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Q1 2019 Neinor Homes SA Earnings Call

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## CORPORATE PARTICIPANTS

**Juan Gomez Vega** *Neinor Homes - CMO*  
**Borja Garcia-Egotxeaga** *Neinor Homes - CEO*  
**Jordi Argemi** *Neinor Homes - CFO, Deputy CEO*

## CONFERENCE CALL PARTICIPANTS

**Jose Cravo** *Banco Santander - Analyst*  
**Fernando Abril-Martorell** *Alantra Equities - Analyst*

## PRESENTATION

### Operator

Welcome to today's Neinor Homes Q1 2019 Results Presentation Conference Call.

(Operator Instructions)

I must advise you the conference today is being recorded on Wednesday, 8 May 2019.

Without any further delay, I would like to hand the conference over to your first speaker today, Juan Gomez Vega.

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### **Juan Gomez Vega** *Neinor Homes - CMO*

Welcome to the Neinor Homes conference call for the results of the first three months of 2019.

Today the presentation will be hosted by our CEO, Borja Garcia-Egotxeaga and our CFO and Deputy CEO, Jordi Argemi. Our CEO will first introduce the key messages in the results of the first quarter of the year and review the progress being made on the deliveries over the next three years. Following that, Jordi will present the financial performance in the period; and to close the presentation, Borja will take closing remarks. Then we will go into the question-and-answer session that will consist of live questions for those of you that dial in; and, as usual, you shall be able to submit questions at any time during the presentation through the submit a question to presenter window in the webcast application.

This webcast is being recorded, and will be available within the next few days for replay on demand.

Additionally, within the next few days a transcript of this conference call will be available for you to download.

Borja, let us begin.

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### **Borja Garcia-Egotxeaga** *Neinor Homes - CEO*

Thank you very much, Juan.

This presentation consists of three main parts. First, we will look at the key highlights of the Company zooming into the development activity progress during the first quarter. Then we will give an overview of the status of our business plan from 2019 to 2021 where we reach our run rate. Following this, I'll give the word to Jordi Argemi, our CFO, where he will go through the financials. And finally, we will finish with the presentation with questions-and-answer session.

If we move please to slide number 5, the most important message here is that Neinor Homes is a profitable company that [keeps on its] positive cash flows quarter-by-quarter, and that generated an operating EBITDA of EUR10 million for this first quarter.

I will focus on four key concepts to guide you through the highlight that made this possible.

First, regarding the development activity, the Company has the equivalent of 13,000 units of one of the prime land bank in Spain with 5,000 units of work in progress and finished products. To date, we have 59 developments under WIP. This first quarter we have launched



the work for more than 1,400 units, obtained licenses for more than 450 units. At this moment, we are waiting for licenses for more than 2,500 units. On top of this, we have delivered 147 units with almost 300 notarized by the end of April.

Second, our pre-sales activity is very strong, as it was said in the business plan presentation last month. In these three months, which are the slowest one of the year, we have sold more than 300 units according to BP. And we have accumulated more than 2,800 units, and almost 1 billion in our order book.

Thanks to our unique comparative advantage in go-to-market, our online platform and our Neinor stores, we are able to have more than 7,000 units under commercialization, giving us a full visibility and a de-risked business for the following years due to a high sales coverage -- as of today, more than 85% for 2019, 45% for 2020, and 25% for 2021. We can say once more that we have changed the way to sell homes in Spain with an innovative proposal that allows us to concentrate efforts[AC1], improve cross selling, and properly educate our sales force.

Third, margin protection strategy is a top priority for the Company. We are offsetting the capex inflation with an HPA capture, thus having positive impacts in our profits. This first quarter, the preliminary revenues were up EUR50 million with a 30% gross margin for the units delivered. Please, for more details, check the first and second Appendix. For the next couple of months we expect to keep controlling cost inflation via HPA concluding in a net effect on our bottom line.

Regarding our ancillary business, our legacy portfolio stands at EUR38 million of book value, and EUR3.7 million were sold in this first quarter. Servicing keeps generating positive EBITDA with EUR4.4 million for this period, revenues of EUR7.2 million in line with our business plan.

Finally, a glance at our financials. EUR61 million in total revenues and EUR10 million operating EBITDA, EUR1.2 billion in inventories, and a conservative EUR287 million of net debt. Jordi will dive into these numbers in a few minutes.

So let's go please to slide number 6. We find Atria Homes and Medina Homes as our main examples of the deliveries in this quarter, showing our national reach and operating capacity in the different Spanish regions where Neinor is present. Adding to this, too, as of April 13, we have notarized almost 300 units with a consolidated gross margin per development of over 30%. Very important to highlight here that Medina Homes has been the first development to be delivered in the southwest region exceeding the gross margin proposed on our BP.

Moving forward to slide 7, we will focus on the progress of our current business plan for 2019 to 2021. The main message here is that we have full visibility and a de-risked business for the next three years when we reach our run rate target. We have a solid grasp on timings, revenues and risk control.

For the next three years our presales are growing in line with our internal strategy of blocking units to optimize HPA, and without affecting the steady sales plan we need to comply our coverage target for a de-risked business plan. Our construction progression is in line with expected assumptions of timings and cost ratios. Our licenses have been granted and submitted according to our guidance needs.

Moving forward to the next slide, as I told you before, Jordi will give you a deeper view on the financials that I quickly mentioned before.

Jordi, please?

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**Jordi Argemi Neinor Homes - CFO, Deputy CEO**

Thanks, Borja.

On slide 8, you have a brief summary of the financials for the first quarter. Main data, we have closed with EUR51 million of revenues. We achieved a positive operating EBITDA of EUR10 million, a positive EBITDA of EUR7 million and a net result, net income of EUR2 million.

That should have been almost EUR6 million if we exclude the provisions for the annual property tax for future and potential intended plans.

If we compare these numbers with the results achieved in the first quarter of last year, 2018, you will see that we have multiplied by 12 times the revenues of the development business line.

We have achieved EUR13 million of additional operating EBITDA given that we recorded a negative operating EBITDA of EUR3 million last year; and EUR10 million of additional net income given that we recorded a negative net result of EUR8 million last year.

So the main takeaways from our P&L perspective.

This Company has done a big jump compared to 2018, and this is due to the continuous deliveries of developments of this Company in 2018. And as Borja has said, with even stronger margins thanks to the 30% gross margin that we are today reporting for this Q1.

As you know, margin protection has always been one of our priorities, and the P&L already reflects it. Thanks to this, Neinor continues being a profitable company.

Having said this, and continue being with a prudent approach shown in the business plan explained one month ago, there is still a lot of work to be done to reach the minimum of EUR70 million EBITDA for this year 2019 but we are completely focused on it.

Regarding the balance sheet, it has not changed. We continue with a development stock of EUR1.2 billion, more than 80% of new stock is active, and with a single cash position of around EUR70 million.

Regarding the leverage, also no big changes, the statutory net debt amounts to EUR287 million. This means only EUR20 million increase compared to the end of 2018; and the net debt adjusted was EUR352 million. As a result of this, we continue having a healthy leverage ratio of 20% loan to value.

On the other hand, remember that in early April we refinanced the remaining EUR75 million of JPMorgan bridge loan that implies on one side a reduction on the spread cost that we'll be seeing from Q2 onwards. And on the other hand, an improvement on the debt quality thanks to the longer average life of this new term loan.

A last comment from my side, just remember too, other than this, that the complete financial statements -- and this means P&L, balance sheet, cash flow, our detailed net debt are in the Appendix should you want to look at the details.

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**Borja Garcia-Egotxeaga *Neinor Homes* - CEO**

Thank you very much, Jordi.

To finish this presentation, I just want to reinforce the four key messages from our recent year-end results.

First, Neinor Homes is reputable with a capacity that has been already proven and that can comfortably achieve its targets.

Second, Neinor has one of the prime land banks in Spain for almost the next five years.

Third, we have high visibility on a de-risked business for the next three years when we reach run rate.

And last, but not least, we will be working hard to achieve and exceed your expectations. We see plenty of opportunities, and we'll seize each one of them. But the most important piece, that we will be focused on our investors.

So execution, shareholders' profitability, and dividend distribution will be our top priorities.

Thank you very much for your time.

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**Juan Gomez Vega *Neinor Homes - CMO***

Thank you, Borja.

At this point I encourage those of you connected by phone to ask for your time to ask live questions; and for those of you connected to the webcast application to continue submitting the questions.

Operator, is there anyone in the queue?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

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**Juan Gomez Vega *Neinor Homes - CMO***

Very good. So we'll go to the questions received on the webcast application.

It is a three-part question, so we'll go one-by-one. The first one is how do you see the evolution of licensing periods and the supply of fully permitted land? And are there any risks of changes after the elections?

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**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

For this first question that has two parts, the first part about licenses -- we don't see any change in the evolution in this last month since the BP presentation last month. We are considering as normal a time around 12 months, so we are working with that plan.

Regarding if we see any change after the elections, not really since we consider that the political situation in most of the cities and villages in Spain will continue very similar. We have to have a very small loss of time during the change of some major and so on but not really affecting our timing.

About the supply of fully permitted land bank, we don't see any change to what we said during the last presentation either. And we consider that we have land enough for almost the next five years. We are searching for good business, and we keep studying good land bank to incorporate to our business in the following months.

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**Juan Gomez Vega *Neinor Homes - CMO***

Okay. The following part is, do have visibility on whether you could reach the low or the high end of your delivery target for this year?

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**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

Not yet. As we said last month, we want to be prudent. We want to protect our margins. We want to protect our product. So far, we are very comfortable to reach our target for this year between 1,300 and 1,700 units; and we still -- it's very soon still at this moment of this year to be able to say what will be the exact number of units delivered at the end of the year.

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**Juan Gomez Vega *Neinor Homes - CMO***

Okay. The next thing to finish this question, can you please clarify on the reported percentages of presales and units under construction, if they refer to the low or to the high end on the range?

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**Jordi Argemi *Neinor Homes - CFO, Deputy CEO***

It refers to the low part of the range.

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**Juan Gomez Vega *Neinor Homes - CMO***

So we have two questions coming in, and both refer to the construction cost inflation.

Borja, do you want to give color on how the construction cost is evolving in this year what you are seeing?

**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

So far, what we are measuring during this first quarter of the year we see the same evolution as last year. As we said in last year, we measure cost inflation on construction costs between 7% and 8%.

And so far for this past quarter, we have the same tendency as we observed during last year.

**Juan Gomez Vega *Neinor Homes - CMO***

And another one to refer to this, do you expect the construction costs to decelerate or start going down any time soon over the next year?

**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

Well, we have some examples that it could indicate that the cost inflation is not going to be so high during the second part of this year but still soon to talk about this.

So we are being prudent and we are working under the expectation that for this year the cost inflation will remain up to 7, 8% as it did last year. So all of our numbers are done considering that assumption.

**Juan Gomez Vega *Neinor Homes - CMO***

Okay. The next one, do you have any update on the status of construction and presales? Any specific on the construction and presales of 19 and 20 deliveries other than what you just said?

**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

No, we don't have any new or different than what we said during last month's presentation. We are working with the same numbers for deliveries of 2019 and 2020.

**Juan Gomez Vega *Neinor Homes - CMO***

Okay. At this point, I encourage everyone to submit any further questions if you have.

**Operator**

Excuse me, sir. We have questions from the phone lines.

**Juan Gomez Vega *Neinor Homes - CMO***

Okay.

**Operator**

Would you like to take the first question?

**Juan Gomez Vega *Neinor Homes - CMO***

Yes.

**Operator**

Jose Cravo from Banco Santander.

**Jose Cravo *Banco Santander - Analyst***

Hi. Good afternoon, everyone. Can you hear me?

**Juan Gomez Vega *Neinor Homes - CMO***

Yes.

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**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

Yes.

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**Jordi Argemi *Neinor Homes - CFO, Deputy CEO***

Yes.

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**Jose Cravo *Banco Santander - Analyst***

Okay. So two questions, if I may. The first is on land acquisitions. So what would be your targets in terms of million Euros for land acquisitions when you get to your run rate, so 2021. How much you must invest every year?

And second, also what would be the average selling price of the product that you would be buying from that point onwards?

My second question is specific on the Atria Development. I can see that it took you guys and the construction company two full years to deliver. I know this is a big development with having 148 units; but, still, it looks like it was a long period of construction time.

Can you give us some more color on what happened here? Thank you.

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**Jordi Argemi *Neinor Homes - CFO, Deputy CEO***

I'll take the first one and then we jump to the second one. Regarding the first one.

Being honest, we have from a conceptual perspective, a number in the model, obviously because we need that. I'm going to tell you the numbers but it's important to understand that we are going to focus on specific targets and specific opportunities.

So depending on the location, depending on the region, obviously, the land acquisition per unit cost it can have a significant deviation from these numbers.

But going into more, just let you know that we have 100K per unit, understanding that our land portfolio last year we had an average of 75K per unit. So we have good number which is significant above what we have already in our balance.

But at the end, it depends on the target, on the opportunity that we will have in front of us.

And regarding that ASP, we have 330K per unit, which goes aligned with what we have today in our order book. Actually, in our order book, we are 1, 2% above this number.

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**Borja Garcia-Egotxeaga *Neinor Homes - CEO***

Okay. And the second question about Atria Homes, in fact, Atria Homes was our big development but the most important for Atria was that it was a very specific singular building.

As an example, it had many curves in the facade, and all the railings and so on were made out of glass, so it took a long time at the end of the construction to [shed] and to incorporate all these elements.

We also wanted to deliver a very good product so we have to check very well that the product that we were delivering to our clients was in perfect condition; and this is important for us because we are operating other developments in the same area, so it was very important for us to have happy all the clients.

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**Jose Cravo *Banco Santander - Analyst***

Thank you.



**Operator**

Fernando Abril-Martorell from Alantra Equities.

**Fernando Abril-Martorell Alantra Equities - Analyst**

Hi. Good afternoon. Thank you for taking my questions. There will be two if I may.

First, I have seen that you've raised the 2021 presold units target. I was wondering why is that from 30% to 40%? And then on margins, you have said that you sold or delivered almost 400 units at 30% plus but then you expect a 28% for the full year.

Why is that? Are you more on the cautious side, or you want to be prudent, or just because the remaining units are expected to leave with lower margin?

And then finally on the 2021 units presold, could you please give us some color on the gross margin expected for those units? Thanks.

**Jordi Argemi Neinor Homes - CFO, Deputy CEO**

You have shot several questions. Regarding the first one, there has not been an increase on the units, we are going to have on the presale of 2021 It has always been 40%. I think that this was about something about of the presentation.

But we have always focused on the 40% so there is not an increase from a guidance perspective. Okay.

Regarding the second question for the gross margin, we are targeting the 28% because, obviously, it depends on developments that we are going to deliver, in particular these two that we have delivered, had a good gross margin above our target. But, obviously, the blended -- will continue being the 28%.

Let's see if at the end of the year we can have something additional, no but again it's important to be in that 28% in our guidance.

And regarding the third question it was -- sorry I don't remember.

**Fernando Abril-Martorell Alantra Equities - Analyst**

Just on the 2021 margin?

**Jordi Argemi Neinor Homes - CFO, Deputy CEO**

Oh, the 2021 margins. The ones that we are presenting we are in line with the result of 2020, which is 26% gross margins. And so we are keeping because, remember, that we had initial portfolio had as much as 27%, 28% but then the new acquisitions were in line with 24 or 25% in some cases.

So obviously, now we have seen a 26% throughout the year. That goes in line with the blended of the two typologies of assets.

**Fernando Abril-Martorell Alantra Equities - Analyst**

Okay. Okay. Thank you very much.

**Operator**

Thank you. We have no further questions from the phone lines at this point.

**Juan Gomez Vega Neinor Homes - CMO**

Very good. So that will be all for now. Obviously, we remain available for any further questions that the audience may have.

Thank you very much. And, operator, you can close the call.



**Operator**

Ladies and gentlemen, that does conclude the conference for today. Thank you, all, for participating. You may now disconnect.

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