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HOME.MC - Q3 2017 Neinor Homes SA Earnings Call

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PRESENTATION

Juan Gomez - *Neinor Homes - CIRO*

Welcome to the Neinor Homes Results Presentation for the First Nine Months of 2017.

The presentation today will consist of the following. Our CEO, Juan Velayos, will present the results for the first nine months of 2017 and the outlook for the business. Following that, our CFO, Jordi Argemi, will present the financial overview of that period in detail. The team presentation will be followed by a question-and-answer session.

In order to organize and answer all of your questions, there will be a silent period of approximately three minutes between the end of the presentation and the start of the Q&A.

At any time during the presentation I invite you to send your questions to the submitted questions to the presenter window in the webcast application. I also remind you that this webcast is being recorded and will be available 2 days from now for replay over 12 months. Additionally, within the next few days, a transcript of this presentation will also be available for you to download. Juan, let us begin.

Juan Velayos - *Neinor Homes - CEO*

Let me begin before just jumping into the Q3 results, I think that because these last weeks, we have had a couple of events that have impacted our share and, in some sense, the premium that we have been constructing since the IPO. I think that these two events, as you can imagine, are particularly the Catalonia effect that I will speak a little bit afterwards, and also the AEDAS IPO.

I think that it makes some sense that I try to recap what's Neinor, what's the opportunity and why not, also what are the competitive advantages of Neinor Homes and of this opportunity for new investors.

I think that I would like to begin with the management team. I think, just to be clear and maybe you can except myself, if you want but the management team of Neinor Homes is formed by top backgrounds in home building, in construction, in product management, in finance. I can say that the top management of this Company is superb, excluding me, by the way.

And the second concept is that Neinor Homes today is formed by more than 250 employees. And I would like to remind that this Company has growth on the top of a 26-year homebuilder that's Neinor. Neinor is a Company today with 30-year background; and I would like to make it very clear. And the third concept is the management incentive plan of this Company. The management team of Neinor Homes is fully aligned with the stock market performance.

Second competitive advantage of Neinor Homes is our land acquisitions machine. Each and every land plot that we own has been acquired by Neinor team. All the land that we presented at the IPO and all the land that we have been buying after the IPO that we will discuss afterwards.

And this land acquisition strategy is based on one clear concept -- full control of all our land banks. We do not have JV's, we do not have operating partners), we do not have NPLs.

Third concept -- the land bank, the size of our land bank and the quality of our land bank. Regarding the size of our land bank, to make things clear, Neinor Homes have the biggest land bank for development purposes of Spain except for Metrovacesa. This is a fact. We do not have lands for sale, and each and every land plot that we own is for development purposes.

Regarding the quality of our land bank -- that's, kind of, objective or subjective. What I can only say is that we have 71 sites already tested in the market; and I can also say that the discount rate used by the external evaluators at 10%. I am not aware of any discount rate lower than ours.

Each and every land bank follows a very clear strategy. Our niche market segments specialization. We do not have social housing; we do not have luxury. Different skills are required for these segments. We are fully aligned with our mid-market specialization.

And, finally, we do have the land bank that we have decided strategically that we want to have. We have always said that from ROCE perspective, we want to have only half of a year up to a year of backlog. We think that to react better to the cycle downturn and to optimize our ROCE, that's the size; and we have precisely the size of land bank that we want -- that's 12,000 units that we will discuss in a second.

Next critical competitive advantage of Neinor Homes. Our industrial approach; it's a matter that we emphasize that we do really think that it will be our real competitive advantage when deliveries arrive and is based on a tremendously disciplined business model.

We have disclosed and each and every decision of this Company is based on the targets that we have disclosed to you, and is raised in our white paper that we have already approved version number 10, that we will see in a second, we work with BIM and we have implemented best practices in tendering, qualification, evaluation and optimization of the sales rhythm and of the HPA, all on the basis of very strict processes.

And on the basis of one thing that also has been in some sense discussed. Yes; we do believe in our re-centralized business model. We only develop sites where we have very strong regional teams, but we do really believe that an industrial model that wants to do 3,500 units per year needs to be based in a very centralized business model.

The activity. The developer activity -- what's going on? Neinor Homes is an ongoing business. We have 71 sites already active; 5,500 units. We have more than 2,000 units, as we will see in a second already under construction.

And we begin to deliver. We already have delivered seven sites in this year. And after the IPO, five of them, as we will see. This is more than 300 units. There's still a few, but we begin to deliver. And even more important than that, the run rate of this Company is 2020. The first mover advantage of this Company means that there will be no competitor before 2022 in the market on run rate numbers.

Regarding our road to run rate -- this obviously is an ongoing business, our balances as equity and debt. We have these 29 already under construction, and our business model, as we have always explained, shows CapEx financing.

And, in addition to that, because we have financing skills, it's true that we have fueled our ramp-up, taking some advantage of vendor finance from sellers This is the net debt that we have in a very disciplined Company with very disciplined LTV ratios. And our ancillary businesses are a strength of the Company. We have a servicing contract with Kutxabank until 2022 that supplies the Company with speedy cash flows and provides us with very solid EBITDA.

In addition to that, we have a legacy that we will see and we will discuss in a second, that has fueled our land acquisition program and has made this Company has been self-financing the ramp-up.

And, finally, I finish as I began. We have understood necessary to make this recap prior to roll to Q3. And just to make things clear because regarding capital market, Neinor Homes is a Company today with 87.5% free float and is trading after this impact in our premium at a price to NAV slightly below forecast matching our IPO prices.

So we see this Company has an opportunity after the volatility that has impacted us because of the (AEDAS IPO and because of Catalonia.

After these emphasis] of the competitive advantages of Neinor, I would like just to jump in in Q3 results. And I would like to begin with a message that I am happy to say that this is the third time that we can say that -- outperforming.

The Company is still in the market. I would dedicate that afterwards some minutes to Catalonia, but that from a macro perspective, it's still pushing very hard. Our GDP is in the 3.1%; we will see it's a slight slowdown because of Catalonia, but afterward we will discuss in a second, but still very strong.

The housing affordability is still below seven. The HPA is 5.6% for Spain this year. It's still 27% below peaks. And we've had an exceptional data regarding unemployment this Q3. We are in the lowest rate since 2008.

Let's jump to Neinor. What has happened in Neinor? Let me show data. I see an aggregate for the whole year and also some emphasizing what has happened year-to-date and in Q3.

We have already acquired EUR275 million. This means that we have completed 100% of 2017 budget, and 42% of 2018 budget. All of these acquisitions are with gross margins above those that we committed during the IPO. And that means that the land bank of this Company today is 12,000 units, 180 developments.

Regarding pre-sales, very strong pre-sales. We are with EUR700 million of pre-sales as of today; and now the Company is really focused in optimizing speed to capture more HPA. Our sales of year-to-date are already higher than the sales that we did in previous year, and the number aligns with the PLUS and plus 8% regarding volume.

Regarding activity, since the IPO, this Company has already delivered five sites that, together with the two that we had delivered prior to the IPO, means that this Company has already delivered more than 300 units. As I was mentioning before, we have 5,500 units, 71 active sites.

Regarding legacy, we have already sold 50% of the legacy that we had at the end of 2016. That means that we have only 113 legacy assets; and that at this momentum, we have already sold 109. So this year, we will sell more than the remaining stock at the year-end. And our servicing contract continues being very solid, very robust with EBITDA as of today of EUR13.7 million, and with revenues plus 4% above all our expectations.

If we go to financial statements, afterward, Jordi will go into detail for them. I would like to emphasize that our NAV rose EUR100 million, that our LTV is at 25%, the revenues have been EUR170 million, beginning to show some revenues coming from our core business. The net asset value is almost EUR1.2 billion, and that we still have a very strong cash position.

Now going in farther detail, and regarding to micro we want to dedicate some minutes to Catalonia. It's true that Catalonia has brought uncertainty to our market. It's true that Catalonia has been, during the last month, showing signs of non-security and sending not very good messages to the market.

I would like to say a number of things about Catalonia. Just a second about the situation because I'm sure that you are much more educated than I am; but obviously as it was dedicated just to Neinor.

Regarding Catalonia, I would like just to say three things. The first one is that Catalonia has been in this situation since 2012; and all the recovery of Catalonia has been with the challenge of independence forces in Catalonia.

The second thing is that, in my own personal opinion, the more weakest point has already occurred. It has been on October 1, and it has afterward during this month of October. I think that the natural solution to the Catalonia situation is an election. I think that we heard the news of today that the market has reacted yesterday and today in that sense, that we have a base that apparently has been approved and accepted by all the partners.

So, apparently or for sure, it seems that we will, from a non-legitime situation with counter parties outside the law to the counter parties who are -- whatever is the output of those elections, we will have a legitimate counter party again. I think that's good news, and let's see what happens in that election of December 21 because, depending on the output, honestly, the situation will be more certain or more uncertain.

But, in any case, we think that rules of law that has occurred as the best potential news that we can have. Now, let's go to Neinor, that the important thing on what I can have a more solid opinion. Regarding Neinor, let me try to explain you some numbers and, hopefully, I will be able to explain in a clear manner.

The big message is that we have only 4% of our gross asset value in Catalonia as land bank. Of our total land bank, as I have just mentioned, of 12,000 units, only 1,900 are located in Catalonia. This is 16%.

Of this 16%, 1,500 out of the 1,900 are already launched. Of this 1,500 already launched, 1,200 are already under commercialization. And of this 1,200 under commercialization, more than 900, 920, 930 are already pre-sold. And of this 900-plus already pre-sold, more than 80% have already a down payment above 10%.

Saying it in another manner, in Catalonia we have already pre-sold 100% of the pre-sales of 2017 that we have another delivery coming. We have already pre-sold 90% of our 2018 deliveries, and we have already pre-sold 80% of 2019 deliveries.

Catalonia has been a region that has strongly outperformed since the very beginning. And probably, when I referring to the first mover advantage of this Company, Catalonia can very clearly reflect we have already been up and running in that region for more than two years.

So if you ask me, today as management team, my concern is that I only have 4% of my total exposure not launched in Catalonia -- a region that has permanently outperformed and a region that whatever is the output of the current situation, I am sure that we will continue being important for Catalonia.

So our personal view as management team is that we are seeing Catalonia as an opportunity rather than a problem.

If we can find good land in Catalonia in the current state, being very disciplined obviously in the margins, and being very conscious monitoring the situation how it evolves, Catalonia as of today is not only not a problem for us because of the exposure that we have not launched, and this strong visibility that we have on revenues; but also because has been a region that whatever situations finishes with, even in the case that it's not outperforming that matters [each way] because if it's impacted, will continue being relevant) for us.

Let's try to be in our value chain step by step. And this is about delivery. I think that this Company today is fully focused on delivery. This is our mark and this is particularly what this management team is doing because we have already done our corporate homework before.

In connection with Neinor's acquisitions, absolutely focused in accretive acquisitions. As you know, we have had a very strong Q3 with 11 assets acquired. This is EUR103 million, more than 1,200 units that has brought our -- this has been bought with the J.P. Morgan bridge loan that as we explained at the beginning we signed in August. And that brings a lot of comfort to the Company because we have already bought a significant portion of the land bank that we need to fill in our five-year business plan.

So basically, we have got a need of EUR75 to EUR100 million that we can buy to complete the 2018 acquisition program; and we will do it in a very disciplined and accretive manner.

So the summary, we have an exceptional land bank, the biggest existing in Spain, except for Metrovacesa, very well diversified, ready to build with limited concentration in a specific area, and with no need to sell down any land plot, with a full focus in that mid segment specialization because we think that luxury and social housing needs a different set of skills.

Pre-sales, delivering on pre-sales. Delivery, delivery, delivery.

You've seen the graph that you have in front of you on slide 11 that we have run from the 33 developments under commercialization that we had in Q1 to 50 developments in Q3.

We have already pre-sold this year more than in 2016. We have sold EUR368 million. We have captured 4.2% HPA. If you remind, we presented a 4.8% in H1. This is the consequence of adding on these 10 new developments.

So we are trying to see how we express in a more clear manner managed hereafter the HPA in like-for-like basis, because this 4.2 is the consequence of adding this 10 new developments.

We have already fulfilled 70% of the units that we want to sell in this year -- 75% of the volume. As you remember in Spain, Q3 is a very seasonal quarter; Q4 used to be the stronger one; but -- but let me emphasize this concept. The Company today is fully focused on optimizing HPA because we think that it makes no sense to have that much volume of pre-sales such an anticipation.

So the Company today is in that focus, so our target is to finish year-end aligned with the BP but focusing on capturing HPA.

We continue in that sense with a very solid sales philosophy of three units per month at our average selling price. You know that this changes a lot depending on the sales of the quarter of the year achieving an average of EUR341,000.

An all important message regarding our EUR700 million book; 467, 67%, is under contract. That means that there is a down payment higher than 10%. This gives a lot of visibility to our pre-sales.

And another concept is that our cancellation ratio is below 1% on contracts, a 4.23% on reservations. Having said that, I can say, I can tell you that every cancellation is good news for the Company because we are able to sell it again at a higher price because of the market performance.

The cash received as of today is 70 million, and we have strong visibility on revenues in this ramp-up -- 95%-plus of the pre-sales of 70 are already done; 85%-plus of the 2018 is already done, and we begin to have strong visibility on 2019 and even 2020.

Development. This has really strong, ongoing business. This is the real focus of the Company today. As you in the graph on your right, we had 60 developments, 4,000 units launch going on and at the IPO time. Today we are with 5,700, 78 sites.

The Company is absolutely focused in its development activity. We have got a good Q3; five new launches, three new WIPs, and 71 sites, as I have already mentioned a couple of times.

The reported gross margin is 29%, which is a solid margin. And continue with this delivery mode that is actually today our real goal of this management team. We begin to have deliveries, real deliveries -- more than 300 since the new Neinor came; five sites already delivered after the IPO.

It's true, obviously, that the first deliveries are the smaller ones; but we have already delivered five sites, all of them on time and on budget.

You have in front of you the two deliveries of this Q3, 16 units each, 32 and 34 gross margins. This means that the all-in gross margin of these five deliveries is 27%. We have been able to implement our Neinor Experience concept; and we have done it successfully in our Neinor key days.

It's every year, it's begun; it shows that this Company is up and running. This is the real difference of Neinor among any other company in the market and results begin to arrive.

Finally, just let me dedicate a second to our ancilliary businesses. Legacy, good news, 109 million already sold; only the remaining is 113. We will finish the year below 100. We have sales in 2017 more than we need to sell in 2018.

The same focus we want to get rid of the legacy. We are not prioritizing margin, so we are prepared to offset anything around the value just to cash in and invest that in our real core business with our target 20% high level IRR

What we have been servicing. We are in that EUR1.5 billion contract, the new asset boarding is compensated with the registered sales. We have 21 million revenues year-to-date. That's 4% above expectations and with a very solid EBITDA margin, as you can see in the paper -- EUR13.7 million.

Basically, the message is on track and continues giving us that sentiment of the overall market, continues giving us that optionality to the land bank, and continues giving us an exceptional relationship with Kutxabank. I think, Jordi, now you will jump into financial statements.

Jordi Argemi - *Neinor Homes - CFO*

Thank you very much, Juan.

Before going to details, let me show some key financial messages.

The first one, as already explained in the previous webcast, is the P&L for 2017 which is driven by the ancillary businesses, representing almost 80% of our total revenues. Remember, the core business the development will start being representative next year, 2018.

Having said that, deliveries are already arriving. Two sites have been delivered during Q3 at the margin expected, representing an increased weight of the development business.

Thanks to this, the operating EBITDA for the first nine months of this year, 2017, continues being positive in line with the results of H1 and also in line with our business plan.

Second message, in August we signed our bridge loan with J.P. Morgan for up to EUR150 million with the aim of anticipating 2018 acquisitions, taking advantage of the good momentum and pipeline of land that we have in front of us.

Critical to understand here is that this loan does not invite any change in our leverage policy for the end of 2018 nor the run rate targets.

The third message is in regard of our land bank. Thanks to this loan, we have already bought EUR275 million. This means a that we have already accomplished the budget for this year, 2017, and 42% of the budget for next year, 2018.

So good news from the land bank perspective, reducing our dependence on new acquisitions to deliver what we promised at the IPO for the following full five years of the business plan.

And the fourth and last message, the indebtedness of the Company. As of September 2017, we have already drawn almost 45% of the bridge loan. We continue showing very conservative measures. This means LTV of 25% and LTC of 35%, having closed with that roughly EUR400 million of net debt. So having said that, let's go through the main captions of the P&L.

Revenues. Strong Q3 year-to-date with EUR169 million, in line with our expectations. The split of these revenues is basically EUR109 million of legacy sales, EUR21 million of servicing contracts, and EUR39 million of development business.

Regarding the legacy, we have recorded solid sales in this Q3 2017. However, we should be prudent for the following quarters given that we only have EUR113 million left of this portfolio. So the third Q should be flatter.

In any case, we are comfortable with the target of full disposal of this portfolio by 2018.

Regarding servicing, as already commented, no surprises. Very stable contracts. And regarding the development business, good news. We have been able to anticipate one small delivery of 16 units that was planned to be delivered in Q4.

Coming back to the P&L, gross margin of 24%. Remember that in H1 we closed with 21%. So this increase comes from, basically, the two sites delivered in Q3 with an average gross margin of 33%.

Operating EBITDA still positive with EUR0.5 million, and completely aligned with our expectations. Remember there are two concepts behind this operating EBITDA that I commented in the previous webcast. Legacy product we saw a decline in portfolio value, so no positive impact at the EBITDA level.

And, second, that on top of the development business, remember that revenues are only written in the P&L when the unit is delivered. This means that all these results, the EUR368 million that are in Q3 year-to-date and an order book of roughly EUR700 million is not yet recognized, but will be in the future.

On the contrary, we do recognize some operating costs.

Adjusted EBITDA, negative by EUR0.7 million. It includes EUR1.2 million of provisions linked to the property tax expected for the last quarter of the year. And, finally, financial cost of EUR4.9 million which implies a loss for the period of EUR6.1 million, fully aligned with our expectations.

On top of this -- and I've also commented in all previous webcasts -- the official P&L includes two other concepts linked to the IPO. One is IPO cost for the amount of EUR2.3 million; and the second concept is the management incentive plan for an amount of EUR15.7 million.

Remember that this incentive plan is fully paid by Lone Star. If we move on, we have the cash flow statement. Critical messages here. We have closed Q3 with a neutral cash flow from operating activities (technical difficulty).

Operator

Please go ahead.

Juan Gomez - *Neinor Homes - CIRO*

Yes. Okay.

Jordi Argemi - *Neinor Homes - CFO*

Okay. Sorry. It has been interrupted, the call.

I was starting with the cash flow statement. So critical messages here. We have closed Q3 with a neutral cash flow for operating activities of EUR0.1 million, aligned with what we reported in H1 2017. A negative free cash flow of roughly EUR200 million.

On one side, we have acquired EUR275 million of new land activating the land acquisition program as commented before. And we have also recorded EUR78 million of CapEx.

And on the other side, the legacy divestment and the development deliveries have reduced this negative cash flow. As you can see in the book that is caption of roughly EUR129 million.

So this negative free cash flow has been mainly financed with a primary of EUR100 million that we called at the IPO and the bridge loan of J.P. Morgan.

My last concept in the slide of the cash flow statement, we have closed with a positive net cash flow of EUR29 million; but as commented in the webcast of H1, important to say that it includes a deferred land payment of EUR26 million related to the growth of the Estepona portfolio that has been finally paid the second of October.

So, basically, we can conclude that all cash related from the business and the cash received from J.P. Morgan bridge loan has been invested into high quality for the fully permitted land.

The next slide, 19, we have the balance sheet -- a balance sheet that continues being very solid, strong and healthy.

As you can see, assets of EUR1.3 billion, equity of EUR0.7 billion, and total liabilities of EUR0.57 billion.

Inventories is obviously the main caption with EUR1.1 billion, which represents 87% over the total balance sheet. And out of this EUR1.1 billion of inventory, development represents EUR1.0 billion, and legacy only EUR113 million.

As you can also see on the balance sheet, we have a very strong cash position, EUR89 million, and a capital employed of over EUR1.1 billion, above our expectations due to the anticipation of the land acquisition program for 2018.

If we leap into our working capital, you can see that we have closed with EUR1,120 million of working capital, EUR200 million increase compared to the end of period 2016.

If we go through the details, inventories, as commented, is the main caption; but we have EUR65 million of debtors where, basically, we can find trade and receivables of EUR22 million coming from invoice on the servicing and some advance payment; and then tax receivables of EUR42 million.

This is the VAT that we have to receive from the tax authorities in the following months.

This caption, as you can see, has increased significantly given that we have anticipated the land acquisition program of 2018.

And then, from the asset side, we have EUR38 million of cash and equivalents not available. Remember this a is cash receipt and not used for the clients.

Regarding liabilities, the most relevant concepts are creditors for an amount of EUR47 million, basically constructors and suppliers, and other current liabilities of EUR76 million. This is deposits received from our clients.

This means that out of the EUR700 million for the book, we have received more than EUR70 million of cash, roughly 10% blended. And, actually, as of today, 67% of our order book is already under contracts which shows the good quality of our pre-sales.

And, finally, let's go over the net debt in slide 21.

We have closed Q3 with a net debt of EUR403 million, roughly EUR100 million above the numbers of H1. The difference is actually the bridge loan of up to EUR150 million.

The rationale behind this facility, as commented, the possibility to accelerate the land acquisition program vs. stopping it until 2018. And then the debt accretive compared to the equity with a positive impact of 2.5% on the return on equity.

What are the implications from analyst perspective? It only impacts duringone year where we foresee to have a maximum LTV of 55%. The level is at the end of 2018, and also the run rate remains totally unchanged. So with the bridge loan, we are anticipating peak levels of 2018 to 2017.

What about the conditions of the bridge loan?. A maturity of 12 months plus two extensions of six months each, and a spread of 300 basis points for the first year, and then a step up of 50 basis points for that extension.

As of September, we have grown roughly 45% of this facility, so we still have EUR80 million available that we expect to use H1 2018.

My last comment from my side, the current leverage ratios. LTV of 25% and LTC of 35%. So we continue showing very healthy ratios.

Juan Velayos - *Neinor Homes - CEO*

Thank you very much, Jordi.

I would like to just dedicate -- I'm not going to go through the case studies for the benefit of time. I would only like to emphasize for those of you that were during the IPO, in the first road show, in the site visits, just Dehesa Homes. It is the last one in slide 26.

Just you remember there were the March we visited are clearly works in progress with a degree in the 50%s. I am happy to say that this will be in the next delivery of this Company. It will be a delivery that will occur in November, December. We will have to see. But we have already obtained the certificate from the municipalities.

All design delivery in Neinor and we are proud of it; and I encourage any of those of you that want to visit it because it's going to happen as we anticipated in the IPO when some of you were saying it's a lot to do before delivery to make it happen this year. It has happened. Let me finish with some messages about non-financial reporting.

You know that this Company emphasizes a lot its leading role in the sector of transformation. We do really think that there is a lot of value to create in connection with the non-financial ratios -- a lot of value that will valuably impact in the first year of this Company. We are fully sure about it.

Let me emphasize what has happened in Q3. The first one is today. In today's board of directors, we have appointed a new independent director. As you know, Lone Star reviews its stake in Neinor. And a couple of -- a month ago, a consequence of that, they have a remaining 12.5%.

We have wanted to implement again the best practice in government quotes. We have appointed Alberto Prieto as a new independent director. Alberto Prieto used to be the chairman in Knight Frank now, he's a partner in BDO. And I think that he brings a lot of knowledge in land.

We have appointed him because he is a real expert, one of the few real experts that exist in Spain from institutional and discipline manner of understanding the underwriting of land. He is going add a lot of the value to this board of directors.

And we thank Dominique Cressot, the Director from Lone Star, that has left us today.

We have approved version number 10 of our white paper. As you know, this Company works from the basis of a design and manual construction that each and every site must follow, and that because we already have 71 sites in the market, we have improved it until approving version number 10; that is the one that is being applied today to the new launches.

We have that kick-off Neinor Next. Neinor Next is a JV with Barrebes.biz that's basically just to support and create start-ups linked to the resi business that will work and interact with Neinor. Neinor is in a full digital transformation plan, and this environment of start-ups we have in residential is also going to make us grow.

Regarding the product, and really are not to say that Neinor Homes has already obtained 23 certificates of BREEAM, and there are another 20 certificates that will come. This is a real commitment with sustainability that is changing the Spanish home building.

We have a real commitment with health and safety. We have implemented a standard that goes beyond regulations. And we are happy to say that this quarter, we have implemented 25 audits to all our sites, and it has been confirmed that our incident index is 32% below the national construction average.

We have brought the evaluation of all our suppliers. We have carried out 196 evaluations of all our prequalified suppliers in order to define in which position they are in our benchmark. The good ones will repeat with us; the bad ones will not repeat with Neinor.

And the client -- we have always said that this Company is absolutely client focused. And this is not just work. We have launched this quarter Neinor Home Life. This is an agreement accomplished with Alares that, basically, we have put our personal assistance to all our clients. Personal assistance regarding medical advice, legal advice, physical advice and other set of matters. We are sure that it will be very welcome by our buyers.

We have been awarded with a diploma from Ilunionbecause of the excellent mobility pact that we brought to the market some months ago, thinking about those disabled people or that people with limited mobility.

And we have just been awarded, a couple of weeks ago, with the carbon footprint. We have obtained it in this Company. It's again now in our headquarters -- sustainable friendly.

This is another critical non-financial reporting metric that is relevant for us because we are sure that it creates guided value to our shareholders and to our stakeholders.

Thank you very much. Now, Juan.

Juan Gomez - *Neinor Homes - CIRO*

Yes. You give us two minutes.We sort out the questions that are coming and start replying in a couple minutes. Okay?

So we begin with the Q&A.

QUESTIONS AND ANSWERS

Juan Velayos - *Neinor Homes - CEO*

Okay. I'm going to trying to ask repeat the question, just for all of you to be on the same page.

The first question is regarding our pre-sales, the specific facts regarding Catalonia in October.

I will say three messages here. The exact number is that we have sold 30 units in [October] (corrected by company after the call). Our BP was saying 37 units, so it's 30 against 37. It's also true that in Catalonia the very clear message as I was anticipating before that the teams have, it's to capture HPA.

I think the visibility that we have in Catalonia is dramatically high, as I have explained sometimes to some of you, probably too high. Okay. So I am very comfortable with the 30 against the 37; but, in some sense, it's fair to say that the situation in October in Catalonia can have some impact.

The situation has been, as you know perfectly, to think about buying a home or even to visit the sales point has been, kind of, tricky; but the situation, honestly speaking, does not concern us a lot as of today. Okay.

Regarding you say that the pre-sales -- we mentioned in the pre-sales in H1 that were 20% ahead of our expectations; now we are 8% ahead. And you say it's correct to suggest that this implies a 10% below budget in Q3.

I would say, technically speaking, the answer is yes, it is correct. I think that there are two sides of the answer. On one side, the same concept. Today the teams are tackling HPA, our sales within can be reduced a little bit. I think that the IPO momentum -- the comfort that we gave with the solid revenues gave comfort about the strength of the Spanish market.

Today, myself, I feel I am really comfortable with the strength of the market from a pre-sales. My concern is not to pre-sale; my concern is to capture as much HPA as I can. Okay.

I am going to leave this -- and, by the way, another part of the answer is that it is true that Q3 we were expecting two launches in Madrid; but we have decided to postpone them -- probably to November, December, because they are two very strong, typical launches of Neinor Homes. And we want to go to the market in in November, December.

So in the business plan, we preferred to go in September; and some pre-sales were expected to be there. They will come in November, December is the decision; and to be in the market with the most solid project. Okay.

This capture of the HPA, I want to link it to another question that you have made about the 4.8% that we presented in H1 against the 4.2% that we are presenting now. Okay.

The answer is that -- and if you remember also, when we presented the HPA in H1, there was a graph showing the HPA per region. And my decision has been that to take it out because we need to rethink how to set it in a manner that compares apples with apples.

The 4.8 to the 4.2 is the consequence of launching 10 new sites in Q3 that, obviously, since now we are going to the market with the original HPA captured in our sales price, we are not capturing HPA.

So as the volume grows and the phase of H3 of this new 10 developments are still not capturing HPA because it is already included in our original price. We need to present that in a manner that makes sense.

We are capturing HPA in comparing apples, but with apples we have captured another 0.2 percent in Q3 that I remember that it's a very seasonal period in Spain because of the August holiday. But because the period is helping and the Company is tremendously focused on that, and we will see the results. Okay.

Coming back -- and I comment myself when we present the year-end results, and we will just try to present the HPA in a model that it's easier to compare them in a manner that we can all follow it better. Okay.

Regarding in H1 results I mentioned that we were evaluating opportunities for land disposals, and provided the update here. Yes.

What I had in mind when we were discussing H1 results was Unicajayou know that we have signed in August. We have had of this deal that we have bought exceptional good land in Malaga, controlling Malaga, that was the deal that at that momentum, I was restraining to -- or I had in the top of my head when I was presenting H1; so it's already delivered. We continue working very close to that. The bank is our matter of source of build.

The market is very opportunistic. We have a very strong pipeline. I have not mentioned it before, but we have in front of us a number of opportunities in whatever means you want -- organic, inorganic -- but we are going to continue tremendously disciplined.

This must be very accretive. We are not in a hurry; we are in the control of 12,000 units. We have the size of the land bank that we want for multiple purposes, so we will continue buying. The answer is yes.

We are monitoring new regions, we are monitoring new land plots. We are going to see Catalonia in an opportunistic manner; but each and every building that we want is going to be very accretive.

Another question is, do you anticipate any changes in caliber of deliveries through 2019 in light of the housing pre-sales evolution? Do you expect any changes in your medium, long term business plan? Particularly, would you consider raising your guidance for deliveries of run rate from the current [3,500] (corrected by company after the call) -4,000 units?

Well, on one side, unfortunately, the pre-sales evolution in any way changes our delivery calendar. You know that at the end of the day we have bottle necks -- or three bottle necks, unfortunately, in this business. That is cash out/cash in of 30 months -- not because of the deliveries.

Honestly speaking, this is not our concern in this Company. It's basically that we have two bottle necks. The first is the licensing. The licensing takes an average of six months; but we depend a lot on the municipalities and this is not under our control.

And afterwards, you have all the works that take an average of 19 months and a minimum of 18 and a maximum of 22, depending the size of the site. So, no; we cannot anticipate.

And considering raising our guidance, I would say a clear no. We want to deliver, deliver and deliver.

I have always said that I am sure that true delivery, this Company today has the privilege of being two years in advance of anyone else in the market. This market is going to consolidate, and our industrial business approach will allow us -- that's one personal opinion -- to have the strongest advantage to capture as much volume as the concentration of this market allows.

But today, no. We still stick to our 3,500, and once we deliver, we show our track record and have clear visibility on how the market concentrates, we will speak about it.

The other question, this Company has the privilege today of being fully focused on launching. We have a tremendous progressive and challenging calendar of launches. You know, we are in 500-500, and we want to launch a lot before year-end to have full visibility on all our business plan.

But I would say we are very focused, comfortable with our guidance; but, still, it's not time for that, It would not be prudent as management team. Say, there was some short term pressure of build cost. Are those still there? If so, do you think it's a sort term impact?

I would say the pressure is yes, is there. Obviously, we come from a market -- my personal sentiment reading and understanding and analyzing the prior cycles in Spain is that this will be transitional.

So the short term impact that you mention, yes. And depending on what you mean with short term, probably in 2018, we will continue having pressure. We can deal with it. We'll manage it.

Again, our disciplined industrial model with very strong projects within our white paper, it's the best competitive advantage that we can have in a market that is going to have pressure on build costs.

And my personal feeling is yes, it will be transitional. This country was building not so far away 800,000 units per year. We are still -- we will finish this year in 80,000. But it's also true that in 2014, this Company was doing zero.

So if you speak with the construction companies today, you know that we have 30 contracts so that we are transferring the risk to them; but what they explain to you is that, yes, that they are suffering because at the end of the day, the sub-contractor, the electricist has the option to go to another site.

So, yes; pressure. I think that's under control in the short term. During 2018, we will continue having pressure as far as the market adapts to this new situation.

I think I have answered (multiple speakers).

You brought forward land planning. Can we expect the run rate sales volume to be higher to get it sooner?

I would say that's too soon. It gives us comfort. We are under control of land. We will have to launch it. Let's see where we are when we launch all the sites that we are buying to see.

But I think, honestly, the HPA, all the identification of acquisitions, all the very solid winnings of pre-sales are very strong in that they are modeled that every give me more comfortable the competitive advantages of this Company.

And, in fact, that there will be no one out there at run rate until 2022. That's too fast. Genuinely solid, privileged position which, in my opinion, my modest opinion to you as investors see it today still as a de-risking.

So whatever we have promised, we will deliver. And this Company is about delivery, delivery, delivery.

And this management team has the privilege today that has nothing else to do but showing you facts as we have done today, and we will do quarterly by quarterly trying to restore your confidence in the commitment of this management team.

Juan Gomez - *Neinor Homes - CIRO*

Just a couple of questions. Let me show them to you.

Juan Velayos - *Neinor Homes - CEO*

Kindly provide the regional split of HPA on pre-sales, particularly in Madrid and Barcelona.

Let me try -- as I was saying, let me try to give you a good analysis period for period. I would say it's outperforming -- you said Madrid and Barcelona. They are at the range of 4.0-plus.

But let me give you apples for apples, and I am going to give you a good comparison, as I was mentioning before, that being the same analysis for each. Very strong. In Madrid and Barcelona are very strong, but we will provide you with that analysis in detail.

Juan Gomez - *Neinor Homes - CIRO*

This is also linked to Emily's questions. Are we comparing what was launched in quarter three?

We're going to work on that and see. As I said, we want to be consistent and show something that is comparable is what we are saying.

Juan Velayos - *Neinor Homes - CEO*

Yes. HPAis still over 4.8% in the site we are launching for Q3 is the same. We will provide that analysis; but, yes, in the apples for apples. It means the relevance is higher than it was in H1.

So we have captured an average of0.2% additional HPA in each site. But we will provide you with that number in detail; but the answer is yes.

I think that we have answered the other questions on the 3,500 to 4,000 still in the same numbers. We will revisit at some time; but I think our prudent management team it's not time to revisit the guidance, although we are very comfortable with where we are today.

So I think that we have covered everything.

Juan Gomez - *Neinor Homes - CIRO*

Yes. And if anything wasn't answered, I will reach out to you directly.

This concludes Neinor Homes Q3 2017 earnings call. Operator, you can close the call.
