April 30, 2014

Operator: The following teleconference is recorded for Melanie Carpenter with i-advize on Wednesday, April 30, 2014, beginning at 10 AM Central Time. Good day everyone and welcome to the Javer conference call. This call is being recorded. For opening remarks and introductions I will now turn the call over to Maria Barona of i-advize Corporate Communications.

Maria Barona: Thank you, ladies and gentlemen, and welcome to Javer's first quarter conference call. Today is April 30, 2014, for our recording. There is a webcast that accompanies this conference call. It is a webcast presentation that is available on the invitation that was sent out to you as well as the company's website. Joining us from Javer are Mr. Eugenio Garza, Chief Executive Officer, Felipe Loera, Chief Financial Officer, and Veronica Lozano, Investor Relations. The presentation will be followed by a question and answer session for investors and analysts only. Questions from the media will not be taken. Please note that some comments made today make include forward looking statements. These could include any comments regarding future economic performance, results of operations, strategic plans, objectives, goals, and targets, future developments in the market in which the company operates or seeks to operate. For a complete note on forward looking statements, please refer to the quarterly report which was issued previously. If you have not yet received a copy of the report or you require assistance during the call, please contact us in New York at (212) 406-3691. And now without further ado I'm pleased to turn the call over to Mr. Eugenio Garza for his presentation. Please go ahead.

Eugenio Garza: Thank you very much, Maria, and good morning to everyone. Thank you for being on the call with us today. Let me walk through the agenda for the call on slide two of the presentation. We will start by discussing some of the new developments in the regulatory and subsidy programs since the start of the year, and then we'll go straight into our financials and what we're expecting for the rest of 2014 before taking the questions.

Turning to slide four, Mexico recently approved an unemployment insurance program which will begin in September and affect the Infonavit system. It will be partially funded by the 5 percent of monthly employer contributions that go in Infonavit as well as by a government funded contribution. These funds will now be split with 2 percent remaining in the employee housing subaccount and the other 3 percent going into a mixed subaccount that workers can use if they lose their job for a period of up to six months, retirement savings, or towards Infonavit loans as a worker's option. It is important to note that this will not impact the workers' capacity to acquire a home for their loan conditions; however, if they do choose to use their funds for unemployment benefits, they may require more time to gather the Infonavit points to apply for a loan in the future. Because of the way the rules are set for these savings for unemployment insurance, we are confident that they will have little effect on the purchasing power in our target market and consequentially on both short and medium term demands. Also, last month the government launched a special subsidy program to provide an extra 500 million pesos for workers earning above 2.6 minimum wages but below 5 minimum wages. This program, which we expect will boost demand, is intended for the acquisition of new and used homes in the U1 and U2 zones in 11 cities including the area surrounding Monterrey, Guadalajara, Queretaro, and the state of Mexico.

As far as the existing subsidy programs are concerned, at CONAVI as of mid-April 1.5 million pesos have already been spent, which represents only 13 percent of the total budget for the year. Eighty-eight percent of the total amount spent to date or 1.3 million pesos have been granted towards new housing of which only 36 percent went to vertical housing. At Infonavit, as of the close of the first quarter they had granted 118,404 loans distributed as follows: 41 percent for new housing, 39 percent for home improvements, and 20 percent for used homes. Javer remains the number one provider of Infonavit loans with 4.8 percent market share over the last 12 months. We believe we have the appropriate products in strategic and geographic locations to continue to capitalize on these existing programs. As you can see, the government is really actively working to boost the sector and improve conditions for the workers striving to become a homeowner.

Moving on to slide seven, you can see that we have significant double digit growth in the number of home titles. We sold 4,418 homes 53 percent of which were in the affordable entry level sector, 43 percent middle income, and 3.4 percent residential. As you can see, middle income posted a 2 percentage point increase in the sales mix, and we'll show some pictures of these new successful projects in a few moments. Our top line posted a 22 percent improvement to nearly 1.4 million pesos with volume, higher average pricing, and a few key lot sales contributing to the solid growth. On slide eight you can see the big bump in first quarter subsidized tilting from 30 percent last year to 54 percent this year with almost half of those going towards noncritical, which was nonexistent last year.

Moving on to slide nine, EBITDA increased by nearly 50 percent in the first quarter to 173.6 million pesos. This was due to the fact that while our gross margin was relatively flat, our percentage of SG&A over sales came down nearly 2 percentage points as we were able to better absorb costs over our expanded sales numbers. Javer average sales price increased to 304,000 pesos per unit led by big bumps in affordable entry level and residential with middle income remaining practically flat.

Slide 10 shows that we continue to improve our working capital cycle as of March 31, 2014, versus last year by closely aligning construction spends with collections. Moreover, we continue to maintain a highly liquid balance sheet with 1.3 billion pesos in cash and only 6 million dollars coming due of our 2004 notes with others. We are still looking to capitalize these resources and opportunities that may arise in the ongoing restructuring and repositioning of assets in the business. Our challenge now will be how best to deploy these resources, what land types for developments to acquire, and in what areas to wrap up our development pipeline and have adequate inventory levels.

Turning now to slide 11, Javer was slightly free cash flow negative in the first quarter at 32 million pesos as we applied all the resources possible to ramp up production faster to meet the growing demands generated by the new subsidy program and the lack of supply in our industry.

Moving on to slide 13, looking ahead at what we expect for the remainder of 2014, as you can see from the development pipeline statistics we published, our biggest challenge will be to have enough homes ready to capitalize on current demand. We are at a historic low in terms of our inventory but have invested in land fluidly to begin expanding productions in regions where the subsidies will be available in the near time. We aim to stay above 20 percent pre-tax return on invested capital that has reached 21.6 in the last 12 month period. Then we want to stay free cash flow neutral to slightly positive without compromising our philosophy to remain cautious and actively manage prices, margins, and cash flows to remain within these parameters.

Turning to slide 14, you can see some of the new residential projects we launched in the first quarter at Bosque Real in Aguascalientes. This project consists of about 150 units, and we just started filing during this quarter and we expect to complete the project by early 2015.

On the next slide, slide 15, you have images of our new affordable entry level project Santa Elena in our key market of Nuevo León. It is located in the municipality of Apodaca which is home to numerous industries, both Mexican and foreign. This project consists of around 17,000 units including both vertical and horizontal housing. In closing, we are working very hard to capture the demands on land we are experiencing in our markets to reach titling levels of between 18,500 and 19,000 homes in 2014. As I said, we expect to be free cash flow neutral to slightly negative in 2014. This has all the makings to be a tremendous year of opportunity for Javer, and we aim to continue creating value for all of our stakeholders. This concludes our remarks. Once again, thank you for your attention.

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