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Q1 2020 Neinor Homes SA Earnings Call

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PRESENTATION

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

Good afternoon, and welcome to the Neinor Homes Q1 2020 Results Presentation. We are here today with our CEO, Borja Garcia-Egotxeaga ; and our Deputy CEO and CFO, Jordi Argemí.

During today's call, we will present the Q1 2020 results. The presentation today will consist of 2 sections. First, we'll go through the highlights of Q1 and an update as of the end of April. Then we will review the operating and financial highlights of the quarter. At the end of the call, as usual, we will finish with a Q&A session.

With this, I leave you with our CEO, Borja Garcia-Egotxeaga.

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

Well, good afternoon, everyone. Thanks for taking the time to join, especially in these tough times. As we are all aware, the COVID-19 outbreak represents an unprecedented worldwide health and economic crisis.

Today's Spanish development sector is much more resilient, and we are a key part of the solution to the current economic situation.

We are going to start this presentation giving a few highlights of the first quarter and some messages on the month of April. So let's go please to Page #4. In terms of Q1 milestones, let me tell you that we had a solid first quarter. We had EUR 7.9 million EBITDA, and we were able to achieve 28% gross margins.

Regarding our order book, we have done 353 presales in Q1, having a total presales of 2,834 units, which represent over EUR 930 million. It is important to remark that out of those units, 2,120, this is more or less 75%, are contracts signed up with clients that have already paid 16% of the price.

On top of this, back in 2016, we decided to contract Family Homes Protection insurance to over 60% of our developments. This insurance covers the monthly installments committed by our clients in case they get sick or lose their jobs. This insurance today give us further revenue visibility even in the middle of the crisis. Also during this first quarter, we have been working in our rental platform, starting with the construction of the first buildings and setting up the operating structure.

Going to next slide, and as just told, we can focus in 2 important issues: first, our financial strength. During April, we signed up EUR 40 million corporate loan to reinforce our cash position. Today, we have over EUR 130 million of cash on our balance sheet. We have a low structural cost and bear in mind that we have a recurring servicing business that generates stable cash flows. Also, we do not have to refinance corporate loans in more than 12 months. Finally, we should consider that we have over EUR 850 million of developer loans already committed. All these allow us to go through this tough moment without any major uses.

And second message regarding the COVID-19 situation. All our construction sites are open. As you probably know, our construction sites were closed for 2 weeks in April. Before that, we saw some slowdown, but after the emergency was lifted in April 13, we see full activity in each one of our sites.



In terms of presales, we do think it's too early to do projections. In April, thanks to our marketing campaigns and our digital capacity and virtual visits, we did see leads stabilize at 65% of the precrisis levels, and we managed to get 64 units presold. This is a very significant number especially if you consider that Spain was under complete lockdown.

We have been working since some months ago with administrations on various public and private initiatives. During the last weeks, we are reinforcing our messages basically in 2 lines: the simplification of land management and the different help-to-buy initiatives that the administration could take to push the sector.

Now moving into Page #6, I will give you a brief summary into our operating achievements. On our development activity, in this first quarter, we were able to obtain licenses for over 400 units. We have started construction of over 500 units, and we notarized 126 units. Given some further color of current situation, we are still working with many regional and local governments, and even during this times, we have been able to advance and obtain licenses.

In terms of our presales activity, I already mentioned that we have EUR 930 million and over 2,800 units of order book. Out of them, 353 units were presold during the first quarter. In order to give further visibility, I can confirm that we sold 64 units in April, which, again, given that we have been under full lockdown, is a great achievement. Also, as of this Monday, May 4, our Neinor stores are open again. So we will do everything we can to keep a good presales rate.

Then we can go to see the quality of our order book. Something that I already said, which is that 75% of this is under private contracts. And I already mentioned too that we have the Family Homes Protection insurance in 60% of our sites, which give us further visibility toward the notarizations.

In the next pie chart, we give some visibility of our upcoming years. One of our core strengths is the visibility we have going forward. For the deliveries of 2020, we have 75% presold with almost all of them under private contracts. 7% has already been delivered. And for the ones in construction, 24% is between final certificate of construction and first occupancy license, and 75% remaining is in façade works, which means that they are in the last stages of the building process.

For the deliveries of 2021, we have over 45% presold. All the sites under different stages of construction, 1/4 more or less on foundation works, 1/4 on structure and the other half already on façade works.

And for the 2022, we have already 25% presold. We are missing only 23% of the licenses, and almost 40% is already under construction. So as a summary, I just want to say that we are very proud of our achievements.

We have also some positive news regarding licenses since we will reduce or create buffers in our construction cycle like in Andalucía, where we no longer need to wait for the first occupancy license. Today, we can go directly into notarization with the declaration of responsibility. We expect that soon, we will have some other areas of Spain introducing these practices.

And I just want to reinforce the idea of presales. Especially today, when we hear a lot of people talking and giving predictions on whether we are going to, say, keep prices, et cetera, we say it's too early to go into philosophical discussions. But for now, I just want to show facts. In the month of complete lockdown in Spain, we have been able to presell 64 units. The reason behind is not only the top quality of our land bank but also speaks very well of our marketing and commercial teams.

With this, I give the word to Jordi who will go through financials.

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

Thanks. In Slide 8, you have a brief summary of the financials for the first quarter. Some of main data has already been commented by Borja in his speech.

But basically, we have closed with EUR 51 million of revenues, we have achieved an EBITDA of EUR 8 million and a net income of EUR 4

million. That should have been almost EUR 6 million if we don't consider the provision for the annual property tax that, as you know, we need to record always on January 1.

If we compare these numbers with the results achieved in the first quarter of the previous year, you will see that we have increased the EBITDA by 10%, and we have increased the net income by 74%. So basically and as a summary of the P&L, these are a good set of results. We continue being a profitable company, improving the result of the last year despite being in an exceptional situation in March as a result of the COVID, where notarizations were not possible.

Having said this, in a situation of high uncertainty such as the one that we are now living, the balance sheet and the liquidity of the company become crucial, and I can tell you that we are in a privileged situation. Three concepts to understand it. On one side, we have a well-structured balance sheet. This means loan-to-value of 18%, but the most important thing is the quality of the debt behind the ratio.

Let me explain it with some details. We have 3 different typologies of debt. The first one is the corporate debt. We have repaid in advance EUR 75 million during Q1, and the EUR 50 million left in our balance sheet has been refinanced in January. The maturity has been extended to 2022 as a bullet facility with no cost increase.

The second typology is loan financing. We have around EUR 60 million, out of which EUR 45 million were maturing this year, 2020. But we have also refinanced it, extending the bullet loans between 12 and 18 months. So basically, Neinor Homes doesn't have any debt repayment during 2020 and part of 2021. We have done a great job here eliminating the risk for the company.

And the third typology of debt is the CapEx financing, also named developer loan, and this is the most relevant debt we have amounting to around EUR 200 million. This is the debt with the highest quality since the maturity comes with the notarizations, so we match the cash-out with the cash-in.

Apart from the debt quality, the second relevant concept is our liquidity position. As you can see in this slide, we closed Q1 with EUR 91 million of cash. But in April, we have signed a new loan of EUR 40 million with a maturity of 3 years. This means that our pro forma cash position is EUR 130 million. So a strong level of cash that should help us to face the current situation but also take advantages -- advantage of the business opportunities that will come for sure in the coming months.

And third and last concept, our flexibility. Our personnel and our hedge cost represent less than EUR 25 million per year, and we have a company based on externalization. And on top of this, these fixed costs are fully covered by our business -- servicing business line.

The floor is yours, Borja.

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

Yes. Thank you, Jordi. So for our closing remarks, just a few messages. We really believe that there is no fundamental change in residential needs in Spain. The production of new houses is below 100,000 per year, and the fundamentals for good locations will remain.

Second is that we are proud and thankful for all the measures implemented by our national and regional governments. We are also exploring collaboration models between the main developers and the Spanish government. Last week, we sent a document with 10 specific measures that the administration may implement, for instance, a help-to-buy program, tax exemptions, aggregated licenses, protocols and so on. The Spanish government is working with the idea that our sector is key for the Spanish recovery as it was said last week by Minister Ábalos.

With all this, I just want to end saying that even in these challenging times, we feel very confident in our company and business and that we will be looking at all the angles to grow our residential platform. We are sitting on very good land bank with a very financial -- with a very solid financial position, and we have the best capabilities to succeed.

Thank you very much for your time.

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

Thank you, Borja. We'll now go into the Q&A session.

I invite you to continue submitting written questions through the Submit a question to the presenter button. And also, those of you connected by phone, now the operator will invite you to continue to ask your turn or just shoot the questions you have.

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) 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.

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

Okay. So I have 2 questions, if I may, and perhaps we will address one by one. The first one is for Jordi. I'm seeing here on your cash flow bridge that you have EUR 87 million of cash outflow related with construction CapEx. I'm wondering why we are not seeing here an equivalent amount or very close to that in terms of financing CapEx from restricted cash or from development loans.

I can see that you have EUR 10 million more of restricted cash on your net debt position. And I can see that your development loans have increased by 36% -- by EUR 36 million, sorry, but that's only 50% of the total that you've spent this quarter. And adding to this, I mean, when you have the statement in your presentation saying that you have 80 -- EUR 850 million of development loans committed, why are we not seeing this amount being disclosed in full? That would be my first question.

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

Do you want me to answer this question or you'll...

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

Yes. I think it's better if we go one by one, yes.

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

Okay. Excellent. You may remember that we have -- when we finance the CapEx, we have different lines. One line is the restricted cash position. You know that, in this year, we have a huge -- around EUR 10 million, EUR 15 million to finance this almost -- more than EUR 80 million of CapEx. Then if you look also at the debt side, you will see that there is an increase but -- because we have repaid corporate loans, but we have drawn CapEx lines.

So obviously, if you understand the details, you will see that we have drawn the CapEx facilities, and there is a remaining of EUR 20 million, EUR 25 million max that basically are for few developments that we have the presales but we are in the process of signing the private contracts. So with the bank, there is a delay always of 1, 2 months when you can draw the facilities. So hopefully, now in May, maximum June, we will recover that cash. Remember that we always finance 100% of the CapEx, so...

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

And just related with this, you have 40% of '22 deliveries with license already, but as I understand, you haven't started construction. Can you tell us a bit more when do you foresee or you predict that you can start construction on this 40%?

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

Well, thank you. That will depend. As always, the construction starts when we have the presales and the licenses. So today, we are working with the local administrations to get those licenses as soon as possible and also continuing our marketing campaigns and so on for the necessary presales. So that will depend one by one in each development.

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

Okay. Just a final question about your deliveries and margins for the rest of the year. I see that you have 24% of your target of the year that is either finished with -- waiting for the occupancy license or the construction license. Can you give us an idea, of this 24%, how much do you expect to deliver in the second quarter?

And also, about the margins, the 28% margin, we should think of it as -- for the rest of the year with the same percentage? Or should we think of it as an inferior number?

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

Yes. Okay. From the first question, it is difficult to say like always because you know that during the process of obtaining the first occupancy license, it doesn't depend on Neinor. It's always something that we share with administration. So it is true that administration was totally closed for 15 days in April. Now most of the administrations are working. It is true that they are not working 100%, so it may be a little bit tougher where we could lose some week, we still don't know. We are doing our best to get out of those licenses.

And regarding the margins, our idea is to protect and to defend the margins. So today, we don't expect to have a significant deviation of our margins compared with our guidance.

Operator

Next question comes from the line of Flora Trindade.

Flora Mericia Trindade *CaixaBank, S.A., Research Division - Analyst*

The first one, I understand it's still soon to have a clear view on what will happen during the remainder of the year. But considering the impact expected in the Spanish economy both in terms of unemployment and also confidence levels, how do you see the risks of this macro deceleration having an impact in the sector and specifically in your business? So can you just share with us your thoughts on the trend you are effectively seeing on your business versus these big macro trends?

And then secondly, a specific question on servicing. You mentioned the importance of this stability. So are you negotiating the renovation? Any news on this front?

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

Okay. I'll take those questions. Okay. The first one regarding the macro, we said it's too early to know, to have some visibility. It will be too risky for us to change today any of our idea for this year. So far, what we know is that during this first month that has been very tough, that Spain was totally locked and everyone was being -- the confinement with the stay-at-home politics of the government, we have been able to keep on selling. So this is very good news for our company because we see a solid demand for our product.

From the point of view of construction, we don't see problems -- we don't expect problems either, taking into account that, of course, we had also a couple of weeks of delays in the first part of April. And regarding the -- our servicing contract that, as you said, is very important for the company, today, what we have done is we have discussed with our client that we will revisit the targets for the year, the same -- once that we have some more visibility of what should be expected for the second half of the year. And the idea of the -- to start renegotiating the contract will come most likely during the second half of this year.

Operator

There are no more questions from the phones. Please continue.

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

Okay. So if you still want to ask a question on the phone, please do. As the operator said before, we'll cover a couple of questions.

Operator

Next question comes from the line Alex Grace (sic) [Alex Fries].

Alexander James Fries Goldman Sachs Group Inc., Research Division - Associate

My question relates to uses of cash. So firstly, could you update us with regards to dividends and buybacks what your current thinking is and when we can expect more updates on those 2 things?

Secondly, with regards to cash spend on land, how do you see the environment at the moment? What's your plan? Are you going to conserve cash there? Or are you seeing good opportunities on the land market side?

And then thirdly, with regards to sort of the CapEx spend on future projects, looking slightly further ahead, are you delaying the start of new construction projects or holding back on any sort of WIP spend until you've got a clearer idea that there's the demand there to actually absorb those projects? Or are you sort of carrying on with that regardless?

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

Okay. Alex, I'm going to take the first one. I understand that Borja will take the second and the third one. Regarding the first one, the reality is that we took that position to postpone the dividend just because there was an uncertainty in the market, and the best way is to protect the company with the cash and also to take advantage of the opportunities that for sure will come in the market sooner than later. Today, we still don't have such visibility to put a date to distribute the dividend. As Borja has said before, I think that we need time. And the sooner we have this visibility, we will come back to you and say when we are going to distribute the dividend.

And also, for the share buyback, the share buyback, what we have -- we have taken the decision to cancel the share buyback. As you know, because with the drop in the shares, it implied collateral of cash, and it implied to pay interest. It makes no sense in a maturity that was in August to pay interest for yes or yes. So we voluntarily anticipated the repayment. And as you can see the net result, we have increased like 24%. Part of it is because we have reduced the financing cost. So again, we will comment once we have certainty on the near future.

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

Okay. Thank you, Jordi. I'll go with the second and the third one. Okay. I think it's important to have clear that the company has its guidance, of course, and you know the guidance. But we are prioritizing our financial safety and our cash position. We think that during these first months of the crisis, this is capital. So the most important thing for us today is the strength of the company.

So now going to how are we going to act regarding the land. And if we can see more opportunities in the near future, yes, it could be that during the second half of the year, we could have more opportunities to get land in better condition. As you know, we were pretty conservative last year because we thought that land prices were expensive. We decided to wait. That's why -- so we have a very solid cash position today. Right now, this seems to -- that could be another opportunity to even do better, so we will wait and see.

And regarding the projects that we are going to start, of course, as I said before, we will start those projects once that we have the presales. We are not going to burn money. We will add prudently, and we will be on the safe part of the cycle always.

Operator

Next question comes from the line of José Cravo.

José Francisco Cravo Grupo Santander, Research Division - Equity Analyst

Just one more question, if I may, on the Neinor Rental. Can you update us on the operating -- you said that you are looking for an operator right now. Can you give us some more visibility on how these negotiations are going? And also, can you tell us from the 12 -- from 1,200 units that you have allocated to this project, how many are currently under construction.



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

Okay. Let me give the word to Mario, our CEO (sic) [CIO], that is here with us today.

Mario Lapiedra Vivanco *Neinor Homes, S.A. - CIO*

Yes. We are negotiating and advancing with a couple of operating partners with the details of what is going to be the operating structure to run that 1,200 units of portfolio. And regarding the advance, we have already the first buildings in work in progress. As you know, the first units would be delivered by the end of this year, starting of the following. And everything up and running, I would say.

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

Borja, you take the second question of José.

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

Sorry, I didn't catch the second question.

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

Well, José asked, and correct me, José, if I'm wrong, okay, how many units of rental are with cranes today?

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

Okay. We have 2 developments of the first package, of the first phase of the rental units that we said. We have 2 developments so far with cranes, in Hacienda and in Sky. And for the next months, we will start another -- the construction of another 2 buildings.

Operator

No questions at this time. Please continue.

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

Yes. Very good. We're going to take a few questions that came in on the chat -- on the webcast, sorry. So 2 questions going around the presales done in April. And this is, have you changed your prices for the April and May sales? And have you seen any decrease in the ASP due to the COVID?

Mario Lapiedra Vivanco *Neinor Homes, S.A. - CIO*

Yes. This is Mario. I'm taking this one. Basically not, we have not changed prices. Even it is too early to make a forecast, what we reinforce is that we really feel that the results of April, being the first moving with these online campaigns and the online presales, taking into account the full lockdown that we have suffered here in Spain, are very good results. And we have stabilized these levels of leads in 70% pre-COVID activity. And we will be focused on being the best performers whatever the future came, as we have always said. And we are opening stores this week, and we will monitorize activity during the next months to bring more visibility on the year.

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

Thank you. So we're going to take 2 that cover the -- again, with the presales of April. Out of the 64 units presold in April, what is the split between reservations and contracts?

Mario Lapiedra Vivanco *Neinor Homes, S.A. - CIO*

Yes. It is 100% presales. This is due -- because of the activity on online. We have -- for the signature of the private contract, you know that you need the presence of the client. So that has been in a standby until the opening of the Neinor stores this week. So the 64 unit has been presales.

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

Very good. And one -- I think maybe just a follow-up on the discussion on land acquisitions. Is there any deal that is on standby which you expect to execute soon? That comes from Manuel from JB Capital .

Mario Lapiedra Vivanco *Neinor Homes, S.A. - CIO*

Yes. I'd take this one. You know that we were fully on track with more than 2,000 units under exclusivity. We have been focused in negotiating extensions. We have always said that our strategy was patient and disciplined; in these times, even more patient and even more disciplined. The good news is that we have been able to negotiate that extensions with all the deals, and we will see during the next months how everything evolves. And we will choose the best opportunities, as always, taking into account the new environment.

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

Yes. Well, the truth is that -- regarding those words of Mario, what we expect is that we will be able to renegotiate or negotiate better all those operations. Thank you.

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

Very good. So at this time, you don't have any further questions. We are going to wrap up this session. I would like to thank again everyone for participating, and hope you stay safe.

Operator, you can now end the call.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.

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