transactions have further improved as airlines begin to take delivery of these record orders towards the end of 2013 and beyond.

In terms of the airline market in general, the improvement in global air travel demand that we started to see towards the end of 2012 is continuing into 2013, in spite of the mixed macroeconomic signals coming from certain parts of the world. The lease rates that we are seeing for the aircraft in our portfolio are good. Rates for the A320 continue to firm, and both the Boeing 737-800 and the Airbus A330 aircraft continue to be in high demand. All three types have very wide user bases, which ensures placement throughout the cycle.

Moving on to the portfolio, we executed 34 aircraft transactions during the quarter, or one every three days. Our utilization rate was a very healthy 99.6%, and the average lease term of the used aircraft placements during the quarter was 68 months. Again, these relatively long-term leases for used aircraft will underpin future profitability. We did not see any airline failures during the first quarter, and we are not observing any unusual activity on the receivables side.

Now, turning to the funding side of the business, we see very strong global demand for the AerCap name from all capital providers to the aviation industry. This is evidenced by yesterday's press release in relation to our associate company, AerDragon, where we are delighted to welcome East Epoch as a new investor. As we've always said to you, one of the key pillars of the success of an operating lessor is having access to all available funding sources around the world, as one or more can shut down at any given time.

During the first quarter, we closed $100 million worth of debt financing transactions to fund additional growth, having already raised $1.5 billion during 2012. Furthermore, with our investment-grade credit ratings, we have excellent access to funding on a true unsecured basis. On that note I will hand the call over to Keith, who will go through the financials before we open up to your questions. Thank you.

Keith Helming - *AerCap Holdings N.V. - CFO*

Thanks, Gus. Hello, everyone. I will take you through the specifics now of the first-quarter financial performance, and I will start on page four of the presentation. Our reported net income for the first quarter was $67.5 million. Adjusted net income, as mentioned, which excludes the items listed, was $68 million. The slight decrease in adjusted net income was driven by the sale of our ALS portfolio, plus other aircraft sales which were completed since first quarter 2012, and was partially offset by income generated from new aircraft purchases over the same period.

Page five. Reported earnings per share were $0.59 in the first quarter and adjusted earnings per share were $0.60 during the same period, an increase of $0.11 over the prior year. The average shares outstanding during first-quarter 2013 were 113.4 million, which is 26.5 million shares lower than the same period last year due to the shares that were repurchased in 2012.

Page six, total revenue. Total revenue in first-quarter 2013 was $246 million. The small decrease from prior year was driven by lower basic lease rents, again as a result of the sale of the ALS portfolio. This decrease in basic lease rents was partially offset by higher gain on the sale of aircraft.

Page seven, net interest margin, or net spread, was $153 million in first-quarter 2013. The annualized margin as a percent to average lease assets was 8.3%.

Page eight, the impact from sales in the first quarter 2013 was a pretax gain of $11 million. In the first quarter, we sold one A330, one 737-800 and one MD-11 aircraft.

Page nine, leasing expenses were $14.9 million for first-quarter 2013. The decrease in leasing expenses was driven primarily from a lower impact from defaults and restructuring. SG&A for first quarter was $20.2 million. The increase in SG&A was driven primarily from the movement in the mark-to-market of foreign currency and other derivatives.

The impairment charge recognized in first quarter related to the redelivery of two older 737 aircraft and was triggered by the release of nearly $10 million of maintenance reserves which was recorded as revenue. Our tax rate for the first quarter was 8%.

Page 10. AerCap's free and unrestricted cash balance at the end of the quarter was $375 million, and our total cash balance, including restricted cash, was $664 million. Operating cash flows were $149 million for the first quarter. In addition, an undrawn working capital facility of $290 million was available.

Page 11. At the end of the quarter, AerCap's debt balance was $5.8 billion and our debt-to-equity ratio was 2.6-to-1. Our book equity is $2.2 billion, and the average cost of our debt in the quarter was 4%.

Page 12, for the full-year financial outlook, currently the committed aircraft purchases are $1.1 billion. The maintenance contribution to income is expected to be minimal for the year and the pretax gain from committed aircraft sales is expected to be approximately $20 million, the average cost of debt at around 4% and the blended tax rate should be approximately 8%.

Those are the first-quarter financial highlights, and I'll turn it back over to Gus now.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Thanks, Keith. Operator, whenever you're ready, please open up the call for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Linenberg, Deutsche Bank.

Catherine O'Brien - *Deutsche Bank - Analyst*

Good morning, everyone. This is actually Catherine O'Brien filling in for Mike. Just a quick one. One of your competitors recently noted that there has been a bit of a shift into the widebody market that they've noticed recently, from the narrowbody market, just given how competitive the narrowbody market has been. Are you guys seeing that?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

I think on the widebody side, there is certainly a lot of shift into things like the 777s, et cetera. They do offer a short-term bang, but certainly there is a more limited user base for the 777 market. It is a great airplane, but it's slightly more limited.

The airplane that has a much bigger user base in the widebody market is the A330, and that, to be honest, has been a very popular aircraft for a long time.

In relation to competition, if you are buying one or two airplanes, yes, sure, there's a lot of competition, but that is not where AerCap plays. We are not in the weekly bake-off for the odd airplane here and there. So we don't see that really so much in the type of transactions we are doing with people like American Airlines and Singapore Airlines. That's the benefit of the scale.

Catherine O'Brien - *Deutsche Bank - Analyst*

Okay, right. That makes sense. And I guess just one kind of cleanup question. Have you guys seen any significant changes in your customer watchlist or you are feeling pretty comfortable with the situation right now?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

No, we haven't. As I mentioned, we didn't have any airline failures during the quarter, and the receivables are trending at very low levels, as you'll see from the quarterly filings. So we haven't seen anything there untoward at all.

Catherine O'Brien - *Deutsche Bank - Analyst*

Great. Thanks so much.

Operator

Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you, operator. Good morning, gentlemen. It wasn't in the slides, but are you affirming your prior basic lease revenue guidance? I think it was down 3% to 6%.

Keith Helming - *AerCap Holdings N.V. - CFO*

Yes, the 3% to 6% still holds relative to the committed purchases that we have. But the reason we don't have it in the slides, to be quite frank, is because we think there will be additional purchases beyond the level that we currently have. So we do expect that the revenue growth should be better than what we had previously.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, good. Also, as you are adding assets, Gus, is there sort of a stronger preference to add Boeing product to sort of make the portfolio more even between Airbus and Boeing, or is it just a function of where the best deals are?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

The biggest single exposure we have actually is the 737-800. That is by quite some distance actually the biggest exposure we have on the books, when you look at what is actually contracted to buy and what is delivered. Particularly since we offloaded ALS last year, we really have a much lower exposure on some of the Airbus stuff. And the A330 is an airplane you want to be in, Gary. That is the one you want to have.

That being said, the A320, we will buy them all day long; it is just a question of the right price. It has the biggest user base in the world. It is the ultimate ubiquitous type aircraft out there. You can place them all day long, and you can sell them as well. So it's a question of price really, to tell you the truth. It always has been for us.

The three aircraft of the current technology you want to buy are the 330s, the 737-800s and then the 320s, as well. 321s are very popular, too, Gary, to be fair.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, and then just one last one. On SG&A, if you take out the mark-to-market, it looks like it is significantly lower than in prior periods. Is this a function of the ALS sale or is it just some more favorable timing that helped your Q1 number?

Keith Helming - *AerCap Holdings N.V. - CFO*

A small part of it, Gary, is the fact that the ALS portfolio was sold. But I think if you look at the $20 million per quarter level, that is what you would expect to see as a run rate going forward.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Thank you very much.

Operator

Scott Valentin, FBR Capital Markets.

Scott Valentin - *FBR Capital Markets - Analyst*

Good morning, everyone. Just a question on sale-leaseback. Gus, you seem a little more bullish than you were in the past. Are you seeing more opportunities?

And just a follow-up on that theme. We've heard that the banks are very interested in sale-leaseback given their new aircraft. Just wondering if you're seeing a lot more price competition maybe than you've seen several months ago.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

The level of price competition was probably at its highest in 2011, to tell you the truth, when all the new money came into the market. And that is when we really sold quite heavily into that, and last year.

What we are seeing now is, as I mentioned to you on this call and the previous calls, is those record orders that were placed in 2010 and 2011, they are starting to deliver now -- really towards the end of this year and 2014/2015. They are coming. And there is plenty of supply out there. As I said, there is only, at most, 10 or 11 truly global operating platforms out there who really see everything that is in the market. And we see plenty of opportunity in that regard as we look forward.

Banks aren't really a feature in the sale-leaseback market at all. They are certainly a feature when it comes to financing. But the banks, as well, the big change we've seen is that the banks have drifted away from funding airlines, particularly in emerging markets, and more prefer to fund the big leasing companies themselves.

So that is where my comments come from. I do think that the record deliveries you're seeing, the fact that we're in a global platform like AerCap, gives us access to everything that is out there. Certainly there is a lot of heat -- don't get me wrong -- if there is one 737-800 or one or two A320s up for bid, which there are every week.

That is not really where you see us participate; in fact we don't participate in that market. We sell into that market, as I said on my prepared remarks. We have sold 240 airplanes. There is nobody else in the world out there who has traded that many airplanes. GECAS may be close, but then there is no one that is even close to the two of us after that.

So we tend to buy in bulk and then distribute down into those smaller players who are looking for growth or want to get their hands on particular aircraft or names, for example.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, and just a follow-up question. I know the buyback, you guys had, I guess, expended the buyback last quarter, and I think the Board meeting is coming up. Just wondering your thoughts there. I know it is the Board's decision, but stock still traded below book value. I was wondering where you see maybe risk-reward and your thoughts on return of capital.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Sure. Return of capital is something we are always looking at. Clearly, we've given a tremendous amount of money back to the shareholders over the course of the last two years. But whenever we evaluate an asset investment decision, which we are doing every day in the Company -- we have a team of people, that is all they do -- it is compared against what is in the best interest of the shareholders. Is it to buy the airplanes and generate value that way or else to return capital to the shareholders.

So you can rest assured, like we have always done in the past, evidenced by the Singapore transaction, the American transaction, AerCap won't be buying airplanes unless the return is better than buying back the shares.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, thank you very much.

Operator

John Godyn, Morgan Stanley.

John Godyn - *Morgan Stanley - Analyst*

Thanks for taking my question here. Gus, I wanted to follow up on your commentary about sort of some of the extended-term or long-term leases that you were talking about. I was hoping you could elaborate on that. Is that an indication of sort of changing behavior at the customer level? Or is that something that you specifically sort of by design wanted to negotiate into the contracts? I'm just wondering if there is something to read into there.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

To be fair, John, it is more by design and how rigorous we are when it comes to buying airplanes. It has to meet the return hurdles of AerCap. Certainly, you can write six-year, seven-year, eight-year leases and get pretty high lease rate factors. But then of course you've got to remarket the airplane. Or if you want to try and sell the airplane, it is not as attractive when it's got the shorter-term lease.

So you always want to try and drive, when you are buying airplanes, as long-term as you can on the leases. And that is -- we are very selective, as you know, when we buy airplanes, and it's got to make sure it hits those return requirements.

On the used market, again, over five years, almost six years, is the re-lease term, which is good, long leases, too. Some of those come from extensions as well. But again, that is by design, just working hard, making sure that you have the sales team out there turning over every stone, looking for the right deal for the Company.

So I would say in summary, it is more by design. If we were in a rush to deploy capital, of course, we'd have much shorter leases and we would just accept what the market gave us. But we are -- as you know, we are very selective when it comes to deploying capital.

John Godyn - *Morgan Stanley - Analyst*

I see. So is it fair to say then that more of a traditional lease term structure, the deals that you are looking at, are sort of not satisfying your return hurdles?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Some of them are, obviously. We did with American, we did with Singapore, so they hit them. And plenty of deals that we're looking at right now are in the ball park of what we expect to generate for returns for our shareholders. And if they do meet those returns, we'll do the deals. And given the amount of supply that the airlines are taking, as I said, I think that over the near-term, we're going to -- near- to medium-term, we're going to see transactions that will match our return criteria.

John Godyn - *Morgan Stanley - Analyst*

Got it. Okay. And if I could ask one more. Gus, I thought I heard in the prepared remarks that you made a comment about returning substantial cash to shareholders in the years to come. It was just -- it stuck out to me; I think it was the first time I heard you describe it that way on a go-forward basis.

Maybe I'm reading too much into it, but I was just hoping that you could sort of clarify or elaborate on that comment. And of course, you know that -- and we know that you and the Board are always sort of thinking about buybacks versus dividends. If you could just sort of update us on that thought process, as well.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Sure. What we have done over the course of the last four years, that will probably be a good benchmark for what we will do as we go forward. Over the course of the last four years, we've generated about $800 million of net income after-tax on an unadjusted basis. We show adjusted profits quarter in, quarter out, because there could be things that move around that distort the profits. But over a four- or five-year period, those adjustments should all even out.

So when you look back, you know, you've got the best part of $800 million of retained earnings produced by the Company. Those retained earnings can be turned into cash, as we've shown you. The amount of airplanes we sell, we sell generally at least at 100 cents on the dollar of book equity, generally north of that. So those retained earnings are turned into cash.

And in the last couple of years, we split those retained earnings into reinvesting in the business and returning a substantial amount of capital to the shareholders at the appropriate time. And, John, in my prepared remarks that is how we look at the business going forward, that we would expect to continue to generate substantial profit on a go-forward basis, and they will be turned into cash and then either reinvested in the business and/or distributed to shareholders, depending on what the Board thinks is the right thing to do at the time.

John Godyn - *Morgan Stanley - Analyst*

That's very helpful. As you can imagine, one thing that would give investors sort of even more confidence about the amount of cash that you're going to return in the years to come would be a dividend. I know that you have been sort of reluctant to go down that path, preferring the sort of repurchase method. Is there -- can you just update us on the thoughts around a dividend and how the thought process has evolved?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

When it comes to returning capital, I think, John, it would be fair to say that if you looked at the transactions we did over the course of the last two years, you saw that we sold a substantial amount of assets at or above book value. And there was an opportunity to buy back a substantial amount of shares at a very large discount to book value. So I think that was a pretty obvious trade to do.

Now, if we go forward in, say, a few years time and we see that there is a very substantial amount of capital available to the Company and the shares are trading at or north of book value, then obviously the buyback is not as compelling and a dividend is probably more compelling. But that is something that will be judged at the time.

Also at the moment, we want to make sure that we have plenty of capital available to move on any attractive asset acquisitions that we see.

John Godyn - *Morgan Stanley - Analyst*

Okay. That's very helpful. Thanks a lot.

Operator

Isaac Husseini, Barclays.

Isaac Husseini - *Barclays - Analyst*

Thank you. Good morning, everyone. Gus, a question for you. This is more long-term in nature. When we start thinking about airlines, at least in the US and maybe eventually globally, to covering and finding ways to be profitable with high fuel prices and a tough economic outlook, I would imagine even if airlines still rely on leasing, their negotiating position might likely improve slightly at least.

If that is the case, how would you think about lease rates over the cycle? Will raise rates become less volatile and will the difference between peak and trough lease rates become smaller than it has been in the past?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

If we are assuming very a profitable airline industry going forward globally, then I guess the customer base that we are dealing with has a much stronger credit rating. And therefore, you would expect the credit margin that is charged in all of our leases would reduce to reflect that and our own credit strength would increase too, given that the customer base is much stronger.

Let's just take that for a second, assume that actually comes to pass; then I think that is probably true, that you would see lower lease rates. You might see less volatility in the sector because of the fact that it wouldn't be quite as cyclical, if you had much fewer airlines, much stronger airlines. So that is one potential future scenario.

We see no evidence of that happening, which is good news. Which means the airlines always need us, always. Now, the US industry at the moment is clearly probably the most healthy in the globe at the moment. But if you go back 10 odd years, that certainly wasn't the case. And we've never seen it that the airline industry has been an investment-grade industry, and I don't think we are going to see that. I think the barriers to entry, I think the national protections that surround some of the airlines will prevent that. The infrastructure constraints that are out there will prevent that.

So I think that as we look forward, it is a growth industry. That is the one thing we know about aviation for sure. This thing is going to grow. If you have any faith in emerging markets, when people get a few bucks, they want to travel, they want to see the world, they want to visit friends and family. They are going to travel. It's going to double in size. We know that.

And so there will be providers of those seats. Now, whether they will all be the same ones that are in existence today, will they be the same ones in 10 years time? Probably not. Some will go away, some will merge, et cetera. But they will always, always need people like us.

To be very simple about it, effectively, we're like the guys who were selling the shovels in the Gold Rush. People are always going to want us. And it is a steady-state business in the operating lease business.

As I said in my prepared remarks, there is only 10 or 11 leasing companies out there that have truly global platforms, and that really hasn't changed that much over the course of the last seven or eight years, and it's not likely to change that much in the future, I don't think. Maybe there will be one or two more, but the industry is growing so much you can easily absorb that. But against it, you have 800 airlines out there, so there is plenty of opportunity and this is a growth business.

Isaac Husseini - *Barclays - Analyst*

Okay. And just a quick one also on the 737s, the ones that caused the impairment this quarter. I assume those are Classics. Did you mention what the plan was for those? Would those at all be possible to be re-leased or are those going to be sold or parted out?

Keith Helming - *AerCap Holdings N.V. - CFO*

Those aircraft have been re-leased, effectively.

Isaac Husseini - *Barclays - Analyst*

Oh, they have been re-leased, okay.

Keith Helming - *AerCap Holdings N.V. - CFO*

Yes.

Isaac Husseini - *Barclays - Analyst*

And then just a small modeling question. On the share count going forward, assuming no more buybacks, is it fair to just model the 113 million shares?

Keith Helming - *AerCap Holdings N.V. - CFO*

That's correct, yes.

Isaac Husseini - *Barclays - Analyst*

Okay. Thank you so much.

Operator

Arren Cyganovich, Evercore Partners.

Arren Cyganovich - *Evercore Partners - Analyst*

Thank you. The larger transaction opportunities that you mentioned from the order books from 2010 and 2011, are those more or less your view of the opportunities or are you actually in more advanced discussions with different airlines about providing capital?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

I think at the macro level, the fact that you have these huge record orders, and they are all delivering, as I said, starting the end of this year and going into 2014, 2015, 2016 and beyond, there is no doubt that there is going to be a greater-than-ever demand for the operating lease product. So on that basis, I am pretty sure we are going to get our fair share.

We are always talking to different airlines about potential opportunities as well. That is just part of our day-to-day business. But I think general level, when you look out there, given the dynamic of the industry with these record order books, there is going to be opportunity out there. And the fact that you don't have that many global lessors. As I said, you really only have 10 or 11 of us.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. And then the timing of the $20 million of additional gains from aircraft sales, is that mostly going to be in the second or third quarter? What is the timing there?

Keith Helming - *AerCap Holdings N.V. - CFO*

Well, half of it happened in the first quarter and the other half will be third quarter.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay, thank you.

Operator

Glenn Engel, Bank of America.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Good morning. A couple questions. One, if I looked at your base rentals, they were down 9% to 10%. The assets were down 6% to 7%. Why are your rentals down more than your net assets?

Keith Helming - *AerCap Holdings N.V. - CFO*

You have to look at the -- when you look at the assets themselves, you have to look at the average amount of assets in the quarter. So if you look at it on an average basis, the two numbers should be pretty comparable.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

And Glenn, one of the other things to that point is, clearly, a lot of the assets that were sold have moved into the managed asset category, which is now at $2.1 billion.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Can you also go through planes that are due to come off lease as the year progresses and how those are placed?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Everything is placed. We have three airplanes to place. One of the three is already under LOI, and the other two are very close as well. So there isn't a huge placement task out there for us.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And how many are coming up that get re-leased in the next few months?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

In the next few months --

Glenn Engel - *BofA Merrill Lynch - Analyst*

In the next few quarters, I mean.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

There will be nothing unusual. There will be the normal churn of the portfolio. It is all disclosed in the filing that has just been made. Actually, you will see it there year-by-year, all the way out.

Glenn Engel - *BofA Merrill Lynch - Analyst*

So it is spread evenly through the year?

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Pretty much. There is no big surge in placements.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Okay, thanks.

Operator

(Operator Instructions) Andrew Light, Citigroup.

Andrew Light - *Citigroup - Analyst*

Good morning. Just a fairly detailed question. At the investor day last September, you gave guidance on the net losses attributable to non-controlling interests of $15 million to $20 million. I was just wondering -- has that been superseded by the ALS transaction, or does that still stand?

Keith Helming - *AerCap Holdings N.V. - CFO*

What that was generated by was a particular joint venture that we have restructured. And the way that accounting was working previously is you saw it in the non-controlling interest, and then the offset was in the higher interest cost on debt. But we restructured the joint venture, so what you see now on the non-controlling interest basis should be pretty comparable to what you see going forward. And the interest costs are slightly lower than what we would have had previously as well. So use this quarter as the benchmark going forward.

Andrew Light - *Citigroup - Analyst*

All right. Okay. Thanks very much.

Operator

Scott Valentin, FBR Capital Markets.

Scott Valentin - *FBR Capital Markets - Analyst*

Thanks for taking my follow-up. Just, Gus, kind of something you hit on earlier. I guess three of the aircraft you sold this quarter, some went to aircraft under management. Just wondering with the AerDragon announcement what we can expect from the managed revenue line, managed fee revenue line.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

I think what you will see is, it is a method that we've used obviously over the last five, six years to diversify our risk and to put into managed assets where we might hold a minority stake in the vehicle, maybe a 20%-odd stake. And then we would get a management fee, as well.

As we go forward, I think you will probably see that we will add more managed assets, probably at a similar clip to on average what we've done over the last five or six years. And of course, that does generate the revenue stream without the capital and asset risk associated with holding the aircraft.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay. All right, thank you.

Operator

(Operator Instructions)

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Operator, are there any further questions?

Operator

As there are no further questions in the queue, gentlemen, I'd like to turn the call back to you for any additional or closing remarks.

Aengus Kelly - *AerCap Holdings N.V. - CEO, Executive Director*

Thank you. Thank you very much for dialing in for the earnings call, and we will speak to you soon at the next call. Thank you.

Keith Helming - *AerCap Holdings N.V. - CFO*

Thank you.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
