April 28, 2016

Operator: Good day ladies and gentlemen. Welcome to the Javer Conference Call. All lines have been placed on mute to prevent any background noise. This call is being recorded. After the speakers' remarks, there will be a question and answer session and instructions will be given at that time. For opening remarks and introduction, I will now turn the call over to Melanie Carpenter of i-advize Corporate Communications. Ma'am, please go ahead.

Melanie Carpenter: Thank you, Chelsea. Hello ladies and gentlemen. Welcome to Javer's first quarter 2016 Conference Call. Today is April 28, 2016 for our recording. Joining us are Mr. Eugenio Garza, Chief Executive Officer, Mr. Felipe Loera, Chief Financial Officer, and Mrs. Veronica Lozano, Investor Relations.

There is a webcast presentation to accompany this discussion and management's comments will be followed by a Q&A session for investors and analysts only. Questions from the media will not be taken on this call. Please note that some comments that management makes today may include forward-looking statements. For a complete note on that, there's a disclaimer in the quarter report that went out yesterday afternoon. If you didn't receive a copy or you need the link to the webcast or the presentation in PDF, please call i-advize in New York at 212-406-3693. Now without further ado, I am very pleased to turn the call over to Mr. Eugenio Garza for his presentation. Please go ahead Eugenio.

Eugenio Garza: Thank you very much, Melanie. Good morning, everyone. Thanks for dialing in today to discuss Javer's first quarter performance. As you saw in the release, we operated under a very tough subsidy availability environment, but once more, our team put in an exceptional effort to respond quickly and take care of factors in our control as to costs and efficiency.

I'll begin by turning to slide 3 in the presentation with regard to subsidies. 2016 started with key challenges for the industry, with an uncertain subsidy climate and changes in the way subsidies have been operating in the recent past. First and foremost, the subsidy budget did not start to flow until rules for the year were published, which happened very late during the month of January. Because of this, January posted an abnormally low start industry-wide, with new homes originating by quantity down 7.1 percent year-over-year in January 2015.

Furthermore, instead of starting the new queue in 2016 as we had become accustomed to in years past, the end of the year queue in 2015 was expected. This queue totaled between 12,000 and 13,000 units countrywide, and the queue was placed at the top of the priority schedule ahead of the 2016 queue. This put the Javer units that were uploaded into the queue in 2016 at a heavy disadvantage. More importantly, given the possibility of budget constraints later on in the year, the continuous titling mechanism of years past was titling disallowed until resources are depleted was not implemented at this time around. The authorities opted for a more level or equal monthly disbursement strategy in the exercising of the Conavi Budget.

Beginning in February, this method of equal monthly disbursements kicked in. A fixed amount of money was disbursed for the queue that had built up since late 2015. Barring any mid-month reallocations or reassignments, the next considerable amount of allocation was granted at the beginning of March, and similar size allocations are expected on a monthly basis for the remainder of the year. Customers who were not assigned a subsidy in that month are placed in a queue until disbursements clear up other customers that are ahead in the queue. We believe that this stop-and-go nature of the new disbursement policy distorts decision-making both on the customer side, as well as on the supply side and was one the main reasons quarter-over-quarter total new home origination in the Infonavit system contracted by over 10 percent. The current national queue stands at about 5,800 units, 660 of which are our own. This would represent about one month at current disbursement rates, not factoring in state-by-state allocation quotas.

Given all these changes, we had to respond very quickly and shift resources and production to the non-subsidy products much earlier in the year than we had originally anticipated. As of last week, Conavi granted 2.6 billion pesos, representing approximately 45,000 subsidies, almost 95 percent of which went for new housing. At the end of March 2016, Infonavit had granted 124,900 loans with nearly half of housing another 38 percent for home improvement, and the remaining 19 percent for used homes.

Turning now to the results on Slide 4, you can see our continued shift in the sales mix. Total units for the first quarter were down 2.2 percent to 4,613 units, mainly because we had no major subsidy titlings until the end of February. Affordable entry-level sales volume was down nearly 20 percentage points, to represent only 20 percent of our mix, while middle income went up nearly 70 percent of the total, and residential was the remaining 11 percent.

On Slide 5, you can see how despite our different titling, our revenues increased 11 percent in the quarter, thanks to an improved sales mix and better pricing. The availability of higher average sales price inventory and geographical diversification helped us quickly overcome the loss of the subsidy units we had expected to title.

Turning to Slide 6, you can see how subsidized sales dropped 35 percent year-over-year, bringing the proportion of sales to 60 percent compared to nearly 80 percent one year ago. About 32 percent of total subsidies during the first quarter went towards vertical housing, compared to 23 percent in the first quarter of 2015. Also, during the first quarter of 2016, only 5.3 percent of the total units sold were titled with a subsidy from the five minimum-wage subsidies program compared to 15 percent of last year.

On Slide 7, you can see how our EBITDA grew close to 3 percent to 207 million pesos in the first quarter thanks to higher margins resulting from our sales mix and higher average sales price. SG&A was up 23 percent in the first quarter to 280 million pesos, largely due to higher number of personnel in the State of Mexico and Quintana Roo, investments in the new IT systems and expenses related with regulatory requirements that Javer must comply with now that we are a publicly-traded entity. Our average home sales price increased 14.5 percent in the first quarter to 371,000 pesos, thanks to improvements in the sales mix and a higher focus on the middle income segment.

Turning to Slide 8, we were able to maintain a working capital cycle fairly stable at 307 days, despite the heavy changes in subsidy policy, thanks to our ability to quickly respond to new subsidy disbursement policy, the shift in production to non-subsidy prototypes and adjust construction expense.

On Slide 9, you can see that we generated a positive free cash flow of about 73 million pesos in the first quarter. This was down close to 80 percent over the year ago period, due to a higher expenditure in work-in-progress inventory compared to last year when unusual rain storms delayed construction progress in Nuevo Leon.

Turning now to Slide 10 as to where we are in terms of leverage. We show that as of March 31, we have 2.6 billion pesos in total debt and 1.8 billion pesos in net debt and our key financial ratios are well within our expected parameters. As you all know, we had a successful tender offer for our 2021 notes and were able to repurchase 136 million in face value of those notes. The remaining amount outstanding is 159 million face value. We continue to have 2.5 years' worth of coupons hedged on our outstanding notes at pre-devaluation FX levels and we have bought call options on the entirety of the principal amount to prevent any value leakage from further peso weakness. We also continue to work with a number of financial institutions on a strategy to refinance the remaining part of the 2021 notes, which will further reduce our funding costs and strengthen our balance sheet.

I now turn to Slide 11, looking ahead to what we can anticipate for the remainder of 2016. We will expect equal monthly disbursements in the exercising of the subsidy budgets, and we foresee more subsidy sales in the second half than we had originally budgeted. Therefore, our subsidy to non-subsidy mix will remain a lot more stable this year than it has in years past. Moreover, there are indications that the government is considering to modify the subsidy program this year, by lowering the maximum home subsidy on a sliding scale according to wage levels, to allow for a larger total amount of subsidies to be granted with the same resources in 2016. We believe this shift, if enacted, will allow for a little bit stronger volumes in the second half. Nonetheless, we are not counting on this policy change, and we will continue to execute on our plans as circumstances change.

On the new development side, four developments began titling during the quarter, and nine more are expected for the remainder of the year. Although there have been some delays in lost schedules, there are still no major changes to our yearly inventory availability plan. Despite the new expectation of level subsidy disbursements for the year, we do not expect any changes in our yearly performance or guidance based on what we had previously told you. Therefore, we have recommended to our Board, which will in turn recommend to our General Shareholders Meeting tomorrow, a cash dividend of 1.7053 pesos per share, to be payable on a quarterly installment of 26 cents per share in May, July and October of 2016, and 92.52 cents per share in January of 2017.

It is important to note that with the current stock price, this dividend delivers amongst the higher pay-out yields in the Mexican equity space from a company that is still providing bottom-line growth and a healthy balance sheet. We are comfortable that our flexible and resilient business model will allow us to maintain growth in this level of cash payouts for our shareholders in the future despite the continuous changes in the industry environment. This confidence is not only wishful thinking, but it stems from our recent history where we have been able to deliver these kinds of cash flows to stakeholders for debt and equity under equally or even more challenging environments.

Lastly, on Slide 12, you can see our newest developments which started titling during the quarter. In residential we have Bellaterra in Jalisco, which is a project of about 120 units located in the southern part of the city, and Privadas Borneo in the municipality of Apodaca in Nuevo Leon, with approximately 700 units. In middle income, we also show pictures for Valle de los Encinos II in Jalisco, a project of about 2,000 units, surrounded by major industries, which will make an attractive value for growth.

The process is well received in the market and demonstrates the direction that we continue to take to make the most of our markets in our current operating environment. In closing, I will share with you our guidance. For the year 2016, as we told you before, we expect to title 20,000 to 21,000 homes, focused more and more on the middle income segments. We expect to remain free cash flow positive neutral to positive even after the dividend payments we have just announced, while continuing to improve our financial strength. All in all, we are pleased with the results for the first quarter, and feel confident about Javer's ability to continue to deliver industry-leading returns for shareholders. This concludes our remarks. Thank you for your attention.

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