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Full Year 2020 Neinor Homes SA Earnings Call

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PRESENTATION

Jose Cravo *Neinor Homes, S.A. - Director of IR*

Hi. Good afternoon, everyone. My name is Jose Cravo, and I'm the Head of IR at Neinor Homes. We are here today with Borja Garcia-Egotxeaga, our CEO; and Jordi Argemí, our Deputy CEO and CFO. During today's call, we will present Annual Results for the Fiscal Year 2020.

The presentation is divided in 5 sections. First, we will go through FY '20 results. Then we will provide an update on the company's strategy. After, we will analyze the performance of our development and the Rental businesses. And lastly, we will head into conclusions and Q&A.

With this, I'll leave the word to our CEO, Borja Garcia-Egotxeaga.

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

Thank you, Jose. Good afternoon, everyone, and thank you very much, once again, for your time. I would like to start with a thank you message to all our Neinor employees, our suppliers and also special thanks to our clients and to every stakeholder that has made it possible for us to achieve these outstanding results in a very difficult year.

Let's move please to Slide #5, where I will concentrate on 3 key messages. First, I took over the control of this company, 2 years ago, in March 2019, and I always committed to achieve and exceed all your expectations. And today, I am proud of what this company has achieved even with a pandemic in the middle. We did EUR 110 million adjusted EBITDA, beating our pre-Quabit guidance by 10%. We are always prudent, and we finished the year with a very conservative balance sheet of just 7% loan-to-value. And we announced our first dividend payment of EUR 40 million that is due next week.

Second message on our investment strategy. During 2018 to 2020, we were challenged by many investors and analysts asking us to replenish land bank and to provide visibility. Despite that, we took the decision to reduce acquisitions because we felt market was overheated. That decision proved to be correct as we see plenty of good opportunities now, and these opportunities find us in the best possible situation. We have very low leverage. We have more than EUR 250 million firepower and we have plenty of cash flow visibility from the upcoming deliveries of '21 and '22. We already made the first move. Quabit is a very accretive transaction and creates plenty of value for our shareholders. And this is just the beginning. As mentioned, we see plenty of good opportunities out there.

And third, and also very important, is our Rental platform. In early 2020, we launched Neinor Rental in what we believed was a tremendous opportunity. We launched with the objective to reach 5,000 units in 5 years. Today, we are even more optimistic about this platform, as we see the PRS sector becoming very relevant after the pandemia. And just 1 year later, we have acquired the best operating platform with more than 2,500 units under management. We also grew up OpCo, as we acquired a value-add portfolio of 400 units and a pipeline of 2,700 units that will be delivered over the next coming years. Later in this presentation, we will give you more details of this new business unit.

With this, I give now the word to Jordi to analyze the full year 2020 financial results.

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

Thank you, Borja. Honestly, I think the numbers speak for themselves. We have exceeded in 2020, the EBITDA guidance by 10%. This means from EUR 100 million to EUR 110 million, but also the market consensus by around 20%, since it stood at EUR 90 million, EUR 95 million.

There are 2 factors that explain the result. One is that we have reached the gross margin guided of 26% for the developer business, even with a bankruptcy of some construction companies, but also with a full lockdown that we all lived in April. And the other one is the OpEx optimization. We have been able to decrease our OpEx by 3% compared to last year, even though our revenue lines has increased by almost 20%.

Today, we have a very optimized company. And obviously, this is a clear lever for the future. Apart from the P&L, this company has generated EUR 120 million of net cash flow. That has allowed Neinor to reduce the net debt adjusted, down to EUR 123 million. This means a loan-to-value of 7%, that combined with a strong cash position of EUR 270 million, we are in an excellent position to take advantage of the investment opportunities that will come during 2021, being Quabit and also Sardes, 2 of them. Having said all this, the good result is not only 2020, is the trend of this company, since we have shown over the last 3 years, a compounded EBITDA growth of 40% having more than EUR 100 million, 2 years in a row. And as a result of it, we are leading the profitability in the developer sector of Spain.

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

Thank you, Jordi. Now let's move please to Slide #8 to give you an update on Neinor's company strategy. As you know, until 2020, Neinor had 1 core business, the development, that was complemented by the servicing contract with Kutxabank. Last year, we decided to launch Neinor Rental. And from that point onwards, we see Neinor as a sum of 3 parts. 3 business lines within the same asset class, the residential. Our core business is still development, but we are looking to grow our Rental platform and Services division to add a more stable and recurrent source of income that should act as an anchor to Neinor's value.

Now please follow me to Slide #9 to explain our land acquisition strategy. To build both lines, Rental and development, it is necessary to follow a smart plan acquisition strategy through the cycles. In 2021, we are in the best land market over the past 4, 5 years and we reiterate our view that we are currently in a biased market with a growing number of opportunities to buy quality land at attractive prices. Furthermore, since we didn't buy for a period of almost 2 years, we get to this point with a strong balance sheet, a high cash flow generation perspectives from the deliveries that will take place over the next 2 years.

At this stage, we are looking at a pipeline of more than EUR 500 million, including both organic and inorganic opportunities. We now move to Slide #10. And here, we want to remark that the acquisition of Quabit has a highly complementary geographical profile to Neinor. We have increased our exposure to Madrid, to the Corredor del Henares and we have reinforced our exposure to Málaga and Valencia. Moreover, with Quabit absorption, we have increased our exposure to strategic land at a very competitive price that is key for margins to be sustainable in the long run.

And now we are going to focus on the 2 main business lines: Development; and Rental.

So please follow me to the Slide #12 to start with the Development line. For this line, we have launched 7,500 units. And more than 5,500 units are currently under construction and finished products. And this is excluding Rental. This means that all the units to be delivered in the year -- in this year 2021 and next year, 2022, are under construction today. The presales level today for the deliveries of '21 is around 70%. And for '22, around 40%, what is fully aligned, also with our planification.

So now let's move to Slide #13 to talk a little bit more about commercialization. Despite COVID, we were able to grow the number of leads versus 2019 by nearly 10%. Even though we had more leads, visits fell by 7% as part of the year lockdown, but even though we sold 2% more than in 2019.

So now let's move to Slide #14. At a macro level, we continue to see an imbalance between demand and supply in the top 6 regions of

Spain, where Neinor is active. In 2020 alone, on the top situations of Neinor, there was a housing production deficit of nearly 65,000 units. Due to COVID, we are seeing a decrease in new supply, and therefore, we expect the shortage of supply to increase further in 2021. Prices reflect the shortage of supply environment and have been quite resilient, post-COVID, especially for new products.

And now I pass again the word to Jordi, that he will comment on the Rental business.

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

Excellent. On Section 4, we have the Rental business. Last year, we strategically decided to be the first movers of the build-to-rent business, with a portfolio of 1,200 units and with a medium-term target of 5,000 units. Only 12 months later, we have been able to have a portfolio of more than 3,000 units, and we are also managing more than 2,500 units from third parties, and all this, combined, with the excellent performance shown in 2020 and with a pandemic in the middle.

On geographic terms, our strategy is to have a relevant exposure to the Center region. And as you can see in this slide, the existing asset base has more than 70% exposure in that region. On top of it, our strategy was not only to have a portfolio, but also to control the whole value chain of the rental business, since it allows us to control and optimize the yields of this business. That's why we acquired Renta Garantizada, being now our operating company.

And the real question is why we do this? Firstly because, in our view, it is one of the most attractive investment opportunity in the residential sector, where there is a lack of core PRS product and Neinor is building this product.

And secondly, because it will maximize the returns for our shareholders from the 5% net yields, at which we believe we can produce new product, to the market yields of 3% to 3.5%. There is a clear yield compression potential that will drive NAV growth to our shareholders. This has been perceived now by the market in Spain, with a lot of investors trying to enter this business, but access to financing is key. And Neinor has been the only player in Spain with the capacity to achieve it.

If we move to Slide 17, you will see our delivery plan for the Rental business line. Basically, in the next 3 years, we expect to deliver more than 1,200 units for the Rental platform, and we will add additional 400 units that are already under operation. To do so, Neinor has already secured construction CapEx financing, and we should start works on an additional 700 units until the end of 2021. On top of this, Neinor has an additional portfolio of 1,500 units, that will come from Quabit, and has been assumed to be delivered post 2023. So in total, more than 3,000 units that will generate a stabilized GRI of EUR 38 million.

On Slide 18, we have the zoom into the 400 units of the current operating portfolio with the Sardes. The portfolio acquisition we did 1 month ago. Why did we buy this operating portfolio? Because we get a net yield on cost that is equivalent to what we target in our development pipeline, and this, without assuming construction risk and tenant risk, since these units are already finished and rented. The WALT of the portfolio is only 2 years, and the year-to-date contract renewals have been 16% in a like-for-like basis. ERV of the portfolio is currently at EUR 8 per square meter, a month, and market ERV is EUR 10.5, which shows the reversionary potential Neinor has ahead by filling up vacancy and capturing up the rental increase. All in all, this acquisition is a value-add acquisition for Neinor, that we bought at an attractive price, and now with the operating company, we will work to increase both GRI and also net operating income.

And finally, in Slide #19, we have further details on the development pipeline. You can see specifics location per location, but the global photo is more than 2,700 units that will generate EUR 35 million of GRI with a gross yield ranging 6% and 7% and net yield of around 5% with a clear concentration in the Center region.

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

Thank you, Jordi. Please now follow me to Slide #21 to explain how our ESG strategy fits into the long-term goals of the company. Our environmental commitment is based on 2 simple principles. On one hand, we strive to reduce as much as possible, the environmental impact of our construction activity. On the other hand, when we designed the product for our clients, we put environmental protection as a main target from the very beginning of the project. An evidence of this is the fact that Neinor is the developer in Spain, with the highest share of BREEAM certifications.

However, we are not only concerned about the environment. We are also conscious of the housing shortage problem that exists in Spain and that we have mentioned in our development business section, where young people struggle to buy or to rent a house. In these regards, we are working on collaborative solutions with regional governments to solve this problem. And of course, we do all this, applying the best governance practices. In recognition of these efforts, this week Sustainalytics published its ESG risk assessment of Neinor, in which we've come out #1 in residential developer in Spain, with a 10.5 score.

And now let's move to the last slide for our 2021 outlook. Now that we move to the conclusions, my first comments are on the Quabit absorption. The general shareholders meeting of the companies is expected to take place in March 31. So the final approval should be received during the first half of 2021. Second important message is on our guidance. We reiterate our pre-COVID guidance target of EUR 150 million EBITDA, as we feel comfortable and have very strong visibility on our business for the upcoming years.

And finally, as I always say, shareholder remuneration is our key priority. Along this line, we are going to pay our first dividend next week of EUR 40 million and target to generate EUR 50 million dividend from our 2021 business year.

Thank you very much for your time, and I give the word back to Jose for the Q&A.

Jose Cravo Neinor Homes, S.A. - Director of IR

Thank you, Borja. So now we move to the Q&A session. I would encourage everyone connected through the webcast to submit the questions through the platform. And in the meantime, I hand over the call to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Fernando Abril-Martorell Alantra Equities Sociedad de Valores, S.A., Research Division - Analyst

I have 3 questions, if I may. First, on the guidance for 2021 is -- I mean, a bit more clarification if it includes Quabit on the delivery units? If it's -- and also on the EBITDA, any contribution from Quabit? And then on the net debt to EBITDA, again, so there are a lot of moving parts because you are planning for a land CapEx of EUR 150 million, then you are adding the Quabit debt. So I don't know if it's -- all of them is included in that leverage guidance. And what could be the cash flow contribution from Quabit in 2021?

Then second question is on the P&L. So you've booked a provision of about EUR 10 million in the quarter, if I'm not wrong. So any comment on it and also EUR 6.5 million in other revenues, I don't know where this comes from? Is it a land sale or anything that could be recurrent from now on?

And then third question is on the presales activity. And if you can give us some outlook for 2021? And how do you see demand trends?

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

Okay. I try to take the first 3 questions, and then Mario will take the last one, I guess. Regarding your first question, which is the guidance, I would say several concepts and messages here. The first one is that we keep the guidance pre-COVID. And you know that this means that we should increase compared to our growth compared to this year by 30%, 40% versus EUR 110 million, which is relevant. Regarding your point of Quabit. Quabit, we believe that will not contribute -- at least will be very limited in other contribution at EBITDA level for this 2021. So it's included, but not impact. Yes, at cash flow. And this -- I'll try to answer to your second point now, regarding the net debt-to-EBITDA guidance of 2, 2.5x, it includes the debt, but obviously, Quabit -- we expect Quabit to generate a lot of cash, and this cash would imply this reduction in the net debt EBITDA that we are projecting.

Regarding your third question, regarding on provisions of almost EUR 10 million, which is similar to the one that we had in 2019. Basically, I mean, we can give you a more, I mean, details. EUR 2 million roughly comes from growth. This means the transaction of

Quabit and Sardes and Renta Garantizada, mainly. EUR 1 million comes from the incentive plan, that has been recorded, but it will not be paid because it finished in September last year. So it's pure accounting. It's not real cost for us. Then we have another EUR 3 million of provision -- voluntary provision for per se because there has been some bankruptcies in some of the developed -- and in construction companies with some developments.

So we had less visibility, and we wanted to be very prudent with that, and we put additional provision. Hopefully, the cost will not be there in 2021.

And finally, there is EUR 2 million voluntary impairment based on the Savills valuation. This should be the split, answering your part of third question. And now we jump to the presales activity, I give the word to Mario.

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

Well, regarding presales on 2020, you are seeing the circa 1,500 units, it's an increase versus 2019. And having in mind all what we have said, late, during 2020, we are very comfortable about the demand strength of our product.

Regarding 2021, we have seen in the first months the same trend with resilient demand and increasing type of buyers coming from the city centers to the type of product that we are delivering the outskirts with terraces and common areas. So we feel that the trends for 2021 would be in that line of 2020.

Fernando Abril-Martorell *Alantra Equities Sociedad de Valores, S.A., Research Division* - Analyst

Okay. Just 2 quick follow-ups. Jordi, on the deliveries that you've mentioned, this is all build to sell? Or you're including 150 that you will deliver for your Rental platform?

And then another follow-up is the other revenue, sorry, maybe I don't know if you've mentioned it, but I could miss it.

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

Sorry, Yes, I missed your -- sorry. This -- I mean, split is very internal. This refers to development. So you should sum the EUR 6 million in the development business line. That's why if -- you will get 26% gross margin considering this part, okay? And regarding the guidance, Rental is on top of...

Fernando Abril-Martorell *Alantra Equities Sociedad de Valores, S.A., Research Division* - Analyst

Okay. Okay. So it's 2.4 for build-to-sell?

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

Correct.

Operator

And your next question comes from the line of Oliver Issac from Crédit Suisse.

Oliver Isaac *Crédit Suisse AG, Research Division* - Research Analyst

Firstly, I was wondering if you could give us a bit more detail around your confidence in the 2021 delivery target, please? And particularly on the stage of development. I noticed you didn't give the sort of the usual details split that you usually give. So that would be helpful, please.

And then just secondly, on your OpEx control. You obviously showed some very good OpEx reduction this year. Should we think about that as a onetime thing? Or do you think you'll be able to maybe hold on to some of those OpEx savings going forward?

And then lastly, maybe a bit more high level. You've obviously mentioned you've got a significant amount of firepower and you've obviously made some big changes to the business and some acquisitions over the last 12 months. Do you sort of look at the business now and think that you're happy with how it's set up? Or do you see other opportunities you would like to pursue potentially going forward?

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

Okay. Regarding your first question about a little bit more detail in the construction for this year 2021, we must say that all the construction plan that we have is running fully aligned with the planification that we have for these constructions. Basically, we see that the last units of construction will be finished by the end of summer. And then we will have, as usual, 2 or 3 months for the delivery process, as you know, is complex because it requires a lot of documentation.

But in general terms, the distribution of deliveries by percentage this year is a little bit more easy than what it was during last year, but since we are also increasing the units that we are going to deliver, we will still go for the last quarter of the year with a whole bunch of deliveries, something usual in our business and that most likely will be always the same. And Jordi will take the second question?

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

Yes. I will take the question regarding the OpEx. Regarding Neinor, this optimization in the OpEx was recurrent, it's not a one-off. Obviously, in 2021, we will have the impact of Quabit. So we will have more time also to optimize the OpEx coming from Quabit. But in a stand-alone basis, let's say, this is recurrent, and this actually is a good lever for us in the coming years, in terms of profitability.

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

Okay. And I'll take the third one regarding the investment strategy. So what -- we are comfortable with what we have done in the last 3, 4 months. So we did an opportunistic deal with Quabit that fulfills with the global land bank replenishment. We did the opportunistic deal of Sardes that accelerate the Rental platform. We also did 2 core deals in Madrid and Valencia. So in general terms, the lines for 2021 could be in the same strategy. We will continue looking at opportunistic deals from portfolios. And even if there is opportunity accretive deals on PRS, and we would have a strong focus on opportunities of core or prime areas, both in strategic and fully permitted, coming from the more and more distressed situation from the sellers.

Operator

No question at this time. (Operator Instructions)

Jose Cravo Neinor Homes, S.A. - Director of IR

Okay. Operator, so we can move to the webcast platform.

Operator

No question at this time. Please continue, sir.

Jose Cravo Neinor Homes, S.A. - Director of IR

Okay. Perfect. So we have here 1 question from the webcast platform on presales. So if we could give the breakdown between gross and net presales for the fourth quarter of 2020 with a comparison with 2019.

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

Yes, we did close to EUR 400 million in the last quarter and in 2019, it was more or less in line. We feel that trend will be the same in the first quarter of 2021.

Jose Cravo Neinor Homes, S.A. - Director of IR

Going again to another question from a different investor. If there is the possibility to renew the servicing contract with Kutxabank that expires in 2022?

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

Yes. Well, in fact, we are working already in the renewal of this contract. There will be a competitive process, of course, because for the governance of the bank, this is duty. We will go to this public tender. And we feel quite confident that we'll be able to renew this contract by Q3 of this year.

Jose Cravo Neinor Homes, S.A. - Director of IR

Then there is 1 more or 2 more questions regarding investments. The first one is on the 11,000 units land pipeline that we see right now, if we could elaborate further on it?

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

Yes, I'll take this one. In the pipeline, well, you know that the 3 business lines that we commented in the other questions. So basically, I can do the breakdown on which are the units in each of the buckets. We have 50% of that 11,000 units in portfolios or opportunistic deals coming from companies and portfolios. 25% is fully permitted in that prime areas that Neinor and -- has their implementation and 25% regarding the strategic lands that we are working on.

Jose Cravo Neinor Homes, S.A. - Director of IR

Okay. And then as a follow-up question to this one. What are our thoughts on further moves on consolidation in the sector?

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

Well, this is real difficult to describe today. Of course, we see movements within the companies, but it's very difficult to know if there will be more consolidation or not in this year. Everyone is talking about this. We will have to wait and see. Neinor will be always looking for the good opportunities out there in the market. So we are also focusing on that.

Jose Cravo Neinor Homes, S.A. - Director of IR

Okay. We have here 1 last question, okay? It comes from an investor that is asking about our guidance, our CapEx spend, CapEx guidance for 2021 of EUR 150 million. Considering the amount of land that we acquired in '20 with -- or that we will acquire with the deal or the merger with Quabit, why do we think that we still need to buy more lands?

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

Well Neinor is a developer. And as we have said, we have to feed our lines for development and also for rental. We will keep looking, as we said, for the good opportunities in the market. The truth is that we have EUR 150 million of cash to find these opportunities. And if we find those opportunities, accretive opportunities, no matter if it's final land or still land with some realistic milestones to achieve, we will go for it.

Jose Cravo Neinor Homes, S.A. - Director of IR

Okay. We have no further questions in the webcast. So if there are also no further questions in the -- coming from the phone line, we should finish the Conference Call of Full Year 2020 Results. And over to you, operator.

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