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HOME.MC - Q1 2018 Neinor Homes SA Earnings Presentation

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PRESENTATION

Juan Gomez Vega *- Neinor Homes - CIRO*

Welcome to the Q1 2018 Results conference call for Neinor Homes.

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

The team presentation will be followed by a question and answer session. There will be live questions for those of you that dialed in to the provided conference call number, and as usual, you will be able to submit questions at any time during the presentation through the submit a question to the presenter window in the webcast application.

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

Juan, let us begin.

Juan Velayos *- Neinor Homes - CEO*

Thank you, Juan.

Thank you, everybody, for attending this call. And first thing, apologies for my voice, I have a soft cold, I have a sore throat I think. But hopefully I will be able to keep with sufficient voice for the next hour.

Regarding the Q1 summary, the executive summary of what has been going on in this intense quarter for the company, I think hopefully you will read the same way that are good news what we are going to present today.

First, regarding '18 deliveries, you know perfectly we are now with 1,000 and everything is on track. We will go farther on in a second but the 14 sites that we plan to deliver are scheduled to be delivered.

'19, we mentioned our target to deliver 2,000 units. You remember at that momentum there were some licenses pending and I can say today that everything is on track. All the licenses have been received. All the sites are today work in progress and we will go zoom in in a second into it.

2020-2021 run rate, all the actions have been implemented and we have today good visibility about 2020; 5,500 units have been launched are almost 5,000 units -- 4,900 -- have been already -- the licenses have been already submitted, we will into zoom in in a second.

The revenues continues being very strong. We have high visibility on our revenue line. Our order book is today of EUR828 million. This Q1, we sold 100 million of all our BP and today almost 2,500 families have already trust in Neinor Homes.

The visibility on the percentage in '18 and '19, really high -- 90% on '18 and controlling our sales the 10% remaining, and 60% on '19.

Operations, I will try today to give you visibility and help you to touch what's going on in this company and the operation on site on construction. Forty four sites under construction, EUR430 million of capex contracted and 1% below budget on aggregate basis.

Today, I'm going be, that's if I'm successful, to let you understand better what's going on in our operational perspective. Margin, duly protected, the visibility on these 44 sites that we had at the IPO, it was at 26% gross margin in these sites. Today, we are in 28%. We will zoom into that gross margin to let you know how we are seeing HPA and how we are in our cost side. Hopefully, you will be happy with our explanations.

Last but not least, one of the intense [works] of this Q1, land bank. Very important message, this company, it's fully focused on fully permitted land and I would like to emphasize this concept. We have bought three land plots fully permitted, 120 units that are ready to build. And we have been able to control 1,400 units and including a deal of April located in the best locations, I will zoom in, that will be bought by Neinor when they are fully permitted.

These are the first opportunistic, strategic land transactions. I'm going to try to give you details to understand perfectly these significant three transactions that we have been able to close successfully this quarter.

So, with this zoom in, let's try with these numbers, let's to zoom into operations. Let's try to give color about what's going on regarding '18, '19 and '20. And I'm going to try to -- I will pray you to try to jump into appendix and into slides.

In slide number six, you have our deliveries for '18, 1,000 units, a little bit more than that. In H1, we plan to deliver 250 which are not delivered in Q1, so here you will not see anything in our P&L. We have delivered the first one in April. We plan to deliver three more in June. All of them are now in the process of paperwork, so planned to be delivered as promised and with the intense jump to be completed in [H2] for the 769 units. Some of you have been visiting some of them these last weeks. All of them planned to be delivered on time.

We say it's 90%, we are just selecting when or how to sell the remaining 10% of the best units that we have in each and every of this 14 land plots. You've seen the map, where they are located. You see a lot of activity now in the north of Spain. You see significant activity going on in Catalonia and also in the central region with the two first deliveries.

The degree of completion, one is finished and notarized in April, the other 13 are just in the finishing stages work certificate of final [work] to be obtained within municipalities so if no surprises we have the works are done.

'19, first good strong message, the licenses that you know that is one of the things that it's not fully under our control, all of them obtained; all the works going on. That means 31 sites today contracted, planned, and agreed to be delivered on 2019 including San Just and Alborada that have been initiated in April. The contracts signed with the construction companies are very clear that delivery is about '19. Intense year, a lot of work to be done, but everything on track.

The pre-sale visibility, we will zoom in in a second, it's 60%, really comfortable, we will discuss now but trying to be maximizing our revenue line, our HPA in the remaining 40% of the units with still 18-20 months in front of us. You see the zoom in in the map of Spain of each and every site, you see that 29 because you have to be really disciplined with Q1, you have to add these two that have begun on April, San Just and Alborada.

And you begin to see that our activity continues very strong in the north. It continues to be very strong in the east. It begins to be very strong in the central. And it begins to be strong in the south. Quite proud, we will jump in and I'm not going to stop to not make this very long.

But I would pray if you can spend some seconds in slide 29 onwards - sorry, 26 onwards -- you have a photo of each and every site, where the construction needs, how is the percentage of work in progress, what the percentage of presale and what's the exact momentum that we have divided into initial work, foundation, structural works or [facade] works.

You see where every one we will help you to monitor and track each of these sites every quarter and we will pray and insist this is going to be one of the last things that I will do today, that you come to see what's going on.

2020-2021, I'm in slide number eight. Key actions for on time delivery implemented. I think it's an important and strong message that I want to send -- 5,500 units have already been launched, thirty six months ahead of the planned delivery. We have license, request licenses are ready of 4,900 units.

You see in the graph that 79, one of them has been already under construction, but if we include April, two of them, almost 250 plus units already obtained and we begin work immediately. We have also tried to zoom in about what's the timing for these licenses. You see that 3,700 have less than four months since they were submitted to the municipalities; 1,100 are four to eight months, two of these by the way have already been obtained are these two that I have just mentioned and only one 100 units in Cordoba that is more than eight months hopefully will be coming soon.

A lot of work done in this sense, all of the actions implemented and with sufficient comfort and visibility for the on time delivery of 2020. We have also implemented all each and every efficiency matter that we have considered necessary. All the design efficiencies are already implemented to our white paper. The privilege of having 44 to 46 sites going on has helped us a lot.

And all the construction operations are already updated and each and every tender that we are now going to the market, it's coming from that. We are going to see that in a second with further detail. Fifty sites going on, if you put together anything that I have [speaking in this company] the next site that is beginning in April means site number 100, this company is close to the run rate from an operational perspective.

By far, the two-year first mover with the pros and the cons, but this is one of the clear thrusts of it. And another important or very important message about this quarter, units under commercialization, tremendously intense quarter with 1,000 units that have arrived to the market this quarter and with 3,000 units that will come to the market within the following months with a very intense Q2. The company today is just arriving to the market and our natural markets and to new markets as I'm going to explain in a second and you will see in the next slide.

Our revenue line, I would say continuously market, selling, supporting and very strong.

Today, this company has 4,000 units under commercialization and 3,000 will be coming. We have been able to presale [100 million, 294 units] in this Q1. Our pre-order book is today 828; 2,500 families, and our average price today is EUR332,000 per apartment. Eighty percent of these presales are already in private contract, really strong. And I have wanted even to emphasize that we have had 32 cancellations. And if I have to be honest, legally no one has the right to recover the deposit but we have facilitated significant numbers of these cancellations.

The cumulative price increase in these cancellations, in these sites where the cancellations has taken place is 10%. So, even cancellations today are helping us.

We have included and we began last quarter to disclose the [observed] HPA. Remember that this is just a metric that hopefully helps you, has nothing to do with our numbers that we will start discussing in a second but it's the sample of those units that we can compare apples to apples and that having sold Q1 '17 to Q1 '18. The sample in this quarter that we have been able to put together have been in nine different sites have been 8.1%. The HPA, very supportive.

I want to zoom in afterwards gross margin that giving you more color on it. But basically the message is that the HPA is very strong and I would not take it for granted please, but you see that in the north and in the southwest, it's including surprisingly strong. I want to see if our deal and sales strategy that begins to have effect, but don't take it for granted for the future. But basically the message is HPA, helpful and supportive.

We have already spoken about our visibility, our 90% in '18, we are trying to optimize revenue. We are trying to sell this last 10% quite close to deliveries. So, we are now monitoring depending when the delivery is, how the last three months, four months, how we are selling the last and hopefully the best units.

Today, I'm in the graph in the right in the bottom of the page, 60% of our stock is pre-sold, this will change. Obviously new product is coming to the market so this 60% is going to go down in following quarters. You see Levante southeast and southwest that are significantly below basically because they are arriving to the market significantly later than the other three regions where we have presence as I was saying before, so more time.

Slide 10, construction, I would like to send some solid messages about our operational capacity. The first one is that 44, 42 plus 2 if we have these two that have begun in April, nobody I think has the same construction activity in this country today. Everything is on track.

We are working with 27 different construction companies; one of them, only one of them in one specific site has been replaced. Our concentration risk in our clear disciplined strategy we want to be quite limited. We have one construction company that obviously is outperforming with five sites in the north and one and two of them obviously those are outperforming because we begin to know which ones are outperforming and which ones are not with three sites.

But 15 companies have still one site and 9 of them will stay with two of them, the bottleneck or the funnel begins to apply as we have always explained. This 1% in our budget of our EUR430 million, we have wanted to zoom in about which of them are below budget, 35 of them and which of them are above budget, all of them afterwards net, from a gross margin perspective I'll try to explain now from the HPA perspective. But here obviously you have those companies that will not repeat with us and have some of the (inaudible).

But basically on budget I'm going to zoom in a little bit more with a gross margin analysis and I think that the construction is one of our strong capacities.

Gross margin, in the 44 sites that are WIP basically '18 and '19 deliveries, we were planning at the IPO a 26% gross margin. Today, we are planning a 28% gross margin. This is basically EUR20 million extra absolute gain and is a combination of basically EUR22 million HPA and minus, extra cost on the construction.

This is basically the EUR20 million extra gross margin that we have in those '18 and '19 deliveries sites. You can have the reaction to say if you have mentioned this [8%] HPA why is this EUR20 million. Basically because if you remember when we were at the IPO, our visibility on the ['18 presales] was very high roughly 70% and we'll have significant visibility on 90%.

So, obviously, we have been able to capture those EUR20 million on the last 30% of '18 -- on the last 20% because we're still 10% for sale and in the remaining 20% of '19. So, this is I think hopefully you will get it as very good news. The sales price are out-stripping clearly the cost inflation and last but not least, on prior to zoom into the land bank and the land acquisition program, we continue buying land above the IPO expectations.

In the fully permitted land, it's true that it is not very significant, in April we will come with more, has been 25% plus gross margin against the 24 but we are speaking of very small sites this time, three land plots, 120 units and I will discuss in a second. This is strategic land approach, secures us due to pipeline at 28% plus gross margin and I remember that I only buy it when it's fully permitted. I'll zoom in in a second.

Let's zoom in into our land before cost, fully permitted, what have we bought, three specific land plots -- one in the north; one in the Levante region in Valencia; the other one in Ibiza which is an execution of a [call option] that we already have with solid gross margins of 25% plus, (inaudible) extra lots 120 units and hopefully in Q2 we'll come with some more that we are now closing in April.

Regarding the strategic lands, first concept, this gives us visibility '22 onwards. It's land plots that should be fully permitted. You know that the visibility and timing of these non-fully permitted lands is not tremendously certain in Spain but on or around 2020. So, we are seeing that these are sites to be delivered '22, '23, '24.

We are able to control them with an escrow deposit with a payment of EUR17 million that give us the right to buy this EUR194 million, these 1,400 units once they are fully permitted. We have been able to buy them from different sellers. We have worked a lot on this. We have private sellers. We have bank sellers. And we have investors.

You have a zoom in in the appendix that hopefully will help you to understand each and every plot. I'm more than happy to have any session that you want if you want to understand it. These land plots are located in Madrid, in Barcelona, in the north, in Bilbao, the middle of Bilbao and in Marbella.

So, excellent plots, future visibility on our pipeline, 28%-plus gross margins, really happy with the work that the team has done to close these deals.

Finally, ancillary businesses and I see that my voice begins to be worse. And the legacy, EUR7.5 million [sales], 12% gross margins, we continue with the idea of continue accelerating so probably prepared to revise prices to sell the remaining 10% these final [tails] of this portfolio.

So, I am anticipating that I'm seeing, and that prudently, but we want to accelerate to continue selling but prudently, we will continue showing and I would say don't take for granted, please, this 12% gross margin of Q1. Actually, we have the remaining EUR77 million to finish and liquidate the portfolio.

And the servicing continues being very strong, EUR4.4 million EBITDA in Q1, 59% margin, our relationship with the bank continuously excellent by any means including the strategic land that we have not discussed. And it will continue having this EUR1.5 [billion].

One data that I think is important, the company with these 100 sites going on, I would say that from a team perspective we are done. Our 246 people that we are today in this company is split in 70 people are servicing (inaudible); and 170 people each focused in our core business. Obviously, the remaining legacy is done by the team with a limited team that I put up into the 70 people of our servicing team.

So, [Jordi], why did I show that prior that last message that I linked to the financial statements important message, during the last months that we have been speaking with a lot of you, discussing our recurrent questions and it's about funding. How we are going to fund our base case business plan and what are the plans of the company from a balance sheet perspective.

The base case that we have is fully financed, it's self financed. We have included here that hopefully will give color to you our cash ins and our cash outs. Having these cash ins coming basically from the development and also from this remaining legacy stock and the servicing will be 155 in '18 and 355 in '19, all in 100 million plus.

And what we plan is that what we know is basically because we anticipated the jump of the land acquisition program from '18 to '17 to [fill in] completely our base case. We need to [buy another] extra 2,000 units between '18 and '19. We plan to buy 80 million this year and 150 next year. This will fall in absolutely all our base case 2,500 units.

We also plan to repay all the debt that is not strictly linked to our development activity. That means that we are going to repay the JP Morgan, the Bankinter and the Sabadell corporate loans that we have in and hopefully the sooner the better. We want to continue to be tremendously disciplined from a debt perspective. You see our peaks in debt that will be in '19 with EUR650 million but 30% LTVs with no corporate debt on it and just focus on our capex and development financing.

You'll see that in that graph that we have included, that you know that the servicing basically covers our net, our overhead from personnel cost with these EUR25 million and these gives us a comfortable self-finance business plan with extra cash of EUR50 million.

You have asked a number of times about equity. For that execution is now. Priority execution is a must. And now, after you have fully comfort because we have, when you have that, we will reconsider anything.

But today, no equity, know that, yes, it's about execution and a self-financed plan -- businesses plan. Hopefully, that comfort will be sooner than later because I want to say that the management conviction is very clear that this company decide and prefer to achieve more ambitious goals.

Once you are convinced of it and now, we need to demonstrate this execution, we'll need time to consider anything else. So, Jordi, why don't you go through financials? And I try to recover a little bit my voice.

Jordi Argemi - *Neinor Homes - CFO*

Thank you, Juan. As in every webcast I will cover the three financial statements and then I will zoom into the net debt position. Before going to the P&L Q1 let me remind you that Q1 is the last quarter where ancillary businesses represent most revenues.

Deliveries of our development business will start in Q2 and will end the year with 1,000 units and will represent revenues of around EUR300 million. Having said that, let's go to the P&L for Q1. Some key messages. The whole P&L aligns with expectations, but let's consider that Q1 should only represent roughly 5% of the targets for 2018.

We have both Q1 with revenues of EUR19 million. And out of these EUR19 million, the legacy represents 8 million, if we consider sales of non-current assets. And as recorded, our positive gross margin is right above 10%.

As Juan has just commented, we cannot expect this margin for the EUR77 million of the book value left and given the last part of the legacy portfolio we could expect future price deterioration to accelerate the sales rhythm.

Servicing represents EUR7.5 million and given it is a stable contract these results of Q1 shows the capacity of the company to reach the annual target of EUR30 million of revenues and with the margin of 50% to 60% promised to the market at the IPO.

And development, our core business, EUR4 million, that corresponds to the developments partially delivered at the end of Q4 2017, basically, 14 units with an implicit margin of 31%.

So, the overall gross margin has increased from 27% in 2017 full year to 51% in Q1. This revenue increase is due to the weight of the servicing business in Q1 results. So, as a result of this, gross margin will be decreasing along the year once the legacy is sold and once the units of the development are delivered.

This results to a negative operating EBITDA of EUR2.7 million and negative EBITDA adjusted of EUR5.4 million once the annual provision for the property tax is deducted. Remember from last year, that according to the international financial reporting standards, we have to record the first of January a provision equivalent to the full year property tax expense.

And finally, financial cost of EUR2.3 million which implies a loss for Q1 of EUR7.9 million. On top of this, the official P&L includes the management incentive plan for an amount of roughly EUR1 million. And remember, as always commented that this incentive plan is fully paid by (inaudible).

Moving on to the cash flow statement, three critical messages, the first one is that we have closed the quarter with a neutral cash flow from operating activities only minus EUR3 million which goes obviously in line with our operating EBITDA that we have just commented.

The second message is the negative free cash flow of EUR56 million. And two concepts behind this negative free cash flow. One of them is the Capex, EUR54 million. And it is increasing given the construction activity has picked up in 44 sites.

And the second concept is the land acquisition of EUR55 million, which we should be linked to a change in deferred land debt of EUR36 million. So we are focused on maximizing the equity optimization in the land acquisitions.

And the last concept, a third message in the cash flow statements negative net cash flow of EUR14 million negative.

Regarding the balance sheet, it continues being very strong or healthy. The only change since the end of 2017 is the increase in the development inventories of probably EUR100 million and this is due to the Capex and the land acquisitions that we have just commented.

And as a brief summary of the balance sheet, we have assets of EUR1.3 billion , equity of EUR0.7 billion and total liabilities of 0.6 billion. Development stock is the main caption with EUR1.2 billion with the same, I think roughly 85% over the total balance sheet and the critical comment here is that more than 75% of this stock is active.

And the last concept in the balance sheet is the working capital. It has increased by EUR50 million compared to December 2017.

And finally, let's dip into the net debt position for the year end. We have closed with EUR441 million of net debt; EUR59 million above December 2017.

And again, two concepts behind this increase, one of them is a deferred payment of strategic land which represents EUR36 million. And the second concept is the use of the JP Morgan bridge loan for the land acquisitions of this Q1. This represents roughly EUR20 million. So, as a result, we continue with healthy leverage ratios and very similar to the ones that we showed in December 2017, LTV of probably 24% and LTC 33%.

And last comment from my side, we are and we will continue being disciplined from our risk perspective as Juan have just commented. And actually, we have voluntarily capped the bridge loan limit at EUR110 million.

Juan Velayos - *Neinor Homes - CEO*

Thank you, Jordi. And let's try to cover two other important concepts that we want to transmit to you today. The first one is about non-financial reporting that you know that we include on the slide every quarter.

I think that this Q1 has had a significant event that I want just to dedicate a second and afterwards, I will try to do the (inaudible) that I have just anticipated a little bit before. Regarding this event has been - you know that as a consequence of our results and our last few presentations, not really successful.

We have today Adar Capital with 28% in our shareholding structure. And they requested two members at our board level. They were appointed in the general shareholder meeting and they had the presence yesterday in our board that was approving the Q1 results and these reports to the market.

Two or three messages on this side. The first one is that more than welcome from the management perspective. The second is that they have emphasized a long-term view and they have one -- a question for them the full support to the strategy and to the management and to the company.

And the third message is that very disciplined in governance company that we are and we want to be. They are fully committed with their roles of governance of Neinor as a best in class public markets company.

There are other messages about what has been going on from a non-financial reporting. I don't want to dedicate much more time. We continue being tremendously focused in our digital transformation.

The company is beginning to -- we handle, we manage today 2,500 families. We plan to deliver 1,000 homes this year, 2,000 next year. And much more on run rate basis and the company believes and it is investing time and money in our digital transformation that begins to have very clear milestones of things.

And last message, in slide 23, we plan and we want to announce it with time. We have tried to think in some dates that are easy for you because it does not converge with a very significant number of results presentations and so on, but we are planning for the last week of September, for

September 24, a site tour planning during a week that you obviously you can just try to go 1, 2, 3 or the 4 days to visit each and every site, each and every work in progress.

In September you will be touching the deliveries of 2018. You will be touching the progress in all the 19 deliveries. We will visit these strategic lands that we have just bought. We can visit also the next launches if we want.

We would like to try to emphasize and that you touch, I think some of you have in the last weeks visiting some of our works. And I think that the best way to really see what's going on, the activity that we have and our operational capacity is visiting our work in progress.

I think that those of you that have done it I think that are really impressed about this. So, please if you can manage it, we are going to organize it in our team -- Juan and the team will contact you with the exact dates and we are announcing it with a sufficient time in order that you can put that, print it up in your agendas.

So with that, Juan, thank you very much. And--

Juan Gomez Vega - *Neinor Homes - CIRO*

Yes. Thanks, Juan. Thanks, Jordi.

Operator, we can now open the line and you can signal people how they can ask for their turn to ask questions.

+++ a-and-a

Operator

Thank you. (Operator Instructions)

We will now take our first question from Flora Trindade of [Caixa] Bank, BPI. Please go ahead.

Flora Trindade - *[Caixa] Bank BPI - Analyst*

Yes, hello. Good morning. Thank you very much. My first question is on slide 14. You mentioned there debt for 2018 of 450 million. Can you give us the bridge to reach that level of debt considering the 441 that you had at the end of March?

And then the second question is on the legacy business, can you be a bit more specific on what kind of sales and margins are you expecting considering the comments you made during the call?

And then finally on deliveries in -- especially in 2018, considering the strong concentration you have in the fourth quarter of the year. How do you see the risks of potential delays in first occupation license? Is that something that something that worries you or not really? Can you just explain us your thoughts on this? Thank you.

Juan Velayos - *Neinor Homes - CEO*

Absolutely. Jordi, can you go over that please?

Jordi Argemi - *Neinor Homes - CFO*

Absolutely. If you look at the EUR85 million of the corporate and land debt that has to be repaid this year, basically, this is EUR60 million of corporate debt that basically comes from Bankinter that we are expected to repay there completely.

The facility, it is due in January, but obviously this is the beginning of January of 2019 and we assume the repayment during 2018. And the remaining part which is EUR25 million is basically land debt, that is title deliveries that we expect for this year, these 1,000 units.

Juan Velayos - *Neinor Homes - CEO*

Regarding legacy, obviously these are the 75 plus million of portfolio of 650 million. And so by definition we are in the less liquid product. Okay? What we are seeing is that the (inaudible) prices, I think that 7.5 million it's not sufficient rhythm.

So we want to speed up, I think that we are very clear on that that we want to get rid of this legacy. But we are not going to be also -- we are not going to turn crazy, okay? So what we are doing is revisiting - revisiting prices, I will say tranche per tranche and to see how the readings are accelerated. I would say we are from the book values views that it's where we are on or around. I think that we are the first approval that I'm doing is what, 5% in those product that has been less liquid and let's see how we accelerate the readings.

And at the end of the day, basically, what I'm seeing is that the 75 million is going to be tough. I'm going to see -- I prefer to -- I want to turn that 75 million whatever it is into cash to buy additional land. So I'm ready to be below those values.

I'm not ready to do nothing crazy because it makes no sense. What does it mean to give you color in my numbers, in my BPs, 50 million below book values -- 10 million, 15 million below book values.

I prefer to see if the readings are correct that it allow it to be on a quarter per quarterly basis where we are. We will disclose very quickly. We went to liquidity and we are not going to turn crazy. Sorry, I cannot give you a better color.

My idea is ideally to have this liquidated in the -- at the end of the year. I'm not prepared to have it liquidated with a very significant -- this is well-underwritten. Okay? And we know that this cash -- I prefer it to have it invested into land, but not getting crazy.

How will it be -- let's monitor it quarter per quarter. I'm seeing that the activity is going -- it's more dynamic after this new re-pricing that we have done in April and May. So hopefully, the number will continue going down honestly speaking.

And this is as I am today, quarterly by quarter, depending on the readings of sales of this last 10% of the portfolio, we will be authorizing new re-pricings.

And last comment, deliveries, occupation licenses. How do I answer it? We will make it happen, okay? It's our headaches, ordinary course of business. Yes.

Everything on track. Yes. Discussing with each and every municipality already today for all of them. So hopefully, I think the short answer is we will make it happen. Okay. In terms of management, a lot of work to do, but it will happen.

Flora Trindade - *[Caixa] Bank BPI - Analyst*

Thank you.

Operator

We'll now take our next question from Jose Cravo of Santander. Please go ahead.

Jose Cravo - *Santander - Analyst*

Hi. Good afternoon, everyone. Three questions if I may? First question is just a clarification. The progress that you show of works on the appendix six is at the end of March, correct? And if that is correct, by the beginning of May, do you have any more 2018 delivery that is already finished? That will be my first question.

My second question is with regards to strategic land acquisitions. Overall, I think there is very little detail on this. And I would like for instance to know the Capex requirements for this non-fully permitted land and as well as the variation, buildability that you mentioned on one of the land plots that you mentioned over or around 50%.

My third question is with regards to presales. If I'm not mistaken you had a target of EUR750 million for the year. You've done already EUR100 million. I understand that you have a lot of units getting into commercialization. But you mentioned that you have around 1,500 units to sell to reach this 650 million for your annual target. This is an implicit price of around 473,000. Could you comment on that, please? Thank you.

Juan Velayos - *Neinor Homes - CEO*

One per one, okay. Yes, you are correct. And the development activities that we are presenting here is at the end of Q1, obviously in all these deliveries, every month now it's changing dramatically because you know that we -- the numbers that we include here are against the certificates that the construction companies present to us that are at the end of the month.

So the short answer to the question is all of them are significantly above the numbers presented here. We have already one of them that you have in the photo, the first one in the north.

Urduliz has been already delivered, so we have recorded all of them. It's 36 units, 32 having recorded and if I'm right, tomorrow, we'll have the last four registrations and the three that are prepared for June are on track.

So, I would say everything has evolved since Q1 until where we are today, one delivered and three of them will be -- so now interacting for the (inaudible) certificates of final work and all the paperwork with the notary publics are already going on.

The second question in connection with the strategic, you made two questions. In connection with the first one, the Capex organization work is -- it's on the seller side. So we should go, assuming one per one, we can go (inaudible) just to see which Capex I would say for construction but the first thing is that we are in the most significant part of these deals.

And we are buying these sites with urbanization cost but it's not in each and every one. And so, probably it's helping that we can do even a session that's zooming into strategy because they are different situations on that. And then the important message here is that from a planning perspective is what we call, we have, this is timing risk. We are not taking political risk. So the visibility that we have in each and every of these sites is quite clear.

You know that I have to say quite because this is zoning, and in the space zoning, it's never clear enough. The only clear thing that we have is that we will only value when it's fully permitted. And if it's not the case, my money is back. So this is what I have clear on it.

Juan Gomez Vega - *Neinor Homes - CIRO*

The second point, [Jose], that you mentioned on one specific point point over to one specific deal which is you can cancel that transaction if you don't do it if there is a variation of plus or minus 50% on the set buildability, on the buildable area. It's not for all of the transactions, okay?

Jose Cravo - *Santander - Analyst*

Clear.

Juan Velayos - *Neinor Homes - CEO*

And the third question what about the presale, the number of presales. Obviously, the number of presales, two different comments on it, we have sold this 100 million roughly.

It's significantly evolved what we were planned for Q1. It's basically up 20%-plus more than we planned in Q1. That was 75 million our initial plans. And now obviously, product begins to arrive. We have a very clear strategy. This is important that -- and we'll have three very critical momentums.

The presale that we need to obtain the Capex, so remember that roughly 30% that we need to presale just to be in a position to have a license, so you should see good readings of presales in connection with all the product that is coming under commercialization as we speak, there's one possibility of units that have on more than 2,000 units roughly that you will see in Q2.

So we want good readings until 30%. Afterwards, we want to play the HPA and we want to align perfectly the readings of sales with the timing of the works. So the readings of sales should come after one, we have the license and we have the Capex financing should slow down and keeping the last and best units to be very close or even with delivery.

So (inaudible) and I'll tell you the numbers that you have just in a second about the average price. We have to do it together. But I think that we are -- and let's try to do it together, but it's a combination of different factors.

Jose Cravo - *Santander - Analyst*

Okay, fine. But you maintain your target of EUR750 million for '18 of presales?

Juan Velayos - *Neinor Homes - CEO*

It should be a little bit lower than that if we do our job in the best manner from a strategic perspective. It should not be very different. The number in the top of my head is a little bit lower than that, okay? But let's see, it's going to be aligned, but a little below the number that you say that. It will do our best in class job capturing HPA.

Having said that, if you work with a 700 number in the top of your head, I think that you are more aligned because I'm not going to lose HPA or sacrifice HPA because it makes no sense. It makes no sense. The 90%, I would prefer to be today with 75% presales in '18 than with 90% if I'm honest, taking into consideration the extra HPA that I'm capturing.

Jose Cravo - *Santander - Analyst*

Okay. Makes sense. Thank you.

Juan Velayos - *Neinor Homes - CEO*

Yes.

Operator

We'll take our next question from [Sam Thomas] of Credit Suisse. Please go ahead.

Sam Thomas - *Credit Suisse - Analyst*

Hi, good afternoon, gents. Apologies, I think I've got four, if I can, please. The first one is just on build cost inflation. I think you mentioned on slide eight that you have, there's a comment saying you've upgraded construction cost ratios, I'm just interested for you to elaborate on what exactly you mean by that and what you've done there. And if you can just confirm again what the build cost inflation assumption is that you're now using. That's the first one.

Second one really is just to sort of push on the legacy division. Can you provide a bit more detail please in terms of what you're actually seeing in regards to the demand for these assets? I think you mentioned, Juan, you'd be willing to accept a 10 to 15 million discount on the 75, meaning sort of around 16, 17 percent price decline. I mean is that what you're experiencing in the market for these less liquid assets? And then just on that, could you remind us of the main sites that comprise the remaining sort of 78 million book value, and also confirm that you plan to dispose of all of these by 2018.

And then third one is, on the slide 14, the cash flow chart, it looks as though based on the chart, you're able to self-fund the land acquisition through to 2022, which leaves you with about EUR50 million excess cash at the end of 2019 if I'm reading that properly. But it looks as though you're including legacy sales within that cash generation. So I'm just interested to know what sales price assumptions you've made on those legacy sales. I mean have you assumed that you can sell the assets at book value or have you factored in that margin erosion you mentioned earlier?

And then the last one, last but not least is just strategic land. Just interested to know, is there any overage booked into the contract door or does that 194 million capture the entire cost of the acquisition? Thank you.

Juan Velayos - *Neinor Homes - CEO*

Really good questions. Regarding cost inflation and what you said and the comment that we have done, we mentioned that what happened at the momentum of maximum, that we were launching a significant number of sites in basically in '17. Some of them when they were arriving to us, where we tender with our very strict process, we had inviting our six construction companies.

When they were coming back, sometimes was above the budget that we have planned. Okay? So through design efficiencies, through the learnings of 100 sites that we have now in the market, we have been able to just think about all those things that allow us to have that on budget.

So it's a combination of efficiencies that we have included in our design process together and answering your question and what cost inflation we are assuming on that. In a very strict apples to apples exercise, I will be comfortable if you are in that range of 2.5% will be a number, that if you want to just very short answer to what I'm seeing in a very apples to apples exercise. Okay?

But the combination of having the construction ratios very clear. Having the optimization of our -- of the designing of our products be one that allows us to maximize more HPA because we are seeing in a number of sites that being a little bit more aggressive from a cost perspective with small details of better products allow us to capture much more HPA, depending on the areas. So it's a combination. But if you want a fair straight answer to include in your numbers and in your assumptions, I would say that that 2, 2.5% assumption, I think that would be good. Okay?

Regarding legacy, the very straight number and don't take it from an operational and management perspective, but if you want an answer to your cash flow, okay, we have included from the legacy 50 million in a conservative approach in the numbers that we have presented here in this -- in this slide, okay.

I'm not prepared to take that, but this is a number that I have included to present you a prudent number from our cash flow from the legacy, okay, 50 million. Okay. What we are going to do is we are going to monitor it quarter per quarter, it's not a big deal honestly. I would have to decide at the year-end if I am prepared to be a little bit more aggressive or probably just to continue with the natural flow of sales if I have remaining 15, 20 million. What kind of product it is that you are requesting that you have, basically I would say 50% finished product (inaudible) located in the south of Spain and in the north of Spain. It flows in a natural way, probably less liquid but comfortable.

The other 50% of the product, basically it's more garage, parking, commercial lots. That's the ones that need a little bit more effort, okay, but it will continue flowing. Honestly speaking, it's the least of my headaches, but I want to speak up a little bit and I want to convert that into cash, not doing nothing crazy. Okay? But here you have the answer in strict numbers with a conservative to be prudent in the number, but the strategy as we're planning to implement it within the following months.

And regarding the strategic land, the answer is no. I mean that's the number. I mean it's very clear, it has to be fully permitted and are not high, extra price that we have to pay, on the contrary. I think that we have been tremendously disciplined just -- because some of these assets could have some net reduction or increase in the buildable area. We have been tremendously that the price should adapted or cut if we don't have the source creation or the buildable area that we have in a specific block.

There's a lot of work here. That's a exceptional work of the team in trying to convince a bank, an investor family on the ranges of exceptional lands, where we have identified exceptional land, we have tried to begin to educate and convince the sellers that these deals make a lot of sense and that will be there. But the answer, clearly no, that's the price.

Sam Thomas - *Credit Suisse - Analyst*

Great. Thank you. That's very clear. Much appreciated.

Juan Velayos - *Neinor Homes - CEO*

Thank you.

Operator

We'll now take our next question from [Michael Burt] of Exane BNP Paribas. Please go ahead.

Michael Burt - *Exane BNP Paribas - Analyst*

Good morning, guys. Two questions from me please. The first is just on your guidance on run rate for the business. You talked about your comfort around 4,000 units to 2020. Should we think about 3,500 units which seems to regarding 2021, 2022 is more of a -- kind of medium term aspiration of the run rate in the company.

And then the second question is just another one looking at the cash flow protections on slide 14. And from what I can see, that doesn't include dividend payments and I think at the time of IPO, you'd been guiding to making a first dividend payment in 2019. I'm just wondering if you still think of that as being the case or maybe the dividend payments may be delayed into 2020. Thanks very much.

Juan Velayos - *Neinor Homes - CEO*

Thank you. Two questions, okay. In connection with the first one, the base case that you have here as we speak today, okay, it was this self-finance plan and with the cash flows that you have that's mentioned in slide 14, it's 3,500. Having said that, being very transparent and very honest, hopefully execution, conviction that the market will bring cash to our more ambitious goals.

So for me to say today that the run rate of this company is 3,500, the answer is no. I hope that a once conviction is that once execution, it's out of any discussion, this company should be thinking about something different. Okay. That's something today, but the self-financing plan that you have in front of you is that -- and the other point that Jordi has said and I emphasize again, the equity that we have for fully permitted land, we are beginning to optimize. Okay.

So let's see how with this 60, 80 million that you have in that cash flow for acquisitions fully permitted in this year, let's see, we need 2,000 units to be in a position to deliver 3,500 in '21 and '22, 2,200. My goal, but it is my goal, don't take it please for granted today, is to be able to control much more than those 2,500 units if we are able to optimize our equity. In April we will show two deals, very clear equity optimization in fully permitted land.

So I don't want to say that that's my goal because this company is not designed for that. Okay. And regarding the cash flow, the dividends are planned 2020 or so. So obviously the numbers that you see here for the ramp up do not grant dividend in '18 and '19, we are going to be positive both year, '18 and '19, but the dividends will come from 2020.

Hopefully. I think important. And I think it's important and it's a comment, the decisions today in Neinor are even more dividend driven. Okay? Even more. We know that this company wants to be very strong from a dividend perspective. And this HPA optimization that we are thinking about, knowing that we want to have very solid and strong rhythms of pre-sales that deleverage, de-risk our company that we are dividend driven. But no, the numbers that you have in front of you do not include dividends.

Michael Burt - *Exane BNP Paribas - Analyst*

Okay. Thank you.

Operator

We'll take our next question from Ami Galla of Citi. Please go ahead.

Ami Galla - *Citi - Analyst*

Thank you. Just three questions from me please. My first question is on the cancellation rate. Could you give us some color at what stage in the process they arrive? Was it at the time of signing contracts or really closer to deliveries?

My second question is on customer feedback that you've received on the presales that you've taken so far. Was there any adverse response from customers on any construction delays that came in place because of procurement of licenses? And my third question is if you could just remind us the sort of timelines that you're budgeting for construction authorization here? Thank you.

Juan Velayos - *Neinor Homes - CEO*

Thank you very much. One was the capex, okay. In connection with the cancellation ratio and time, I'm trying to recall, I give what I have in the top of my head but now they are looking -- there are two specific sites that have six and six and remember so that the other ones are quite -- look, I have them in front of me.

Two of them that have more significant ratios, Placa Europa 14, that has six units cancelled and Arbaizenea that has six units cancelled. The third one with significant ratio of cancellation is Canada Homes that has three of them and the other ones are quite split between I would say the Basque country and Catalonia. And basically both regions.

But two different, Placa Europa, very clear, what we have tried to emphasize to have them -- to cancel some of them, even have them to our new tower. Some of them have changed -- are cancelled in our tower one to go to tower two, okay. We have them in Placa Europa. It's a 16% HPA obtained in 2018, and basically I don't have in front of me but I would check and will send you when this -- when they took place and when they were cancelled, I don't have the data but Juan is taking notes and sending to you. But basically, what we are seeing is that it's basically -- they will take an average of six months, six to eight months, but that -- don't take for granted the exact data.

But I would say north and Catalonia the two with more level of cancellations, we are -- in Placa Europa and Arbaizenea both of them have had all our help to happen and the more I would say natural events usually, this is probably Spanish-oriented, it's a couple that they annoyed and they don't marry. It is most natural event. If it's true or not, I don't know, but it is what they explained to us, okay. But we will give you this data exactly with the data that it happened, the data that cancel and the exact number for you.

In connection with the delays, good point, okay. The only one that has -- I mean we have one thing that it's I think I'm proud of it. Okay. It's our Neinor experience concept that we have never dedicated a lot of time to it but you know that our clients have access to our website.

And they have seen our monitoring how the works keep going and they have permanent access to it. They can even see the works on site, okay. This has helped a lot because we are sending every month a letter to the client explaining exactly where we are. Okay. So it's not a surprise for the client with the delay.

And whenever we have visibility that it's going to be a delay on the license, they know it. We allow even and sometimes the most evident is La Canada in south. We are even obviously telling them that if they want to cancel, we're all happy. There has been one site in Catalonia, it's Badalona.

You remember Badalona, it was one of the major headaches that we have had in the company that delivery is taken at the end of the year. And there has been 16 clients with a lawyer that are trying to say that they have the right to a compensation because it was initially planned in June. Okay.

This has been the case. We are managing it. I think that they have 16 -- more than the clients is the lawyer trying to take advantage. We have been very clear because we have been full in with information in the whole process but this case is the only one that I have in the top of my head. And regarding the Capex, Jordi?

Jordi Argemi - *Neinor Homes - CFO*

We have a budget for this year, 2018, for an amount of EUR380 million of Capex is the number that we have.

Ami Galla - *Citi - Analyst*

Sorry. My question really was in terms of the timelines, the months that you are really budgeting of the time taken to actually construct and finish construction. Is there any revision to those timelines?

Juan Velayos - *Neinor Homes - CEO*

No, I mean we work -- not really, I think. We continue budgeting. I think it's very clear on the context from this 14 to 18 months, we -- the banks have budget are paying against certificates. so no, it's not going -- we are not having headaches -- continues being 14, less than 15 units to 17, 18 months and there are no changes to that.

Ami Galla - *Citi - Analyst*

Okay. Thank you.

Juan Velayos - *Neinor Homes - CEO*

Okay.

Operator

We'll take our next question from [Alvaro Soriano] from Societe Generale. Please go ahead.

Alvaro Soriano - *Societe Generale - Analyst*

Yes. Thank you. Just three quick follow-up questions, if I may. The first one on presales. On 2020, on the 4,000 units targeted, which level of 2020 presales should we expect by the end of this year of 2018, and when we should see the run rate in terms of presales if we assume 3,500 units delivered run rate, that implies that every quarter, you should sell or pre-sell around 875 units. And so far you are pre-selling 300.

And then second follow-up question is on the debt. Can we expect that bridge loan to be repaid in the first year or in the second year before August 2017? And then on the last line on the strategic line, can you work through us the main assumptions to arrive, the 28% gross margin, is fully locked that margin and which are the assumptions in terms of price growth you've taken into account. And also how can move the NAV of the company going forward? Thank you.

Juan Velayos - *Neinor Homes - CEO*

Okay. Very good questions. Regarding presales, okay. Jordi?

Jordi Argemi - *Neinor Homes - CFO*

Okay. I'll get these question regarding your point. What should be the level of pre-sales at the end of this year regarding the revenues that will come in 2020. This would be around 30% slightly above, like around 30%, you know. Remember the IPO that we said slightly below 40% -- actually 40%. This is eight, seven percent below, it's because as Juan is commenting we are trying to smooth the sales curve, once we have 30% level initially, once we put the first unit in construction so this is actually the reason for this level. This was the first question.

Juan Velayos - *Neinor Homes - CEO*

Bridge loan.

Jordi Argemi - *Neinor Homes - CFO*

Regarding the bridge loan, we are assuming this year to repay the amount that should be about EUR75 million is what the contract says. So the remaining part is EUR75 million, should be repaid next year in 2019.

Juan Velayos - *Neinor Homes - CEO*

Mid next year.

Jordi Argemi - *Neinor Homes - CFO*

Mid next year, okay.

Juan Velayos - *Neinor Homes - CEO*

And the P&L of the strategic land. Basically the assumptions on the HPA -- we should zoom in land per land. Okay. Obviously we have lands in Barcelona and the lands in Madrid. These lands have assumptions of HPAI will say we are assuming HPA in the range of 3%, okay, 3, 4, 5%.

The other one is in Bilbao, we are assuming limited HPA although it will have a lot and we are assuming one and a half, one and a half percent in the assumption of the Bilbao land plot. And then we have Marbella, okay. In the Marbella assumption, we have, I would say, three, three and a half percent HPA assumption on it.

We don't like to see it as pure HPA. We like to see our assumptions, but if you want to bring that to HPA, that would be a first reaction to the gross margin. What we can try to do is we can try to put the P&L, because we are speaking about a significant number of land plots but we can try to put a split, the P&L in land Capex and to (inaudible) the gross margin and that you can have a color on it and [Juan] will send it to you (inaudible) in a manner that will help you to understand it better. Okay?

Alvaro Soriano - *Societe Generale - Analyst*

Thank you. Just one quick follow-up on the first one on presales. It is healthy to assume that by the end of the year you intend to have 40% of N plus two pre-sell when by the end of 2017, you had 60% of N plus two pre-sell meaning 2019 presales is -- seems to me like -- I don't -- I tried to figure what is the sustainable presale N plus two run rate.

Juan Velayos - *Neinor Homes - CEO*

I think the number -- the same number -- I think that the level of presales that we should have in the future should be lower than the one that we have until today. Okay?

Alvaro Soriano - *Societe Generale - Analyst*

Pretty clear.

Juan Velayos - *Neinor Homes - CEO*

Absolutely. I think that today I think that makes -- it mad a lot of sense. It's a derisking that we want to have. I think it's very healthy to have good levels of presales, but the level of presales that we have of today from '18 and '19, I think that for the future, yes, one of the key actions plan that we have is I will have -- we want to have a lower level of presales because the market is helping us. Okay?

We have a very good news every time that we have a cancellation. So for the future, I think that the assumption that you have, the answer -- let's put that in exact numbers, but the answer is yes, it's a correct thought and assumption.

Alvaro Soriano - *Societe Generale - Analyst*

Pretty clear. Thank you very much.

Operator

Once again, if you would like to ask a question, please press star one. And I'll take our next from Emily Biddulph of JPMorgan. Please go ahead.

Emily Biddulph - *JPMorgan - Analyst*

Good afternoon, guys. I have two questions please. The first one is just on the timing of deliveries again. I think in the presentations that issued after full year results, it showed that 70% of completions for 2018 were due to come through in Q4 and for 2019, that figure was 50% in Q4. Is that figure still right? And if it is, do you continue to be comfortable that those will actually fall into the year they're expected to? And if there is any thoughts on there, how does that impact slide 14 and the cash generation?

And my second question is, again, once again on slide 14, can I just clarify that I understand correctly that there isn't any movement in work in progress in that bridge because it's all debt financed or actually is that included in one of the other lines, that effectively we're just looking at cash on a gross basis here and actually there is incremental WIP to come through in '18 and '19 as well. Thank you.

Juan Velayos - *Neinor Homes - CEO*

Okay. Answer the second one, Jordi.

Jordi Argemi - *Neinor Homes - CFO*

The second one is that we have all the contracts with the banks to financing the whole Capex. So obviously if there is any production delay any production postponement from that perspective, everything is fine.

Juan Velayos - *Neinor Homes - CEO*

Yes, so the answer is yes.

Jordi Argemi - *Neinor Homes - CFO*

The answer is yes.

Juan Velayos - *Neinor Homes - CEO*

And timing deliveries. Timing deliveries. It's true 70% it's in planting in Q4 and 50% of next year, it's planting Q4. Hopefully the situation for the future, I will try to show more cushions. For 2020, I can promise that will have more cushions because the situation has been as it has been, I'm naked here and you have in front of you each and every site that plan to deliver in '18 and '19.

That's going to be intense works, ordinary course of business work on it. What I can say is regarding '18 honestly the visibility is truly high, I can have an issue because the certificate (inaudible) and I have to go the notary in January 15 rather than in December but I'm really comfortable. It's not going to be an issue and it will happen.

Regarding '19, everything is contracted, the plans are with each and every construction company. It's very clear that it's a delivery that should come in '19 and I think we are good on that. I mean having said that, intense management, it should happen, it will happen, hopefully every quarter we will -- you will be able to monitor it and you will be able to see our capacity and the answer regarding yes, any one that at the end of the day if it has not happened in December, it happens in January, not a big deal from a cash flow perspective but it will have one, two or three-month delay, but I would say in that sense, this is what is it, there are not cushions. This is what is going to happen and you are going to see our execution capacity and you're able to monitor that.

Having said that, my big headache, yes, we'll have three big headaches. Okay. The biggest headache is the license and this is out, I have the construction companies on that. Okay. Then comes foundation, okay. That you don't have issues on foundations.

Apparently everything looks good. Okay. Then you have the structure and afterwards you have a lot of visibility, so I would say monitoring each quarter where we are, we will be able to see if you have color in each and every of the 30 plus sites, but today, honestly speaking, I'm really comfortable with it and I think that this company has execution capacity for it. But cushions, honestly speaking for the future, I will try to have some, it's not the case in '18 and '19.

Emily Biddulph - *JPMorgan - Analyst*

Okay. Thank you. And sorry if I missed it. But the work in progress investment guidance for this year, what is it?

Jordi Argemi - *Neinor Homes - CFO*

The budget you mean?

Juan Velayos - *Neinor Homes - CEO*

The work in progress, Capex for this year?

Emily Biddulph - *JPMorgan - Analyst*

Yes, for the year, ex-land what is it at the moment? What's your guidance?

Jordi Argemi - *Neinor Homes - CFO*

EUR380 million is the budget for this year.

Operator

There are no further questions at this time.

Juan Gomez Vega - *Neinor Homes - CIRO*

Okay. We just have one small question from the public that was on webcast from Stathis from Westray Juan, can you comment, like for the 4900 licenses that you have requested, what is the average time that you expect from the license application to granting of the license?

Juan Velayos - *Neinor Homes - CEO*

You see the average should be six months, okay, six, seven months if we do a good job. And we are -- I can promise that intense management that we are doing, the hours that I dedicate to municipalities this year is big. So I think that we will think - I'm seeing honestly, I'm happy - if this has helped for something, all the noise regarding license of our -- of our bad news is that I think that I'm seeing municipalities trying to help, trying to -- they have understood that this is our deal, that this is our problem, that they need to react and that they need to be part of the solution.

So I'm seeing municipalities much more helpful, and I think that we will be in that six months that should be our average. This is an average. Afterwards, we will have headaches with some of them with 8, 10, and 12 but hopefully will be the least. And with these 5,500 units already. With this 5,000 today and 5,500 in a few months, I can have delays in 1,500 (inaudible). So I'm comfortable the average I'm seeing it in six months. Hopefully, if it's not six, it will be seven but this is one of the key goals that we'll have as a company and that we'll have as a sector. And one of the problems of the -- pros and the cons of being the first mover is that we are the first one facing these things, but hopefully this will help the whole sector to be more sensitive to this matter.

Juan Gomez Vega - *Neinor Homes - CIRO*

Very good. So that finishes all the questions we've had. Thank you very much for participating in this. Operator, you can close the call now.
