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Half Year 2020 Neinor Homes SA Earnings Call

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Manuel Gimenez *JB Capital Markets*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to today's Neinor Homes First Half 2020 Results Presentation. (Operator Instructions). I also must advise you that this conference is being recorded today, 30th of July 2020.

I now hand you over to your first speaker, Juan Gómez Vega.

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

Thank you. Good afternoon, ladies and gentlemen. 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 H1 2020 results. The presentation will consist of 2 sections: first, we'll go through the highlights of the first 6 months of the year and the execution of the short-term contingency plan; then we'll review the operating and financial highlights of the quarter and the first half of the year. 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*

Thank you, Juan. Good afternoon, everyone. Thanks for taking the time to join us in this situation when the world is going through the biggest challenge since the Second World War. As a consequence of the pandemic generated by the virus, it has been activated the state of alarm worldwide, Spain included, restricting the population movements and thus, generating a deep impact in the economy at a global scale while many thousands of people have sadly passed away.

During the last week, Europe approved a recovery plan to respond to the COVID crises, and the Spanish Congress has to approve the new economic proposals from the coronavirus economic and social recovery commission. We will see the results. Meanwhile, today, we see how Spain is facing an increase in the PCR positives in a complex sanitary situation, while different plans are being designed to help the families and the country's economy.

During our last presentation of the Q1 results, we said that the Spanish development sector was much more resilient than in previous crisis. We still believe it. And also that our sector will be a key part of the solution to the current economic situation.

Let's see with a few highlights. Of the first half, how Neinor has been able to go through these months with a great performance.

So please, let's move into Page #4. The first message is that we have had a solid first half despite the COVID outbreak. Above our BP - were obviously was not considering the COVID. We have done more than EUR 15 million EBITDA, and we were able to achieve a 28% of gross margin. Our construction sites haven't suffered big delays or important trouble because of the COVID. We have presold 686 units in the first part of the year in this first semester. 686.

In the most challenging times, 332 units were presold in Q2, while 225 of these units were presold in June. As we promised, we keep adding value to our rental platform where we have started the construction of 300 units, and we are planning to start another 300 after



the summer. And we have done all this, taking special care of the health of our employees, collaborating staff and suppliers, and implementing a risk management system and a contingency plan with a target to protect cash and liquidity as a preventive measure.

If you please move to next slide, in Page #5 where, Jordi will explain in a few minutes more about this. But I would anticipate that we have the development financing committed for almost 100% of the developments from 2020 to 2022. We have signed up EUR 250 million since April, and we got a new EUR 40 million corporate line to strengthen our cash position where we keep a prudent position with the dividend and the land acquisition.

So as a summary of this first part, we see full activity in the construction of our developments. Thanks to our exceptional land bank, our marketing campaigns and our digital capacity and virtual visits, we have been able to pre-sell 332 units in Q2 in an extremely difficult environment. And as you can see, we are in a very solid cash and financial position, with over EUR 130 million in our balance sheet to take advantage of new opportunities. During this time, also, we have been working with administrations on several public-private initiatives. We already see the results in the simplification of land management in some Spanish regions, and we keep developing different actions with administrations to push the sector.

Now moving into Page #7. I will give you a brief summary into our operating achievements. On our development activity, in this first half, we were able to obtain licenses for over 600 units, we started construction for over 500 units, and we notarized 245 units, where we have more than 5,000 units under construction. Our leads generation, that suffered a drop of 40% during the months of March and April, is fully recovered. And today, we are working with the same rates as before the COVID. In terms of our pre-sales activity, we have EUR 980 million and over 3,000 units in our order book. As I said, out of them, 686 units were presold during the first half. And what is very important in these times we presold keeping our pre-COVID prices, and we didn't have a spike in cancellations, where we are keeping the same rate as in the previous years. And to explain this, we must look to the quality of our order book. More than 80% of it is under private contracts, which implies that the average amount paid upfront is 16% of the house value. And also it is very important that 68% of our order book is covered by the Family Homes Protection insurance, which gives us further visibility towards the notarization.

In the next slide, in Page #8, we give some visibility of our upcoming years. One of our first strengths is the visibility we have going forward. For 2020, we have 83% presold. As we said, with almost all of them under private contracts. 15% have been delivered, in line with our business plan. And for the sites in construction, 44% is between final certificate of construction and first occupancy license. And 57% is in façade works, what means that they are in the last stages of the building process. For 2021, we have over 50% presold. All the sites are in the different stages of construction, in line with the [planification], with more than 50% of them, in façade works. And for 2022, we have 30% presold. We are awaiting only for 26% of the licenses, and 46% is already under construction.

So as a summary, and as you can see, those are great achievements and the reason why we are so proud of how the company is going through this exceptional crisis that we are living. In fact, all the areas of the company have had a great performance during these months, but please let me reinforce the message of the presales. In the month of June, we have been able to pre-sell 225 units. This is 50 units more than there is in a number expected in our business plan.

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

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

Thanks, Borja. On Slide 9, you have the brief summary of the financials for the first semester. Some of the main data has already been commented by Borja in his speech, but basically, we have closed revenues of EUR 101 million, positive EBITDA of EUR 15 million and positive net income of EUR 7 million. Probably, the most interesting part is on the right-hand side of the slide, where you can see the split between Q1 and Q2. Even in a situation of lockdown in Spain where most companies have not been able to even that numbers, Neinor has been profitable and has achieved almost the same result pre-COVID for Q1: revenues of EUR 51 million, EBITDA of EUR 7 million and net income of EUR 3 million. And the good news are not only in the P&L but also with the presales of more than 330 during this Q2, with the corporate debt since that we have signed a new loan of EUR 40 million to increase, our cash position and also with the CapEx financing, being able to sign EUR 240 million of new developer loans at similar conditions to the ones pre-COVID. These facts show [execution] and the capacity that this company has and its team even in an exceptional situation such as the one that we are leading now. And looking at the last 1.5 years this company has accomplished and exceeded the targets, so we are proud of it. Obviously, still a

lot to do in the remaining 5 months of the year, but we will continue working hard to meet our annual targets.

And last comment from my side. Regarding the balance sheet and leverage. There is no big difference compared to the one reported in Q1. Our net debt and loan-to-value keep stable and slightly below 20%.

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

Thank you, Jordi. So for our closing remarks, in Page #10. And as we said during the Q1 results presentation, we really believe that there is no fundamental change in residential needs in Spain. The production of new houses is below 100,000 units per year and the fundamentals for good locations will remain solid.

With all this, I will just share our final messages. Even in these challenging times, Neinor Homes is a profitable company. We are growing our rental platform, and we have proved capacity to do it while we operate our core residential developer business. We have high visibility of our business plan, and we are achieving our targets even in this difficult context. The company delivery guidance for 2020 remains unchanged. And we are sitting on a very good land bank with a very solid financial position, and we have the best capabilities to succeed and to create new opportunities.

So thank you very much for your time. And now as usual, we will open a brief Q&A session.

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

Thank you, Borja.

QUESTIONS AND ANSWERS

Operator

You have a question coming from (inaudible).

Jose Francisco Cravo Grupo Santander, Research Division - Equity Analyst

Hi. Can you hear me?

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

Yes.

Jose Francisco Cravo Grupo Santander, Research Division - Equity Analyst

Congratulations on the results. Two questions, if I may. The first question would be on July presales. Could you give us -- I mean, obviously, the numbers that you've reported were very strong and stronger than your peers. And can you give us an idea of how July is evolving to get a sense on that? That would be my first question.

And then the second question would be on your land acquisitions outlook for the second half of the year. Could you share with us an update on what are you doing with this respect?

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

Okay. We'll give the first question will be answered by our Chief Investment Officer, Mario Lapiedra, and then I'll take the second one.

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

Well, from the market perspective, what we have felt is that the demand in our locations for our product and our price strategy has been remaining strong. We have implemented virtual visits and online sales that has worked pretty well. And as of today, we have seen KPIs from demand in terms of leads, in terms of visits and conversion ratios in pre-COVID levels.

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

Thank you, Mario. Okay. Regarding the second question. The company works hard exploring and getting the knowledge of the land market in Spain. So we are looking for opportunities. We see better opportunities month by month, and we are on time to buy the land.



We keep our politics. We will go for land acquisition to the areas where we feel comfortable where we basically the places where we work, where we have our delegations. So we will not take the risk to -- we don't feel very comfortable today to take the risk to go to other parts of Spain. We look for those opportunities. We are here to grow our business and to make money for our shareholders and therefore, let's be patient because we see more on better opportunities every month. We assure that before the end of the year, we'll be able to close the operations in this respect.

Operator

Your next question comes from the line of Pedro Alves from Caixa Bank.

Pedro Alves CaixaBank, S.A.

Two questions, please. Firstly, on deliveries. Just to have a sense of out of the remaining units to be delivered in the second half, the split between Q3 and Q4. Just to understand the risks of potential slippages into the next year?

And then for 2021 and 2022 assuming that coastal areas or typical areas of foreign buyers do not fully recover, what are the risks to your target delivery? Just trying to understand the regional split of the upcoming deliveries that you are planning, and whether the projects underway in other Spanish regions would be able to compensate the eventual lower demand in the coastal areas.

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

Well, thank you. From the point of view of deliveries, we'll have 2 parts. We'll have -- on one side, we'll have the construction; and the others, we will have the sales. From the point of view of construction, in fact, we have experienced a small delay during the toughest part of the confinement during this year, in the first part of the month of April, but not significant as to change our targets for the year. The same could be said for year '21. And regarding the year '22, that we are launching our promotions, our developments.

Okay. In fact, there is some delays, but it is not affecting or impacting the target that we have for this year.

Regarding the sales, well, as you know, we don't have too much exposure or exposed. We are not too much exposed to foreign clients because the quantity that we have on the market of second residence is low. And therefore, of course, during this month, I think it's the part that has suffered more from the point of view of sales. Because it's a market that has been almost closed. But it's not affecting either today too much or in a manner that could impact our business for year 2020. And of course, we expect that for year 2021, we still have a lot of months. And considering the big impact that this area has in our business plan is not a significant issue.

Pedro Alves CaixaBank, S.A.

Okay. And if I can just follow-up. In terms of prices, considering potential financial problems of more -- of smaller developers in Spain and considering the stricter presales criteria to access developer loans, do you see the risk of these smaller players, eventually lower prices with a contagious effect to your project?

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

We didn't understand very well the question. I'm sorry. Juan?

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

Yes, no. Probably, this is -- Mario can take that. Whether (inaudible) the environment, which prices are under pressure now.

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

Yes -- no. I mean, look, there would be some cases, for sure, in some specific locations. But in general terms, we are very comfortable with locations where we are performing because there is various cash supply, and there is a strong demand as we were showing with our numbers. So even in the case, there would be some problem with the small players. We don't believe that in our locations, that players will need to draw prices to get to the pre-sales levels.

Operator

(Operator Instructions) Your next question comes from the line of Manuel Gimenez from JB Capital Markets.

Manuel Gimenez JB Capital Markets

Can you hear me?

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

Yes.

Manuel Gimenez JB Capital Markets

Excellent. So just a couple of questions. On the one hand, the excellent figure, presales, 332 gross presales. What would the net of cancellations figures presales be more or less?

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

Okay. Look, as you have said, no, we have done 332 gross presales. Out of this, there has been 38 cancellations. And to be more precise, 35 have been reservations and only 3 have been contracts. And if you look this -- for the quarter, obviously. And if you look for the semester, we have only had 68 cancellations. And if you compare this with the last year, it has been 20% below, so I think that we have a good and strong number here. Let's see.

Manuel Gimenez JB Capital Markets

Okay. Very useful. And then regarding land purchasing outlook, a bit of a follow-up question on one of the ones already made. I believe a full year, you gave guidance. Obviously, this was before the pandemic, where you expected to invest around 110 million throughout 2020. And I believe you had around 2,500 units under exclusivity. I don't know what your pipeline is looking like now or how much you expect to invest in the remainder of the year, maybe looking at the figures more specifically.

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

Well, our pipeline for land acquisition will be 250 -- 2,500 units for the end of the year. But as I told before, I think that we are on time. We see good accretive and good opportunities.

Operator

Your next question comes from the line of Fernando Abril from Alantra.

Fernando Abril Alantra

Just 2 questions on presales, which surprised me positively. Just -- if you could provide us some details on the 2021 presales, about the mix between contracts and reservations.

And then the second question is am I right by assuming that based on your year-end presales target, you are guiding for -- from 800 to 900 new presales in the second semester?

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

Yes. Regarding the first question on the mix for the presales of 2021, we have 85% in private contracts and 15% in presales. And out of the 85% contracts, we have an average down payment of 16% of the total price, okay? So we really believe we have a strong order book for 2021.

Fernando Abril Alantra

Okay. And about the -- what do you expect for the -- now based on your guidance for presales by year-end, what do you expect for the second semester?

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

No -- yes, we are working to get there. With the different strategies that we have implemented and with the work that we have seen, the demand, as we were commenting, we really feel that today, it's at the levels of pre-COVID, and we will work to be the top performers of the year. In any case, as we were saying, we really believe that we have a very resilient product and resilient demand in our units. So it would be a matter of months to get to the 100% of the presales on each project.

Fernando Abril Alantra

Just a follow-up on presales, again. Sorry. Is there any specific region which clearly outperformed or all of the regions did...

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

Yes, we have had an extremely good performing in the North. We have had a strong performance in the Central region and in Catalonia. Valencia and Malaga has been in the levels of a business plan. And to also in Cordoba, that you know we have less exposures. We have had good surprises being above the expected. So if I have to highlight that region, I would say the North, the Vasque country.

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

Okay. I think for the time being, there's no more questions from the phone line, so I have a few that came through a webcast. And Ami from Citi sent 2 questions: One for Mario, one for Jordi. For Mario, can you provide some regional trends on house prices? And how our presale prices compared to what you had before COVID?

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

Yes. In terms of pricing, we have to keep the same listed prices and strategy in each of the buildings. So in general terms, obviously, we are more cautious about the HPA performance for the coming years. But as of now, we have maintained our criteria and we continue with this demand KPIs at these levels. And the conversion ratios shows in this H1, our strategy is to keep in the line.

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

The second part of the question is to Jordi. If you can provide some guidance on the net debt level, we can expect at the end of the year.

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

Okay. You know that our initial target was something between EUR 350 million and [EUR 400 million] (corrected by company after the call) net debt, that this implies a loan-to-value of 25% for the final part of the year. But obviously, with the contingency plan in which there are 2 factors that impacts, basically dividends and an acquisition. So subject to these 2 factors, we expect to be in a net debt between EUR 250 million and EUR 300 million. And obviously loan to value, 20% or even below.

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

Good. Very good. And we have the last one for now coming from Alex from Goldman. If we could provide more details on the guidance of what we expect from 2020 and '21, whether it's volumes or EBITDA or what are we giving on that.

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

Okay. The volumes and the EBITDA that we expect for 2020 and 2021 are the same as we said in our guidance. We are not changing the guidance we think that we will end the year with the facts that we have today. We think that we will be able to reach our targets. There's still a lot of uncertainty because we don't know how the COVID will behave. But today, taking the facts that we have in this moment. The volumes, the EBITDAs and the units that we will deliver will be the same as we said in our presentation for the year.

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

Thanks, Borja. We don't have any more questions and no questions further on the line, so I would like to thank everyone for attending today's call. This is going to be available, recording to play as you wish. So operator, you can now close the call, please.

Operator

Ladies and gentlemen, the presentation of our conference (inaudible). Thank you for participating. You may all disconnect.



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