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Q3 2021 Neinor Homes SA Earnings Presentation

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PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to the Neinor Homes 9M '21 Results Presentation Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

And I would now like to hand the conference now to your first speaker today, Mr. Jose Cravo. Please go ahead, sir.

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

Okay. Thank you. Hi, good afternoon, everyone. My name is Jose Cravo, and I'm the Head of Investor Relations at Neinor Homes. Today, we are going to go through our 9 months 2021 results presentation. As usual, we are here today with Borja Garcia-Egotxeaga, our CEO; and Jordi Argemí, our Deputy CEO and CFO. We shall start by reviewing the main highlights of this set of results, and analyze the key trends affecting the development activity and the rental platform. On Section 3, we will give you a glimpse of how Neinor rental product will look like. And afterwards, we will go into conclusions.

Now I'll hand over the word to Borja.

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

Thank you, Jose. Thanks, everyone, for joining. Before going to the presentation, the 1 message I want to relay is that you will see a solid recurring business with fundamentals that have never been so strong in our company. This allows us to be on track to meet our 2021 guidance and also give us strong momentum for growth in the near future. Now let's start on Page #5, so I can give you a few highlights of the 2021 third quarter results. On the financial side, we recorded EUR 500 million of revenues and EUR 96 million adjusted EBITDA. This represents 65% of our yearly target. Bottom line, this represents an earning per share of EUR 0.79, almost 200% increase over the last year. And it means 12% return on equity, the highest in the sector.

Important to mention also is that only 6 months after the integration of Quabit, we have recorded a positive operating profit of EUR 5 million. It's not that much, but we have integrated this company in a record time, and we are already generating profits. At the operational level, during the third quarter, we kept seeing a positive momentum with 1,938 units pre-sold in the year, which implies a growth of 78% versus the same period of 2020. Moreover, we have started to increase prices during the year with 2.5% to 3% HPA above the business -- the (inaudible). On the rental business, the performance has also been quite strong, and we continue to balance occupancy increases with rental growth. In the year, we leased 59% of total GLA, the gross leasable area of Services portfolio while increasing rents by 19%.

Regarding the investment activity, this is the time to go for good and accretive acquisitions. And despite the commercial strength, our land acquisition program has not slowed down. This year, we exceeded our acquisition guidance. So we acquired over EUR 600 million in good land, well located and with great margins. We acquired Quabit and cherrypick land plots for more than 10,000 units.

Finally, on the rental platform, let me remind you what I said in February 2020 before the pandemic arrived. Build-to-rent was the most attractive investment opportunity in the Spanish residential sector. Back then, we had 2 options to face build-to-rent. The first one was to sell our assets at a discount to their face value, reducing commercial risk, but lowering margins. The second one was to incorporate the whole operative of build-to-rent as a new business line in our company, which was the most difficult path, but also the one that maximized our margins. The value of our land bank and ultimately, the returns on our shareholders. Today, build-to-rent is a reality. We

have 400 units under operations. This week, we are adding another 140 units in Malaga, and we already secured the financing for an additional 2,000 units that will be part of our rental platform soon. And we will keep growing our platform.

Moving to next slide. As always, here, you can find a summary on the main operating KPIs of the business that continues to show a strong growth momentum. On the development activity, we had very intense 9 months with a focus on acquisition, a swift integration of Quabit and launching new projects. Let me highlight the following aspects. The implicit price stood at EUR 280,000 per unit due to the high presales coverage ratios of Quabit's future deliveries. However, we expect the implicit average selling price on the order book to continue increasing in the coming quarters towards level around EUR 310,000. That implies a 10% increase and it's in line with what we have sold year-to-date. The rental platform, the passing GRI currently stands at EUR 2.8 million and this figure will continue to grow quarter after quarter as we start to deliver our own build-to-rent assets. Currently, we have 2,000 units in different stages of development, whose CapEx needs are fully funded and are expected to be delivered by 2024.

Looking at the residential services. We continue to expand Renta Garantizada, our rental OpCo. We have opened new offices in Barcelona, Valencia and Malaga this year. Currently, we are already managing close to 3,300 units, and this business will continue to grow also. On HMB, the social housing in Barcelona, we are very happy to announce that all the bureaucratic procedures have been successfully concluded. And 2 weeks ago, we made our first equity commitment of EUR 6 million to the joint venture, and now we will kick off the launches.

On Slide #7, you can find the financial results that I just mentioned. Just to add here that even for this part of the year, we keep working under our prudent loan-to-value of 25%. And then we move to the next chapter on business performance review.

In Slide #9, you have the evolution of the monthly net absorption rate from early 2020 until September '21. The base of presales accelerated post-COVID with absorption rate effectively doubling. In October and November, commercial activity has continued to perform well and we should finish the year with approximately 2,400 units sold while pushing for higher prices, which is a key part of our strategy under the current environment.

Let's move now to Slide #10. And here, you have a summary of our land acquisitions during 2021. On top of Quabit, on this slide, you have a summary of the cherry-picked land acquisitions during this year. We have acquired more than 3,000 units and invested more than EUR 250 million, clearly surpassing the annual targets. Of this, 70% of the units are located in Madrid and Barcelona. These acquisitions were made from a diversified group of sellers from other developers, funds, auctions, banks and private individuals.

In slide 11, you can see a summary of the main operational and financial KPIs of our Rental platform. The most relevant aspect is the intense leasing activity with 59% of total GLA rotated, while increasing rents by 19%. This can be seen by the 30% increase in passing GRI since January. In the coming quarters, tenant rotation will decrease and we will be focused on increasing occupancy while keeping maximizing rents.

Now please follow me to Section 3 of the presentation, where we will have a deeper look into our rental platform. In this slide, we have a first look of what Neinor rental product will look like with 5 core principles on its DNA; design, technology and innovation, wellness, sustainability and security. Now we are going to play a video where you can see this.

(presentation)

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

As you can see, the key aspect of our strategy is that we are adding prime assets to a market where there is a clear scarcity of product and we expect this differentiation to translate into a superior performance. Let's move now to Slide #14. This is just the case of Hacienda Homes, our first build-to-rent project delivery with 1,400,000 square meters GLA with a total of 146 units. In this slide, you have the main characteristics of the rental building, amenities and our product offering. The main message is that we don't just rent apartments, we offer experiences. We invite clients to live and enjoy experiences when renting our apartments.

On Slide 15, you see more details on location and the market. And in the following page, we explained how we are going to transfer these

assets from the development business into our propco. And now let's head into conclusions in Slide 18.

In the introduction, I have said that Neinor is on track to deliver on its 2021 guidance and that future results look very promising, given sector fundamentals and the transformational impact that the build-to-rent strategy will have in our business model. Now let me elaborate a little bit more on this. First, we feel comfortable that we will achieve our EUR 150 million EBITDA target as all development is scheduled to be delivered in this year have already been finished. Second, as you all know, fundamentals on the development activity continued very strong. And we do not see any sign that show us, it can change in the short or mid-term. If anything being balanced between supply and demand keeps increasing. On the construction side, we are proactively managing supply chain bottlenecks so that our 2022 deliveries will not be affected. We have already reached agreements with different suppliers and contractors to secure output.

Cost inflation will probably be around 5% next year, as construction companies will want to be prudent under the current scenario. We expect this to be fully offset by higher selling prices. We have accelerated our land acquisition program with best-in-class execution. We invested close to EUR 600 million in good locations and with good margins.

Finally, just a comment on the growth. We will keep pursuing opportunities given our strong operational platform that is highly scalable. So you will find good land and if we -- and if the price is correct, and deals are accretive to our shareholders, we'll take them.

On the rental platform, I want to conclude by repeating the rationale of Neinor's build-to-rent strategy. We didn't do a build-to-rent to derisk our business plan. We do it because we are confident that it maximizes the value of our land bank and shareholder returns. We entered in this journey 2 years ago. And today, this is already a reality.

Over the next 3 years, the build-to-rent portfolio will enhance the earnings power of Neinor and drive our ROE even higher. Over the medium term, once the assets are stabilized, it will significantly lower the risk profile of our earnings, becoming less volatile and more predictable.

With these remarks, we reach to the end of this presentation. And now we move into the Q&A session.

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

Operator, you may now start the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Okay. Our 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 a couple of things, please. First is on M&A. So you've confirmed that well, you are in negotiations with Via Celere. I would like to know what is the strategic rationale behind this. And how are you thinking to structure the deal. I don't know if you are considering only a share swap deal or a cash payment within it? And in that scenario, what would be the leverage saving that you are considering? And then second question is with regards to the residential law. I don't know if you can comment on it and what are the expected forecast -- sorry, the impact, say, on your 2 core businesses, development and rental?

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

Okay. Thank you, Fernando. I will pass the first question to Jordi Argemí, as we said is here with me, and I'll take the second one.

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

Fernando, look, we said that last week through the CNMV. We have exclusivity with Via Celere. We are working on it. So that's right, we confirm that. But it's also true that we -- I mean there is no decision taken yet, okay? I think that the good thing here is that we have

anticipated the market again with the exclusivity. And the only thing that we can say today is basically that the portfolio of Via Celere is a good one. And that we would only do this if this is accretive for our shareholders, and also, if this makes sense from a leverage perspective. So -- there is a lot of noise out there in the newspapers. Obviously, this is not true, and this is not confirmed by us. We will only do if the structure makes sense for our shareholders. That's the only thing we can say at this moment, Fernando.

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

Okay. Taking the second question about the new law -- the project of law, better say, of housing. Our first thing about this is that it is welcome a law that is taking care of the problem existing in Spain with the access to housing. This is not only a problem of Spain, in fact, it's happening in all Europe. But in Spain, it's tougher for many collectives to get the access to housing, especially young people. So from our point of view, we are losing a big part of the demand that the market should have. So from that point of view, we are happy that this law is coming and that it's opening debate in Spain on how to resolve this product.

We assume that this law is still going to have many changes if we have to look at short-term and medium-term measures to get the access to housing. There are some controversial aspects in the law. I will say there are 2 main points. One is the rent price control suggested in tensioned areas, and the second one is the consideration of reserves for social housing, that this law is considering.

Regarding the first one, really, we have analyzed the impact that this rent control could have in our business. And the implication is very, very low. Since most of our assets that we are renting and in the surrounding areas of the cities, and we are not working with a product that could be considered expensive. We are working with prices, rent prices, that should not be affected by this law. Considering the reserves for social housing. As you know or you may know, basically, this is affecting reserves in the consolidated urbanized areas in the middle of the cities. This, again, is not in our business. And in fact, we have analyzed all of our land bank and the impact is basically nothing. All the land plots that Neinor owns have already give reserves for this social housing in a portion or in percentage, greater than 30% that is what this law will -- or could introduce.

Finally, one thought is that, as you may know, housing regulations in Spain, a responsibility of the regions. Therefore, since the regions are governed by different political parties, we consider that it will be very important that in order to be successful with this law, it would be a great consensus between political parties. So we are on different working groups, making our suggestions to the government. We hope that whenever this law is implemented, this will be good for our sector.

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

Okay. Sorry, may I just have a follow-on and then another question as well, please. A follow-up Jordi on the M&A. I don't know if you have any leverage threshold that as a selling of the deal or you are not even at that point either?

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

Fernando, I have always said and I keep the position that the normal loan-to-value for this company should be between 20%, 25% loan-to-value. Punctually, we could be above if we find good opportunities out there. Whatever is above 30%, we will not really like, being honest, and the cap in any case for the bond issuance, at least for the comments that we have as of today should be 35%. So you can play with all these numbers, but...

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

And then another question -- and another question, sorry, is on the presales. So you've mentioned that you wanted to be at 2,400 gross presales, I guess. I don't know, this is a bit -- so net presales would be a bit below that. And I think, if I recall correctly, your aim, your goal is to deliver 2,400 every year. I don't know why at this point in the cycle with this strong demand you prefer to be a bit below. I don't know if you are a bit aggressive or not, or if this is because of the price hikes you are implementing? Or I don't know, any comment on this would be also very appreciated.

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

Fernando, to response to this, we have here Mario Lapiedra, our CIO. So he can explain you a little bit what is the strategy behind this politic.

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

Yes. Now we see the imbalance between the supply and the current demand. So we are trying to maximize the HPA play. We have a very good ratio of coverage for 2021 and 2022, even for 2023. So we are just looking for being aggressive on the price increase and contain a bit the curve to capture most of the value for our shareholders.

Operator

(Operator Instructions)

Okay, sir, no questions in the audio as of the moment.

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

Okay. Can we move to the webcast then? Okay. So on the webcast, we're receiving a couple of questions. We'll start with one for Borja on how do we see construction costs evolving for the next year?

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

Thank you, Jose. Yes, we are facing some cost inflation and increases of prices as we are seeing in our society with the increase of cost of raw materials and as saw increases in the cost of energy that are already affecting to some of our supplies and to our construction companies. This is the normal life that we have to live when we make buildings and sometimes we go through more inflationary moments. I will say that now we are going to face until the second quarter of next year, cost inflation situation. We are considering that this will represent -- or this will imply more or less a cost increase in the new contracts between 5%, 6%, 7% for the starting of the year, and that it will be lower in the second part of the year. All in all, we are working more or less with an average of cost inflation of 5% for next year. We think that this will be offset easily with a cost increase that we are applying to our houses. And therefore, this is, for us, normal conditions, normal things that happen in our business.

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

Okay. Thank you, Borja. Next question is also from the webcast. If you could provide some details on the performance of the portfolio of Quabit to date, if we have taken any impairment on this and how much unsold stock in WIP is held from the Quabit acquisition?

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

I take this one. Regarding the performance, you know that we closed, legally speaking, the transaction end of May. So basically, in these numbers, we have 4 months June to September, okay? And in these 4 months, basically, we have recorded EUR 46 million of income through the recorded sales, obviously. And basically, this has given to us EUR 5 million of EBITDA. This is a contribution in only 4 months. So this basically means 11% margin, which is significantly above what we expected. So actually, we are very, very happy and positive surprised with the results. We were conservative in underwriting, that's obvious, but the reality performance is doing very, very well. And on the Quabit, in terms of presales, we have done almost EUR 100 million in value in this only 4 months. So everything is doing well. We don't have finished product from Quabit unsold. So what we have is work in progress that obviously we will deliver once we get to the end of the construction. But the vast majority of them are very pre-sold, because the presale levels of this company were too high, but really high because they didn't have financing. So we are benefiting from that.

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

Okay. Thank you, Jordi. Another question. If we can provide an update or some guidance and visibility on the land investments for the following year for 2022?

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

Okay. I'll take this one. We keep finding good opportunities. That's a reality, both in the cherrypick land and the portfolios. Currently, we stand with a very solvent pipeline with close to 4,000 units on the cherrypick deals. I would say 50% fully permitted, 50% strategic. And on top of that, we have close to 50,000 units on portfolios, 40% fully permitted, 60% strategic. So we feel that we keep in a good investment momentum, and we have all the acquisition machinery in good shape.

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

Thank you, Mario. Another question we have from the webcast in regards to the Kutxabank servicing contract. What would be the impact that we are expecting on our figures from losing this contract?

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

I take this one also. We have always said that here was a renewable to be done that obviously, for us, it makes sense at a minimum profitability. The result is that -- I mean, there was so much competition behind that basically the new contract for us in our numbers and our machines basically would imply around EUR 1 million, EUR 2 million EBITDA. So nothing relevant. And as a result, we just elected not to be there anymore.

In our numbers, we would like to be between EUR 5 million and EUR 8 million. That would be a profitability that we would like to have in the future, but will not be there. But obviously, we are working on other potential businesses and contracts. So let's see now that before the end of this contract, which is May 2022, if we have on the table, other things that will completely offset this potential negative impact. In any case, as I said in July, I think it was, we have not changed the guidance. So even if we lose that, we will be able to keep the guidance as it was.

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

Okay. Thank you, Jordi. We have currently no further questions. So I would just like to make a reminder about tomorrow's session with CBRE. It will take place at noon at 12:00 CET. And we hope you to see you there. Okay. Thank you very much. See you tomorrow.

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

Thank you very much. Thank you.

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

Thank you.

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