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Q1 2021 Neinor Homes SA Earnings Call

EVENT DATE/TIME: MAY 17, 2021 / 11:00AM GMT

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Neinor Homes Q1 2021 Results Presentation. (Operator Instructions) Please be advised today's conference is being recorded today, Monday, the 17th of May 2021. (Operator Instructions)

I would now like to hand the conference over to the speaker today, Mr. Jose Cravo. Please go ahead.

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

Thank you. Hi, good afternoon, everyone. My name is Jose Cravo, and I'm the Head of Investor Relations at Neinor Homes. We are here today with Borja Garcia-Egotxeaga, our CEO, and who will go over our first quarter 2021 results. Jordi Argemí, our Deputy CEO and CFO, will not be present today as he was recently a father. So congratulations to him.

The presentation will be divided in 3 sections. We'll start with first quarter main highlights, then we will review the operational and financial performance of the business. And finally, we will move to conclusions and Q&A.

With this, I hand over the presentation to our CEO, Borja Garcia-Egotxeaga.

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

Thank you, Jose. Good morning, everyone, and thanks for being here. To start, I would like to highlight that the first quarter of 2021 was the strongest quarter ever for Neinor Homes. The set of the results that we are presenting today and that we'll deliver going forward is the outcome of our capacity to correctly read the land market together with a highly disciplined investment strategy through the cycle.

Now we are getting out of the pandemic in a much better competitive position as a company and with the stronger sector fundamentals. Let's not forget that moving, improving or buying a new home is an idea that went through every one of us for the last year, at least on a weekly basis. And this new relevance as the most important asset acquired by our home is here to stay. And it represents a big opportunity for all the players on the residential sector. If we combine this with our exceptional operating capabilities and solid investment strategy, it means we have a bright future in front of us. After this brief introduction, let's move to Slide #5 to see this quarter highlights.

Starting with land acquisitions. Over the past 6 months, we have doubled the size of our land bank, acquiring nearly 10,000 units and investing almost EUR 600 million in buyers' market conditions. We have done this through a mix of opportunistic and cherrypicked deals and with 60% exposure to the regions of Madrid and Barcelona.

On operations. We have had the best quarter ever with 710 units sold, a 30% year-on-year growth to which Quabit is already contributing in a significant manner and above our initial expectations. We now have nearly 3,800 units in our order book and more than EUR 1 billion in future revenues. Moreover, on the Rental portfolio and during the first quarter, we have leased an area equivalent to 10% of the total GLA and the release spread was 19%, showing a clear revisionary potential.

And finally, on financials. We have doubled results at sales, EBITDA and net income based on delivery growth. We have also paid out first dividend of EUR 37 million, and post-closing, we issued a EUR 300 million bond to restructure Quabit's debt position ahead of the transaction closing. So as you can see, first quarter '21 was a very intense quarter for Neinor Homes in all aspects. Now we will zoom into

each one of these items, starting in Slide #6.

As mentioned before, in just 6 months, Neinor was able to complete an ambitious land acquisitions plan and bought nearly 10,000 units and invest almost EUR 600 million in a buyers' market and in an equity-efficient way. This strong move is the consequence of the trends that we already saw before COVID and that accelerated afterwards. Please remember that since middle '18, the company stopped new acquisitions as we could not find the kind of opportunities that we like. Instead, we decided to deleverage, decreasing our loan-to-value from 19% to 8%. This decision is what allowed us to get to this point of the cycle in a position of strength.

Year-to-date, other than Quabit, we have acquired 2,500 units cherrypicked, of which 89% are located in the areas of Madrid and Barcelona that we know very well and where we have been delivering houses to our clients over the past 5 years. And more importantly, in some of these plots, we bought land at the same price per square meter than in the past. The remaining 11% of the cherrypicked acquisitions are located in Valencia, Bilbao and Malaga, markets that we also know very well. Now please follow me to the next slide to provide you more details on our recent land acquisitions.

So in Slide #7, you can see an overview of the recent land investments with a split between cherrypicked and opportunistic. For the 2,500 cherrypicked units, we have committed to a total investment of EUR 235 million, and that is more than 50% above our EUR 150 million yearly target. Even though we have committed to EUR 235 million total investment, this amount should be distributed over a 4-year period and only 50% is payable in 2021. At this stage, we have a further EUR 100 million under analysis.

With regards to Quabit, we would like to simply note that we are very close to finalize the merger, and this should be announced soon. In the meantime, we would like to note that we believe we have done this merger in the perfect market timing given how strongly demand is proving to be post COVID. Please recall that Quabit's active product is mostly located in the area of Madrid, Malaga and Costa del Sol, which are the best-performing regions year-to-date. Quabit is the cheapest and most accretive land acquisition we have seen in Spain in the recent history. So now please follow me to Section 2 in Slide #9, where we will provide a business update.

On the operational snapshot. Here, we show the operational and financial performance review of first quarter '21 results under the new company structure, which includes, as you know, our 3 business lines: Development, Rental and Residential Services.

The Rental platform includes only the revenues from the operating assets at the propco, while Renta Garantizada is included as part of Residential Services. Also please note that operational figures reported on a proforma basis at the end of March '21, while financial figures are reported for Neinor stand-alone.

So starting with operations. We emphasize the strong commercialization activity with 713 units sold recorded in the quarter, leading to an orderbook of 3,920 units and visibility over EUR 1.1 billion of future revenues.

On the Rental business, we highlight that 19% release spread with 3,000 square meters takeup that represents 10% of the total portfolio. The WAULT is short of just 1 year because the existing contracts were all under the previous rental low. And that means that over the coming months, we have an important work to balance occupancy with rental growth and to maximize the value of this platform.

On the Services division, the most important contributor to earnings is still the servicing contract with Kutxabank. But we note that we have added the rental opco company and third-party development, and both these units will start contributing positively for future results.

And now I give the word to Jose to go over the financial results.

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

Thank you, Borja. Here, as Borja mentioned, we are going to review the quarterly financial performance of Neinor stand-alone, that is to say without Quabit. On this slide, on the right, you have the year-on-year evolution of the main P&L lines, and you see that we have been able to double financials.

Growth should continue throughout the rest of the year as we target to increase deliveries by 50%. And this year, you should not expect deliveries to be so concentrated in the last quarter. In terms of the balance sheet, we note that net debt decreases -- sorry, increases quarter-on-quarter, and that is mostly attributable to a still low level of deliveries, the dividend payment and the acquisition of Sardes portfolio.

Over the next quarters, you will see a further increase in net debt as we integrate Quabit and continue land acquisitions. Still, we note that the cash position of the company continues strong with nearly EUR 200 million at the end of the quarter, and that was just reinforced with the bond issuance, which we'll review in detail in the next slide.

Year-to-date, and especially under the context of the merger with Quabit, we have carried an active liabilities management through the refinancing of the debt with Sareb in the amount of EUR 56 million and the issuance of EUR 300 million green bond. The rationale for the bond issuance ahead of the conclusion of the merger was to lower the cost of Quabit that stood between 8% and 16%, and this allows us to start to generate financial synergies for our shareholders from day 1.

Secondly, we took the opportunity to consolidate Quabit and Neinor corporate debt and extend maturities until 2026. And therefore, we've eliminated any refinancing risk over this period. Until 2026, we don't have any relevant corporate debt maturity.

Now I hand over the word to Borja in order to present the final conclusions.

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

Thank you, Jose. So going to the slide, key takeaways. Moving to the conclusions. The key message is that we see a very positive outlook ahead of us. We are getting out of the crisis much stronger fundamentals, and we have done the correct moves to capitalize on this opportunity. We now are selling more than before as demand has been resilient and new supply continues to be fairly limited in the top 6 regions of Spain. And in addition, we have found less competition on land acquisitions as there are fewer players in the market.

And to close, a few messages. First, on acquisitions. The key for our business is acquisitions. That determines everything. And we have been very disciplined and opportunistic. We acquired more than 10,000 units recently, and they have been the most accretive and cheap assets we have seen in the recent times. On top of this, at this stage, we continue to analyze growth opportunities as we enjoy from a strong balance sheet position and benefit from cash generated with deliveries.

Second, on operations. On commercialization, it is very clear that the market is strong. April data points are also good and May continues at a high pace. In some developments, we are already increasing prices. Our construction activity is also very solid with new launches and new WIPs after integrating Quabit. On the rental side, during the second quarter, we are very proud to be delivering our first project, Hacienda Homes, in Malaga with 150 units. And at the same time, we are expanding our opco, Renta Garantizada, from Madrid to the other type regions of Neinor.

And last, on financials. Good order book visibility and more than 6,000 units under construction provide us good cash flow visibility, which will allow us once again to meet our yearly guidance. 1 year ago, during the first quarter results presentation of 2020 and when we were all shocked by the COVID, I finished this speech saying that in those challenging times, we felt very confident in our company and that we will be looking at all the angles to grow our residential platform. 1 year later, as you can see, this is a reality, and we have fulfilled all of our targets. But far away from relaxing, we will keep working hard to keep creating value for our company and our investors.

So thank you very much for your time. And with this, I hand over to Jose so that we can take all your questions. Thank you.

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

Thank you, Borja. Okay, operator, you may now start the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) So your first question comes from the line of Jonathan Kownator from Goldman Sachs.

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

I have 3 questions, if I may. The first one, can you help us understand how cost inflation is developing at this stage? Obviously, we're seeing a number of commodities with very high prices, so can you just elaborate on how it's going to impact your business and margin, please, over the next few quarters?

Second question, on guidance, can you help us understand, now that there is a fairly high visibility on Quabit and you acquired also further land, how you -- or number of units is going to develop beyond 2021? That would be helpful, please.

And the last question, a bit on business mix and these latest land acquisitions. You see when on one hand, Quabit has a fairly low ASP and that's what we see in your pipeline currently, but you're also acquiring land in Madrid and Barcelona and have counted EUR 94,000 per unit, and a lot of the land is non-permitted, so it seems a much higher pricing point. So it's a bit of a very wide gap in terms of pricing. So should we expect you to be that opportunistic, some high end and some low end? Or are you going to have a sort of more coherent positioning going forward?

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

Okay. Regarding the question about the guidance and about the Quabit acquisition. As we have said, we keep remaining the same guidance as we had before the Quabit acquisition, and this is basically that we will be delivering in the terms of 2,500 units this year what will make an EBITDA of around EUR 150 million. It is true that we will deliver some developments that Quabit have started, but we will go to the end of the year and we will be more accurate in this data.

Regarding the land exposure to Madrid and Barcelona, the portfolio of Quabit is very concentrated in the area of Madrid. More than 35% of the land is in the area of the Corredor del Henares. And that doesn't mean that for us, Madrid is not one of the best places to invest for land now in Spain. So we keep looking to that market, and we are closing still accretive opportunities there.

And regarding your first question, I'm sorry, I didn't get it very well.

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

So the question was on the cost inflation and the impact on your business going forward.

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

Okay. Yes, yes, yes. Regarding cost inflation, okay, we -- today, we are not experimenting still cost inflation. It is true that during the last, I would say, weeks, not even months, we are seeing raw materials going higher. So there's a very slight cost inflation basically because of the price of iron today in the construction, but it's not even representing a 1% increase.

I think that we will have to look more to the last part of this year and maybe to the year '22, and that cost inflation could come off the hand of the rehabilitation market in Spain. If the rehabilitation market in Spain experiments a very big growth as the government wants, we may have cost inflation coming from people, from employees, labor hand. That is always, in Spain, where you have more problems when you have a cost inflation because a lot of construction activity going on at the same time.

From the point of view of construction of developers, we don't expect big variations from next year. So I think that we will be still below 100,000 units per year being constructed. So from that point of view, subcontractors should be able to handle with the situation. And as I have said, maybe the situation could be a little bit more difficult because of rehabilitation. As you know, we have some subcontractors that we share between new construction and the rehabilitation. From there could come in 6 months or in a year some cost inflation that we consider that should be around 3% -- between 3% and 5%.

Anyway, we think that this cost inflation will be offset with the increase of house prices that we are seeing also. As we have said, we have a very active market now in Spain, and we are already increasing prices in some of our developments in order not to sell too fast and to increase margin that at the end is our target.

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

So just to summarize, so you said 3% to 5% cost inflation, was that just for the labor part? Or was that sort of the entire part?

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

No. We think that we could have between 3% and 5% for the whole year '21.

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

Okay. So that's for '21, and that's including labor and cost. Okay.

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

Yes.

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

Okay. That's helpful. And no expectation yet on '22, is that too early?

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

Sorry?

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

Would you think that this would be more for '22?

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

Yes. It should be more for '22, and it's going to depend very much. The Spanish government wants to invest EUR 5,000 million in rehabilitation. So more or less, they want to multiply by 3x the activity in the rehabilitation sector in Spain. We will have to wait and see if this is going to be possible because at the end, it's going to be private investment for existing houses, the ones who are going to activate this investment in this situation. So we'll have to wait and see. But if things should go more or less as the Spanish government is planning, then we expect that we could have some tensions, and we are already working on that in some of the suppliers that work -- subcontractors that work in our developments.

Jonathan Sacha Kownator *Goldman Sachs Group, Inc., Research Division - Financial Analyst*

Okay. That's helpful. And putting it all together and also going back on the positioning and land acquisition questions because I'm not sure if you've answered the question, but the question is really what sort of margins should we expect going forward if you have cost inflation. You're saying that, that may be [caused] by cost inflation. But also you have a question of base ASP because on one hand, Quabit has a very low ASP and it seems that the land that you're acquiring in Madrid would also have a much higher ASP potentially. So how do we all put that together and reconcile it?

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

Well, regarding the margins, what we expect is that we will keep on the same kind of margins that we are having in Neinor, above 20%. And regarding the quality of the land of Quabit, it's a slightly different market. The market that Quabit is used in comparison with the market that normally Neinor is used. That doesn't mean that in Neinor, we didn't do before also this kind of houses because we have always worked, but in lower quantities with this segment. But since we have done a very accretive land payment and we have bought with a heavy discount of 75% from NAV, the margins that we expect from the Quabit operation are in the line of Neinor's, around 20%.

Operator

Next 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 a couple of them. First, on presales. Can you provide us any number from presales you've done in April? And how is it going in May, net presales, please?

And then my second question is with regards Quabit. Where do you see your net debt -- adjusted net debt by the end of the year with both Quabit acquisition and after also the land purchases that you've mentioned in this quarter?

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

Okay. I'll pass the word to Mario to talk a little bit about sales, so he can share the evolution of these last 2 months. But Mario go ahead. We have very good numbers.

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

Yes. Well, the activity in April and May has been in the same trend as Q1, I would say. So we forecast to end up the second quarter with similar numbers in terms of gross and net sales for the combined entity.

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

Well, thank you, Fernando. I'll take the -- Jose here. I'll take the second question on the net debt. So essentially, we reiterate what we've said in the call, our full year results, that the EBITDA should be around EUR 150 million and that the net debt to be between 2 and 2.5x to this level of EBITDA, okay? And then the difference may fluctuate depending on what we end up doing on land acquisition.

Just bear in mind that -- as we said also in the last call, that Quabit should have a limited contribution to the P&L during this year, but -- on the EBITDA, okay? And then on cash flow, it should be clearly positive, okay?

Operator

And gentlemen, that's all the questions over the phone. Please continue.

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

Great. So now we will shift to the questions asked on the webcast platform. I'll start with the first question for Mario perhaps. It's asking about the developments in which we are increasing prices, where exactly we are in this development and by how much are we increasing prices.

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

Yes. Well, this initial increase of prices are mainly focused in the regions of Madrid, Catalonia and Malaga. But I will say that we have also additional developments in specific locations in Basque Country and Valencia that we are also contemplating some price increase. In this first round, we have increased prices average from 1.53%. But as you know, this is a very one-by-one development analysis and also having always in mind the sales curve target that we have that, as you know, in Q1 has been beaten. And by the end of the year, we would like to keep that rhythms under control, so we maximize the margin for those developments.

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

Okay. Then there is a follow-up question with regards to commercialization about cancellations in year-to-date, about whether there are some clients -- some of our clients facing challenges to get the mortgages from Spanish banks.

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

No. Well, the cancellation ratio has been very stable, both Neinor stand-alone and also the Quabit and the combined. In terms of numbers, we have had a below 1% cancellation ratio on the monthly rate in the combined entity, a bit lower on Neinor and a bit higher on Quabit, but most of that cancellations has come from personal situations and the typical things. We have not seen any trend of difficulties to access the finance on the current quarters.

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

Then we also have a further question to Borja about if there is -- or if we are seeing any supply shortage on materials or labor availability at this stage.

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

No. As I have said before, so far, the activity is even lower than the activity that we should be having in normal situations. I mean you have to remember that last year, around 25% of the developments that were going to be launched in Spain were stopped. So today, the activity is still not fully recovered from the constructors' point of view. In fact, we have many construction companies asking us or requiring us to give them some constructions because they are still not working 100% capacity. We expect that during the second half of the year, maybe the activity starts increasing.

What is going on today is a problem of raw materials, and it's not a problem from the point of view of supply. It's more a problem from the point of view of prices. Metals are increasing prices very, very fast in the last months. And therefore, what we are noting today at the construction is, for instance, the price of iron that may change the cost of the total construction being 0.5%, for instance.

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

Okay. Thank you, Borja. Operator, I don't see any further questions. So if there are also no further questions on the phone line, we finish the conference call.

Operator

Yes, sir, no further question as well over the phone line.

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

Sorry, we have one that came in last minute now on the webcast about -- asking about the expectations for the delivery weight between quarters and how confident we are about achieving the volume guidance of 2,400 based on our currently WIP CapEx position.

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

Well, we feel confident that we will be able to fulfill and to reach the targets of this year '21. We will be finishing more or less 3,000 units, out of which we will deliver 2,500 more or less. Basically, during the first half of this year, we have to deliver 1,000 units that we will do it, and we can talk about this in the next quarter presentation. For Q3, more or less, we will be finishing another 1,000; for Q4, another 1,000. The CFOs of all these constructions are working good around the planning. In total, what I'm telling now, it's more or less 28 or 29 developments. And the last CFOs are expected to be by the end of September, which should be enough in order to have time to make a good deliver.

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

Okay. Thank you, Borja. So we have no further questions. So we're going to wrap it up. And if you have any -- if there's any follow-up, we are happy to take it offline. Many thanks.

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

Thank you.

Operator

This does conclude our conference for today. Thank you all for participating. You may all disconnect. Stay safe, everyone. Have a great day.

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