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

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to today's Neinor Homes H1 2017 Results Presentation. For your information, today's webcast is being recorded.

At this time, I would like to turn the call over to Mr. Juan Gomez Vega, Chief Investor Relations Officer.

Juan Gomez Vega - *Neinor Homes - CIRO*

Welcome to Neinor Homes Results Presentation for the first six months of 2017. The presentation today will consist of the following. Our CEO, Juan Velayos, will present the results for the first half of 2017 and outlook for the business; following that, our CFO, Jordi Argemi, will present the financial overview of the semester in detail; the team's presentation will be followed by a question and answer session.

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

Juan Velayos - *Neinor Homes - CEO*

Thank you very much, Juan. A pleasure being here this afternoon, again, with all of you in order to present our results for the first semester of 2017. Basically, let me introduce my speech with a conclusion and I would like to say that from a modest position I would like to say that this has been a clear performance in H1. Let me try to justify this clear performance with some key indicators of the company and [if you are worried] about the macro, the macro, it's really supportive.

It's even more supportive than what it's doing in Q1. Basically, I say that because we have revisited the expectations for the GDP in a plus 0.5%, bringing it to more than 3% for year 2017. Housing affordability mortgages continue growing and you know that that's critical for our business.

The HPI is still 29% below peak but growing significantly. Therefore, the overall country will have 5.3% and the number of our housing stats keeps growing more than 20% in Q1, but still far away from the peak. So I would say that the macro environment is still very supportive, I will expand in a second.

Regarding Neinor, what are the critical KPIs which have been our commitments with you, investors, since the very beginning and what has happened in H1? Regarding acquisitions, it has been an exceptional semester, 79% of our target of EUR200 million has already been achieved, more than EUR157 million have been acquired in exceptional lands as we will discuss in a second.

With these 13 assets acquired in this semester, 1,750 units, we have brought our overall land bank to 10,700 units and the blended gross margins of these new acquisition has been 28%, accretive to what we committed with you in our IPO.

Second milestone, presales continue pushing very hard. We have brought our cumulative presales to roughly EUR600 million gives high visibility on 2017, 2018, and 2019 revenues as we will discuss in a second, and the semester itself has been extremely strong to EUR251 million presold, this means 721 units. This means above our expectations in 12% of units above expectations and 20% on volumes.

Next, critical milestone of this company. Development activity, what's going on, on the development activity? Good news, we have been, since the IPO during this year already three deliveries, 153 units with our gross margin of 27%. This company begins to deliver on time and on budget.

In addition to that, the company continues with strong development activity, as we still have 4,800 units, 64 active sites. With a gross margin reported gross margin of 30%. But it's not only that, on these presales what we have been seeing is that the HPA capture is significantly above of our expectations, 3.9% ahead of them, bringing the overall HPA of H1 to 4.8%.

Final milestones that you track in detail and that we committed in our IPO, what's going on with our ancillary businesses? First thing; legacy. Our legacy in H1, we have already sold/register 40% of the whole legacy assets. This means EUR87 million already sold with the cash in and already we've invested it in our core business through the acquisition of plots.

This has brought the book value of our legacy assets to EUR134 million and these sales have been sold as reported and as announced just above book values of 3%. The last message regarding the milestones, the servicing keeps on track, on budgets, and in fact, not on budget, but 6% above expectations with EUR9.5 million EBITDA during this H1.

Regarding financial statements, Jordi will go in further detail in a few minutes, but I will just emphasize a couple of messages. EUR127.5 million of revenues, that means 9% of above year to date expectations and we have revisited the valuation of our assets with an external appraisal that has increased our NAV in EUR110 million. That brings in our LTV that you know that we keep tracking in carefully below or on 20%.

The cash value of the company is still very strong, taking into consideration the acquisitions done it's still at EUR53.6 million. Let me go in further detail of these critical milestones; the macro. I just like to emphasize three main ideas. I know that you are very supportive to macro and I don't need to convince you and dedicate many times to this, unemployment has declined to 17.7%. That, as you know, a critical indicator for the increase of demand.

Second critical KPI, the number of houses starts has gone to almost 18,000 in Q1, this brings our overall year, our visibility in overall year to almost 80,000, probably. Some number is roughly around that 80,000 but still far away from the existing demand. That imbalance between supply and demand will continue pushing HPA; the House Price Appreciation.

I would say as final message, the number of mortgages, that has increased to almost 80,000 in Q1 2017. It's still far away from the peak, but the banks are willing to grant mortgages and these are exceptional news for us.

Second content that I would like to discuss with you, what's going on with the competition? We are beginning to see that this market as we have anticipated is consolidating and it's consolidating with a very disciplined competition. The number of players that have taken leading roles in this new market are already there, some of them, probably, you are aware of them and have even visited you because they are in the IPO path setup by Neinor a few months ago.

This is good news for Neinor and this is good news for the sector. We are seeing five to 10 players that are just leading this market consolidation and they are disciplined in the means that they have the same equity approach, and that means discipline in the land acquisition products. We can discuss far away and have discussed it with a number of you about this competitors, but I think that we will begin to have fewer and our competitors are more than welcome.

Regarding -- I'm going just into details, the first detail that I would like to emphasize is the acquisition with 79%, this exceptional semester that the company have done in acquisitions, I can tell you that the assets acquired there, you have shown in the presentation that I have sent, I can tell you that are exceptional assets in the best locations with 28% gross margins. We have always been proud of our origination capacities and our execution capacities.

I think that the demonstration is indeed the acquisitions of this H1. But it's not only that, we have EUR28 million that we are in the due diligence process, and that we have discussed this process, and some of them is going to the notary within the following days/weeks. So I would say that the target of EUR200 million for year 2017 is almost done. What's next?

The company is working in evaluating different structures in order to anticipate 2018 acquisitions, probably and hopefully within the following weeks and months, we will have the news, because we are thinking that it might make sense to take advantage of our origination, execution, and we have still opportunistic market that we have in front of us.

Next, the concept that I would like to discuss with you, NAV. We also have good news regarding NAV. We announced that we wanted to be very disciplined, that we wanted to share with you, investors, external appraisal, and we have Savills, the same valuator that did the appraisal for the IPO, for the numbers at December 31st that revisited our land banks.

The final conclusions of that is that the GAV, the GAV has increased to EUR1,344 million, this is EUR224 million plus to the numbers that you remember from December 2016.

How this increasing value is [specific]? In the like-for-like, just taking the same land plots that were evaluated during end of December 2016, we have 6% value appreciation, why? Because the external evaluator has been able to confirm that we are seeing the price of the unit higher than the one that they have taken into consideration in the [base] valuation.

And the second why is because those land plots that they don't have units sold by Neinor in high valuation, they have comparables that show that the units are sold at a higher valuation, so that has brought our like-for-like land plots evaluation to 6% increase.

The second message, in my opinion, even stronger. The land plots that we have acquired during H1 have 12% appreciation. Why? Because they were acquired in the first Q1 in areas that have a strong reevaluation after Neinor has acquired them, and why, because we have been able to buy portfolios or we have been able to buy difficult transactions putting together a seller, a bank or a portfolio.

Because of the [resources] and because of these origination and execution capacities, we have had this 12% appreciation in land plots acquired during this H1. If we deduct to this numbers the deliveries of H1 is EUR22 millions, bring the final number of our land bank to EUR1.3 billion valuation.

Next important concept, presales, I have just anticipated some comments at the beginning of this discussion. But I would like to emphasize a number of comments, Q2 have been exceptional, we have increased sales by 26%. This has brought the total number of H1 to 721 units and to EUR251 million.

I anticipate that by definition in Spain and because of the seasonability, Q3 will not be as strong as Q1 and as Q2, but our perception about the second -- H2 is really good, because of one thing. If you see the graph in your right, you'll see that we have been able to increase 658 units in the market from 33 sites to 40 sites today under commercialization and these numbers of sites will continue increasing during the following months, so we are positive for what's going to happen in this H2.

Next important concept that I know that you'll take a lot into consideration is the HPA. You know that in 2017, our business plan has just taken into consideration a 0.9% HPA. 2018 onwards, you know that the average will have 3.8%. But in 2017, we have understood that the prices were already there. The momentum of the market momentum, the quality of our products, and I will say that our go-to-market strategy has allowed to increase prices up to 4.8% HPA. These are simply good news.

The final message, the average selling price year to date is EUR348 thousand. If you compare it to the valuation of Savills that it's EUR291,000 per unit. I would not like that you'll say that this have a dramatic increase about the valuation of Savills, because it obviously depends in a land per land analysis. But good news from a presale strategy, some other comment that I would like to emphasize is the visibility that this EUR600 million presales it gives to us. I would say that more than 90% of the sales of the deliveries of 2017 and are already presold, basically, we have said that each and every deliveries that we have done is 100% sold.

For 2018, the company has today more than 70% visibility and for 2019 we have more than 15% visibility, so strong visibility on our revenue line. Next, what about development activity? I was yet anticipating it. I think that this is the other healthy indicator that we have in the company. The company agrees with me, very disciplined through its industrial model, being able to bring new products to the market.

During H1, we have had 18 new launches, 1,478 units. We have had five new construction starts and we continue approving as what happened today in the Board new construction [starts]. That means that today we have 64 active developments. This is 4,800 units and that means that 44% of our land bank is active today.

But if we continue going to the construction, to the WIP, the Company because of the three deliveries that we have already have this year to date, we have 28 sites under construction and all of them are on time, and on budget with a reported gross margin of about 30%.

I would say that's good news in development activities, but this good news begin to have what I would say that is the real track record: deliveries. This company is beginning to deliver and it's beginning to deliver on the reported margins. You'll remember that in Q1 we have the first delivery of year 2017, we have reported gross margin of 22% in land plots located or a development located in Madrid, in Mostoles.

During Q2, we have had two new deliveries. We have Salinas in Malaga and Port Forum in Barcelona, both of them 100% sold. We've had gross margin of 27% and 29%. We have been able to go to the notary for each and every unit except for 12 that have been -- are being notarized during July, which has been able to implement our Neinor experience concept and our Neinor key day successfully with happy clients.

Our final comment before going to Jordi for the financials, just a message in connection with the ancillary business because I've already anticipated them. It's good news we have been able to sell almost 40% of these legacy assets during H1. This made 16% ahead of the year to date expectation with 3% margin on book values, we have always said that we should take into consideration book values as a reference for this sake, 3% up, and with that, half, 134 million. So I would say that the metric is on track to the services of the IPO at a minimum.

Finally, the servicing contract performing aspect, EUR1.5 billion under management, EUR14 million revenues in H1, 6% ahead of the year to date expectations with an EBITDA of EUR9.5 million to date. So the summary of the milestones, of the commitments of the IPO I would say that it's a clear outperformance. Jordi, why don't we go to the financials with further details.

Jordi Argemi - *Neinor Homes - CFO*

Absolutely, thanks, Juan.

In the section three as we did in Q1, we will cover the three financial statements, P&L, cash flow, and balance sheet. But before going into the details, let me show some key financial messages that summarize this section. The first one is that in line with the best market practices, Neinor Homes has performed a limited audit review H1 2017, which resulted in an unqualified opinion by our auditor, Deloitte.

The second one as already explained in the prospectus and also Q1, the P&L for 2017 is still driven by ancillary businesses, this means legacy and servicing representing almost 80% of our total revenues. So the P&L is not representative of our core business, the development.

However, having said that that has been during Q2, an increasing rate of the development business with two sites delivered at the market is expected. So thanks to this, the operating EBITDA for H1 has become positive, and the profit for Q2 has been EUR4 million beating our business plan Third message. Together with the limited audit review, we have also performed an external evaluation for the development portfolio as Juan commented before. The result is a GAV of over EUR1.3 billion with an increase of 20% compared to the GAV as of December 2016.

Fourth message and related to the indebtness of new homes. We have closed H1. We have total net debt of EUR301 million which represent very solid debt ratios and this means loan-to-value of 20% and loan-to-cost of 29%. The fifth and last message is that despite we have anticipated significantly the land acquisition as Juan has also commented before, we have been able to close H1 with a positive net cash flow of EUR31.8 million, legacy liquidation and primary issuance at the IPO has allowed it.

So having said that, let's go through details. Let's go through the main captions of the P&L that you have on your left hand side in slide number 17. Revenues, very strong with EUR127.5 million, which represent 9% above our expectations, that has been a had a clear contribution from the legacy business. Gross margin, 21%.

Remember that in Q1 we closed with 14.9%, so these variable increase comes from basically the two sites delivered in Q2 with an average gross margin of circa 28%. In any case, we will continue to prioritize volume rather than value or margin protection for legacy business side.

Operating EBITDA already positive with EUR1.6 million and it's completely aligned with our expectations. Remember, the two concepts behind this operating EBITDA that I commented in Q1, it reflects the acceleration of the legacy product liquidation and second, the ramp-up of the development business.

Remember that from the prospectus of the revenues are only connecting the P&L when the unit is delivered. This means that all units we sold, the EUR251 million in H1 and the order book of almost EUR600 million is not yet recognized but will be in the future. On the contrary, we do recognize some of operating cost such as marketing and property tax.

Let's go for the adjusted EBITDA, negative by EUR0.8 million. It includes EUR2.4 million of provision linked to the property tax. As commented in Q1 and according to the international financial reporting standards, we have to record January 1st, a provision equivalent to the full year property tax expense. So these EUR2.4 million relates to the expense for the second half of the year. Finally, financial cost, almost EUR3 million, which implies our loss for the period of EUR4.2 million.

If you remember from Q1 we reported a loss of EUR8.2 million, which shows that we have recorded a profit of EUR4 million during this Q2. On top of this, the official analytic P&L includes two other concepts that leads to the IPO. What is the IPO cost? For the total of EUR2.1 million, at the end the cost has been EUR0.5 million below what we're assuming in the report of Q1.

The second concept is the management incentive plan for an amount of EUR15 million, EUR14.4 million for the fix component and EUR0.6 million for the variable component that we have already provisioned during this Q2.

Remember that this incentive plan is fully paid by Lone Star, but due to accounting and technical reasons we have had to record this cost in our P&L together with an increase of the equity being neutral for new investors.

We'll move on to the following slide, we have the cash flow statement. Some critical messages, we have closed H1 with a positive cash flow from operating activities of EUR0.4 million. Second message, negative free cash flow of EUR104.7 million and the main reason is the strong investment in development inventories of over EUR200 million.

On one side, we have acquired EUR157.5 million of new land accelerating the land acquisition program and on the other side, we have recorded a CapEx roughly EUR50 million. The acceleration of the legacy investment has reduced the negative free cash flow. As you can see in the book [value sold caption] of probably EUR100 million. So conclusion, this negative free cash flow of EUR100 million has been basically financed with a primary capital of EUR100 million.

Our last concept in the slide, we have closed with a positive net cash flow of EUR31.8 million. It's important to state here that it includes a deferred land payment of probably EUR25 million that we'll review in September of this year. So basically we can conclude that all cash generated has been reinvested into high quality fully-permitted land. In slide 19, we have the balance sheet. As in Q1 I will leap in the working capital and net debt positions in the following two slides.

But I would only say here that we continue having a very solid strong and healthy balance sheet with assets of EUR1.2 billion, equity of EUR725 million, and total liabilities of EUR465 million.

Inventories obviously are the more relevant caption and we have already exceeded EUR1 billion, representing 87% of our total balance sheet. Out of these over EUR1 billion of inventories, legacy represents EUR134 million. Remember that as of December of 2016 we closed with EUR219 million and if we look at the development stock, we have EUR905 million and we come from EUR719 million as of December 2016.

Very strong cash position, EUR95 million of which EUR54 million is available. Our last concept, capital employed of over EUR1 billion slightly above our expectation due to anticipation of the land acquisition program.

Now if we need in the working capital in slide 20, we have closed with EUR1,023 million of working capital, over EUR100 million increase compared to the end of the year of 2016. If we go to the details, inventories, as commented, the main caption, then we have EUR52 million of [debtors], but basically we have trade and receivables. This is basically the invoice from Kutxabank some advanced statements and then tax receivables.

This is the [VAT] from the land acquired that we have to receive from the tax authorities. Remember that we normally take us six months to recover it, but in any case we'll fully finance this through VAT facilities that we have. Then we have almost EUR42 million of cash and equivalents not available as you may remember from Q1 and prospectus, we are extremely prudent, so we include the working capital, the cash receipt and deposits from the clients.

Regarding liabilities, the most relevant concepts are creditors for an amount of almost EUR46 million that basically are constructors and suppliers, and other current [liabilities] of EUR56 million, and this is the deposits received from our clients. This means that out of the total, roughly EUR600 million of presales, we have received over EUR50 million of cash.

On top of this, relevant to state that this caption has increased by absolutely EUR31 million if you compare it with December 2016 and EUR23 million if you compare it with Q1. These are the costs we have converted several reservation into contracts, and as of today, and as Juan commented before, 65% of our order book is already on the contract, so good news. Finally, on the right hand side of the slide, we have further details on the most relevant caption of the working capital inventories.

The only comment would be that out of the EUR905 million of development stock, EUR240 million is work in progress. This means that 27% of our development stock is with cranes. Finally, we have the net debt in slide 21. We have closed H1with a net debt of EUR301 million, very similar to the level of December 2016.

As commented in Q1 this net debt will increase in the near future due to the investment that our business development will require. But in any case as you can see in the right hand side of the slide, we continue having very positive ratios. Net debt equity of 42%, loan-to-cost of 29%, and loan-to-value of 20%.

Last concept, following new suggestions, we have included more detail on the [DEBT] maturity. If you look at the last figures, land financing for an amount of EUR134 million and corporate financing put an amount of EUR74 million, you will see that we do not have almost any repayment until 2019. So on top of this, the average life of the debt is almost two years.

However, remember that once we launched the development, we novate the loan financing and wielding the maturity of the debt with a delivery date of the development. So we do expect to novate these EUR134 million of land financing. Then we have the last figure, which is the first one in the slide. The land and CapEx financing of those development already launched for an amount of EUR92 million.

What you see in the figure is that repayment calendar assuming the delivery date that we have in our budget, in our business plan. Obviously, from a contractor perspective, this is the maturity date. As you can see in the footnote, we usually have an additional grace period of 18 month over the delivery date, so no risk on this side.

Juan Velayos - *Neinor Homes - CEO*

Thank you, Jordi. I would like just to jump a little bit, but just so we may -- we have the discipline to include some case studies. As you know, we have included in this case, but I'm not going to take into the details because I'm going to try to be on time. In the case studies, we have included La Rozas in Madrid, in the acquisition side, the expansion of land plots in the municipality that is has one of the five highest income per capita in Spain.

We have been able to buy it in a portfolio with a significant ticket size and that's good news, and we'll come to the market soon or very soon with 336 new units to come into the Madrid market. In the immediate launches, we have included the case study of the Mairena Homes. Mairena, you know that it's a very Neinor strategy of buying lands in the extension areas of big cities, in this case of Sevilla and we are targeting a very specific good product in our area of expansion.

Hopefully, this will be in the market in Q4 2017 with 134 new units. In connection with the project already launched, we have included Via Homes we have in Madrid, in Mostoles, and it has been a clear success. It begun commercialization in Q2, we have already more than 30% presales. We have been able to capture 5.6 HPA.

Regarding the work in progress, the WIP, we have included Urduliz Homes another success case of what we call internaly Ciudad Urduliz with a number of development that we'll be going to the market. In different phases, we have more than 400 units in this area located in the northeast, 20 kilometers from the northeast of Bilbao. This is expected to be delivered in Q4 2017 with the other deliveries of this year and it's 100% pre-sold. You have more details on the margin that you see and they're absolutely aligned with what we have been mentioning.

But let me finish this presentation before going to the Q&A. We've got some messages regarding other of the matters that this company is taking care of, and this means non-financial reporting. You know that we have a clear commitment with the transformation of the sector and we want to lead that transformation.

Today we have both of directors and the committee of this company and we have been approving new strong measures regarding corporate government. We have approved a number of best practice policies regarding dividends, policies, investment on financing, selection of Board members, and expense reimbursement, so each and every rule that improves our corporate government.

You know that we approve and probably you have seen Code of best practices in connection with the broker activity, 60% of the brokers working with us have already signed it and if they don't sign it, they cannot work with Neinor. More important than that, today Neinor Homes is the first home builder on real estate company in Spain that has approved the best practice [norms] in connection with taxes.

That means that we are joining voluntarily to the best practices and also the Spanish tax authorities, is the first real estate company doing that in Spain. We have also put a number of different [actions] in connection with our industrialization. Did you know that we think it's our clear competitive advantage and one that it's going to be one of the things that it's going to benefit Neinor from any other company.

We have conducted 17 audits of health and safety in our work in progress, in our developments, and that means that the standards that we have approved has probably you have heard are significantly above the regulations and the incident index of the company up to date 24% below the national construction average. But, we have also re-evaluated 119 prequalified companies working with us and with exceptional resource, and those that are not exceptional will not be able to continue working with us.

We have approved the digital transformation plan of the company with 11 specific action plans that we call internally Neinor 3.0 that will be implemented during H2. In connection with the product, 19 of our developments have been already obtained the certification from BREEAM in the design phase. We have launched to the market to mobility pack that we have been working with Ilunion with a package adopted to senior and disabled people and we are approving in the beginning of September the version number nine of our [white paper] to you remember it's our design and construction manuals just evolving product in our industrialization process.

And regarding clients that we always want to emphasize that this is all of the critical changes in what we are seeing the transformation of this sector. We have approved the version two of our Neinor experience application, as you know that we interact with our clients through this app and we have launched already 10 development with our family protection buckets.

As you know that's the policy that we have with the insurance company CNP in order to give comfort to those with our clients that either lose their jobs or die while in the process that they are buying a home with us. So absolutely committing with that -- committed with the investment information of the sector, because we think that this has a clear competitive advantage for us and we believe that it's creating value for our investors. So I will say that with this, hopefully we have been able to cover the main critical aspects of H1 results of Neinor and I think that we have some--

(Multiple Speakers) .

Juan Gomez Vega - *Neinor Homes - CIRO*

Yes, we can give you a couple of minutes to send some additional questions and we will start answering them, okay?

QUESTIONS AND ANSWERS

Juan Velayos - *Neinor Homes - CEO*

Okay, thank you very much. We have received significant number of questions. I'm going to try to answer just trying to combine some of them and a number of them regarding HPA and some of those regarding our -- we are revisiting our guidelines and some more technical and financial in connection with the OpEx, why it has changed, let me try to go one by one if it's already answered. And, Jordi, I will jump into the technical ones if we have a new caller then?

Jordi Argemi - *Neinor Homes - CFO*

Okay.

Juan Velayos - *Neinor Homes - CEO*

Those questions regarding HPA, you're asking what are your expectations regarding HPA for H2 and what assumptions in your HPA for the gross margins of the WIP and the acquisitions of the 30 gross margins, let me try to cover that point. My perception, first thing, a reminder, in 2017 we do not have contemplated any HPA as a general rule in our business plan, okay?

That does not mean that in [some specific] -- because we always speak about HPA as the add-ons of specific price strategies per plot, okay? Some of those land developments from 2017 have some specific ingredients, that translate it into a number and I would say that it's quite modest, below 2% of the HPA that we'll have for this 2017.

So are we going to outperform in 2017? The answer is yes. Should we expect that the HPA incurred in H2 is going to continue pushing hard? My perception is clearly yes. The expectations are in that overall 5% and I would prefer to be disciplined, I would prefer not to say something that afterwards we do like to outperform, but I would say that the [trend] is at H2 will continue pushing hard.

And that 5%, I will say, consensus is going to be there and probably high. So I would that that's what's going on and again it depends a lot on different markets, HPA in Cataluna, in each and every land plot that we are picking up Cataluna is extremely high. We have above 8% you have seen

In Madrid, it has been a little bit more moderate, but it's not because of the concept of HPA, it's quite tricky, because our assumptions -- I'm going to answer the second question, the assumptions that we have in our initial expectations in Madrid probably is that we are kicking off the development with higher prices. So at the end of the day the HPA calculated against our user assumption is not that high.

So more than 5% is going to be the case for H2. My answer is, yes, it's going to be the case. Are we going to outperform regarding our expectations in connection of our business plan in 2017, the answer is yes, okay, because I do not like -- please to push harder than our initial expectations.

-What assumptions do we have in our acquisitions?

It's a case to case basis. It has nothing to do in connection and you were asking also for some additional color in the acquisitions that we have for the H1. You see that the acquisition, you have these areas -- where you can see where we have acquired land and you see that we have acquired land in our areas of comfort, and our areas of expertise, and in markets that honestly are pushing tremendously hard.

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So I would say that having said that, our HPA assumptions are very disciplined and if I have to say a number, I would say that it's from 1% to 3%, having more 3% in areas like Madrid or Barcelona and more 1% in areas like the south or the north. It's our asset per asset analysis, but I would say that we'll be doing 1% and 3%.

But the critical question here is what's our initial price, at what price we'll kick off that development and in that sense, in some cases, depending on the product that we are bringing to the market, we can be sometimes a little bit more aggressive than the [peers] on the comparables that you have at the same time.

So it's very tricky to answer what specific HPA we are applying. It fact price strategy, the land bank trying to be specific in answering your question, I will say that 1% to 3% in our land acquisition today, but we internally, honestly speaking, we do not see it as HPA, but as price strategies per development.

-Questions, you have another question regarding, I would say, if we revisit our guidelines, is your calendars of deliveries altered in any ways since the IPO, the answer in this sense I would say it's a clear no in the short term.

You know that we have this 29 months since the beginning that we kick off our development and the day that we deliver. So the visibility in the deliveries of 2017, 2018, and the 2019 is things that are already happening today, okay?

So anything that is not kicked off today as we speak will not be delivered in 2019. So all expectations regarding our targets of 3,500 to 4,000 should be 2020 onwards, okay? It is true that the market is pushing hard. It is true that we are being tremendously disciplined in trying to bring new sites to the market, it is true that probably we are trying to bring even more sites that in our initial business plan were preferred to kicked off in 2018, because we are seeing that the market is responding.

But you should not assume a change in deliveries for 2017, 2018, 2019 for sure, okay?

-"What margins do you expect in development in H2 deliveries?" Basically, align, Jordi, out in the same trends?

Jordi Argemi - *Neinor Homes - CFO*

Yes. We have three deliveries left for this year, 2017, and expected that the margin is 29%, very aligned.

Juan Velayos - *Neinor Homes - CEO*

Okay. So I think I'm seeing here, Jordi, quite technical,

-"Why the OpEx in Q2 have dropped EUR28 million versus EUR17.2 million in Q1?"

Jordi Argemi - *Neinor Homes - CFO*

[Nevertheless], in Q1 report included the full year property tax provision that actually was EUR4.2 million. If you exclude this EUR4.2 million, the total OpEx is roughly EUR13 million, that's actually compared with that EUR25.6 million of this H1 presentation. So as you can see, the OpEx is very stable.

Juan Velayos - *Neinor Homes - CEO*

Okay. Here I'm seeing question regarding the HPA.

-"Does the combination of the HPA higher gross margin on new land acquisition improve your near or medium term margins? If you are not changing that, what HPA assumptions do you need in order to revisit them?"

Of course, the HPA is helping our margins. I mean, that's a fact and I would like to send a message of prudence in one sense, my first reaction to those increases in HPA is that the first thing that give me a lot of comfort on our margins, on our reported margins, why? Because if I do have any deviation in our cost for whatever reason, I know that I'm covered with this HPA.

Second thing, the market is accelerating, it's booming. I have always said that in our cost increases, we are seeing that today we are going to structural -- not structural but [procedural] or transitional situation where the good construction companies know that the market is booming and that they are pushing, obviously, their cost. We know you know that we have 30 contractors, that we have, I would say, that one of our biggest competitive advantages is our industrial model, our control on external, some suppliers.

So I would say the answer is yes, HPA is helping for our margins. My first prudent reaction is that that gives me much more comfort on the reported margin, if in any case the (Inaudible - microphone inaccessible) will be absorbed with this HPA and, hopefully, we will be able to continue giving you good news. But as of today, I do not revisit my guidance, okay?

-One very good comment, question regarding how we are revising acquisitions. I have sent the message regarding that. Obviously, we have a tremendously successful H1 regarding acquisition, 79% is gone, but we have EUR28 million and hopefully we will be able to be closing within the following weeks, months, and that's a clear question and this question is perfectly -- what's next.

We have two options. We have the option of just moderating our acquisition, waiting, for the cash in from the legacy and from delivery. That would mean that's just being conservative. Now all of the other alternative is taking advantage of the momentum and trying to continue buying. If this is the case, honestly speaking, my professional, that we think that this is what we should do, we are working hard on thinking with alternatives that hopefully we will be presenting to you very soon to be able to be anticipating 2018 acquisition.

So let us work for a few more weeks in order to try to announce how we are going to finance 2018 anticipation acquisition, but we are working on it and I think that probably the momentum, and we have significant number of opportunities in front of us. I think that we want to be very disciplined. We want to be very focused in the ramp-up as many of your investors have [forwarded to us]. Let's deliver. LET'S show delivery. Let's construct track record and afterwards see what's next.

Having said that, we will continue everything that we need to continue taking advantage of the opportunities, our position in the market today is tremendously privileged from an origination and execution capacity, and hopefully within a few weeks, we will be able to announce some structure that we'll have to anticipate 2018 acquisitions.

But leverage LTV, we want to be very disciplined and whatever structure we present that need to be at run rate, the levels of LTV that we have already announced. So anything that we'll present will have to be designed in a way that will continue presenting very strong ratios from a leverage LTV perspective, so give us a few more weeks on that and probably we will be able to give you good news. More questions...

Juan Gomez Vega - *Neinor Homes - CIRO*

There is one question regarding on the timing that you expect for liquidating the legacy in there.

Juan Velayos - *Neinor Homes - CEO*

Yes. H1 have been successful and we have been able to sell, I would say, not only a lot but also some of the most critical assets that we have in our legacy portfolio, basically, but those were not granular assets. The hotels and the offices are already sold. Basically, there is still one asset that is not, I would say, residential, and so various results, so probably it will come into Q3 or not, into Q4. But having said that, again, let me send a conservative message.

Obviously, when we're seeing that we have a very good underwriting of these assets, we are prepared to accept book values. But, obviously, the quality of the assets, as far as presale, I would say, obviously, from the 650, the remaining 134 must not be the most, most, most liquid.

For sure, we will meet our commitment to do it in 2017 and 2018, will we not complete it, I would say that H2 should not be as good as H1, so my perception will be that doing H1 2018 for sure, but hopefully we will continue being able to be as successful as H1. But I do not expect H2 as good as H1 in connection with the divestment of the legacy.

Juan Gomez Vega - *Neinor Homes - CIRO*

I think we have one more question remaining and it says, "How much is the capital gain from this -- on this Savills valuation versus the book value of our land bank?"

Juan Velayos - *Neinor Homes - CEO*

Jordi?

Jordi Argemi - *Neinor Homes - CFO*

Actually gross capital gain, the number is EUR450 million roughly. Actually if you look at the slide number 20, on the last year, you will see that total GAV as commented is EUR1.34 billion and our whole value is EUR0.9 billion, so the gross capital gains are different between those numbers.

Juan Velayos - *Neinor Homes - CEO*

Okay.

Juan Gomez Vega - *Neinor Homes - CIRO*

Okay.

Juan Velayos - *Neinor Homes - CEO*

Hopefully I think that all of the questions are grouped when they were quite similar. I think it's done.

Juan Gomez Vega - *Neinor Homes - CIRO*

Yes. I think, having covered, we will review from the IR team, we will review in any case if something is not being answered and we will discuss that offline and when we meet in the next couple of weeks.

Juan Velayos - *Neinor Homes - CEO*

I'm sorry. I'm seeing new one and it says, "How many of your prequalified contractors are now in use? Given the increased level of competition, are you seeing any pressure or labor material cost? Are you happy speaking with your previous guidance for the cost inflation?" It's another very good question.

I would say from the 50, I think, prequalified construction companies, it's not 50 -- 48, but roughly 50, we are today using 23 different construction companies happy -- with our model, with our strategy of working with neat construction companies with quality regional or national, but not with the big, big guys.

We are seeing pressures in cost, the answer is yes. My personal perception is that it's more transitional than structural and the rational, do I have to explain a number of times to some of you, it's because Spain has a lot of capacity. Let me give you an example: I was in a Cabify (in a taxi) and the driver used to be a structurist guy. And my reaction was: why aren't you coming back to the sector? So the market is reacting, we are adapting, and there is a steep -- the number of final, I would say, subcontractors if we adapted to the situation, so yes there is pressure. My personal perception is that the market will be adapting, but because of the level of competition, because a number of us now are coming into the market, I will say that the situation has changed.

The 1.5% assumption that we have in our business plan should be sufficient and if I have a question mark if it will be sufficient for the next six to 12 months while the market is adapting to the new situation once is done, we -- our experience what already happening in Spain, the over capacity that we always have [past] once of these guys from the cabify come back to the market, I would say that the situation should be and the assumptions that we have should be sufficient or if it's slightly higher than that, it should be absorbed with the HPA over the assumptions that we have.

The other question in connection is very similar to how we see the competition in connection with the land disposals from bank portfolios. "Can you talk about the potential opportunities of permitted land that you expect to be able over the next six, 12, 18 months?" A lot. A lot. We have like what you see in [our requests] what's going on with Popu (Banco Popular, comment by CIRO)

For sure, at the end of the day whatever decision Santander and finance -- who is buying that or if they are selling portfolios or to one investor that will have a number of opportunities will be there, and we see in front of us different portfolios, different sellers, and there was a significant number of opportunities. There are still 30 billion there. The market is accelerating. The owners of the land are seeing that there might be an opportunity, because the number of new companies there are there. Home building is moving in the industry now.

So I think that today we have been discussing different number of portfolios that are there. So opportunities will be there, again, the same message that I was trying to transmit, we need to be tremendously disciplined. Any portfolio that we are prepared to present must be very accretive, must comply with gross margins, and the developer margins that we have always committed with you, and if nothing happens, if it does not meet those requirements, we are more than good where we actually are already.

So opportunities will be there. We will evaluate all of them and our information if any of them is accretive, for sure, we will try to go for it.

Juan Gomez Vega - *Neinor Homes - CIRO*

Okay, very well. So this marks the end of the webcast. We thank you all for your time and for participating, sending the questions. We will review them and if anything was unanswered, we will get back in touch with you. We expect to be meeting you in the next coming weeks and remember that this webcast is recorded and will be available for on demand listening and also the transcript will be made available. Thank you very much. Tracy, we'll pass it over to you.

Operator

Thank you. This concludes today's call. Thank you for your participation, you may now disconnect.
