

JAVER 3Q11 CONFERENCE CALL TRANSCRIPT
October 28, 2011 @ 11:00 ET

Operator: Good afternoon. My name is Misty and I'll be your conference operator today. At this time I would like to welcome everyone to the Javier conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, all lines will be opened in order to ask questions. If you should need assistance during the call, please press star zero and an operator will come back online to assist you.

Thank you. Ms. Melanie Carpenter of i-advice Corporate Communications, please go ahead ma'am.

Melanie Carpenter: Thank you. Welcome everyone. We apologize if you have a delay in getting connected. We actually have several participants today so should be a good discussion. Thank you for joining Javier's third quarter 2011 conference call. Today is October 28, 2011 for our recording.

Joining us from Monterrey are Mr. Roberto Russildi, Chief Executive Officer of Javier and Mr. Eugenio Garza, Chief Financial Officer. Their presentation will be followed by a Q&A for investors and analysts only. If you're from the media questions will be not be taken from you at this time.

Please note that some comments may constitute forward looking statements, which may include those regarding future economic performance, and results of operations, strategic plans, objectives, goals and targets, future developments in the market in which Javier operates. For a complete note on the forward looking statements, please refer to the quarterly report, which we distributed yesterday. If you didn't receive a copy, or you need any assistance, please contact i-advice in New York at (212) 406-3695.

And now without further adieu, I'm very pleased to turn the call over to Mr. Roberto Russildi for his presentation. Please go ahead Roberto.

Roberto Russildi: Good morning everyone and thank you for being with us today. In the third quarter and first nine months of 2011, Javier demonstrated its ability to operate profitably in a rapidly changing and competitive market. In response to shifting demand, greater competition and changes in customer credit options, Javier adjusted its product mix and pricing strategy, while successfully expanding into new territories.

While titling in the third quarter was relatively flat versus last year given the very high pace in 3Q10, Javier titled 27% more homes in the first nine months of 2011 compared to last year, reaching 10,903 homes. During the third quarter, low income sales represented 57.9% of total units titled, and 38.2% of housing revenues, compared to 75.5% and 58.1%, respectively, in the third quarter 2010. Low income sales in the first nine months of 2011 represented 63.9% of total units titled and 47.3% of housing revenues, compared 65.8% and 46.7%, respectively, during the first nine months of 2010.

Javer reported a slight negative free cash flow of Ps. 38.1 million in the third quarter 2011, as working capital investment was minimized to more closely position construction spending with collections.

The Company's third quarter 2011 achievements centered on the Queretaro and State of Mexico developments. At Queretaro, Javier has nearly completed the development's first titleable units. Based on Queretaro's presales, the Company expects to title a decent number of units through the end of 2011. It is worth noting that this development should yield higher prices, as well as margins, compared to Javier's developments in other regions of Mexico. Furthermore, the Company is pleased that titling at Queretaro has commenced a quarter ahead of schedule.

The State of Mexico project also progressed nicely during the third quarter 2011. Javier fully expects that this development will produce titleable units by 2012's first half.

In terms of mortgage sourcing, Javier, as historically has been the case, remained weighted on Infonavit with 88.2%. While Infonavit remains on target to meet year end 2011 goals, the remainder of the mortgage providing institutions, public and private, continued to struggle to keep up. Therefore, Javier's focus on Infonavit will continue to assist the Company to meet its 2011 targets.

Intense marketing initiatives continued during the third quarter. These initiatives, together with improved pricing, as well as successful prototypes, have maintained foot traffic to model homes at the Company's developments. The Company expects that this will translate into higher sales moving forward.

Before I pass the call to Eugenio, I would like to touch upon the Company's expectations for the rest of 2011. Javier expects to increase its titling pace in the fourth quarter to meet the Company's target of at least 17 thousand homes titled. Javier remains sharply focused on improving margins, while sustaining a strong financial position. This, the Company believes, is the best foundation from which to build, thus providing the maximum value for all stakeholders.

With this, I will now turn the call over to Eugenio Garza, CFO of our company.

Eugenio Garza: Thank you very much Roberto. I will now review the financial results per the third quarter press release issued yesterday.

Javier reported third quarter net revenues of Ps. 1.17 billion pesos, up 3.7% when compared to 3Q10, despite a 4.2% decrease in units titled to 4,010 homes. However, this decline was partially offset by an increase in the average sales price due to a better sales mix. Javier's focus has been on absolute profitability levels via effective management of pricing, product mix, and absorption levels.

For the first nine months of 2011, Javier titled approximately 27% more homes than last year, to reach 10,903 homes titled. This led to a 21.6% increase in net revenues to 3.1 billion pesos in the nine months of 2011 compared to the similar period last year.

In terms of the Company's gross margin, Javier reported a gross margin of 28.7% in the third quarter, a 4.5% improvement vis-à-vis last year, while for the accumulative nine month period, our gross margin was 30.1%, practically flat compared to 2010.

On the SG&A front, this line item rose 6.2% during the third quarter to Ps. 155.2 million, mainly due to increased compensation costs related to Queretaro and State

of Mexico operations; however, as a percentage of sales, SG&A declined by 0.4 percentage points in the accumulated nine month 2011 period, mainly as a result of greater operating leverage achieved from the increase in sales volume.

Javer's EBITDA rose 34.2% to total Ps. 193.9 million. This compares to Ps. 144.5 million in third quarter 2010. Our EBITDA margin increased 3.8 percentage points to 16.5% in the third quarter. For the first nine months 2011, EBITDA rose 25.1% to Ps. 508.4 million from the Ps. 406.5 million reported in the first nine months of 2010. The accumulated period's EBITDA margin was 16.3%, a 50 basis point improvement from the similar period last year.

This quarter, the net comprehensive financing result was negatively impacted and also impacted our bottom line. This line item increased to Ps. 387.1 million from Ps. 44.6 million last year, mainly due to a Ps. 273.5 million non-cash charge related to the depreciation of the peso and its effect on the Company's U.S. dollar denominated debt. For the accumulated nine month period 2011, the net comprehensive financing result increased 92.4% to Ps. 472.7 million from Ps. 245.7 million last year also mainly due to the depreciation of the peso. It is worth noting, that the Company's derivatives positions to hedge the FX exposure related to our senior notes worked as planned, resulting in a 307.1% gain which is reflected in the comprehensive statement of income, but not within the interest expense line given the way the accounting for our derivative position works.

Now, let's move on to the Company's balance sheet and other operating and financial metrics. As of September 30, we reported an improvement in our working capital cycle from 428 days last year to 381 days this year, primarily due to a more closely matched pipeline of work in progress investment vis-à-vis home titlings for the quarter.

The Company's development pipeline remains robust, with 8,113 home starts in the third quarter. We have managed our development pipeline to closely track titling levels so the Company can maintain an efficient working capital cycle, and achieve best in class returns on invested capital.

As of September 30th, we continued to possess credit facility lines in excess of Ps. 1.7 billion. We also maintained derivative positions to hedge 100% of the our currency exposure related to the first five years of coupons on our senior notes, and 100% of the coupons on the shorter notes that mature in 2014, and as well as 39.8% of our exposure to the outstanding principal on both bonds.

As of September 30th, we possessed over US\$ 36 million in available credit lines from derivative counterparties to finance any potential negative carrying costs of these derivative.

Total Debt / LTM EBITDA improved to 2.84x if the mark to market gains on derivatives are netted out against our debt position, while EBITDA interest coverage increased to 2.75.

Again, I would like to take this opportunity to reiterate that for the remainder of 2011, we strive to maintain a free cash flow position that is neutral to slightly negative with no additional financing needs.

This concludes my portion of the presentation. Thank you very much for your attention. Operator, please go ahead.

Operator: This concludes today's conference call. You may now disconnect.