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HOME.MC - Full Year 2017 Neinor Homes SA Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Neinor Homes Full Year 2017 Results Presentation Conference Call. This conference is being recorded.

At this time, I would like to turn the conference over to Juan Gomez Vega, Head of Investor Relations. Please go ahead?

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

Good afternoon, ladies and gentlemen. Welcome to the 2017 Annual Results Conference Call for Neinor Homes. The presentation today will consist of the following: our CEO, Juan Velayos will present the results for the full year 2017 as well as the outlook for the business; in between our CFO, Jordi Argemi will present the financial overview of the period in detail.

The team presentation will be followed by a questions and answer session. In order to analyze -- and answer all your questions, there will be a silent period of around 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 through the Submit a Question to the Presenter window in the webcast application.

I also remind you that this webcast is being recorded and will be available within the next two days for replay for 12 months. Additionally, within the next week, a transcript of this presentation will be also available for you to download.

Juan, the floor is yours.

Juan Velayos - *Neinor Homes SA - CEO*

Thanks. Good afternoon, everyone. Thank you very much for attending the call. I'm going to try to follow in a quite disciplined manner the agenda and all the highlights that I think that I -- that we want to remark today. I know perfectly that has been -- we have had a number of calls of some of you during the morning, we have had an initial negative reaction to the result that we have presented so I will zoom in and hopefully I will be able to explain as we have always done very transparently each and every matter that has concerned you. Hopefully, we will be able to give you comfort during those calls.

But I will -- please as you -- that let me go through the presentation and the pace in a quite disciplined manner knowing that I will start with a long detail and attempt all the questions regarding these ramp-up, initial reaction that you have had to the deliveries during the ramp-up. So, I begin with the presentation and whenever I arrive there, I will stop and I will explain with further detail.

Let me give you just another view of the 2017, our performance that has been good, has been very good, I would say. The macro environment, it's supporting us; the GDP, it's still growing; the unemployment is still going down; and we are still with a very clear in balance between supply and demand. The existing demand is still mixed, that additionally 70,000 units are in the supply-side. We have finished the year with 80,000. We are still a long way from the balance seen between supply and demand. So, the macro is supportive. I will stop a second there.

We have an exceptional land bank, it's 12,500 units, it's 166 land plots ready to build and we have been able to buy during 2017 EUR286 million. This is [3,100] units (corrected by company after the call) all of them acquired with gross margins above the target that we have always mentioned during the IPO and during our meetings afterwards.

Launching activity, this is going to be one of the focus of today and I'm going to try to explain you with detail. The company today has 8,300, 8,300 units up and running. This number it's above the number of aggregate deliveries that we committed during the IPO and we are -- this is the number at January 2018 that means three years before 2020 year-end.

The company has done an extraordinary effort to launch new sites, 5,500 during the year. And another highlight I would say is that two-thirds of our land bank this is aligned with our strategy of ROCE optimization, it's already up and running. So, the 2020 run-rate, it's in principle secured -- and not in principle, it is secured.

Under construction, the company has 2,400 units going on. We have been able to add 800 units during the year and the operational team is externally executing. All of the land plots under construction, with cranes, have a reported gross margin of 28% above the numbers stated and are all on track, on time and on cost. I will detail on that.

The point that we will discuss is how it's going to be the road to run-rate and I will go through [them] in a few minutes. Our presales book, it's EUR746 million. We have been able to sell 2,200 units during this year. This provides us a very huge visibility. 2017 has been 40% higher presales than 2016, has been 1,300 units and have been EUR459 million.

Embedded margins, we will dedicate some time to embedded margins just to let you know, some -- and address some of your concerns. The company has been able to capture 3.9% extra revenue against our business plan. As we have mentioned in other -- in other calls and in different meetings with you, you will see that we have tried to make an effort to distinguish what's the extra revenue that we are capturing, what's the extra margin that we are capturing, and how we see the HPA in a technical theoretical point of view. But the extra margin that is the consequence of the revenue and how we are dealing with the costs, the net of course is 3%, it's EUR11 million above our target -- and this is direct impact to EBITDA.

We have began to deliver, this year we have delivered 313 units, still not a lot but more than expected, we have anticipated to deliveries and the gross margin of these reported deliveries are above than the one expected in our initial numbers.

We have done a tremendous [cycle] in connection with our ancillary businesses. You remember, it's not significant at all, but you remember that the EUR650 million, just there we have EUR85 million remaining legacy. During the year, we have been able to sell EUR126 million and our contract with Kutxabank, it's under perfect execution. We have EUR18.5 million of EBITDA, 60% plus margin and with a very solid relationship with the bank.

The financials, Jordi will jump in and will zoom in, but we have a positive adjusted EBITDA, a little bit higher than expected, it's EUR8.3 million and we will visit a second, our NAV, that has been always one of the drivers for your numbers and your comparisons with peers. The NAV of the company has increased an 8%, with still very disciplined LTV margins of 22%.

Let me go very quickly through this point and not that quickly about the point that has concerned you this morning. Macro, I will only emphasize two comments. Mortgages are out there, still far away from the peak and with each and every Spanish commercial bank, with clear willingness to continue ramping mortgages to our clients and with clear willingness to continue to financing our CapEx.

The number of transactions in Spain keeps growing and the number of new homes against the total number of sales keeps growing, [17% of all] transactions have already been new homes. There is still room, there is still clear very solid demand not only the regions where we are now, but we are identifying clear demand in other regions, positive clear -- positive macro environment.

Regarding our land bank, you have a plan of Spain in front of you, you see the consistency of our acquisitions during the year on a Q-per-Q basis, I have just mentioned the number, 12,500 units and 3,100 units during the year. We still are seeing very solid pipelines. This company is today working on EUR500 million of potential acquisitions and we are working very hard close to potential disclosure of the first deals in the strategic lands.

Let me explain very clear what it means for Neinor Homes strategic lands. It's the Anglo-Saxon way of seeing it, we are closing a number of deals with different potential sellers that allow us to control the land plots that will only be delivered to us when they get fully permitted. You have to take that right, we are deploying very limited equity in the rates of 10% and in the case that that land plot at the end of the day is not fully permitted, we have the warranties in connection with those amounts. So, if hopefully we are able to close these deals, this will be fully consistent with what we have been explaining since Day Zero.

The way Spain is ready for strategic lands as it is understood in the Anglo-Saxon market, may not will be there. These lands are fully consistent and aligned with our regions, exceptional land plots, with no political risk, just timing risk, and I emphasize the concept, we will only buy them when they are fully permitted. Hopefully, we will be able to come with great news within the following weeks and months.

Let me move to the NAV. Our NAV has increased an 8% since IPO. We see the numbers after the turbulences in the market and even the turbulences of today do the numbers of how we are trading today in connection with this [revisited] NAV of [1,300] million or EUR1.3 billion.

On a like-for-like basis comparing apples-to-apples, the land bank that we had at the IPO has been revalued in a 19%. Why? Because a significant part of these lands, two-thirds of it is already up and running so that the valuator has real numbers at what price we are pre-selling. Why? Because we are investing CapEx on it. And why? Because the discount rate that the valuators are applying to those lands that have visibility and presale, and visibility on CapEx is lower and sometimes to the one that applied at the IPO. At an average, it's still a 10%, but here we have a 19% revaluation on a like-for-like basis.

And the other concept I think that's important also is in our 2017 acquisitions Our 2017 acquisitions, the valuation, the external valuation brings an 11% upside to the prices paid. To say, why I would -- I would recommend that you look at the appendix with the assumptions that the valuators are taking into consideration for these numbers and you will see that they are more than reasonable.

The rationale behind this increase still is the one that we have emphasized a number of times, equity is the clear entry barrier, we have been able to buy portfolios with significant tickets and we have a very strong origination and execution capacity. The consequence of that is still that we are able to control a number of off-market natural transactions with that -- those non-natural sellers.

Let's go now to the point that I want to dedicate some minutes and hopefully I will be able to give some comfort to you and obviously I'm at your disposal today with the questions afterwards and I will do -- I will be on the road because I want to generate all the confidence in you about the credibility and capacity of execution of this company.

This company today has 8,300 units going on launch, more than the units committed in the IPO. The effort that this company has done for those purposes has been very high and the operational capacity of this team to make it happen by the way much stronger than at the time of the IPO. These 8,300 units in a very transparent manner as we have always said to you, I want to show -- share with you how deliveries will come. How the deliveries will come under the assumptions of these 313 units that we will speak in a second about deliveries and the guidance that you had at the time of the IPO.

We are seeing today all the deliveries for 2018, obviously are under construction and in advanced construction. Each and every land that we were seeing at the IPO that should be delivered in 2018 except for one in [Marbella, La Cañada], 45 units; it's going on, it's up and running and our target is to deliver it on time. It is 1,200 per units all around.

We have said in this paper, circa 1,000. Why? Because I know that these deliveries will come in Q4, some of them. I know that facing municipalities today just to obtain the final certificate that will allow me to go to the notary is challenging, and I want to be tremendously transparent with you. There is no operational risk. The constructions and the operational teams are doing an exceptional job, I will discuss now in embedded margins, it's up and running, but it could be Q4 or it could be Q1. It's just a cutoff day challenge, it's our job to make it happen. This is what we're doing, but this company is going to be tremendously transparent, although it can have the impact that it has had today. So, 2018 is contract or this is as I am seeing it as a CEO of this Company.

[2019], if you take the guidance of their 3,000, yes, it's not going to be the case. We have in front of us a number of things that are making us being prudent about what's going to be the number of deliveries in 2019. Let me go through them.

The most important one, it's licensing. The time that we need to obtain the licenses in a number of municipalities of Spain, our assumption is six months; in a number of municipalities in Spain, we are being able to make it happen, in other municipalities of Spain, we are not being able to make it happen in six months. Why? Because those municipalities, you can imagine that they'll be the municipalities that are a significant part of the 80,000 units that are being under construction as well and these municipalities it's being hard for them to adapt to the new situation.

If these licenses take 9 to 12 months and if a number of them are 12 months, our deliveries will go from the 2019 to the 2020. In addition -- in addition to that because it's not only that, we -- and this is a CEO decision, we are protecting your margin. In the -- in some of the design phase of these projects, we have seen deviations regarding costs when the project has come to us, our decision has been to redesign, to redefine these projects just to be on cost. Sometimes these redesigning, it's taking a number of months. It does not concern me, it's for protecting margin and the market in this sense is helping us so this conservative phasing, I think that has extra value for the company and for investors.

Where we are again, with the cutoff day, the combination of licensing and the combination of these redesigning because we want to redesign just to be on cost and to protect our margins, is meaning that we see a more conservative phasing during the ramp-up. This is what we are mentioning this circa 1,000, we are working for a number in the range of [1,200], like I've said, but a number of them could be on January, February in Q1 rather than in Q4. We are working with that guidance of 2,000 in 2019 and we are working with a guidance of 4,000 in 2020, that will be higher. But we want to revisit the guidance.

The company, this is not a market problem, the market is supporting us. This is not an operational problem, the team it's much stronger than it used to be at the beginning of the year. It's just a cutoff day issue from a very transparent company that wants to share with you our day-to-day concerns. By the way, this is three years from now, this business with the municipalities, yes, we need to manage and I think that I have tried to disclose to you many times in many manner, that we need to manage this six-months delays because of the characteristics of this business.

A third consequence of that, and it's not a way of trying to color one thing with the other, it's that you have been asking for this guidance, therefore the run-rate guidance, the Company operationally has the strength and the capacity to be in 4,000 units per year and it's going to be the case for sure in 2020. That is the run-rate that we have -- we have commit. This is the rationale behind these conservative-phasing ramp-up.

We do think that we protect margin. We do think that from a valuation perspective the Company is exactly the same or even stronger and I hope that I am -- we as a company are able to maintain your credibility and I do take my responsibility, including regarding the quota obviously, regarding that vision on phasing that you have had.

Units under construction, we have 2,400 units under construction, in Q1 2018, hopefully now because it's already happening, 600 of new units have already arrived or arriving as we -- as we speak. This is 36 sites.

Operationally speaking, the Company, we will see that in a minute in the embedded margins are on track, on time and on budget, in a momentum that [eats through], and we will discuss in a second that the cost pressure for the cost inflation is giving headaches to our operational teams, our operational team is doing an exceptional job. Each and every site is on track, with a 25% to 28% reported with gross margin.

Let's go a second to pre-sales and we have tried to do a number of exercises in connection to presales to try to improve the quality of the information that you take into consideration for your numbers.

We have had a very strong year from a commercial point of view. Our sales have been EUR460 million, this has been 40%, 39% higher than 2016. The average sales price is [EUR340,000] and the visibility of our book, it's every time stronger, 80% of the presales of 2018 are already done, 60% of the presales of 2019 are already done.

The number of cancellation we will discuss now from Catalonia, still very healthy, sometimes even forced by us because they are supporting or helping us a lot.

Catalonia, honestly speaking, it's not concerning us. I'm going to give you a number, that probably will give you comfort, maybe it's too soon. I think that we need to continue monitoring very close in Catalonia, but Catalonia, the number of leads in October, November of 2017 dropped I would say significantly. Significantly means and if you want to be very dramatic, 15%. In December, January this year, the number of leads, is absolutely aligned with the leads that we had last year and the healthier the developments that we are now launching in Catalonia, give us a lot of comfort. In 2017, 40% of our full presales were in Catalonia, we are continue seeing Catalonia as a very significant and strong market for Neinor and we are targeting land acquisitions there.

Two more comments in connection with presales book, prior to go to the HPA concept. We begin this year with 51 different sites under commercialization. Of this, 51 sites under commercialization, if you go to your graph, in your right top-down, you see that the visibility of presales in the Center, East and North is tremendously high and in the South, it's a little bit below, it's some 40% because that's launched later on.

But during this year, this company will have 45 new sites going to the market, very well-splitted between regions and we will explain at the end of this presentation about the challenges and the concerns but we have a very strong visibility of the [how quick] the product that it's going to the market. This is one of the privilege of our first-mover advantage.

This company has 90 sites going on and this company will have almost a 90 sites under commercialization during this year. This is very strong and gives us a lot of -- and solid first-mover advantage in our opinion.

HPA, let me dedicate a second to the HPA. We have tried to do an exercise and we have dedicated time to that, just to try to give you some good guidance about the numbers that we all know that you are working with in connection with the HPA. We have tried to split it, the HPA in two concepts. One concept, it's not HPA, it's basically extra revenue or extra margins that we'll capture against our BP. This has nothing to do with HPA because in our assumptions, in our BP, in most of the cases we've captured all the HPA when we kickoff the development. And this probably has been confusing when we use these words. Afterwards [what] we have done an exercise, it's the first time our idea if it helps you, is to monitor it hereinafter just to discuss real HPA.

Let's begin with extra revenue and extra margin. Our extra revenue is 3.9%. The revenue that we have been able to capture are both our assumptions in our [base], 3.9%. You remember that the assumptions that we had in the IPO was 0.9%, so there is a 3% extra, extra margin.

The second assumption, now let's discuss margins, not revenue. In revenue, this means EUR17 million, EUR17.3 million, additional revenue. If we go to margin, our construction cost inflation, at the end of the day, you remember was 1.5%. At the end of the day with this designing that I was mentioning before [redesigning], we have been able to be each of every plot under the assumptions of our BP, so with a 1% down, EUR5 million. This is the construction cost aligned to each and every unit that is captured in the HPA to compare apples with apples. So, the EUR3.9 million is the 1%, we have an extra margin that should be an impact in our EBITDA of 3% plus. I hope these numbers helps.

Two additional comments, the growth margin of our land bank, you see our graph in the left, down, very consistent and above the IPO targets. The Kutxabank portfolio, our original portfolio has a gross margin of 30%, all the acquisitions prior to the IPO is at 29%, all the acquisition of 2017 is at 27%. The guidance that we gave you in the IPO was 24%.

And the last concept regarding HPA, let's -- and I would like to emphasize, that this is still an initial exercise because we have been unable to give you apples-to-apples exercise in seven different sites.

Here we try to compare the price of a home at January 2017, against the price of the same home in December 2017 with real sales, exactly the same characteristics for the apartment. The sample is still small, seven, but hopefully we will report it if it helps you. North, 5.5%; Center, 11%; East, 10.8%; South, 6.9%; de-blended, 8.5%, capture HPA in 2017 with at least very limited sample. Each and every site that it's going to the market in 2018, we will try to disclose you on quarterly basis, hopefully that that data will help you.

Deliveries, Slide 13. We have captured 76.6 revenues. We have anticipated two land -- two sites, on track. The gross margin the ones reported. We have done our first deliveries that I would say that are 100% Neinor Homes based on White Paper No. 1, we are in White Paper No. 11. Happy with the deliveries of 2017, still very soon to say nothing, but this company has the execution capacity and the operational capacity to make it happen.

One second to the ancillary businesses prior to go to Jordi and afterwards to come with the challenges and your most often questions. You remember our ancillary business is, legacy, we have sold during the year, EUR126 million. You remember that we told you that it was going to be liquidated during 2017, 2018, afterwards we will [explain] all these challenges. 126% are not already with us, you remember the initial number was EUR650 million, only EUR85 million of book value remaining with us and just focused on finishing this business line.

The servicing contract, by the way when I have been speaking about the NAV of this company, and about how we are trading today, I have said a single word about the servicing, whatever value it's on top of the numbers that I have just mentioned. Very solid contract, you'll remember we presented 2022, EUR18.5 million EBITDA, 60% margin and even more important than that, we've had extraordinary relationship with Kutxabank, that it's an exceptional bank.

Jordi, if you go to the financials. I will after go into the challenges.

Jordi Argemi - *Neinor Homes SA - CFO*

Thanks, [Juan]. Thank you, Juan. As in every single webcast, I will go through the three financial statements, P&L, cash flow and balance sheet and then I will resume into the net debt position for the year-end.

Key messages in the P&L statement. We have closed the year with revenues of EUR225 million, legacy represents EUR126 million, if we have consider the EUR12 million of sales of noncurrent assets. As Juan has commented, this EUR126 million means the disposal of roughly 60% of the total portfolio at the beginning of 2017, so we have recorded some savings during this year with a positive gross margin.

We took in the target of full disposal by this year 2018 but we should be prudent with the sales curve within the year and even with the pricing given that we are in [half], EUR85 million of assets left, so the last 15% of the portfolio according to Kutxabank.

Servicing represents EUR29 million and as already commented, no surprises, very stable contract. And development, our core business, good news, we have been able to anticipate again two deliveries with a total of 51 units that were initially planned to be delivered in 2018 at that -- at margins slightly above expectations.

Thanks to this anticipation, gross margin has increased from [24%] in Q3 up to 27.2% for the full year. There has been a clear increased weight of the core business in the P&L, representing 54% over total revenues. This results to a positive EBITDA adjusted of EUR8.3 million, which is above our expectations.

And finally, a voluntary impairment of EUR4.5 million on the legacy, based on the new pricing revisit, and a financial cost of EUR7.7 million, which implies a loss for the period of EUR4.6 million, excluding these impairments, net income is zero, breakeven.

On top of this and as commented in our previous webcast, the official P&L includes two other concepts linked to the IPO, one is IPO cost for a total of amount of EUR2 million and the second cost is a management incentive plan for an amount of EUR19 million. Remember that this incentive plan is fully [dependent on staff].

Moving on -- moving onto the cash flow statement, critical messages. We have closed the year with a positive cash flow from operating activities of EUR4.5 million. Remember that in Q2 and Q3, it was neutral.

We have invested EUR286 million in land acquisitions, exceeding the budget by 40% and for securing good lands at attractive margins and [EUR115 million] of CapEx. This has resulted in a negative free cash flow of EUR126 million, which has been mainly financed with a primary issuance of EUR100 million, and a bridge loan of J.P. Morgan, that at the end of 2017 was roughly 50% loan. And last concept positive net cash flow of EUR14 million.

Regarding the balance sheet, it continues being very strong and healthy, it has not really changed since Q3. Assets of EUR1.3 billion, equity of EUR0.7 billion, and total [liabilities] of EUR0.5 billion. Inventories continues being the main caption with EUR1.1 billion representing 90% over the total balance sheet. Out of this EUR1.1 billion of inventory, development represents EUR1 billion, and Juan just commented, represents only EUR85 million. And we have ended the year with a strong liquidity position, this means over EUR100 million that allows us to have fire power to continue acquiring good land in this 2018.

And finally, let's dip into the net debt position for the year-end. We have closed with EUR382 million of net debt below the roughly EUR400 million shown in Q3. This implies healthy leverage ratios and lower than those seen in Q3, loan to value of 22% and loan to cost of 33%.

And last comment from my side, we are and we will continue being disciplined from a leverage perspective, not only from an amount perspective, but also from a quality perspective. As of today, no single bank represents more than 20% over the pool.

Juan Velayos *- Neinor Homes SA - CEO*

Thank you, Jordi. Let's come back, I would like to now to try to address some of the milestone that we have for 2018, some of the challenges that we have for 2018 and also, I would like to address some non-financial issues that I think have value. And to finally with the most common questions that that you are [doing], ask once and again, during our -- when we are on the road and I think that hopefully we can give clear visibility for what Neinor's position in each and every of those questions that you remark in our day-to-day meetings.

Let's begin with the milestones for 2018. First if I have to summary milestones for 2018, it's delivery, delivery, delivery, This company will show you its capacity to deliver and to execute and we're going to say many things in the next 5 to 10 minutes but this is about showing execution with this company that have an exceptional team and capacity to make it happen.

Let's go on a line-to-line milestones that we will deliver. The company will continue buying, we are going to buy more than EUR200 million this year. We are -- we are repeating our guidance to 4,000 units, we will say in a second and that means giving a little bit more pressure to our acquisition line, but the market is out there, we are seeing a number of deals, we'll discuss in a second but we will buy more than 200 million this year.

We are going to do our first strategic land acquisitions, hopefully within the following weeks. I emphasize we are not taking planning risks. We are controlling land, non-fully permitted, that will be transferred to Neinor whenever it is fully permitted. We think that Spain begins to be ready for that as you perfectly are familiar with in the U.K.

We will continue launching. One of the lessons for the future is that we need to launch more than before. So, we are going to be very disciplined in our launching, trying to anticipate them to cover this timing licensing issue that we have just discussed. We are going and we are optimizing our design-to-value and our design-to-cost to protect margins. We have 90 sites out there. We have a lot of learnings and all those learning we are bringing them to the design phase to optimize our sites.

We have [5,500] units (corrected by company after the call) to begin construction. Q1 being a good Q, then now we'll have on top of 600 units are coming under construction already. But this is a real challenge, we can manage it partially, but we are going to manage it as much as we can. The obtention of the licenses, it's our clear bottleneck depending on these municipalities.

Our six-month visibility in a number of municipalities, 9 to 12. We are going to be able to handle it partially but it's going to be more and more intense management. We are on the top of it, but it's a little -- not under our full control, but I don't want to use it as excuse. We are fully on the top of it.

We are going to pre-sale EUR750 million, 4,500 units will be out there in the market and we are going to continue with our strategy, what we say tails and jewels strategy just to capture as much HPA as we can in a market that is very supportive. There is a lot of money just playing the right manner with the rhythms of sales.

There are a thousand [plot] deliveries this year. Post-sales, management will really begin. We are dedicating a lot of time with our Neinor experience team just to begin because this year post-sales will really begin.

Margin protection, we do really think that the way of maximizing the value for your investors is through margin protection, it's execution and margin protections. Margin protection in some cases has -- we have decided to redesign some of the projects just to optimize our control costs. In this cases, this has been the decision with one target in mind, margin protection. Also, this slowdown if you want to see it in a positive manner will allow us to capture more HPA.

Full legacy disposal. We want to get rid of legacy during 2018, it's just 85, it does not change the needle but we'll have said and we will get rid of it during 2018.

Servicing, continue our solid relationship with these solid contracts with our good friends of Kutxabank.

Solid positive EBITDA, positively, yes, arriving in 2018, the first year of the ramp-up with positive results with a very disciplined LTV, and whenever we deem it convenient, probably thinking about our balance sheet optimization if we keep continuing the credibility and the trust of the investors from the capital markets.

Challenges, what challenges we have as a company today and which are your frequent questions. Competition, this is getting crowded. On one side, yes, we have three listed companies, we'll have another two colleagues herein, maybe some others coming to the capital market, more than welcome. The market is starting -- consolidation is starting to happen. Equity continues being a very clear entry barrier and I think that the big guys, though so [far], we are able to show delivery, I think that we are going to be able to capture significant market share.

The land price inflation, it is happening, yes, so you show your concerns about this. You have seen our gross margins in 2015 to 2017, obviously, they are affected in some manner, but the market is still huge. There is still a lot of land in non-natural sellers, you have seen our EUR500 million pipeline. I think that there is land out there to continue buying in good conditions and if we are able to successfully bring the strategic land we will use it. So, we think we are able to manage land price inflation in due manner because of our equity and our strength and the number of buyers is not that much, taking into consideration the number of sellers.

Transitional cost inflation, I think that that -- this has also brought some confusion in some of your questions. We are listening to that 5%. There was a comment that some of you investors have asked or you have heard of someone in the market saying that it's a 5%, it depends. We are being able to handle it in a lower number as you have seen with this 1.5 plus 1 in the range of 2% to 2.5%.

It's pressure, it's labor shortage, it's one of our [intensive ordinary] course of business management headache. We see it as transitional, we think that the market as it's happening with the -- with the homebuilders, it's happening also with the construction companies that they are adapting to the new situation. But yes, it's true, it's putting pressure today to the market, it's putting pressure today to some [tenderings] that forces us to redesign to be on budget. And is one of the things that I see it more transitional than not, but yes, it's putting pressure on the market, we are managing it in due manner.

We are emphasizing in our -- in our industrialization model, this is the way to -- I would think to face these pressures, transitional pressure and we are working more and more with very -- a number of from -- what is agreements with all strategic suppliers. We are managing it, we have had this [1, 5 million] in all our weeks going on and I think that through design-to-value, through design-to-cost and through good management, we are being able to manage it.

HPA, we have heard a number of numbers going on. We see that 5%, I would say is the number that we have been published, the one that we have said here, different ways of seeing it. We see it just as extra revenue to our -- to our business plan. We can see it as apples-to-apples, I think it's fair to see those 5% margins. By the way, it's taking the good discipline to adopt the rhythms of sale to the capture -- to the maximum capture of the HPA.

Embedded margins, we have a very solid embedded margin on our portfolio. We've got 29% gross margin. We are making it happen. We continue with this guidance of this 24% for future acquisitions. We will make it happen. How of market deals, this morning we have -- we have just acquired another land plot in an off-market deal. Accretive acquisitions of portfolios, [we are] taking with the equity, think it's significant and then regions we will -- we'll continue monitoring those new regions which make sense in a very disciplined manner, but there [may] come new regions that make sense.

On-time deliveries, yes, we need to make it happen. We are on top of it. The operational capacity of this company it's very strong. We have learned a lot of these 90 sites and modestly speaking, this company, it's performing in due manner. It's going to be more conservative, the ramp-up until the run-rate, yes, we think it's the best way to protect margins and to improve earnings and control costs. This will bring us to the run-rate guidance of 4,000 units that in the late -- in 2020 will be a fact, will be a fact. Each and every land, it's already out there so this is not a market risk, this is not a land risk, this is not an operational or execution risk, this is a matter of making it happen and it's just a cut off risk that we need to manage.

At the licensing time when we -- to begin construction and at the licensing time, at the time of delivery because remember that we need another authorization from the municipalities prior to be in a position to go to the -- to the notary. So, we need to manage it, and it's our job and you -- the right word for you to say is make it happen, because this is why you are there for.

Non-financial reporting, I want to dedicate a few seconds. I think it has value. We know that our focus is delivery but this company is doing a number of things. To be very transparent and I think the exercise that we are doing today, it's an exercise of transparence, of being fully aligned with you, and very open as how we see each and every moment in the company. So transparency is a must in Neinor. We are -- we will continue being very transparent. We think that you value [that] a lot and this is a number of things that we are doing.

We are certificating in BREEAM, we are obtaining Energy certification A or B in each and every plot, in each and every development. We have reviewed our energy consumption per capita on a 14%, paperless 11%. We have two products in the market with a social view that has been very welcomed, replicated by other homebuilders already, it's Home Protection and Mobility Pack.

We have obtained the excellence, the EFQM 300+, first homebuilder obtaining that here in Spain after the crisis, in the Global Excellence Award. We have renovated each and every ISO and we have obtained a new one on Information Security Management System. We are working in the Digital Transformation, we do really think on it. The company has already taken the decision on the basis of Big Data for our -- for our analysis of the land plots and for the analysis of our customers -- our clients. We are implementing our Augmented Reality in our Go-to-market and also intelligence, Artificial Intelligence in our analysis of Big Data analysis.

We are absolutely focusing on BIM, this is the way of optimizing from a design phase, our project. Clearly, we're in the top of it to try to minimize timings. It's absolutely implemented in the design phase, we need to bring it to the construction phase and to the go-to-market, our materials or the marketing need to come to BIM, the company is really focused on it.

We have launched Neinor Next, it's not deviating the attention of anyone in the company but we have already a number of startups, just peeling the wraps of a number of things that we think that have a lot of value for the company, we will have surprises here, but again I repeat, it's not going to distract no one on the operational and execution teams about execution.

We have a very strong Risk Control Management System regarding governance, risk and the compliance, it's all integrated in the same system, give you fast -- this allows us to sleep very well. Everything that we look about, it's on every stakeholder and we have 235 direct employees, we are trying to align them, they have top employees. It's one of -- the things that are happening in these companies because of these guys and we need to take care of them. We have already created 13,000 indirect jobs in our -- in our constructions.

Our incidents, we have -- we are taking a lot of care of health and safety. We are 35% below the national average in incidents. We are dedicating a lot of time to suppliers, we think that we need to revisit the way that we interact with suppliers, there is a lot of value here. We are beginning to have indexes of satisfaction from our clients, 3.2 out of 4, these will begin to (inaudible) and we need to monitor that in very due manner because here it's where our clients will speak about our deliveries. And we think that we have a fair and transparent relationship with you, investors, analysts, even taking the risk of today's reactions, we think that is the way that we need to handle it and we need to anticipate things as we see them and hopefully after this call, being able to provide comfort about why we want to be so disciplined. Maybe even a little bit ingenuous seeing the reaction that you have had to some of the things we have been explaining today.

So, let me see some takeaways. The macro is helping us, the macro is supportive; still 70,000 units under supply, the market is going to be here. Sorry if some of you disagree, but the operational progress in 2017 of this company, a [COI] qualified it as excellence. We are on the top of the things that we have mentioned, we will manage them but the company has -- its really strong and there is no one out there in these markets with 8,300 active sites with a very clear revenue visibility and with a clear visibility on 2018, although the things that we have mentioned.

Yes, it's a business that control of the timings as a number of weeks and the cutoff date has these distractions. We confirm that we can increase the run-rate to 4,000 units per year, it's going to already happen for sure in 2020, it's not an operational bottleneck and that's going to put additional little pressure in our acquisition side because we think -- obviously we will need to buy a little bit more.

We'll re-profile 2019, we think it's the consequence of the things that I have been trying to explain in connection with the licensing, with the redesigning, but also because we think it's the way to capture and to have the best cost control and to capture maximum HPA.

And finally, and regarding 2018, we'll have a strong visibility. All the construction works are up and running, all of them have the target except for one in [Marbella, La Canada], the license hasn't arrived, it's arriving now. The guidance on that, it's clear, a lot of pressure to the teams, hopefully they will be Q4 deliveries, but maybe, they are Q1 2019 deliveries. Is that's an issue from a valuation perspective? No. From a way of capturing value? No. From a cutoff date? Yes. And we know that as CEO of this company, my commitment and my reliability is based on deliveries.

QUESTIONS AND ANSWERS

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

Thank you, Juan. [As] anticipated at the beginning, we'll now take a couple of minutes to sort through the questions that keep coming, I invite you to keep on sending them. In a couple of minutes, we'll start addressing them all. Thank you.

Juan Velayos - *Neinor Homes SA - CEO*

Okay, I'm just trying to -- I'm seeing that may be some of these questions hopefully -- I'm seeing that some of them have arrived prior, I think that my view and trying to revisit them and I see most of them, one way or other have been already answered. But let me try to emphasize some of the points.

Okay regarding licensing delays rationale when we know it, when you know it, obviously it's our job. We need to deal with the licensing, the rationale behind the reasons why the licenses are delayed are different. My view the more important reason is that a very significant part of the 80,000 units are really concentrated in a -- in the same municipalities. The internal teams were not ready for that and honestly, they say that they have [10] files and that they have one person and they have had to go to another person, these guys do not want -- do not honestly do not have the intensity that you have on your works or we have in our works. And so, I think it's a matter -- it's a matter of the capacity installed at the public administration is not sufficient.

When we have visibility about when our licenses are going to be delayed or not, positively speaking, it's very tricky and I think that in this, the company is on top of trying to even improve that visibility of when we see that there is a risk or not. But it's -- I don't want to use it as excuse, but it's quite frequent that you are expecting a license and they are saying, yes and apparently everything is on track and suddenly they say that they need another report of I don't know what and where is it, it's not in any regulation, but they are just taking additional time.

Other times, it's simply that they are not in a position to review your file after until the month number five and it's very clear that there are regions in Spain that work much better, I would say that example could be the north of Spain, and there are cities -- regions of Spain that are the worst, probably the most obviously the south of the Spain and you have regions that honestly speaking it's the municipalities around Madrid and Barcelona that it depends a lot. But I would say that for sure 50% of the municipalities that we are dealing with are underperforming and probably with a 50% that that probably brings some explanations on that.

When we have visibility, it's a tough answer, it's a tough answer. What we're doing now is in our due diligence acquisitions, we are just not buying in those municipalities that we know that we -- that the prospective is very wrong. My personal feeling, I don't know if I'm going very naive is that the public administration, it's understanding the situation, every time there is more pressure everywhere, I think that you see everywhere in every forum, everyone explains -- saying these, hopefully at some momentum the [drive] will be a little bit. So, I think that it should go in a better way than it's today, you'll see some municipalities that they bring new people, but let's see what happens.

Regarding guidance and you say of the 4,000 units, yes, I'm very comfortable. I think that the company, the team, the 90 sites, how we are being able to deal with the 90 sites, how the company is making progress. This company is very robust. This company operationally speaking is very robust. We have the privilege of having 90 sites out there. We have the privilege of really thinking about the issues that this business is this business. I mean I don't want to use it as excuse, but the timing control is the timing control that we can have.

We are being tremendously reliable when we have the license, until the day that we deliver. Our construction activity, our operational construction team is doing an exceptional job. So I would say that, yes, we are doing, I'm very comfortable with the 4,000 guidance. I think that as the consolidation is evolving, I think that we will be there.

Regarding non-fully permitted acquisitions, let me emphasize it and make it very clear, I think that these are exceptional news. If we are able to control non-fully permitted lands at the -- at the margins that we want, having visibility on our pipeline of 2021, 2022, 2023, with a very limited deployment of capital, this is an exceptional rule. But please don't -- no one gets confused, we are not taking non-fully permitted risk. This is -- I have been very consistent since the IPO, explaining that we have worked a lot in the strategic lands concept, it's almost here, these are good [leads].

Regarding cost inflation, what confidence I am -- it's going -- it's going to be under pressure, the next 12 months. It's one of the things we are listening everywhere. I think that we need to take advantage of our strong position in the market of being Neinor. We are working and we are on the top of trying to deal with our construction companies just to optimize designs. I think that the critical points here, it's at the project phase.

It is transitional in a sense, and I promise [it's not] but it's quite obvious, I think in Spain, there is a lot of capacity as we have traditionally had and my view is that 2018 is going to be tough, Neinor is going to be able to handle it very -- in due manner. I'm seeing that from a HPA perspective, it's stronger than the cost inflation and it's one of the reasons for the cost inflation by the way, yes, because the construction companies also want to be part of these good market momentum. But I'm -- I think that we will -- we will handle it has we are handling it until now, we will be able to handle it. I think that the worst momentum probably has been these last six months and Neinor has successfully dealt with it.

I think that's all this has been already answered. What else we have here, Juan?

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

(Inaudible - microphone inaccessible).

Juan Velayos - *Neinor Homes SA - CEO*

Okay, no. There's another question I'm seeing here about the strategic land. What percentage of our overall land bank portfolio is going to be?

I think that obviously we need to buy land for this -- for -- keep launching, just to be receiving our 4,000 units per year so a significant part must be devoted to fully permitted land ready to build. The land acquisition that we have closed today in the notary public will be launched immediately. So, I would say that it should not be in any case more than 10% of our capital employed.

The deals that we are now working on, it's EUR200 million, with that disbursement of 10%, we will be deploying EUR20 million, therefore our land bank of EUR200 million of a very good land located in Madrid, in Barcelona, in the Basque country, in the [Mar] -- in the southwest and so, I think that this is the way that we're seeing it, but should not be critical.

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

(Inaudible - microphone inaccessible).

Juan Velayos - *Neinor Homes SA - CEO*

In this sense, very good question, who is paying the CapEx in connection with the urbanization works? The seller, the seller. It's a matter of discussing the price, what it is and by the way the urbanization cost is good news because if you add in the urbanization cost, it means that the land is fully permitted or it's almost -- it's in the way of being fully permitted. But the deals -- it will depend on the deal, we can be open-minded to close assuming the urbanization cost is discounted from the price, as we have always done.

Basically, if we are under the discussion of who pays urbanization, that means that the land is under track to be ready to build, so that's good news. But in the deals that I have in the top of my mind right now, the seller is payee. But I could be open to discussed in the other deals in a different way.

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

(Inaudible - microphone inaccessible). Margins, (Inaudible - microphone inaccessible).

Juan Velayos - *Neinor Homes SA - CEO*

The 29% margins that we are disclosing in that, obviously whatever extra HPA that we are able to capture onwards will -- it's not considered debt. So, I think the market if it continues outperforming as I expect that it's going to be the case this year, obviously those margins will benefit of any extra HPA, that's obviously it's above the guidance that we have given of 3.8% in our business plan. So, that obviously will be extra margin.

What we are going to do in the future, if you are happy and we will be in the road during the following weeks and you let us know please, if you are happy with this way of disclosing the HPA, just seeing it as extra revenue to our numbers and another side, an HPA analysis more technical.

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

(Inaudible - microphone inaccessible).

Juan Velayos - *Neinor Homes SA - CEO*

You have very good questions here regarding our timing of the 90 sites, 29 to 32 weeks, how we are seeing it with these circumstances. This is a very good question, okay.

We are in the top of it, honestly speaking, [if you know] the average, it's more in the range of the 36, 35, 36 if we see the blended of what's going on today but we are on the top of it. What we are trying to do is to launch before and we have implemented in the company what we call, for those of you that have been very familiar with us, now we have a pre-first go. So prior to the first go, what we are trying is to anticipate work, to try to continue on the 29 to 32.

So, yes, it is true. We are seeing with today's circumstances because of the licensing, that the blended could be more in the range of the 35, 36. But as a company, one of the things that we need to do is to come back to the 29, 32 in different manner. We have implemented the preferred goal, we are implementing a number of different operational measures that allows us not to have further delays on our -- on a business that on it -- so

I think that our challenge is to be able to come back to those 29 to 32. But yes, it's a very fair question, if we see the average today, should be more in the 35, 36.

One good question, fair question, I repeat exactly as you mention it. Did the management know the issues with licensing delays before the main shareholder exit the company? This is exactly what the question is, and in the transparent manner, I want to explain it as it is.

The licensing issues have been here always. The licensing is issues I think that I have been with you hopefully a lot of you have been with me in our one-to-one meetings and so on, I have always emphasized that this is our headache. So as always [we're here] and was here before, before the shareholders -- when the shareholders bought the company, during all the process, at the IPO and after the IPO, it is true that the consequence of the recovery of the market, the installed capacity of the public government now it's making it harder.

Our assumption in the business plan was six months, that is not bad, and reality in certain municipalities, it's going beyond that. We have been dealing with that -- we deal with that on a -- on a project-by-project basis and I think that each and every report of this company since the very beginning has always has been that every -- that the timing has at last nine or six months precisely because we know that this is a reality of this business. But again, it's not an excuse, and it's our job to make it happen in the timings committed.

I think that one way or other, we have gone -- regarding the legacy, I see one question regarding the legacy. I think that the legacy, honestly speaking, it's EUR85 million book-value in the -- I want to get rid of it. Obviously, the EUR85 million out of EUR650 million are not the best, you can -- I mean it's not -- it's quite obvious. I think we have reprice it once and again, but it's here, it's not about margin, I may even prepare to take out if necessary, I'm going to get rid of it in 2018.

And I think that the valuation, the external valuation, it's --

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Jordi Argemi - *Neinor Homes SA - CFO*

Seven.

Juan Velayos - *Neinor Homes SA - CEO*

-- [EUR107 million], but in EUR85 million I signed now and this is -- and we are going to work to the best optimization of the legacy, but I think I want it out of the balance sheet and out of everything.

And regarding the servicing that you ask also here, again, I mean in my opinion, it's a -- it's an upside of this company. From the team allocated to servicing, it's very clear, it's not distracting our company, it's a [EUR16 plus million] EBITDA contract.

We have spoken about the NAV, I don't know what value you want to add to that, but add value. It gives us optionality, you will hopefully soon see new demonstrations of that optionality and it's a clear upside and the strength of this company compared to any other company and yes, and we've had a very clear allocation of the [team].

So, let us see, we will get with the [team] as soon as possible. And the other side, on the servicing, it's a clear strength of the company.

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

(Inaudible - microphone inaccessible).

Juan Velayos - *Neinor Homes SA - CEO*

Yes, very good question, regarding -- and just to clarify this licensing concept, okay, very good question.

Just for everyone be on the -- on the same page, our land bank, it's ready to build. So, there is no risk on our land bank. Okay, that's important. It's one of the clear strengths of our 12,500 units land bank, it's ready to build. Here there's nothing about licensing that we are discussing now.

Second momentum. When we have the design, the project ready to begin works, we need a license from the municipality. This is the bottleneck. We cannot begin work, our construction company cannot begin the work until we have that license. This is all our -- all we are discussing here. We are under detension waiting for that municipality to give me the license. Once we have the license, I begin to have very solid visibility, obviously in a business like ours, we have 18-, 20-, 22-, 24-month construction program in front of us, challenging also but the company is showing excellent capacity to perform.

And once I have finished all the -- all the construction, once the apartment is ready to be delivered to the client, we need another authorization and our license. This also takes two, three, but can be even six months in sometimes. So, why I put in front of you the challenge of 2018 that we are being able to manage it very well is because all the construction I see that are going in due manner, but it's a Q4 termination and I will go to the municipality and say: Hey, give me the license to deliver the units. What I'm doing, we are already working on it.

One of the things that I have not said of how we are in the top of it, I am visiting each and every municipality, it's one of my top jobs now, [mine, Juan]. I'm on the road everyday seeing municipalities, just to make sure that we can make it as fluid as possible. So, I have the big, big risk to begin construction works.

Another risk, timing risk is when we finish, that we need a new -- the certificate that allows you to deliver the home to the client. This is what we try to control, what we try to be on the top of it, but that gives to this business and to this ramp-up a cutoff date. So, now, one of the learnings, 8,300 units already going on, three years in advance to the finish of the 2020. We'll be able to deal with these delays in the better possible manner, okay.

I think that one way or other, we are going to be with some of you these days and I think that you are visiting this afternoon, afterwards we are in the road. I think that we are going to be probably in all of the countries. I'm more than happy, more than proud for this team and for myself, I can fully commit it, fully proud of Neinor 2017 performance. A lot of things to do, a tremendous first-mover advantage, a tremendous first-mover advantage, many things happening, very strong company, but we need to build your reliability, your trust; and the ramp-up, it's a cutoff date problem that will allow this company to capture more markets.

Thank you very much. At your disposal, hopefully, we will be able to keep -- continue with your trust.

Juan Gomez Vega - *Neinor Homes SA - Chief Capital Markets & Investor Relations Officer*

Thank you, Juan. At this time, we will finish the call. There are a number of detailed parts we will touch with Jordi later on. We will reply to anyone that -- whose question is not -- they don't feel [it's answered]. Thank you very much. Operator, we are done.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen.
