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Q3 2018 Neinor Homes SA Earnings Call

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PRESENTATION

Operator

Welcome to the Neinor Homes Third Quarter 2018 Results Conference. Today's conference is being recorded.

And now, at this time, I would like to turn the conference over to Juan Gomez Vega. Please go ahead.

Juan Gomez Vega *Neinor Homes SA - Chief Capital Markets, IR*

Welcome to the Neinor Homes Q3 2018 Result Conference Call.

The presentation today will consist of two parts. First, our CEO, Juan Velayos, will present the results for the first nine months of 2018 while providing the outlook for the business. Then, our CFO, Jordi Argemi, will present the financial overview for the period.

The second part will consist of a question and answer session. There will be live questions for those of you who have dialed into the provided conference call number. And as usual, you shall be able to submit questions at any time during the presentation to submit a question to the Presenter window in the webcast application.

I will 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, a transcript of this conference call will be also available for you to download.

Juan, let us begin.

Juan Velayos *Neinor Homes SA - CEO*

Thank you very much, Juan. Thank you everyone to be with us today and to let us join with you this Q3 results. First thing, we have tried to summarize information in a very straightforward manner. We have the opportunity to meet some of you and to give an update on September. We think it's the right way to just go straightforward to the facts and to the data.

So if we go to Slide 5, you have the main takeaways of Q3. It's spread in 2018, 2019, and '20. Regarding 2018, you know that the guidance that we have given is that we are going to deliver a thousand units, it's going to happen. Nine sites have already been delivered, roughly 500 units, 474. And there are another five sites that will be delivered during November and December.

These five sites have already obtained the certificates, the end-of-work certificate. So we are now in the documentation process, we have to be able to go to the notary. So nine sites delivered, five sites finished are in the process of notarization within the following two months.

The presales of this 2018 deliveries is 98%. You'll know that the last unit is 35 remaining units. We send them at the very end; this will happen within the following two months.

Regarding 2019, our guidance has been 2,000 units. As you know, the 31 sites are up and running on track. Eleven-hundred units have already begun facade works, so all the structural walls have already been finished and the remaining 900 units will happen before the year ends or during January. So the Company today is focused in these 900 units to bring them to structural works but everything up and



running.

Regarding pre-sales, 78% of the pre-sales are already done and the remaining 22% is not happening and you will see that [this push is] going up very slowly because they are practically blocked. You know that our strategy is to keep the [deal] until the very end so this will happen during next year.

Twenty-twenty, the run rate of this Company in the guidance given is in the range of 4,000 units significant or a very strong progress regarding licensing. Three-thousand units already -- we have already obtained the licenses. This is the 74% and it means that 1,500 units are already work in progress and the remaining 1,500 units with this licensing will begin within the following weeks.

The presales regarding 2020, it's in the 22%, it's where we want to be. You know that there would be -- that our guidance is to be in the 30% at the yearend with our very disciplined strategy of selling tails and the most normal units and finish with the jewels.

I think that given facts, 2018 deliveries are happening and will happen. 2019, the 31 cranes up and running. 2020, 74%, 3,000 units are already with licenses.

If we got -- jump in into Slide 6 and we go into the other critical takeaway that we [want to share with you, let's begin with the land bank. The land bank has increased from 13,500 unit to 13,700 units. Please take into consideration that the land bank of Neinor Homes has in and outs. Just when you compare to anyone else, these land banks, because we are already delivering, has in and outs.

During the year, we have been able to buy 900 units. We have invested 32 -- EUR42 million in just fully permitted land. We will go into zoom in into a second.

We did the deal that you already know of this 1,400 units of strategic land, nothing has occurred in this sense in Q3. [Three parts], 13,700 units where we want to be with our 2021 land bank already [built in] with 900 units that you will see in a second of the quality of them in fully permitted land.

Regarding pre-sales, you remember that in H1, we have presented 750 roughly units presold. We are in 1,230, almost another 500 units had been added since we presented in H1.

We have an order book that is beyond 3,000 units, 3,049 units. It's EUR1,020,00 billion in presales. Our visibility, you can put the rest of the market together and you don't have the visibility presales that Neinor Homes has.

If we go to margins, we are being able to expand them. The observed HPA that we presented in H1 was 6.9%, the one that we have ourselves today is 8.2%. You'll know that something that we do is always comparing apples to apples. We have been able to have real apples to apples in 14 different sites with an HPA of 8.2% in a 12-month period.

The annual cost increase that probably is one of the things that is now one of the topics that, for sure, the one to have our consideration, we have presented at 2.7% in H1 regarding our WIP. Today, it's 3.8%. Yes, it is a fact because it is increasing but it's under control.

The consequence of this HPA and this cost increase practically is that the margin that we have for 2018 that we presented of 27% has been expanded to 28% regarding 2018. And in the 2019, we are in the 28% plus gross margin that we presented already in H1.

At yearend, we will be able to present the [full vision] of the margins -- of our market for 2020. 16 sites have been already contracted and are already up and running. We will have another 1,500 units that we will -- are being contracted as we speak and the remaining 1,000 units that hopefully the licenses will be coming within the following weeks, months.

With this, in our yearend presentation, we will present our margin for 2020. What I can say today is that it's going to realign or evolve the guidance that we gave at the IPO. This was at 26% plus.



Regarding our ancillary businesses, our legacy, you know that we are in a disciplined disposal mode. We know what we want to take care and not to penalize our margins. Today, we have increased from EUR20 million to EUR32 million revenues and our remaining book is EUR51 million. So graphically meaningful as we are going to see now when we speak about the financials.

Finally, our servicing contracts just on track. The EUR15 million revenue that we presented in H1 have increased to 30 -- to EUR23.4 million and the EBITDA, very solid, the EBITDA with EUR13.4 million EBITDA.

Regarding financial, Jordi is going to jump in in a second but I would like to emphasize two messages. From the EUR79 million that we had in H1, we have increased to EUR156 million revenue. But more important than that, this was -- if we have EUR156 million, EUR100 million come from our development activity. So our P&L is beginning to reflect our core business.

The EBITDA multiplied by four and at the EUR2.6 million operating EBITDA that we presented have increased to EUR9.5 million. Probably, Jordi, you can just zoom in a little bit more in the financials.

Jordi Argemi Neinor Homes SA - CFO

Okay. Thanks, Juan.

As you can see and as Juan have said, we have simplified the financial section in order to show only the main data points. Having said that, should you want to look at the details, you have that same slides of last quarter in the appendix.

Now, looking at the financials, the big message is that Q3 continues the trend showed in Q2 [of reporting both], positive EBITDA and positive earnings before tax. Deliveries are here. As a result of this, we are already a profitable Company and we are also demonstrating our capacity to climb the ramp up phase of our business plan.

Given that point of the P&L, strong third quarter, with almost EUR77 million of revenues, almost EUR7 million of operating EBITDA and EUR4 million of earnings before tax.

So with only one quarter, we have almost doubled that revenue line. We have multiplied by four times the operating EBITDA, and we have almost fully offset the losses reported in the first semester. So results for Q3 had been good and also in line with our expectations.

If we look at the year to date, we have recorded revenues of EUR156 million, positive operating EBITDA of EUR9.5 million, positive EBITDA adjusted of EUR7.7 million and a financial cost of EUR8 million which [implied a loss] before tax of only EUR1.2 million.

On top of this, the official P&L include the management incentive plan for an amount of EUR3 million. As always, remember that this incentive plan is fully paid by Lone Star.

And that's [the comment] on the P&L. The good results from the second and the third quarter will continue increasing in the last quarter. Basically, given that roughly almost 50% of the total deliveries and 55% of the total notarizations will happen then. Remember that there is a lot of deliveries for Q4 but we are confident that is it.

Regarding the balance sheet, development is the main caption with EUR1.3 billion representing almost 90% over a total balance sheet. And as commented to the previous webcast, the critical comment here is that over 80% of this stock is active. This KPI clearly shows how advanced Neinor is right now.

And finally, the net debt position. As you can see, net debt which is the (inaudible) one announced to EUR387 million. And net debt adjusted, which is our conservative way of calculating the net debt, is [over] of EUR463 million.

Remember that this caption includes two voluntary adjustments, deferred land payment as debt-like item and the deposit received from clients deducted from the cash and equivalents.

And despite using conservative way of calculating the net debt position, we continue having a healthy leverage ratio and very similar to the ones seen in the first semester. It means loan to value of 25%.

Juan Velayos Neinor Homes SA - CEO

Thank you, Jordi.

And just surely mean a little bit in the [big] messages that I have emphasized at the beginning, I would like to just to do a quick flip on pages regarding appendix. I think that this Company has been absolutely focused on execution in these last months and probably just doing a quick zoom in into the appendices, we can just show evidence on that.

If you jump in into Slide 13, you see where and what we have been acquiring. You see the map of Spain. You see our exposure to each and every region and you see different colors, the last acquisitions that we have during Q1, during Q2, and during Q3 and this last October.

You see that this has happened in our regions, in our locations. We are absolutely focused and very disciplined what we have just mentioned since the very beginning. We have areas that we have decided that is where we want to be and where we have our regional teams. All the acquisitions have followed this trend.

If you go to Slide 14, you see the HPA. You remember how we calculate this HPA is just apples to apples. The same flat that was sold one year ago and now. The [sample] this month includes 14 different developments and 17 different units.

You see that the HPA keeps very strong in the center. We have good news regarding the southeast that keeps pushing hard and if you see in the north, has always been very much more disciplined but it's in the ranges of this 4%, 5%. And in the east, that you remember, that used to be very strong is because we're beginning to mix Barcelona [ancillary] with other regions like Montcada and Tarragona. But very good news in connection with the HPA.

If you see the presales, you see that in Q3, that you remember that includes the month of July, August, and September that usually are weaker. In Spain, you see that we have been able to increase our visibility very broadly and strong.

Going to Slide 15, you see the deliveries that have happened in Q3. Five different deliveries and even more important than that, we are already delivering in each and every region. You see deliveries in the north, you see deliveries in the south, you see deliveries in Madrid and you see deliveries in Catalonia and Barcelona.

So I think good news. We are -- I think with our national footprint showing the strength of this Company and being the only Company that begins to deliver seriously.

If you jump in to Slide 20, Appendix 5, you see the deliveries that need to happen in the next couple of months. As I was mentioning, we have already obtained the end-of-work certificate on each and every one. We have two main deliveries platforms, Getafe and you see La Marina in Badalona.

You have also three other deliveries in Catalonia and in the north that will be happening during the following weeks and months. Everything is ready. Probably, you have a question in connection with -- if these deliveries for -- if notarizations are being affected by this Court decision in connection with the stamp duty fee, what I can I say is that this is not affecting subrogation.

You remember, as we work in Spain with the clients subrogating in the more -- in the loan granted to us by the -- for financing our CapEx, this is not affected and this is the main important theme. So this is happening. It's not being affected.

Regarding third party clients, in this part, we are seeing some of them -- regarding some of them just being a little bit delayed but it's not going to affect our notarization and the 1,000 deliveries are going to happen.

In connection with Slide 21, you see each and every site, the 31 sites, how are they progressing? Did you see from the 93% that you see in



Atria to the 3% that you see in Sitges?

A significant number of them, you see 1,100 units while already in façade works so that they are progressing very well and we are really focusing the 900 units but I would say that everything on track and on progress.

In Slide 22, you see assuming in our licensing, this Company has done a huge effort in connection with our visibility in 2020. Here, you have the results. Here, you have, I would say, the very significant results obtained until now.

And even more important that -- of the 3,000 units we've already licensed, you see that there are 2,900 units with licenses permitted of which 15,000 units if you see -- 1,500 units if you see the pie already have been submitted with more than eight months maturity. So we will be seeing within the following months, some of these [products] and some of these licenses are arriving.

In Slide 23, you have a zoom in of where we are in the 22 development that have already obtained the license. And my conclusion, in connection with operations with execution is the absolute focus of the -- of this Company, we are absolutely focused there and I see -- I think, honestly, that you can see here the results.

Finally, last but not least, I come back to Slide 9 just to have some final remarks in connection with anything that has not to do with exactly with operations.

We have what we say that this Company has a very clear sustainable DNA and what our critical matters to differentiate and to explain why [we are presenting] and we are -- it's the sustainability approach. This sustainability approach means that this Company today have 3,500 units with BREEAM certificate submitted.

And another 3,800 units that are -- we have already filled in the submission. That means that this certificate, 60% of the projects with this certificate in Spain are Neinor Home Projects. So our [bet] with sustainability, here you can see it with facts.

And finally, just marketing connection with digital transformation and innovation, we'll continue to be very focused on it. We see that the future and the present of this sector is about in transforming a lot of things of it and we are just be showing two remarks.

The first one, we have included -- we have been the first home in the Europe signing an agreement with Google, just to deliver to our clients the Google Home, this virtual assistant. It's the -- and we are giving to our clients when we deliver the homes and we have just implemented the four different venture companies, the startups that are working with that in our Neinor Next.

[Of this], we come very strong in connection with design and in connection with online sales that we will be just launching to the market within the following weeks, months.

So I would say very strong progress in Q3. Execution, execution, execution. A lot to do in this last Q4. We know it. Confident on it, this is as planned, everything on plan and hopefully or not hopefully, for sure, we will be able to deliver in yearend as promised to all of you.

So thank you and any questions that you may have at your disposal.

QUESTIONS AND ANSWERS

Juan Gomez Vega *Neinor Homes SA - Chief Capital Markets, IR*

Okay. Thank you, Juan. We now go to the Q&A section. First, the operator will invite those connected by phone to ask live questions. And then we'll take care of the written incoming questions.

Operator, please proceed with the questions by phone.



Operator

Thank you. (Operator instructions).

And we'll first hear from Jose Cravo of Banco Santander.

Jose Cravo Banco Santander - Analyst

Hi. Good afternoon. Can you hear me?

Juan Velayos Neinor Homes SA - CEO

Loud and clear.

Jordi Argemi Neinor Homes SA - CFO

Yes. Absolutely.

Jose Cravo Banco Santander - Analyst

Okay. Just a couple questions on my side. First on the margins of the residential business, I mean, I've noticed that you've increased slightly your guidance for 2018 by one percentage point but also seeing the margin, the implicit margin for the third quarter, should have been, according to my calculations, around 23%. I know that you're going to deliver 500 units on the first quarter but can you still provide more color on this question?

My second question would be on presales. I mean, it looks -- I mean, your chart on presales per month, it looks like there's a positive -- on this matter. And finally, on your land acquisition made in Seville, after the quarter end, I'm seeing here that your implicit average selling price will be above EUR2,000 and the cost of land is EUR300 per square meter. I mean, according to simple calculations, the cost of land would be around 12% and still your margin, your gross margin that you have on the presentation would be 24. Okay? That will be all from my side.

Juan Velayos Neinor Homes SA - CEO

Yes. Step by step, Jordi on the margin from 2018.

Jordi Argemi Neinor Homes SA - CFO

Okay. On the margins on 2018, you are right. Actually, the year to date gross margin that we have is around 25%. So if you look at the viewers of Q3, individually, some of them have lower margins on the standard and the target that we have promised to the market.

But obviously, we have deliveries that are coming in Q4 have margins above the standard. So overall, the target for this year is the one that we have promised and it's to be 28% with this margin.

Juan Velayos Neinor Homes SA - CEO

Yes. Adding to that, I will say that every margin is what expected or above it. You know that in this [first] deliveries, we are playing with some of the land acquisition that, frankly, that we had with the Kutxabank portfolio. So sometimes, it will (inaudible) you have to use blended margins. Also, it's going to be that each and every site has been delivered at the expected margin or above.

Regarding the 500 units as Jordi was mentioning, it's coming with higher margins because of the specific characteristics of each of them. And regarding notarization, as what we are seeing, they should be happening as expected during November and December.

We are planning to notarize -- the Company has been planning for November. November is a very critical month for us. So it will be the month that we'll be recording and notarizing a very significant part of all these sites that are [have already] the end-of-work certificates that we were mentioning.

Regarding pre-sales, I would say three different comments. The first comment is true. We have much more [product] on the market and having said that, remember that this is about July, August, September, and October. So I will say that our months that in Q3, it's a



quarter but by definition, it's not the strongest one in our country.

Having said that, second thing, we are very disciplined. One of the things in connection with presales that we are trying to emphasize a lot and we will continue emphasizing, we expand our margins through a very disciplined go-to-market of our presales, so we need to presale in a very disciplined manner and I think that the Company and we are following that path very, very [preferably], Okay?

And the third message, I would say, the sentiment of the market in these after summer, I would say with this general impact, I will say maybe a little bit -- I would say less enthusiastic than before the summer. [Thus], I would say the combination [of that], if you were expecting more, I would say this is what we are expecting and I think why this is we are where we want to be.

If you think about the enthusiasm of the market, I would say that it was higher before summer than now. That's real. Our HPAs are being completed and we are in a very healthy market. So this number is taken into consideration that this is about Q3 where we are where we want to be with this disciplined strategy that we have. Okay?

And regarding the land acquisition of Pitamo, I would say, well, you know that we are very disciplined in our land acquisition analytics. I think that this, for sure, a very well bought land, Okay, with a very healthy price per square meter.

We want to be disciplined in our cost assumptions in a market that we know that today, I think, that will have very good visibility on the cost ratios and we want to be conservative in our assumptions here. So let's see. I'm sure that we will have good surprises with this land.

Jose Cravo Banco Santander - Analyst

Okay. Just a follow-up. But then EUR300,000 for the housing facility and comparing especially with the product that your competitors have in the zone, it seems to match. That's my question. Is there anything on the product of this land that's specific or --?

Juan Velayos Neinor Homes SA - CEO

You say that the price is too high, you say?

Jose Cravo Banco Santander - Analyst

Yes. EUR300,000, EUR330,000 almost. It seems too high.

Juan Velayos Neinor Homes SA - CEO

No. No. Take into consideration the land -- you locate very well, the Pitamo where it is, the characteristics of the land and here that we have the (inaudible) and the price per square meter that we have here, I think that this is -- we are quite -- we have done a quite disciplined underwriting and let's see how we have the final product and if you want to discuss, but I think that we are quite comfortable with it in connection with, you see the price per square meter that we have faith here and the characteristics of the product that we are thinking for here, that's a better product.

[It's] going to be a gamma, not a high; going to be a medium-high product. I think that we should be comfortable here. Once we have the product and when -- with this capital, but not. I think that, for sure, the assumptions that we are having here are not being aggressive.

Jose Cravo. Okay. Thank you.

Operator

Alex Fries of Goldman Sachs.

Alex Fries Goldman Sachs - Analyst

My question is also with regards to the land bank and land purchases, actually.

Now, I obviously haven't been there, so feel free to correct me if I'm wrong but the plot that you just purchased in Seville doesn't necessarily look like it's going to be the crown jewel in the land portfolio. Is that indicative of how tight the land market is at the moment?

And should we consider the overall quality of the land bank at the moment to represent high water mark and the corollary of that is looking longer term, how should we think about the long-term EBIT margins that you can achieve once this land starts coming through the P&L? Thanks.

Juan Velayos Neinor Homes SA - CEO

I would say Seville, I mean, [although] we have our natural markets and we are going to see very different land plots. One very clear thing in (inaudible), we are not going approve any land acquisition that has not a 24% plot gross margin. Okay?

Depending on the characteristics of the land but I think -- what I can say is that we use conservative assumptions with very disciplined HPAs or not HPA, if we are not comfortable with the 24% plot gross margin, it's not going to be approved with our [quality] level, okay? So that's the first comment.

The second comment is that we are seeing very different [products] in our market and depending on the regions. We can be discussing land plots of EUR2,000 per square meter and we can be discussing land plots of EUR300, EUR250, or even EUR200 per square meter. Depending on the area and on the region. And it's a demand analysis on a land per land basis.

In this sense, our metric is going to be liquidity and it's going to be the gross margin or the EBITDA margin. So that's going to be a very strong range or a very different range of assets. We are now discussing [in our committee] today, in our work, in our meeting, we have been seeing our land plots in Madrid that we are prepared to pay EUR1,500 per square meter and we have -- [which have been discussed] land plots in the north of Spain at EUR300 per square meter, so it's going to be very different.

And what I can say is that our land bank, we, in the future, continuing top land quality, Okay? If it's not top land quality, we are not going to acquire it and the top land quality means liquidity and very so little [contracted] demand. If it's an area of expansion that we are seeing in Seville, Okay, it's going to be one thing.

But when we have to [contract] these lands in Seville probably (inaudible) as it has happened with Valencia when we [take the bet] or that's happening in some land plots in the north that conclude to a land plot in Madrid that we are prepared to pay 1,500.

So it's a region per region analysis, the quality of the land bank is going to be always good from a gross margin perspective or from a liquidity perspective. But you are going to be -- you are going to have the discipline to compare not only land plots in Madrid on surrounding areas and Barcelona on surrounding areas because we will, obviously, need to be contracting or buying lands in other specific locations.

What we are not doing and I see that if you see the quality of our land bank, obviously, afterwards, you have to zoom in a land per land basis and whenever you want, we do it. But see where it is located. It is located in the region where we are very comfortable with our liquidity and our demand analysis.

But, yes, I think the quality of the land is going to be top from a gross margin perspective -- at top from our gross margin perspective which are going to be compared with a (inaudible) land plots in the surrounding area (inaudible) Barcelona [basically] because, obviously, there is a lot of new land plots on those locations.

And [some] 24% plots, it's going to be a must. It's going to be -- if not, we are not going to acquire that. But there are still a very -- there are a lot of opportunities. And in our committee today, we are seeing a pipeline of 500 million.

Alex Fries Goldman Sachs - Analyst

Right. Thank you.

Operator

(Operator instructions). Next, we'll hear from Ami Galla of Citi.



Ami Galla Citi - Analyst

Hi. Can you hear me?

Juan Velayos Neinor Homes SA - CEO

Yes.

Ami Galla Citi - Analyst

Yes. Just a [set] of questions from me. The first one (inaudible) on the land market, I mean, can you give some sense of how is the competition now in the land market? Have you seen signs of competition? Have you seen at all?

A follow-up on the assumptions on the land acquisitions you've done, you've quite [suddenly] given us assumptions on what house price appreciation you've taken into consideration? Can you give us -- I mean, you mentioned that your cost assumptions are quite conservative and the targeted gross margin, therefore, is also conservative. Can you give us some sense of what sort of -- what assumptions are you making in those numbers?

My second question, really, was on the work licenses. You have secured a reasonable level so far, have you seen any improvement in the time taken to get your licenses? Had there been more resourcing in the individual municipalities into the next year? Can we expect that, actually, the time taken to get these licenses maybe actually shorter, there's a bit more [even] also within those municipalities now? Thanks.

Juan Velayos Neinor Homes SA - CEO

Okay. Competition in the land acquisition. Okay. What I would say about this. We are competing, as always, different [landmarks].

On one side you have what we could say local players, local players meaning the traditional cooperatives or even construction Company that do also some development or some local specific regional players. They have always been there.

My sentiment is that, obviously, with the recovery of the market, they are prepared to be more aggressive in some specific land. But my feeling also is that consolidation is happening. What is evident is that unit equity, the equities [are marked] to be in a position to buy land and there is not that much affect with this.

So there are strong regional players. My sentiment is that the market in that sense is much more disciplined, institutional, and you have very limited number of players that can be more aggressive from a market's perspective. So that's one animal.

I'm seeing them as it happened a year ago in small deals, five million, not more than that. And I would say that -- say less competition than more competition or that's my sentiment. Okay?

In that land, for example, this specific land bank, land in Madrid that we have to decide if we buy or not that probably the answer will be yes. It's a EUR6.5 million deal. We [worked] yesterday with the seller and you see them that with the capacity to originate and underwrite due diligence on EUR6.5 million, I think that there are not that much number of players.

Then you have, I would say, the private equity backed players. Okay? In connection with the private equity backed players, we'll have some newcomers. I would say you have one or two of them that, honestly speaking, probably is not being very -- the ones that I have not understand yet. Probably they use different Excel than I do.

So you have a couple of players that -- but I'm not really concerned about them but they are little bit more aggressive than, I would say, rationality would say. But it's just one or two of them.

And then the others that is the main -- our main competitors. I'm seeing them disciplined. I'm seeing them disciplined. Some of them are not buying and the ones that are buying, I'm seeing them disciplined.



So the answer is short, Ami. My feeling is that there is not that much equity out there. There's land coming from very different sources. We'll have the land -- we'll have the bank, we'll have the private owners and small developers, now we'll have the private equity Blackstones of this world, the Lone Stars of this world come to the market aggressively.

You have local players even selling and I'm seeing much more [product] with that competition. In the competition, I'm seeing a disciplined most of the private equity backed up capital, very, very disciplined with our assumptions very similar to us.

Local players, a few of them, but not that much, honestly, are one or two, I would say, strange players [clearly overpaid]. That's my feeling of the market.

I'm not concerned about it, Ami. It's true that if I have a concern, is that it's still taking too long in Spain to produce new land. So there are nice opportunities out there but all the urban planning is taking too long. And probably, my concern is that that land that should be in the market already as fully permitted is taking too long.

But we have more opportunities than equity so we are now in the process of deciding today in today's land investment committee this morning, we were deciding of the [10] opportunities that we have, which ones we want to focus in. So disciplined market.

What assumptions are we taking in our- in connection with the cost inflation? You know that we are -- we have the privilege today of having we are now with the cost ratios of benchmarking with 105 different sites [already] analyzed more than 65-70 already [tendered]. So we have very good visibility on the ratios.

It's in the range of -- if you want to do annualized rates, I think that we are being in a big 7% cost inflation assumptions what we are today using. Depends on the market and the region. We are, obviously, this can be even a little bit higher in Madrid or even in Malaga, that there are two markets that now are booming.

Obviously, they are not -- those numbers in the vast country or even in Catalonia that we are seeing that are now not [at the stretch] than they used to be a year ago or six months ago, but I would say that if you want to use a [number] of assumptions in cost inflation, it could be the range of 6% or 7%.

In connection with HPA, we want to be very disciplined in our overall analysis. I would say that our blended HPA that we are currently using, it's on the range of 3%. The 2% or 3% is what we like to see in the assumptions that we use in our acquisitions, no more than that.

And there are regions, and except for this Pitamo, that we want to use much lower than that or even [no] HPA. It depends on the region.

But I would say that this are the numbers that we use. This is our number. (Inaudible) just for you to have a clear specific number. Obviously, it depends on the location on the region or if you are using an alpha, beta or gamma, you know that we are in our Whitepaper 14 and we are in what we call strategy the best value for money. Assumption that we are permanently trying to optimize our product to try to beat this pure cost inflation.

And regarding licenses, by regions, by municipalities. There's a significant number of municipalities that the answer is yes, Ami, that they have done an effort. That they have new resources, that they have more, I would say, they are doing -- performing better and also important that they have -- probably, they are more sensitive or they have understood a little bit better the importance of the [titles]. Okay?

But I would say that this can be 50% of the municipalities, Okay? You have other 50% of the municipalities that are still under performing. So you have -- I don't know regions like Cordoba, Valencia, San Sebastian de los Reyes in Madrid. You have a number of municipalities that are still, honestly (inaudible).

So I think, I would say it's better. It's improving. We are doing dramatic efforts. I think we are revisiting them once and again. I think that, obviously, we are repeating projects. One of the things that we have learned a lot is that we presented a project six months ago.

We are presenting project that is very similar. We have the relationship with them. So in some sense, we are trying to optimize the process. It's not optimum. You see that we have 15 -- this number of licenses with more than eight months but more optimistic.

And I would say in six months from now, Ami, it's going to continue improving. That's my sentiment.

Operator

And it appears there are no further questions at this time. I would like to turn the conference back over to our presenters.

Juan Gomez Vega Neinor Homes SA - Chief Capital Markets, IR

Thank you, operator. We have a couple questions in the application. And about, like, 2020 deliveries.

First question is when do we expect to release the full expected gross margin for our 2020 deliveries? And the second thing is when do we expect to have all the licenses for the 4,000 units?

Juan Velayos Neinor Homes SA - CEO

Okay. What's happening with the gross margin in the 2020 deliveries. I would say, in respect to the [releasing], now we are, the Company, I would say we have significant number of projects tendering. So I think that the good visibility would be at the yearend, that we will have all these tendering processes finished, all the contracts signed with the construction companies.

So I would say that visibility on the 2020 where we will able to (inaudible) is when we present the results of 2018, so that we will have everything signed. So [probably] in February-March when we are releasing results, we will have a very good visibility on the 2020.

But I'm guessing, it's a fact. I think that the number is the one that I was just mentioning to Ami [trying to be in that range]. Let see what happens because I think that probably, afterwards, we will have to think about cost inflation itself together with this optimization that we are doing in our projects.

But I'm seeing those 6%. Let's see how we'll finish but I'm seeing that in [range of] 6-7%, let's see. Let's see. But that's my assumption today. Okay? Hopefully, we'll be able to beat it through optimization but I would say that that's a sentiment that I'm having as we speak.

In a market, it depends a lot on the regions. And as I was saying, but (inaudible) will take another six months, hopefully, 6-12 months to be normalized at, I would say, rational levels. Okay?

In connection with the 1,000 units notarized, everything is planned to be notarized, I would say, by December 15, Okay? I'm sure that in December 28, we will be getting the notary with some of the units. So I think, for sure, it's going to happen.

But everything is planned to be -- to have a very, I would say, to be able to [be] with our friends and families, enjoying the 1,000 deliveries in Christmas. But I'm [afraid] that it's 28, 29, or the 30, we will have the licensing [methods]. Okay? You'll remember that we are working with guidance of 1,000 but it's implying a little bit more. Okay?

And regarding licenses, the 4,000 units, I think that we are within 74%. We are with 3,000 units. The remaining 1,000, it's challenging [request] here because I could say that they should be here. We are working with what -- those 1,000 units pushing the municipalities for signing the final approvals, but I know that the experience says that this -- that in other words, could be a [wait]. It's going to take a month or a month and a half.

So my visibility, will be at the yearend. Right? At the yearend. If it does not happen in December 15, I'm (inaudible) timing in December 24, right?

So probably December 15. My feeling is that we have more than -- we have -- that thousand units are even more -- that are now in the last mile. So let's target December 15. Hopefully, we'll have [revenue].

Juan Gomez Vega Neinor Homes SA - Chief Capital Markets, IR

We have one question from [Fernando]. On the stamp duty, Juan, that you are mentioning before, just to give an idea of how -- what is the proportion, how many clients are subrogating this data, how many are coming with own resources?

Juan Velayos Neinor Homes SA - CEO

I would say, one, I would say base case and something that we are seeing, Okay? Base case is about 70%, Okay? The subrogation that we are seeing, sometimes, it's a little bit lower. The worst subrogation is about 50%. The best are about 90%. Okay?

And this depends a lot on the work of the bank and the characteristics of the client, but if you want to have a base case, it's -- we're in the 70%. What we are seeing with this matter is that the [work] of subrogation is increasing, Okay?

Since some clients have [the doubt] of subrogating or not subrogating, you know that in subrogation, this is not affected by this issue. So some of the clients are saying, finally, that they are subrogating.

Some of the banks have taken advantage of the opportunity and being a little bit more aggressive in these conditions and they are capturing most subrogation and this is our -- in this sense, of all the (inaudible) is that the banks are taking advantage of this because you know that they want the highest subrogation possible because you know that the Company's financing goal is to capture new clients.

So they are taking advantage of this situation and what we are seeing is that the 70%, what we are seeing and one specific case for example is Badalona. Last week -- no, two weeks ago, we had 50 clients that we're not subrogating. Today, we have 20 clients that are not subrogating.

So 30 clients have jumped in into subrogation. So we have about 90% in Badalona. Now, in Getafe, we have about 90% and in Badalona, now, it's (inaudible). Okay?

So how many -- what's the number of clients that is going to be affected? I'm not seeing, in any case, more than 10%, 15%, I don't know, at least 10%, 15%. You'll see two different kinds of clients.

The ones that are signing, Okay, that they are -- they say, well, let's see what I go [after with] but I sign and then you have, I will say, I'm not [very meaningful], that could be below 10% of clients that are waiting till November 5th. We have, for example, now, I think it's five clients in the north that have decided to wait until November 5th. Having said that, my feeling today is that they are going to sign.

Juan Gomez Vega Neinor Homes SA - Chief Capital Markets, IR

Okay. Thank you, Juan. We have no further questions at this point.

Operator, you can now take over and finish the call.

Operator

Thank you. That does conclude today's conference. Thank you all for your participation. You may disconnect.



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