JAVER 4Q11 CONFERENCE CALL SPEECH
February 28, 2012 @ 11:00am Eastern

Operator: At this time, I would like to welcome everyone to the JAVER conference call. All lines have been placed on mute to prevent any back ground noise. After the speakers' remarks, there will be a question and answer session. I would now like to turn the call over to Melanie Carpenter of i-advize Corporate Communications. Please go ahead.

Melanie Carpenter: Thank you and good morning everyone.

Welcome to the JAVER Fourth Quarter of 2011 conference call on this the 28th of February of 2012.

Joining us today from Monterrey are Mr. Roberto Russildi, Chief Executive Officer and Mr. Eugenio Garza, Chief Financial Officer. Their presentation will be followed by a question and answer session for investors and analysts. Questions from the media will not be taken.

Please note that some comments made today 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 markets 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 distributed yesterday.

If you haven't received the quarterly report issued yesterday 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. Roberto Russildi for his presentation. Please go ahead, Roberto.

Roberto Russildi: Good morning everyone and thank you for being with us today.

As you saw in the Company's earnings release, Javer's fourth quarter 2011 results came in slightly weaker than expected. However, those numbers, which were somewhat disappointing, reflect a tremendous effort to quickly adapt to the changing industry dynamics we faced and make the most of them, without sacrificing our most important goal of maximizing return on invested capital or leaving us underprepared for what we expect to be a much better 2012. Javer continues to possess a robust development pipeline across all of our product segments combined with improving market conditions in the Company's geographies.

The fourth quarter 2011 is difficult from a comparison point-of-view with fourth quarter 2010. If you recall, fourth quarter 2010 was historically the highest titling period in Javer's history due to the titling of homes in new macro-developments that were pre-sold for the better part of the year, but not titleable until the fourth quarter when the first life cycle units in these developments came out of the production process. The fourth quarter 2011 paints a much more mixed normalized picture, with a much more normal lag between pre-sales and marketing now that we have a much more balanced development pipeline.

For the better part of the fourth quarter, we continued to experience a lack of subsidies for our affordable entry level homes in our target markets. This continued to force us into a strategy of focusing on the middle income segment in order to deliver absolute margins while sacrificing volume in the AEL where discounting would have resulted in poor returns on invested capital. During the last two weeks of the year, subsidies became available in our target markets, driving a nice pickup in AEL sales though not enough to deliver significant titlings in 2011. These pre-sales have resulted in titling in early 2012 and up to today subsidies continue to be available in our target markets, leading us to believe that our first quarter 2012 performance in this segment should be much better.

In addition during the fourth quarter of 2011, Javer reported major achievements in the Company's Queretaro and State of Mexico developments. At Queretaro, Javer titled its first units and reached a total of 296 units titled, a full quarter ahead of schedule, with better pricing, and thus, margins. The Company expects to begin titling Javer's State of Mexico units later this year.

In terms of the Company's land reserves, Javer made major strides in 4Q11. The Company strengthened its land reserve position by 19,298 lots in strategic locations mostly through the use of land trust agreements which have been traditionally used to align land payments to home titling, minimizing working capital requirements, while maximizing returns on invested capital. It is worth noting that Javer signed the largest land trust agreement in the history of the company in a 340ha plot in the State of Nuevo Leon with 18,000 life cycle units in a complementary geographic position.

In terms of mortgage sourcing, Javer, as historically has been the case, remained weighted on Infonavit with 89.4%. The Company continued to see Sofoles and private sources decline their participation levels due to further tightening of underwriting standards.

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.

We are also pleased to inform you that a few weeks ago we received, once again, an award from Infonavit for being the 4th largest provider of homes in the system just shy of 3rd place by less than 3,000 homes. This is our fourth year placing amongst the top 5 companies in this category. This once again is a true testament of our focus and dedication in serving what we believe to be our core market segment with excellence and consistency.

Before I pass the call to Eugenio, I would first like to touch upon the Company's expectations for 2012. Javer expects to maintain its current titling pace to reach the Company's target of 19-21 thousand homes titled. Javer 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 Mr. Eugenio Garza, JAVER's Chief Financial Officer for a review of Javer's financial performance for the period.

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

Javer reported fourth quarter net revenues of Ps. 1,590.8 million pesos, down 24.3% when compared to 4Q10. As Roberto mentioned before, this decline was the result of difficult comps given that 4Q10 had an unusually high number of homes titled as Javer not only titled the regular volume of units at the Company's developments, but also reported a high number titling from of presales from earlier during the year, which were not titleable, and therefore not reflected in the Company results, until the fourth quarter. It is worth noting that the middle income segment posted an 83.6% increase in revenues; however, the low income and residential segment revenues were down 58.3% and 73.2%, respectively due to the Company's margin substitution strategies favoring middle income over low income, given the lack of subsidies in the Company's territories, which led to pricing pressures in the low income segment of the business.

During 2011, Javer titled 1.7% more homes than 2010, to reach 16,339 homes titled. This resulted in Javer reporting 2011 net revenues of Ps. 4.7 billion, flat compared to 2010.

Moving now to the Company's gross margin, Javer's fourth quarter gross margin was 33.3%, a 4.4% improvement compared to the comparable period in 2010. For 2011, the Company reported a gross margin of 31.2%, up from the 29.3% reported in 2010.

In terms of SG&A, this line item increased 8.0% in the fourth quarter to Ps. 158.0 million, as a result of increased fixed costs related to the expected increase in sales volume in 2011. For the full year period, SG&A was 15.5% higher as the Company reported increased staffing levels, higher commissions and increased fixed expenses compared to 2010.

EBITDA declined 16.6% during the quarter to Ps. 393.8 million from Ps. 472.3 million reported in 4Q10. For the full-year period, EBITDA rose 2.7% to Ps. 902.2 million from Ps. 878.7 million in 2010.

Fourth quarter 2011 EBITDA margin was up 2.3 percentage points compared to fourth quarter 2010, while in 2011, EBITDA margin increased 0.3 percentage points to 19.1%. Both increases were due to the previously explained increase in gross margin, partially offset by increased SG&A expenses.

The net comprehensive financing result rose 47% to Ps. 266.4 million in the fourth quarter while for the full-year 2011 period, the net comprehensive financing result increased 73% to Ps. 739.1 million mainly due to the depreciation of the peso, which led a Ps. 379.1 million non-cash charge related to Javer's U.S. dollar denominated debt.

Javer's net loss was Ps. (7.4) million in fourth quarter 2011 down from net income of Ps. 78.9 million reported in fourth quarter 2010. For the full year 2011 period, net income declined 116.7% to a loss of Ps. (19.6) million.

Moving to the Company's balance sheet, as well as other important operating and financial metrics, as of December 31, 2011 Javer reported an increase in the Company's working capital cycle from 347 days in 2010 to 401 days in 2011. This was the direct result of a higher number of homes currently under construction in anticipation of greater subsidy availability in 2012, in addition to the decline in sales reported in 4Q11 compared to 4Q10.

In terms of cash flow generation, during fourth quarter 2011, Javer was free cash flow positive, reporting Ps. 76.5 million pesos in free cash flow.

The Company's development pipeline is strongly positioned for 2012, with 6,473 home starts in the fourth quarter, which was a significant 207% increase compared to the same period in 2010. This increase reflects the increase in construction activity, especially in Javer's Jalisco developments. 2011 home starts totaled 2011 21,346, an 18.97% rise. As further proof of the strength of Javer's position as the Company enters 2012, the finished home inventory rose 68.8% to 2,557 units in fourth quarter 2011 from the 1,515 units reported in the third quarter. This was a direct result of an increased number of home completions targeted for subsidy sales in early 2012.

As mentioned on previous conference calls, Javer manages the Company's development pipeline to closely track titling levels in order to maintain an efficient working capital cycle, thus achieving better returns on invested capital.

At the close of December, Javer possessed credit facility lines in excess of Ps. 1,246.1 million. Javer maintained derivative positions to hedge 100% of the Company's currency exposure related to the first five years of 2021 High Yield Bond coupons and 100% of the coupons related to the remaining principal amount of the 2014 Notes.

In addition, as of December 31, 2011, the Company possessed US$ 36.5 million in available credit lines from derivative counterparties to finance any potential negative carrying values of the Company's derivative contracts.

In terms of financial ratios, as of December 31, 2011, Total Debt / LTM EBITDA was 3.42, while EBITDA interest coverage totaled 3.02x.

With regards to guidance for 2012, As Roberto mentioned, for the year we expect to focus on delivering an absolute level of EBITDA of approximately 1.0 to 1.1 billion pesos on sales of 19,000 to 21,000 homes. We will steer through the year within these volume targets altering our product mix depending on subsidy availability. We should be able to maintain this performance with neutral free cash flow for the entire year. We continue to strive to adjust our business investment, home starts and pricing decisions as the market changes to maintain our best in class returns on invested capital and our conservative capital structure and free cash flow profile.

This concludes my portion of the presentation. Thanks again for your attention. We can now proceed to Q&A. Operator, please go ahead…

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please pres star then the number 1 on your telephone keypad. Your first question is from the line of ________ with ________.

Q&A SESSION…..

Operator: There are no further questions at this time. I'll now turn the floor back to Mr. Roberto Russildi for any closing remarks.

Roberto Russildi: I want to thank you all for you time today and for your interest in Javer. Please don't hesitate to contact Eugenio or I should you have any further questions or concerns. Otherwise, we look forward to speaking with you again in the coming months. Thank you.

Operator: Thank you all for joining today's JAVER conference call. You may now disconnect.