October 23, 2020
10:00AM

Operator: Good morning everyone, welcome to Javer's 3Q20 Results Conference Call. Joining us today are Mr. René Martínez, CEO of Javer, Mr. Felipe Loera, CFO, and Ms. Verónica Lozano, Planning and Investor Relations Director.

I would like to remind you that a presentation via webcast is available for this call. The link can be found in the results report for the third quarter of 2020 or in the invitation to this conference. Additionally, this call will be recorded and will be available to be heard in the Company's investor relations site: www.javer.com.mx

We will start this conference by listening to the CEO of Javer, René Martínez, who will provide us with an update on the status of the business and the specific results recorded in the quarter. A questions and answers session will follow.

Before turning the call to Mr. Martínez, it is important to mention that the information discussed in this call may include forward-looking statements and projections of the Company's performance, which are inherently subject to risks and uncertainty.

In this regard, Javer assumes no express obligation to publicly update or modify statements about future or recent events based on new information or other factors.

Without further ado, I give turn the call over to Mr. René Martínez, please go ahead.

René Martínez: Thank you operator. Good morning everyone, and welcome to the third quarter results conference call. Following the gradual reopening of productive activities across the country, our operations have been moving towards normalized levels, just as reflected in the 14.4% sequential increase in units sold, 15.5% in revenues and 15.6% in EBITDA.

Nonetheless, we must mention that the finished home inventory has not reached the pre-COVID levels needed in order to satisfy the demand, but also the obtention of permits has been more difficult than usual given the suspension and the reduction of working hours at government offices, in addition, we have observed a slower recovery to reach the labor force needed.

On the other hand, our commercial efforts in the digital sales channel continued to be a key element of our operations during the pandemic, representing 60% of the total units sold during the quarter, as our customers prefer as well to reach us through such channel.

Following the cost reduction and optimization of expenses measures, as well as the rigorous management of capital investments which we have adopted since the beginning of the pandemic, we agreed with our creditors the deferral of the interest payment corresponding to the May-August period corresponding to Ps. $102 million, favoring the liquidity and reassuring the normalcy of the operation.

Now, please, go to **slide #3** of the presentation to begin with the analysis of the main indicators for the quarter.

The number of units sold went from 4,206 units in the third quarter of 2019 to 3,668 units during this quarter, representing a decrease of 12.8% due to the lag in finished home inventory I mentioned previously.

Nonetheless, we continue moving forward in the consolidation of a better product mix, since the participation of the middle-income and residential segments in units sold went from 87.7% in the third quarter of 2019 to 98.3% in this quarter, meaning a 10.6 percentage points increase.

During the first nine months of 2020 units sold increased to 10,245, 10.6% less than the same period of 2019, with a participation of 96.9% of the units in the middle-income and residential segments, meaning an 8.9 percentage points more in comparison with 9M19.

Now, moving on towards **slide #4**, please.

During the quarter, revenues totaled Ps. $1,888 million, decreasing only 2.3% in comparison with the registered figure during the third quarter of 2019, the effect of a lower volume was offset by a better product mix, which resulted in an increased average price. Revenues moved forward a 15.5% during the third quarter of 2020 in comparison with the previous quarter.

The 99.0% of the revenues during the period were originated from the shift in middle-income and residential housing, representing an increase of 6.6 percentage points towards the 92.4% obtained during the third quarter 2019.

Similarly, the revenues for the first nine months of 2020 represented a mild recoil of 3.5%, going from $5,351 million pesos in the same period of 2019 to Ps. $5,161 million.

Moving forward to **slide #5**, to talk about Javer´s operational performance.

In the third quarter of 2020 the gross margin was of 27.4%, 0.2 percentage points more than the figure registered during the same period last year, benefited from the implemented cost reduction initiatives. In the accumulative figure for the year, the gross margin represented an increase of 0.3 percentage points, to 27.5%.

Benefited by the same effects previously mentioned, the average sales price during the third quarter of 2020 increased 12.1% going from Ps. $459 thousand in the third quarter of 2019 to Ps. $514 thousand.

The average sales price for the first nine months of 2020 rose to Ps. $503 thousand, increasing 8.0% in comparison with the same period of 2019.

Regarding SG&A expenses, they decreased 15.5% during the quarter, derived from the fixed expenses reduction measures implemented since April in order to mitigate the effects caused by the health contingency. Likewise, in the first nine months of the year the SG&A expenses were reduced by 10.2% in comparison with the same period of 2019.

For the above, the ratio of expenses to sales went from 15.5% during the third quarter of 2019 to 13.4% this quarter, a decrease of 2.1 percentage points. During the first nine months of 2020 such ratio was of 15.8%, representing a decrease of 1.2 percentage points.

As for EBITDA, it increased to Ps. $289 million in the third quarter of 2020, 14.2% more than the figure registered in the same period of 2019, as the decrease in revenues was more than offset by the benefits of an increased product mix, SG&A reductions and greater cost efficiencies.

During the first nine months of 2020, EBITDA grew 9.7%, reaching Ps. $685 million. It should be noted that EBITDA has increased for the last four consecutive quarters compared to their comparison with the same period of the previous year.

Due to this, EBITDA margin went from 13.1% in 3Q19 to 15.3% in this quarter, increasing 2.2 percentage points; while the accumulated figure for the year was 13.3%, 1.6 percentage points above the obtained during the same period of 2019.

Please go to **slide #6.**

The working capital cycle increased 21 days going from 308 days at the end of the third quarter of 2019 to 329 days at the end of this quarter, mainly due to the investment made in 2 projects in the State of Mexico, for which permits were delayed at the end of 2019. One of them started operations at the end of 3Q20.

However, the increase compared the 2019 period, we managed to obtain the same level of the two previous quarters, placing the working capital cycle below the one-year mark.

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During the third quarter of 2020, the free cash flow was positive in Ps.$236 million, while in the same period of 2019 was negative in Ps.$21 million, as a result of the increase in EBITDA, as well as cash preservation efforts, in which stands out the deferral of the interest payment corresponding to Ps.$102 million pesos and the deferement in investments in land reserves, which will decelerate the growth inertia we had during the last consecutive four quarters.

In the same dynamic, the free cash flow during the first nine months of 2020 increased to Ps.$267 million, compared to the negative Ps.$14 million during the same period of last year.

Please, turn to **slide #8** to discuss leverage levels.

As of September 30, 2020, Total Debt reached Ps.$3,293 million. On the other hand, Net Debt was of Ps.$2,565 million at the end of the period.

Regarding the leverage indicators, Total Debt to LTM EBITDA reached 3.27 times and Net Debt to EBITDA was 2.53 times, being in total compliance with the covenants established in the syndicated loan contract.

Moving forward to **slide #9** to share our perspectives for the sector and the Company for the following periods.

Last October 7th, an initiative from the Federal Executive was presented to theHouse of Representatives, searching to reform the INFONAVIT and FOVISSSTE laws. In general, these modifications would allow workers to request mortgages in order to obtain land for the construction or self-construction of housing and even to refinance other mortgages.

Furthermore, this would open mortgages to independent workers or those who are currently inactive but were once affiliated with INFONAVIT. It will even allow to the right owners of INFONAVIT and FOVISSSTE to obtain further financing without the need to co-participate with

commercial banking, if they have liquidated the previous credit. Similarly, highlights that workers would have the right to receive directly such resources by the aforementioned institutions.

On October 27th, the House of Representatives will have a discussion and possible approval of these reforms. Afterwards, the INFONAVIT Board would need to publish the rules for these reforms, which we will be paying close attention to the process.

Now, let´s go to **slide #10**

It's important to also comment that INFONAVIT continues releasing programs with the objective of incentivizing the request of new credits and supporting all its affiliates, recently it announced that during the following month a new scheme, called "buy now, pay later", will allow to start paying for a credit after four months of starting the contract.

INFONAVIT is also developing an initiative that they plan to release in2021, in which they want to offer credits at lower rates and shorter terms, which would benefit all workers and our industry as well.

Regarding the results guidance for the closure of the year, we expect an increase in EBITDA between 5% to 7% and a positive free cash flow, this due to all the measures implemented to preserve cash and liquidity, considering current demand conditions. Nonetheless, this could vary in the scenario in which new COVID cases would start increasing in the states where we operate.

Moving forward to **slide #11**, this in order to mention other aspects regarding our social responsibility program.

Since the beginning of the sanitary emergency, we carried out all needed adjustments in order to give continuity to all our programs. All activities in the community centers were switched to online mode, benefiting over 10,000 residents. Furthermore, to support our communities, we developed the "Conectemos a la educación" program, for students who require a WIFI connection or a computer to do their homework or take online classes at our community centers.

On the other hand, throughout the quarter, we carried out 3 reforestations, flora preservation and rescue campaigns, and continued with our native tree germination program. We launched the third edition of the Javer Sustainability Prize virtually, gathering students form 12 universities, with a focus on social issues this time.

Finally, let's move on to **slide #12.**

In addition to the 6 projects we opened during the first half of the year, this quarter we started with the sales in Jardines de Girasoles, belonging to the middle-income segment, which will have 1,648 units available for sale in the State of Mexico. Likewise, we added this project to the Infonavit's *Hipoteca con Servicios* program, which now totals 32 projects nationwide.

With this I conclude my comments. Thank you for your attention.

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