



October 24, 2014

Operator: Good morning, everyone. My name is David and I will be your conference Operator. At this time, I would like to welcome everyone to the Javer Third Quarter 2014 Earnings conference call. All lines have been placed on mute to prevent any background noise. Thank you. I will now turn the call over to Melanie Carpenter of i-advize Corporate Communications. Please go ahead.

Melanie Carpenter: Thank you, Operator. Hello, ladies and gentlemen. Today, Javer will discuss its third quarter 2014 results. Joining us from Monterey are Mr. Eugenio Garza, Chief Executive Officer of Javer; Mr. Felipe Loera, Chief Financial Officer; and Ms. Veronica Lozano, Investor Relations. The presentation will be followed by a Q&A session for investors and analysts only; therefore, questions from the media will not be taken. There is a presentation to accompany this discussion, and it's available on the Company's website.

Please note that some comments today may include forward-looking statements. There is a disclaimer in the press release with guidance on this matter and we ask that you refer to that, please. If you haven't received a copy of the material that they're going to be discussing today or you require any assistance during the call, please contact i-advize in New York at 212-406-3695. And now without further ado, I'm very pleased to turn the call over to Mr. Eugenio Garza for his presentation, so please go ahead, Eugenio.

Eugenio Garza: Thanks very much, Melanie, and good morning, everyone. Thanks for being with us today to discuss an outstanding performance for Javer in the third quarter from an operating and a financial standpoint. As one of the few players in the sector operating at full capacity, we were able to take advantage of healthy subsidy availability to deploy the inventory we have been aggressively ramping up in order to meet the growing demand in our markets. At the same time, we have the resources available to acquire land from bankrupt homebuilders, putting Javer in an even better position to increase our development pipeline and take advantage of future growth.

In the presentation, I'll start on slide 4 so we can begin reviewing the progress of our key subsidy providers. In the first nine months of the year, 61.7 percent of the total federal subsidy budget was spent, equal to about 7 billion pesos, close to 5 billion of that was for new housing and we were able to capitalize on that in several of our core fine developments.

Infonavit, from which we get nearly all of our subsidies, is further along in its plan having disbursed 84 percent of our annual budget. Over 500 of our total subsidies so far this year come from our newest 5 minimum wage program, which boosted our middle income sales. So as you can imagine, we are close to half of the federal budget to be spent in the last three months of the year, or close to 5 billion pesos, we are working relentlessly to have the right process and stock to be ready to title in order to capture as much of these funds as possible. For the next year, the government just announced an 8.7 billion pesos subsidy budget which we feel could get bumped, particularly if this year's budget is not depleted.

On slide 5, at Infonavit, as of the close of this quarter, 382,792 loans have been granted so far and distributed as follows: 45 percent for new housing; 31 percent for home improvements; and 24 percent for used homes. So far, we are the number one provider of Infonavit loans, with 5.1 percent of that market in the Infonavit lending system.

Turning to slide 6, the Hipoteca Verde, or green mortgage, is Conavi's program to incentivize homebuilders to incorporate energy efficiency into all stages of the home, and it's a valuable system to qualify for subsidies. In August, authorities implemented a recalibration of points table for eco technologies and now, we are forced to include other technologies which is costing us twice the increase in costs and affecting our gross margin. We are implementing still strict cost on expenses, and actually, we experienced an absolute reduction in our SG&A notwithstanding this.

Turning to slide 8, financial performance. As you can see, we titled nearly 5,000 homes in the third quarter, up 18 percent from last year, and 14,005 homes for the first nine months, up 13.4 percent from last year. Our sales mix did not change too dramatically, but as I said, we are now focused on the AEL and middle income segments to capture subsidies. Revenues grew 20 percent in the third quarter to 1.6 billion pesos and are up 16 percent in the first nine months to 4.5 billion pesos.

On slide 9, you can see the big bump in subsidies due to this program's historical levels this year. We went from 25 percent in the third quarter of last year to 55 percent this year. Last year, practically all of these subsidies went towards vertical housing, while for this year, verticality only represented 31 percent. You can see that same phenomenon occurred in the nine-month period.

Moving to slide 10, EBITDA increased 30.7 percent in the third quarter to 279 million pesos and 26.8 percent in the first nine months to 638 million pesos. While our gross margin stayed flat, our percentage of SG&A over sales came down slightly despite these additional costs related to the Hipoteca Verde requirement, thanks to higher volumes, better pricing and expense controls. Our average sales price increased to 326.6 thousand pesos per unit in the third quarter and up to 312.6 thousand pesos in the first nine months due to better pricing in our affordable entry level and residential products.

On slide 11, you can see the outcome of our zealous efforts in working capital management. We improved our cycle to 308 days, driven by a strong operating environment, better collection periods and our ability to turn around inventory effectively. We maintain a highly liquid balance sheet with 1.2 billion pesos in cash and our next coupon payment is due on April 2015. Our financial ratios are amongst the strongest in recent years, with 3.9 times total debt to EBITDA and 2.5 times net debt to EBITDA, and there are no immediate funding needs.

During the third quarter, we acquired two properties from homebuilders undergoing bankruptcy proceedings for a total of 5,760 lots and an investment of around 126 million pesos. These acquisitions position us to achieve solid unit growth over the next couple of years if the demand environment continues to be this strong, all of this within a very favorable free cash flow framework and without compromising our extremely favorable liquidity position or operating flexibility, where the demand and/or subsidy situation could change in the future. While our leverage levels have improved significantly, there are still attractive – acquisition opportunities available to us and we will carefully evaluate them, bearing in mind our goal of remaining free cash flow positive.

On slide 12, you can see that we were able to generate enough cash during the quarter to put us in the black for the first nine months, despite a significant increase in home starts, homes under active development, finished goods inventory and, more importantly, a record 829.5 million pesos in land Capex for the year. We ended the quarter with 69 million pesos in free cash flow and the first nine months at 30 million pesos.

Turning to slide 14, looking ahead to what we expect for what we expect for the remainder of 2014 and into the next year, we are confident that after such a solid third quarter that we will be able to meet our guidance of between 18 and 19,000 homes, with EBITDA between 850 and 900 million pesos, while remaining free cash flow neutral to slightly positive. We had a record 5,337 home completions and 8,452 homes under active development. We are quite confident that we were able to have the right products to attract home buyers that can take advantage of the right subsidy environment in this fourth quarter and into the next year.

There are 14 properties in total that we have purchased to date in 2014 and have added 21,749 units to our land bank, which will enable us to continue our current growth path. We remain focused on staying above 20 percent pre-tax return on invested capital, having reached 24.9 percent in the last 12 months as of September, and 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.

In closing, we couldn't be prouder of what Javier has been able to accomplish in what has been a tumultuous period for homebuilders in Mexico. We are now the company with the right products, ample supply and a professional team to take advantage of the tremendous

opportunities that the subsidy program and a growing market demand present to us. With prudent financial management and operating discipline, we can meet our goals to create value for all of our stakeholders. This concludes our remarks. Once again, thank you for your attention.

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