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+++ presentation

Operator^ Good day and welcome to the Neinor Homes First Half 2018 Results Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Juan Gomez Vega. Please go ahead, sir.

Juan Gomez Vega^ Thank you. Good evening, ladies and gentlemen, welcome to the H1 2018 Results Conference Call for Neinor Homes.

The presentation today will consist of the following, Juan Velayos, the CEO, will present the results for the first six months of 2018 while providing the outlook for the business. Following that, our CFO, Jordi Argemi, will present the financial overview in detail.

Today's presentation will be followed by a question-and-answer session. There will be live questions for those of you that dial into the provider conference call number and, as usual, you shall be able to submit questions at any time during the presentation through the “submit a question to the presenter” window in the webcast application.

I'll remind you that this webcast is being recorded and will be available within the next two days for replay for up to 12 months. Additionally, within the next few days, the transcript of this conference call will also be available for you to download. Juan, the floor is yours.

Juan Velayos^ Thank you, Juan. Thank you for all of you for joining us today at this time. I have to say that it's a pleasure to have the opportunity to show the performance of the company during the first half of the year, the execution of the team during the first half of the year and also the results that this execution showed.

I'm going to try to, in the executive summary, start with very short news, I'll try to summarize what had happened this first half of the year and then afterwards, I will zoom in a little in detail in a step-by-step.

Let’s begin with 2018 first half of the year, deliveries down. Second half of the year, deliveries ready to go, they will happen. 2019 all the 31 sites, on track, very strong progress during first half of the year.

2020, significantly increased, strong number of licenses have arrived. Land bank going healthy with a new NAV reporting showing a plus 2% against the one presented at the end of last year.

Revenues, our other book growing strongly, healthy, and very disciplined. Construction activity, accelerating dramatically, 56 sites, 4,600 units already under construction. Gross margin, dually protected, plus 2% with a clear HPA outpacing our cost inflation.

And last but not least, page is one shows already positive EBITDA of 2.6 million, but in my modest opinion is a more important, Q2 is the first quarter that we make money. 5.3 million EBITDA and earnings of 2.5 million, our core business begins to flow through our P&L.

Let me jump into details because I think that this is the first quarter that the company is showing its strong leadership in the home building business in Spain.

In slide 6, you have a chart that tries to zoom-in into our land bank. Now, let's begin with 2018. The 1,000 units delivery guidance will be done. We've had to deliver four sites in H1 and the four sites have been delivered.

It is true that the last of them happened in July, but in July we obtained the license for occupation and today, it is already notarized. To our P&Ls, 150 units have went through and the others will flow in this Q3. Regarding year end, the 1,000 units will occur, will happen and will flow to our P&L.

The 10 sites are on track and as we speak, we are obtaining the certificate of first occupation. '19, 2,000 units needs to be delivered, 31 sites. Strong progress during H1, all the construction milestones on track and 70% presold and it's 70% presold because it is our decision.

The units not presold are the ones referred to '18 is because they are blocked and we are just opening for sales again when we are really close to deliver to maximize our HPA. 2020, 4,000 units. You remember that we have 400 units with licenses in Q1, 1,800 units today, 45% of our delivery already with license.

And if this conference call had occurred a couple of weeks afterwards, have shown additional hundreds will be also here. Dramatic movement done in H1, all units for 2020 are already in commercialization.

The number of license I have already mentioned them, 655 units are already under construction and 1,200 units 10 sites we are signing the construction contracts as we speak because the licenses are with us already.

Land bank, we continue with our disciplined approach to the land acquisition. We discussed the other day how we are seeing our land acquisition program based on top quality, fully focused on our regions where we have teams with increasing use of equity and beginning to work this strategic land optionality.

The result of that strategy is a land bank of 13,500 units. We have acquired 500 units of fully permitted lands during H1, 1,400 units of strategic during H1.

We have always emphasized our approach to ROCE, 78% of our fully permitted land bank is already launched and we are working with a very significant pipeline for the second half of the year, you see on the map where our acquisitions have been and we will continue to focus on this, fully permitted land as our main driver, thinking about 22 onwards but also top locations in strategic land with our equity efficient way of approaching to these deals.

Presales, our land, our order book is today 930 million, over 2,800 units. If you remember in Q1, we have pre-sold 100 million, in Q2, we have pre-sold 150 million. But more important than that, today, we have 7,000 units in the market.

We are going to continue with our strategy, strong pre-sales but very disciplined. We will move forward tails and jewels strategy because we do believe that there is a lot of HPA to capture out there.

Until today, for the like-for-like basis, we have been able to capture the 6.9% HPA, this is margin in vein and we will continue being disciplined in this approach. Construction, I do also think that this begins to show the strength of Neinor Homes. At the year end, this company had 36 sites work in progress.

Today, and with four deliveries obviously not being out there, we are with 56. We have started construction in 14 different sites and we are going to start because we have the license already, 10 additional sites that are beginning as we speak.

We continue with a budget of 430 million contracted. We continue being with 1% below budget, 47 sites, 37 plus 10 new sites that are coming in at or below budget. And the company remains very comfortable with this approach to construction.

For 2020, our next milestone, five construction -- five sites already under construction, 655 units, 10 sites, 1,200 units in the final round of bidding, actually just being contracted show we have for the second half of the year, to contract 25 sites, 2,500 units and they are just going through all the bidding, the procurement process on due track.

Margins, we reiterate our gross margins that we have always announced to you. There's a lot of, about HPA, about cost inflation. Let me just go through these slides. The HPA is running above expectations. The demand supply imbalance is there.

There are increased cost pressures, yes, it is true, there are inflationary market pressures and it's also true that we are improving the product quality, a higher ASP because we are seeing that we are able to capture additional HPA with a better product quality.

And it's also true that the contractors are understanding our turn-key contract approach and this is also putting some pressure on costs.

Having said that, just remember that the impact of 1% HPA increase equals two times, more than two times the impact of 1% cost increase and we have decided just in our WIP to show the P&L, the gross margin on a unit basis.

If you remember in the IPO, we mentioned, we explained to you at our ASP for this specific WIP for this 46 sites, we got EUR326,000 per unit. Today, we're at 338, this is a 3.7% above the 3.8% that we had planned at the IPO.

Our CapEx per unit, we said that it's approximately it was going to be 152 during the IPO. Today, it's 155, this is 1.8% above the 1.5% that we have planned. This means that the CapEx as a percentage of the revenues has decreased 1% and that the gross margins that we are making per unit has increased EUR8,000, from 86,000 to 95,000.

The consequence of that is that the 26.5%, it's about 28%, it's a 1.7% above, that is what you have in the chart below that we have disclosed in prior quarters, the 258 million that we were expecting with that 26% gross margin during the IPO, today, we are capturing 36 additional million of revenues against an 8.5 million of extra cost. This means a plus 2% that this the target of 28%.

We will disclose that quarter for quarter with new constructions, but we can reiterate today that the margins that we have always disclosed, we are comfortable with them and being able to even increase them.

And do not forget also, in relation with this cost inflationary scenario that in our budget, in our CapEx of construction budget, materials represent 70% and labor represents 30% and the pressures of today we are facing in the Spanish market are referred to labor rather than to materials. So I think that's good news in connection with our margins.

And last, but not least, our ancillary businesses. In the legacy, we have reduced our portfolio not only 25%, we have sold 20.6 million during H1. Our remaining value is of 63.4 million, and we will continue on the same path.

We will progressive reduce prices to continue with a steady flow of sales, but we are not going to do anything crazy or we not going to accept sharp discounts.

And in connection with servicing also good news, our assets under management today have increased to 1.6, almost 1.7 billion, another 135 million has come in in the business because of the Kutxabank's decision and the revenues in H1 have been of 15.1 million revenue, 8.7 EBITDA and a very solid healthy margin of 58% margin. So let's go into financial, Jordi, let's explain results.

Jordi Argemi^ Thanks Juan, before going to the financial statements, let me show three positive messages. The first one is that in line with the best practices of the market, Neinor Homes has performed a limited audit review for the first semester which has resulted in an unqualified opinion by Deloitte, our auditor.

The second one is very good capacity of this company on the reporting. We have been one of the listed companies reporting to the capital markets.

Actually, only company from the IBEX 35 has reported before us and I am proud of it. And the third message, as anticipated in the previous webcast, development deliveries have started in this second quarter.

So for the first time in the P&L for the second quarter, it's already showing a developer P&L with a positive EBITDA and even showing a positive net income. That's why I will present the results of the first half but also I will dedicate some comments to the results of the second quarter.

Having said that, let's go to the financial statements, key messages of the P&L. Strong second quarter, we have almost EUR60 million of revenues, a gross margin of 30%, almost EUR6 million of EBITDA adjusted and EUR2.5 million of earnings before tax.

And if we look at the first semester, we have recorded revenues of EUR79 million, positive operating EBITDA of 2.6 million, positive EBITDA adjusted of EUR0.4 million, thanks to the good results from the second quarter that have fully offset more than EUR5 million of losses reported in Q1 and a financial cost of EUR5.3 million which implies a loss before the tax for the first semester of 5.4 million.

Point about this, the official P&L includes the management incentive plan for an amount of 2 million. Remember that this incentive plan is fully paid by Lone Star so no current investor is paying for this. And last comment on the P&L.

The good results from the second quarter will continue increasing during the second half given that roughly 80% of total development deliveries will happen then. Moving on to the cash flow statement, some critical messages, we have closed the second quarter with a positive cash flow from operating activities of EUR6 million.

Almost a neutral cash flow which clearly refers from Q1 and a positive net cash flow of EUR4.6 million, main reason is the development business has been self-financed thanks to the deliveries. If we look at the semester, negative free cash flow of 64 million, and two concepts behind negative free cash flow.

The first one is the CapEx of EUR128 million and it's increasing as Juan commented given the construction activity has reached more than 50 sites and the land acquisition of EUR75 million out of more than EUR200 million of land acquisition that Juan commented before given that we are focused on maximizing the equity optimization in the land acquisitions.

Our last concept, in the cash flow, negative net cash flow of almost EUR10 million. Regarding the balance sheet, it continues being very strong as it has been. The only change in the end of 2017 is the increase on the development inventories of EUR170 million.

This involves the CapEx and the land acquisitions already commented. And for summary for the balance sheet, we have assets of EUR1.4 billion, equity of 0.7 billion, total liabilities of 0.7 billion and obviously development stock is the main caption with 1.2 billion representing almost 90% over the total balance sheet.

And the critical comments here is that almost 80% of this stock is active. Its KPI clearly shows how advanced Neinor is right now. Now, let's dig into the net debt position. As you may know, we have been always conservative when calculating the net debt position.

We have always included two voluntary adjustments. One is to consider deferred land payments a debt-like item and the second is to deduct the deposits received from the clients from the cash and equivalents.

Given that some investors said to us that we were extremely conservative and not comparable to other players, we have decided to present both numbers, so you can see the statutory net debt position of EUR381 million in the table and also our net debt adjusted of EUR451 million.

Despite using our conservative way of calculating net debt position, we have healthy leverage ratios and similar to the ones seen in December 2017, LTV of 24% and LTC of 35%.

And finally, given that we have performed a new valuation of the development assets, we have prepared a summary the GAV and net asset value in slide 17.

As you can see, total GAV increases up to EUR1.9 billion, 1.8 billion comes from the development assets and EUR0.1 billion comes from the remaining legacy assets. To reach the net asset value we deduct two concepts.

The net financial position already commented and the working capital excluding inventories of EUR124 million, basically constructors and other suppliers. This implies, as you can see, a net asset value of EUR1.3 billion and a net net asset value of EUR1.2 billion.

Important to say here that this net asset value does not include the value of the servicing where we still have more than EUR70 million of EBITDA pending to record in the following years of contract and the optionality value from the strategic land which according to the third party evaluator would be EUR60 million.

So should we take into consideration both of them, the net asset value would increase from the EUR1.3 billion stated in the slide to more than EUR1.4 billion.

Juan Velayos^ Thank you, Jordi. I think it’s a pleasure to begin showing positive results. Let me dedicate a second to the non-financial reporting. I think it's important for us, we like to emphasize it because we really do believe that there is a lot of value creation in the non-financial reporting matters.

On one side, we continue tremendously focused on corporate governance and in corporate social responsibility. We are implementing best practices and best standards in the home building sector not only in Spain but internationally.

We continue absolutely committed to sustainability, we do really believe that this is one of the drivers of our HPA. We have today 35 projects, certified in BREEAM and I would say that the most important message in connection with the non-financial reporting is the approval today of our board of directors of the Talent Incentive Plan.

The Talent incentive plan has different roles, but basically it tries to align all the employees of the company with the value creation for the shareholders. That means that we have approved a bonus up to half payroll or salary, a year salary for each the share price increases 20% in two-years period.

This plan affects to all the employees except for the CEO and we think that it's going to align even more the employees with the value creation for the shareholders and it's also going to be critical to recruit talent and to retain the talent of these companies because we do really believe that the 250 people in this company is our best asset and it's the critical asset to bring value creation as they are demonstrating in the results showed today herein.

Finally, we continue to focus with a digital transformation and innovation. A company like this, with the volumes that we are managing and our absolute conviction that we want to lead this market as we are demonstrating as of today, we need to be supported by digital matters. All this, we are proud to say and we encourage you to join us in September 24 to 27 in our Investor Days.

We do really want that you can touch our land, our WIP, and our deliveries. I think that is the best way to demonstrate how strong the execution and performance of this company has been, and how clear our leadership as of today is in the Spanish market.

And we also -- we try to show you to meet -- that you have the opportunity to meet with our regional teams because they are the ones making this real. And finally, we will try to show this digital transformation experience.

We show the progress that we have been doing in different tools as big data for the land acquisition, as the customer centric to understand our clients, and the tools that we have to follow in full detail the timings of each for our sites, that probably behind some of these tools there is also an explanation to understand our improvement in following the track record of each and every milestone.

So you have this appendix which tries to give you additional information in each and every matter that we have been trying to disclose to you today. And now, if you want, Juan, we can go to the Q&A.

Juan Gomez Vega^ So now is the time for the Q&A and so please operator, just indicate to everyone connected by phone how to ask for their turn and we'll go into a live Q&A.

+++ q-and-a

Operator^ Thank you.

(Operator Instructions)

And we will now take our first question from Jose Cravo of Santander.

Jos? Cravo^ Hi, good afternoon, everyone, two questions if I may. The first question is regarding building permits. You right now have 1,800 building permits out of the 4,000 that you need to deliver on 2020.

Did you think of can you give us some guidance on whether by the year end, you could have 100% or very close to this figure, that would be my first question.

My second question is with respect to 2020 contracts, I mean according to what you're publishing throughout the year, you should sign contracts with the contractors, with the construction companies of around over 4,000 units and your peers have been giving some -- possibly more cautious messages with regard to 2020 deliveries, with regards to cost inflation.

And right now you are -- you should be, by far, the number one company bidding in Spain, can you give us some more color on whether your position, your leading position is influencing this negotiation, thank you.

Juan Velayos^ Yes, Jose, very good questions, both of them. Regarding permits, today, this morning, I have in my inbox a new license.

I have been waiting until today for another 600/700 units that should be this week, next week, the week after. It’s August and ifthey don't have it next week, they will have to go to September because we know that in August is going to be difficult, in the municipalities [that they be passed].

The majority of the licenses because we anticipated them, you have a chart, here a pie showing how long they have been presented.

So we have a number of them that are going for four months to eight months, so the answer is yes, we will show a very strong Q3 for sure. The company has done, I would say, a massive step forward and I'm comfortable with the number of licenses that we will present in Q3 and at the year end, okay?

Second in connection with the bidding, you have mentioned it, today, Neinor I think begins to have our privilege, our privilege in connection with our bidding processes for a number of reasons.

The first one is because we are bidding with another 65 that we have bidded before, so we have a real strong sentiment about what is going to come in those bidding processes. We have this privilege; no one else has a privilege similar to us today in the market.

Second thing is what you are mentioning, we are beginning to be able to have, I want to say, fluid discussions with those construction companies that we like and we like basically because we have been working with them because our strategy as you know that we have 27 different construction companies working with us.

We know those that we like and we are being able to have fluid discussions with them and they are really touching that this company is going to lead the 10 sites that we have just commented now, but they have 25 sites that are coming.

So all of this leadership position, this strong position, it's making our relationships better, more fluid with construction companies, we will take advantage of it. Yes, we are beginning to be able to just to try to speak with them about one, two, three different sites.

We are beginning to be able to show with them how we can just happen in a pipeline in order to align our interest with them and this is going to be reflected. I have zero doubts and it’s one of our critical milestones and our goals of our operational team, take advantage of this strong leadership position.

Jose Cravo^ Sorry, just one quick question, but on those contracts that you're signing, can you give us some like-for-like figure versus previous contracts in the same regions of what start of inflation are you getting?

Juan Velayos^ It's going to be in line with the numbers that we have presented, okay? And I think that in that sense we think that we did 3% guidance here that we are showing herein, let's see because we are going to present this number on a quarterly basis and you will have real numbers when we present that.

It's intended that I think that we are comfortable and it's going to be in that alignment with the idea that I have wanted to emphasize.

Obviously, that's a part of a higher ASP, so we are seeing that improving a little our product gives us extra protection to defend HPA, so obviously we have to exclude that from an explicitly cost inflation metric.

And the second thing is that we are aligning our interests with the construction company because we prefer to have very disciplined turnkey contracts so that they anticipate at the moment of zero that at the end of the day, that's not cost inflation because it's going to be at the end of the day final cost of an agreement.

We have also the privilege that we are going to have what is the real cost of a site because you don’t know the real cost until you deliver. So the real cost of a site, we are going to be the first one with 1,000 units to know real cost.

And this is the metric that at the end of the day for a home builder, that's a good metric because this is not a metric of what you contract. It's a metric of what you deliver, okay? We are going to have that.

But if you want a number, use this 3% in your numbers just to have a sense of what we are seeing, but I'll repeat again what we will begin to present is contrasting delivered umbers, final cost of a site against contracted cost of new sites.

Jos? Cravo^ Okay, thank you.

Juan Velayos^ Thank you, Jos?.

Operator^ (Operator Instructions)

There are no questions in the telephone queue at this time.

Juan Velayos^ Yes. I see we have some questions in writing right?

Juan Gomez Vega^ Yes, we have some questions through the webcast application, Juan, if you can give some color on how deliveriesof H2 are doing, how the work are progressing, how confident are you in achieving that?

Juan Velayos^ Yes. I think that in connection with deliveries of H2 in 2018, I think that these days are critical because we are obtaining the certificate of final of works. So to have comfort delivery at the year end, it's now momentum when these certificates of final work need to be obtained.

It is happening already and one of the things that is important, you see that there's only 250 units of H1. We have just 150 that flows to our P&L in H1, so we know that for H2, it's critical that this happens in November to have them flowing through our P&L.

We are comfortable. You know that we have 1200 units basically going on for the 1,000 which flow through our P&L and we are comfortable that this is going to happen.

And I emphasize again when you visit things like Getafe, like Atria, like Sant Just, when you come to like Badalona with 250 units being delivered in very strong sites, you will see the execution capacity of this company.

Juan Gomez Vega^ So we have some more questions coming in. One from Ami [Galla - Citibank], can you provide some color on your best estimate of construction time taken for delivery?

Juan Velayos^ Of construction time?

Juan Gomez Vega^ Construction turnaround.

Juan Velayos^ I would say it depends. Obviously it depends on the volume of the site. So you know that we are now dealing with a sites of 50 units, even less in the north of Spain basically and we beginning to deal with more than 200 unit deliveries. So it's quite different the timing regarding one to the other.

I'm proud to say for example that in deliveries, I'll begin by deliveries like the one (inaudible) in San Roque, the one that has occurred in July, we have license of first occupancy in June 30 and today, July 23, 24, basically 97%, 98% have already been notarized.

This is, I would say, a very significant milestone that has already occurred in this last month. So it can go from 18 months to 30, okay, 18 months, it would be really tight in about 30 units to up to 300 units that will be more in a range of 30 months, so it's quite, I would say, bold to try to say that in just a specific number of months.

If you want to have an average, we continue to say that we taken cushion just from the lessons of the past to be just about 30 months, but this is the milestone that we should have on average, 30 months.

Juan Gomez Vega^ A second one from Ami, can you give us an estimate of the total cost of the employee bonus scheme and timing of the payment?

Juan Velayos^ Yes, good question, Ami. I would say it's going to -- we have designed it, as I was mentioning, it's a way of aligning employees with value creation, but also attraction and retention.

It's a part, that today, the employees of Neinor, anyone that is thinking about home building in Spain is thinking about Neinor. So we need to try to retain the massive talent that we have in this company.

How we have designed is that it begins on September the 1st, 2018. And in order to have the right to get it, you have to be in the company in September 20, so it's a two-year plan. The cost, the maximum cost of the plan is EUR9.6 million for the two years, so it's below EUR5 million per annum.

It's all the employees are part of this plan except for me, except for the CEO and what we are doing is half a salary that you are going to receive. Two years from now, if you are here and the company, the value creation for the shareholders has been above 20%.

It begins with a 5% value creation that you have the right to half of the bonus. And the maximum is half a salary, if it is 20%. So for some specific employees the top talented ones, we are factoring them 1.5 or 2 times so you will have the right to a whole salary.

This is just for specific employees and the number that I have mentioned to you, it's already including me, so less than 5 million per year, less than 10 million for the overall, it's going to be received in shares and you have to be here in the company in September, 2020.

Juan Velayos^ No, no, it's not going to be dilutive with that. As you know, we will have probably sufficient, if not, the company with acquire additional shares. But it?s not going to be dilutive.

Juan Gomez Vega^ We have question from Fernando [Abril Martorell-Alantra] regarding legacy, after which you have [test one] will we expect some disposals from 2019?

Juan Velayos^ I would say that plan has always been to divest. So I think that we have this remaining 60 million and we want to get rid of it, we have always said it. It's also true that this begins to be the tail, so every time the liquidity of this asset is lower, and we are not going to do anything crazy.

We need to take a significant haircut to make it happen in '18, probably the answer is going to be no and we are going to just postpone that until 2019. In any way, it's not going to be significant and it's not going to be relevant in our P&L.

We will continue hopefully divesting at least another 25% or probably more, we are prepared to do haircuts. We are prepared to price reductions, we are not prepared to do something crazy.

Juan Gomez Vega^ Okay and the last one on the webcast from Ignacio [Romero-Sabadell]. On page 17 of the presentation there is GAV going up by 5% and NAV by 2%, can you -- given that HPA explain more to the GAV increase and that you leverage, why is that NAV not growing anymore? Jordi?

Jordi Argemi^ Two comments here. Actually increasing the GAV is mainly based on the capital investment done in this first semester and the second consideration is you have to see the [visitor form amidst your, if not,] they are a third-party evaluator and what this company has done is to update the construction cost that has happened in the market during the first semester.

Remember also that this valuator is quite conservative. They've done a few HPA on the revenue side, but they haven't updated the cost. So that's why the margin, the impact in the net asset value has been reduced from the 5% to this 2%.

Juan Velayos^ In addition to Jordi, fair enough is 2%. Hopefully this company begins to maybe it’s for this year and maybe this time to begin to see and think in our metrics. So NAV will be there, but probably the execution that we have always requested to have valuations begin to flow through our numbers.

Juan Gomez Vega^ Okay, operator, if there is one last question on the phone, please go with that.

Operator^ Yes. We can now take our next question from Jose Cravo, please go ahead.

Jos? Cravo^ Hi, sorry. Just some questions about strategic land, the first one is on the 194 million deals that you announced down on the last call, does that include any pending urbanization cost?

That will be the first question. And then the second one would if you think you gave a guidance of 28%, over 28% gross margin and the cost per unit should be around EUR138,000, those 1,400 units should have an average selling price of something between EUR400,000 and EUR500,000, is that correct?

Juan Velayos^ Yes. Answering your two questions, yes there's absolutely an urbanization cost, so that's the only number and so including urbanization cost.

The second question yes, I think that when we -- our focus in the strategic land for sure -- and this is one thing that we are very clear, we are thinking about top locations and our top land. So when we are -- our focus on the optionality of a strategic land is based in areas like Sant Cugat is the one that we have and in Madrid.

So yes, it's going to be above the EUR400,000. We have had a good means from the evaluator that its sales that if this land was fully permitted today, not in 20 not in 21 would be the HPA that we should have to present today, the evaluation of that land lost will be 255 million, so that is 60 million optionality that Jordi has mentioned that is not reflected anywhere. But yes, the assumption is correct. Its top location is top land and this is.

Jos? Cravo^ Okay, thank you.

Juan Gomez Vega^ Okay. So we don't have anymore questions. So I will thank everyone again for your participation during this call and I will pass it on to the operator to close the call.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.