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Q3 2019 Neinor Homes SA Earnings Call

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José Francisco Cravo *Grupo Santander, Research Division - Equity Analyst*

PRESENTATION

Juan Gómez Vega *Neinor Homes, S.A. - General Director of IR*

Thank you. Good afternoon, ladies and gentlemen. Welcome to the Neinor Homes Conference Call for the earnings announcement for the first 9 months of 2019. The presentation is hosted by our CEO, Borja Garcia-Egotxeaga; and our Deputy CEO and CFO, Jordi Argemi.

Following the presentation, we'll do a question-and-answer session consisting of live questions over the phone as well as questions submitted through the platform. In addition to the recording that will be available in a couple of days -- within the next few days, we will have a transcript of this conference call available for you to download. Borja, let us begin.

Borja Garcia-Egotxeaga Vergara *Neinor Homes, S.A. - CEO & Executive Director*

Thank you very much, Juan. Good afternoon, everyone. The objective of today's call is to present the results of the third quarter of 2019. As we promised in our last presentation 3 months ago, we have been fully focused on execution. And today, it is a pleasure to show how the company runs in the right way with a stronger visibility for the upcoming years. This presentation consists of 3 main parts. First, we will look at the key highlights of the company, zooming into the development activity progress during the third quarter of the year. Then as usual, we will give an overview of the status of our business plan from 2019 to 2021. Following this, I will give the word to Jordi, who will go to the financials. Finally, we will finish with the presentation with a Q&A session.

So please, if you take the document, moving to Slide #5. The most important message here, once again, is that Neinor Homes is a profitable company that keeps on this passing positive cash flows quarter by quarter and that generated an adjusted EBITDA of more than EUR 44 million during these 3 quarters of the year, what is fully compliant with our BP. I will focus on 6 key concepts to guide you through the highlights that made this possible. First, regarding the development activity, the company has the equivalent of 12,500 units of the primest land bank in Spain, with 5,600 units of work in progress and finished products.

During these 3 quarters, we have launched the work -- the works for more than 2,300 units, obtained licenses for more than 1,500 units, while we are managing licenses for more than 1,800 units. On top of this, we have delivered 572 units. As we will see later, by the end of Q3, all the developments that will be delivered this year have finished the construction works.

Our pre-sales activity is very strong. In these 9 months, we have sold more than 1,000 units, aligned with our BP, and we have accumulated more than 3,000 units and more than EUR 1 billion in our order book. Thanks to our unique competitive advantage in go to market, our online platform and our Neinor stores, we are able to have more than 100 developments with more than 7,300 units under commercialization, giving us a full visibility and a de-risked business plan for the following years due to a high sales coverage.

As you can see, today, more than 95% for 2019, 60% for 2020 and 35% for 2021 are already presold. The margin protection strategy represent a top priority for the company. We keep offsetting the CapEx inflation with the HPA capture, having a positive impact on our profits. During these first 3 quarters, the company captured a development gross margin of 31% for the units delivered. For more details, please check the first and the second appendix. For the end of the year, as we have been saying during the whole 2019, we expect to keep controlling cost inflation via HPA, concluding in a net effect on our bottom line.

We now go to a next an important topic, our land strategy. Back in April, we said we will only become buyers in a land market where we see -- when we see profitable opportunities. And that, in the meantime, we will use the share buyback program to buy our own land bank, at a big discount, which we already did. After a year without buying, this month, we secured in advance 2 very good land plots in



the Basque Country for EUR 10 million. We are seeing the first signs of the market turning in favor of buyers. We have a growing firepower, and we plan to use it on very accretive deals. We are working on a strong acquisition pipeline of over EUR 150 million. And at the same time, we are working with nonnatural holders of EUR 30 billion of land asset where Neinor can play an important role.

As an addition, we can also sell land when it fits with the company's strategy and we find an opportunistic deal. As for instance, the plots sold during this quarter 1.8x over its book value in a sector where we have more than 300 units. Regarding our ancillary business, our Legacy portfolio stands at EUR 23 million of book value. And EUR 13 million were sold in this third quarter of the year. Servicing keeps generating positive EBITDA with more than EUR 14 million for this period and revenues of EUR 22 million, in line with our business plan.

Finally, a glance at our financials. EUR 242 million in total revenues, more than EUR 44 million adjusted EBITDA, EUR 1.3 billion in inventories and a conservative net debt of EUR 305 million. Jordi will dive in these numbers in a few minutes.

So now let's move please to the next slide, Slide #6. Here, we find Sant Just and Via Homes as our main examples of the deliveries in the third quarter in Catalonia and Madrid, showing our national reach and operational capacity in the different Spanish regions where Neinor is present. In total, 572 units were notarized by the end of Q3 with a gross margin of 31%.

Moving to Slide #7. We will focus on the progress of our current business plan from 2019 to 2021. The main message here remains the same as we said in the last presentation of our BP. We have full visibility and a de-risked business for the next 3 years when we reach our run rate target. We have a solid grasp on timings, revenues and risk control. Focusing on the deliveries for this year, as you can see, by the end of Q3, Neinor delivered almost 600 units. Another 400 units were in the delivery process and more than 300 units were awaiting for first occupancy license. For the next 3 years, our presales are going in line with our internal strategy of blocking units to optimize HPA. And without affecting the steady sales rhythm, we need to comply our coverage target for de-risked business plan.

Our construction progression is also 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 next slide, our CFO, Jordi Argemi, will give you a deeper view on the financials that I quickly mentioned before.

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

Thanks, Borja. Let's go to the financial statements in Slide 8. Key data points of the P&L. We have closed the semester with [EUR 242 million] (corrected by company after the call) of revenues. We have recorded a gross margin of EUR 80 million, which means a gross margin of 33%, of which the developer margin is 31%, above the guidance for this year, 2019. We have achieved a positive EBITDA adjusted of EUR 44 million, which means, almost 2/3 of the annual EBITDA target of EUR 70 million and a positive net income of EUR 25 million. If you look at the right-hand side of the slide, you will see the comparison between these numbers and the results achieved in the previous year. You will see that we have doubled the revenues of the development business line from EUR 100 million to EUR 207 million.

We have multiplied by 5x the EBITDA adjusted from EUR 8.5 million to EUR 44 million, and we have turned positive the net income from minus EUR 6 million last year to EUR 25 million this year. So basically, from a P&L perspective, we continue showing a solid set of results. The company has done a big jump compared to a previous year and also to the first semester, and we are fully aligned with our business plan. Regarding the balance sheet, it has not changed. We continue with a development stock of EUR 1.3 billion, more than 80% of this stock is active and a similar cash position of EUR 77 million.

Regarding the leverage, also no big changes. The statutory net debt amounts to EUR 305 million, this means an increase of EUR 30 million compared to H1 and mainly due to the ABB that we did in July, and the net debt adjusted of EUR 379 million, which implies a loan to value of 21%. This means 4% below the result of Q3 of the previous year. One last comment from my side, just remember that in H1, we signed an equity swap with Goldman Sachs for up to EUR 100 million.

A commitment to the capital market was EUR 50 million, and we have already bought shares for EUR 46 million, which means that we have almost achieved the target, that we currently own 5% of the capital of the company and that we are taking advantage of the price of

these shares. Since we have a blended cost below EUR 11 per share. This definitely will result in a short-, medium- and long-term benefit for our shareholders.

Borja Garcia-Egotxeaga Vergara *Neinor Homes, S.A. - CEO & Executive Director*

Thank you very much, Jordi. To finish this presentation, I just want to reinforce 4 key messages. Neinor Homes is a profitable company with a capacity that has been already proven and that can comfortably achieve its targets. Neinor has the primest land bank for the next 4 years. We have high visibility and a de-risked business plan for the next 3 years when we reach our run rate. And finally, we will be working hard to achieve and exceed your expectations.

As the year goes by, we see more and more opportunities, and we'll see each one of them. And as we promise, we will be focused on our investors. Execution, shareholders' profitability and dividend distribution will be our priorities. Thank you very much.

Juan Gómez Vega *Neinor Homes, S.A. - General Director of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question, it comes from the line of José Cravo.

José Francisco Cravo *Grupo Santander, Research Division - Equity Analyst*

Can you hear me?

Borja Garcia-Egotxeaga Vergara *Neinor Homes, S.A. - CEO & Executive Director*

Yes.

Jordi Argemí García *Neinor Homes, S.A. - Deputy CEO & CFO*

Yes.

José Francisco Cravo *Grupo Santander, Research Division - Equity Analyst*

All right. So just my question is on your net debt position at the end of the year, you had a guidance of EUR 450 million. Right now, you are at EUR 380 million. And obviously, on the fourth quarter, you're going to deliver a lot of units and generate cash flow. Should we think that you'll finish the year below this level of EUR 450 million? Or will you acquire a lot of land in the fourth quarter?

Jordi Argemí García *Neinor Homes, S.A. - Deputy CEO & CFO*

It's true that -- and you're right, we are below the guidance that we gave to the market. The rationale behind this is because we are being able to use the deposits that we have received from the clients. So we drew less CapEx financing from our facilities. So be sure that we will be below the guidance that we sent to the market. We should be more aligned with EUR 375 million, EUR 400 million rather than EUR 450 million of net debt.

José Francisco Cravo *Grupo Santander, Research Division - Equity Analyst*

Okay. And just a follow-up, with regards to the land market, you are saying that you are seeing now a buyer's market. Could you give us more comments on this, and what changed?

Borja Garcia-Egotxeaga Vergara Neinor Homes, S.A. - CEO & Executive Director

Yes. As the year is going by, we see a market coming into buyer's market. We find more and more opportunities with better gross margins. As you know, we always have said we want to be very discipline in the land acquisition. I'll give the word now through our Chief Investment Officer, Mario, that will give you more details about the market.

Mario Lapiedra Vivanco Neinor Homes, S.A. - Chief Investment Officer

Yes. Let's explain a bit. In the last months, we have been seated with the owners of around EUR 30 billion of land exposure in Spain. And we could say that 95% of that, they wants to make them liquid from private equity funds that have an IRR pressure, from Spanish banks that still have a lot of land in the balance and even developers that should be buyers, but the reality is that most of them are sellers. So we keep our disciplined strategy, as Borja is saying, in order to find the best opportunities and also the best momentum to execute them.

Operator

(Operator Instructions)

We have no further questions over the phone lines at this moment. Sir, you may continue.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Okay. So we will go on to the questions that are coming through the webcast. So we're going to take the question from Ami Galla. So I will start, and the first question is, what is the level of land disposals or sales planned for the next 12 months? Borja wants to take that?

Borja Garcia-Egotxeaga Vergara Neinor Homes, S.A. - CEO & Executive Director

As we have always said, we are developers. So we are here to make money for our business. If we find opportunistic deals, we go deep into them; otherwise, we will not. So there's no previous plan. Simply, it's our business to make the money, that is for our investors.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

The second one is regarding contractors. Are you facing delays from contractors facing financial difficulties in your project? What sort of contingency provisions do you have budget for such difficulties?

Borja Garcia-Egotxeaga Vergara Neinor Homes, S.A. - CEO & Executive Director

Well, we don't see a more difficult year, this 2019 in comparison with 2018 or even 2017. So there is a normal situation with the contractors in Spain. In fact, we think that during this year, the situation is becoming better than the previous years because the construction market is more stabilized up to this moment. In fact, we have contingencies. The normal contingency is that we work in a normal development; it's around 6%. And we have to always have some buffer for the whole company to cover any extra situation.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Good. And the last question from Ami, Jordi, what was the trend on cancellations in Q3?

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

That trend has not changed during the year in 2019. Actually, we still have cancellation ratio of around 6% for the reservations and a ratio of 0.7%, 0.8% in private contracts. So basically, we have a very high level of quality in the presales.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Very good. Okay. We have a couple more questions. The next one coming from investor, Umberto Cambiaso. Is the 2019 delivery target still at 1,200 units?

Borja Garcia-Egotxeaga Vergara Neinor Homes, S.A. - CEO & Executive Director

Okay. Here, we always have talked about complying the lower range for the year. The business plan is, as you have seen, is running as it was planned. So by this time of the year, we want to be prudent, and we want to ensure that we will comply our EBITDA targets.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Good. The last question coming in from Nuria O. from CoHispania. It's whether you are concerned about the high amount of work in progress of the construction going on in Spain or not?

Borja Garcia-Egotxeaga Vergara Neinor Homes, S.A. - CEO & Executive Director

Not really. It is true that at some parts of Spain, where our construction is more concentrated, we are dealing with that situation. We are a strong group. We have huge capacity for construction. And the progress of all of our works -- work in progress, as you have seen, is going as it was this case -- sorry, as it was planned. So that's not a worry for us. We are developers. We control very much all of our constructions. And all the planification is being compliant with our plannings.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Very good. At this time, if anyone wants to add one last question -- operator, is there anyone in the line?

Operator

Yes, there's still no questions over the phone lines. You may continue.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Very good. If that's the case, then we're going to wrap up here, the Q3 2019 Neinor Homes Results Earnings Call. Thank you very much, everyone, for participation. Operator, you can now close the call.

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