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Q2 2019 Neinor Homes SA Earnings Presentation

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen and thank you for standing by. Welcome to today's Neinor Homes H1 2019 Results Presentation. (Operator Instructions). And now, I would like to hand the conference over your speaker today, Juan Gomez Vega. Please go ahead.

Juan Gomez Vega *Neinor Homes - Chief Investor Relations Officer*

Thank you. Good afternoon, ladies and gentlemen, welcome to the Neinor Homes Conference Call for the Results of the First Semester of 2019. Today, the presentation will be hosted by our CEO Borja Garcia-Egotxeaga and our CFO and Deputy CEO, Jordi Argemi.

Following the presentation, we'll do a questions and answer session and will of live questions for those of you that dial in, and you shall also be able to submit questions at any time during the presentation through the submit a question to the presenter window in the webcast application.

This webcast is being recorded and will be available within a few days for replay on demand. And additionally, within the next few days, a transcript of this conference call will also be available. Borja, let us begin.

Borja Garcia-Egotxeaga *Neinor Homes - Chief Executive Officer*

Thank you very much, Juan. Good morning, everyone. The objective of today's call is to present the results of the first half of 2019. As we promised in our last presentation three or four months ago, we have been fully focused on the execution and today, it's a pleasure for us to show how the company is running in the right way, with a strong visibility for the coming years.

This presentation consists on three main parts, first we'll look at the key highlights of the company, zooming into the development activity progress during the first half of the year. Then, we will give an overview of the status of our business plan from 2019 to 2021, where we will reach our run rate.

Following this, I'll give the word to Jordi where he will go through the financials. And as Juan just said, we will finish with a questions and answer session.

If you have the presentation, moving please to slide number five, the most important message here once again, is that Neinor Homes is a profitable company that keeps on dispatching positive cash flows quarter by quarter and has generated an adjusted EBITDA of 26 million euros during this first half of the year, what is fully compliant with our business plan.

For this slide, I will focus on five key concepts to guide you through the highlights that made this possible. Regarding the development activity, the company has the equivalent of 12,500 units of the primest land bank in the Spain, with 5,000 units of work in progress and finished product, which by the way, represents 50 development in total.

This first half we have launched the work for more than 1,600 units. We have obtained licenses for more than 800 units, where we are managing licenses for more than 2,200 units. On top of this, we have delivered almost 400 units.

And as we speak now to other developments with almost 160 units have been finished, and we are already notarizing them implying a



delivery of almost 600 units what represents almost 50% of the minimum target for this year.

Second concept, our presales activity is very strong. In this six months, we have sold more than 700 units, aligned with our BP. And we have accumulated close to 3,000 units and almost 1 billion in our order book, thanks to our unique comparative advantage in the go to market implied by our online platform and our Neinor stores, we are able to have more than 7,000 units under commercialization.

So, we have full visibility and a de-risk business for the following years, due to a highest sales coverage - as of today, more than 90% for 2019, 55% for 2020 and 30% for 2021 are presold.

The third concept, our margin protection strategy represents a top priority for the company. We keep offsetting the CAPEX inflation with an HPA capture having a positive impact on our profits.

(Inaudible) hub, development revenues were 160 million euros, with a 29% gross margin for the units delivered. Please for more details check the first and second appendix. For the next months of the year, we expect to keep controlling cost inflation via HPA concluding in a net effect of our bottom line.

Fourth concept, regarding our ancillary business, our legacy portfolio stands at 25 million euros of book value, and 10.6 million euros were sold in this first half of the year. Servicing keeps generating positive EBITDA with 9.9 million euros over this period and revenues of 15.3 million euros, in line with our business plan.

And finally, a glance at our financials, 162 million euros in total revenues, 26 million euros adjusted EBITDA, 1.2 billion euros in inventories, and a conservative net debt of 274 million euros. Jordi will dive into these numbers in a few minutes.

But now, let's go please to slide number six. We find Aiguadolç Homes and Goiegi Homes as our main examples of the deliveries the second quarter in Catalonia and the Basque country, showing again our national reach and our operational capacity in the different Spanish regions where Neinor is present.

In total, 379 units were notarized in the - in the first half of - with a gross margin of 29%. Adding to this two, as I mentioned before, at present we are just starting the notarization of another 160 units in two developments, Urduliz Urban Homes and Sant Just Homes.

Moving please forward to slide number seven, we will focus on the progress of our current business plan for 2019 to 2021.

The main message here remains the same as we said in the presentation of our BP four months ago. We have full visibility and a de-risk business for the next three years where we'll reach our run rate target.

At this moment, we are finishing the buildings to be delivered in 2019. All the units for 2020 to be delivered are working in progress and according to the schedule, and as you see, we have almost 90% of the 2021 deliveries in construction.

Today, we [have say] that we have 100% of the licenses for 2021. For the next three years, our presales are going in line with our internal strategy of blocking units optimize HPA, however, we are very aware that the de-risking and flexibility it's also key in our business plan.

So, as a resume of this slide, our cost structure progression is in line with expected goals of timings and cost ratios, and licenses have been granted and submitted according and exceeding our guideline needs.

So, moving forward to next slide, our Deputy CEO Jordi Argemi will give you a deeper view on the financials that I quickly mentioned before.

Jordi Argemi Neinor Homes - Deputy CEO and Chief Financial Officer

Thanks, Borja, and good morning to everyone. Before going to the financial statements, just remember that in line with the best practices of the market, we have performed a limited audit review for the first semester, which has resulted in an unqualified opinion by our auditor

Deloitte.

Having said this, let's go to the financial statements in slide number eight. Main data, we have closed the semester with 162 million of revenues. We have achieved a positive EBITDA adjusted of almost 26 million, which means, almost 40% of the annual EBITDA target of 70 million euros and net positive income of 12 million euros.

If you look at the right hand side of the slide, you will see the comparison between these numbers with the results achieved in the first semester of the previous year. As you can see, we have multiplied by more than three times, the revenue line of the development business from 42 million to 136 million.

We have achieved 25 million euros of additional EBITDA, given that we recorded an EBITDA of almost neutral 0 last year and 21 million euros of additional net income, given that we recorded a negative net result of 8 million euros for that year.

So basically, this is a solid set of results. The company has done a big jump compared to the previous year, and also to the last quarter. We continue being a profitable developer, the only one in the Spanish capital markets.

And we are - and we are fully aligned with our business plan. We could have even exceeded the business plan with more than 100 units if the new mortgage law had not been implemented the 17th of June, given that all banks were block with it and there was almost 15 days with non-authorization in Spain.

Regarding the balance sheet, it has not changed in absolute terms. We continue with a development stock of 1.2 billion. More than 35% of this stock is active and a similar cash position of around 75 million.

Regarding the leverage, also no big changes in absolute terms. The statutory net debt amounts to 274 million euros, as Borja has said. This means 13 million euros of decreased compared to Q1 and the net debt adjusted of 346 million, which implies a loan to value of 19%, and this means 1% below the result of Q1.

Just remember that in this quarter, we have refinanced the 75 million euros of JP Morgan bridge loan, increasing the average life of the debt and also reducing the spread cost. And we have also signed an equity swap with Goldman Sachs for up to 100 million euros.

As of today, we have grown 23 million euros, which will - which will result in a short, medium and long term benefit for our shareholders.

And finally, the asset valuation, as you know, we always perform a voluntary third party valuation in the first semester of each year. The result has been a total GAV of 1.8 billion, a net asset value of 1.3 billion and a net NAV of 1.2 billion.

Borja Garcia-Egotxeaga *Neinor Homes - Chief Executive Officer*

Thank you very much, Jordi. To finish this presentation, I just would like to reinforce four key concepts. Neinor Homes is a profitable with a capacity that has been already proven and that can comfortably achieve its targets. This means that cash flows in this company are already reality.

Since our revenues are strong - we are sitting on the prime land bank that was bought at the right prices. We haven't touched on acquisitions, but we have a strong pipeline that will be executed according to our needs. It is important to mention that we see plenty of opportunities to grow our business.

And last, and as a summary of this presentation, we have full visibility on our business plan and it will - and it will reach run rate. And we see big opportunities to keep growing up our business. Thank you very much for your time.

QUESTIONS AND ANSWERS



Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

Thank you, Borja. We'll now go into a Q&A session. First the operator will invite those of you connected by phone, indicating how to ask for their turn. Then we'll come back with those incoming written questions. Operator, please proceed with the questions over the phone.

Operator

Thank you so much. And please - as ladies and gentlemen, we will now begin the Q&A session. If - as a reminder, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced.

Please standby, while we compile the Q&A queue. They will only to - take a few moments. If you wish to cancel your request, please press the hash key.

And once again, please press star 1 if you wish to ask a question and the hash key to cancel your request. And the first question comes from the line of Jose Cravo from Banco Santander. Please go ahead.

Jose Cravo Banco Santander - Analyst

Hi, can you hear me?

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

Yes.

Jose Cravo Banco Santander - Analyst

Hi, good morning - good afternoon. Three questions if I may, the first one is on margins. You guys on the first quarter, gave a guidance for the 2020 gross margin of 26, so I would just like to confirm that you guys stick to this 26%.

And also ask if you could give us some more visibility for 2021 since you - since you've signed all the contracts for that year? My second question is a follow up on what Borja just said with regards to land acquisitions, can you be more specific and give more visibility on your pipeline?

And my third and final question is on the deliveries that you've made this quarter, namely the first one in Sitges, where we can see that the construction period took eight quarters, can you tell us why it took so long to complete the construction? Thank you.

Jordi Argemi Neinor Homes - Deputy CEO and Chief Financial Officer

OK, Jose, I take the first one regarding the margins. Yes, we confirm that 26% gross margin for 2020. It's true that we are doing a good progress from a sales perspective, no, and we are capturing HPA, it's quite soon now to understand if we can beat those margins. So, let's be conservative, not in the sense that we beat the business plan, and let's give the guidance that we have shot in April.

Borja Garcia-Egotxeaga Neinor Homes - Chief Executive Officer

Regarding the second question about land acquisition, as we explained three months ago, we have a good land bank for over the next five years, so we want to be very prudent in our politic of buying land.

Having said this, a - we are in line with our business plan. And as we said, we have 50 million euros for this year and another 50 million euros for next year. But we have bigger pipeline that we are starting.

We are seeing plenty of opportunities in the market. And now, I will give the word to Jordi that we give few examples - sorry, to Mario, our Real Estate Officer that we could have a bit of a - of examples (inaudible).

Mario Lapiedra Neinor Homes - Real Estate Officer

Very good. Well, here this 500 million are made up basically of full permitted, strategic and portfolio deals. And I would like to highlight that we are very active in the market and the strategy, as we forecasted, it's been implemented, meaning that we see increasing opportunities in the market as the pressure for the land owners to sell is increasing too.

Just have in mind, that we have done a mapping and today we have around 25 billion of land assets in the hands of private equity funds, with pressure of 20% IRR annually. So, we are monitoring all that asset, and we are confident that good opportunities will come in the next month.

Jose Cravo Banco Santander - Analyst

Very good...

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

The last, the third one was a - according to the timeline presented on Sitges delivery, Aiguadolç, it seems that they - from the time of construction to the delivery to took probably eight quarters, (inaudible) two years. So, the question is, is it normal there was delays or any color on the - on the construction Sitges?

Borja Garcia-Egotxeaga Neinor Homes - Chief Executive Officer

No it wasn't nothing abnormal in the construction of Sitges. As you know, we always - we are working now with a cycle of almost 40 months in our development, and we may have some variations between some developments or others, because there are things that always depend on external agents such as councils.

Jose Cravo Banco Santander - Analyst

OK, thank you.

Operator: Thank you so much. The next question comes from the line of Flora Trinidad from Caixabank. Please go ahead.

Flora Trinidad Caixabank - Analyst

Yes, hello, good morning. Thanks for your time. Three questions as well, if I may. The first one is considering that we are already with seven months of the year, and the deliveries you already made in the first half, are you able at this point to narrow the range you had given for 2019, in terms of deliver to 1.2 or to 1.7?

The second one is trying to understand the impact of the Savills assumptions, so if we understood correctly, these have to do with the timing it takes to get licensing or construction, can you just be a bit more specific on exactly what has changed in the valuation.

And then, final quick question on the recent failure of Oproler, do you have any contracts with them? There are any project at risk? Thank you.

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

Sorry, Flora what was the - can you repeat the last one?

Flora Trinidad Caixabank - Analyst

If over the Madrid construction companies - company that failed, Oproler, I don't know if you have any contracts with them?

Jordi Argemi Neinor Homes - Deputy CEO and Chief Financial Officer

OK, start with the first one, regarding the range that you said, first coming and just to focus no regarding how we gave the guidance on the business plan in April. You know, now that we focus on EBITDA and we want to focus on EBITDA, so start answering to your question.

You know, that we said 70 million euros of target, we have done almost 40% - around 40% of the target, and we are very confident that we will reach 70 million euros minimum OK.

And regarding the unit, just to give you a little bit of color, I said that we could even have exceeded the business plan with some notarizations, but because we wanted to anticipate (inaudible), but with the new mortgage law has implied that we have postponed these units to July. So, while speaking, we are delivering a relevant number of units, and we are notarizing them.

So, we go from the range - the objective was the minimum, and this was 70 million euros EBITDA. And the answer is yes, we will achieve that.

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

The second question was on the Savills valuation and whether the impact was because of longer period to licensing or any other changes in the industry, (inaudible)...

Jordi Argemi Neinor Homes - Deputy CEO and Chief Financial Officer

No, no, there is - it - it's a mix of everything. I mean there are three main reasons, [no], that impact the valuation of Savills. The first one is one that we all know, that is a share buyback program. And this explains, I would say more than third of the total impact.

You know, that we are acquiring shares, these are just to cancel, no, these shares of the market next year, but there is a positive impact, given that the net asset value per share increases. And actually, what we have bought has implied an increase in net asset value per share of 1.5% which is good. So, this is a good point, no

There is a second point that is also known by the market, and it's about the legacy product. It's not material. We have only 25 million euros left in the balance sheet as Borja has said. But it's true that as far as we are divesting no, this product at net book value or even slightly below, this has a difference compared to the GAV of 2017, that Savills did at the momentum of the IPO, because it was a desktop valuation.

And the third concept is the - is the development business line and is what you are saying, given that we have reset the business plan in April and there is new timings, which are longer, obviously which has affected the valuation, but only with a roughly 20 million euros which is non material. So, we are happy with the result of that third party valuation.

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

And then the third question was whether there was any impact for us with the failure of the Oproler construction company here in Madrid or...

Borja Garcia-Egotxeaga Neinor Homes - Chief Executive Officer

No, no we are not working with them.

Operator

Thank you - thank you so much. So, as a reminder, please if you wish to ask a question, press star 1 on your telephone and wait for your name to be announced. The hash key is to cancel your request. And there is no questions at the moment. So, please go ahead.

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

Yes, so we have a couple of questions that came into the webcast, both coming from Ami from Citi. The first one is can you provide some color on the consumer cancelations during H1?

And the second is on the licenses for 2021, where we can provide some color on the number of licenses and having applied for and we're waiting to receive and how that reflects on the - achieving the higher end of the range.

Jordi Argemi Neinor Homes - Deputy CEO and Chief Financial Officer

I try - I answer the first one and then Borja the second one...

Borja Garcia-Egotxeaga Neinor Homes - Chief Executive Officer

Yes.

Jordi Argemi Neinor Homes - Deputy CEO and Chief Financial Officer

Regarding the cancelations, we keep the same ratios both in contracts and in reservations. As we have always said, we have these 0.3 to 0.8% over the contract, so it's a very solid cancelation ratio from a contract perspective.

Regarding reservations, we always move now between 5% and 6% depending on the month. So - and actually, those that are cancelled in the terms of reservation, we are able to resell with a higher price, so this is always good news, as of today.

Borja Garcia-Egotxeaga Neinor Homes - Chief Executive Officer

And about the licenses for 2021, today we can say that we have 2,400 licenses plus for this year. While we are managing licenses for more than 2,000 units that will be for a year, 2022. No more comment, everything is going right under our schedule.

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

I would just add that as the time progress and we go into next year, in terms of 2021 you will receive more color, now when we are able to. Right now, it's too early to tell whether we're going to be hitting the - something above the low range.

Juan Gomez Vega Neinor Homes - Chief Investor Relations Officer

So, no more questions coming in - operator, I see that there are also no questions in the - in the phone. So, I would like to thank everyone for participating today. And operator, you can now finish up the call.

Operator: Thank you so much. That does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers, please continue to stand by.

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