



## **SCRIPT**

### **Third Quarter 2011 Results**

#### **Operator**

**Good morning and welcome to URBI's third quarter results conference call. With us this morning, we have URBI's chairman and CEO Cuauhtémoc Perez, URBI's CFO Selene Avalos and URBI's IRO Antonio Jorge, who will discuss the financial performance of the company for the year, give you a summary of the latest news of the company and answer any question that you might have.**

**"Certain statements contain forward-looking statements about the Company's future financial position and results of operations; its strategy, plans, objectives, goals and targets; future developments in the markets where it participates or intends to participate; and other pieces of information that are not historical facts. These forward-looking statements are based on numerous assumptions, plans, intentions and expectations of the Company's management, and involve known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control. They shall not be interpreted based on past trends and activities, as if they will continue in the future. Such forward-looking statements speak only as of the date of this conference call".**

**Now, I will pass the call on to Cuauhtemoc Perez**

## **Cuauhtemoc Perez**

Good morning and thank you all for being here today to discuss Urbi's performance for the first nine months of the year.

As you have probably read, Urbi had solid operating results during the year with revenue, ebitda and net income grow of 13%, 7% and 53% respectively; which shows strong progress on the achievement of the goals for the year.

This quarter Urbi's management took some decisions that have a temporary effect on our forecast to deliver free cash flow, as we have chosen to use the operating cash flow to make additional investments to consolidate our business plan for the next 5 years.

### **(PAUSE)**

It is important to understand the context of this decision. One of the most important tasks of the management team is to MAKE DECISIONS and to COMMUNICATE THEM; but probably the most difficult one is to decide whether to take action or not to take it.

NOT TAKING ACTION is a reasonable decision in a context of global financial crisis; NOT TAKING ACTION is to see the THREAT that the GLOBAL FINANCIAL CRISIS represents; threats that have created a wrong perception about the Housing Industry in Mexico.

NOT TAKING ACTION means to slow down investments and growth, and thus generate free cash flow; wait until the crisis is over and then look for business opportunities... this is an option.

TO TAKE ACTION, prudently but with strength, is another option in the context of a global crisis. To take action is to see beyond the threat, the opportunities. It is to recognize that the reality is that the industry is entering a new stage of sustainable growth. And today, in the middle of the crisis, is the moment to accelerate investments and innovations.

This is the ONLY way that the new leadership positions are obtained and maintained in an industry.

We have decided to take action, I repeat... prudently but with strength.

Before telling you how and what we are planning to do... I would like to tell you first **why we are doing it.**

We are convinced that the 6.7 million families that bought a home over the past decade represented the emerging middle class. Today, there are 20 million workers that might become homebuyers over the next 20 years.

However, the difference is that these families need help to resolve their basic needs and, as a result, improve their quality of life. The good

news for these families is that our vertical homes in our sustainable communities offer them an affordable solution to solve their real needs.

**How are we doing it?** Through 3 strategies:

- 1) Significantly innovating in the quality of the design and the cost of our vertical products.
- 2) Developing initiatives and services to implement new and better rules to live in a sustainable community
- 3) Investing, under well delimited risks:
  - a. in construction in progress for vertical housing,
  - b. in infrastructure and urbanization for re-densification,
  - c. in the urban equipment and services to create sustainable communities,
  - d. in the integration of financially stressed HPPs to increase our geographical presence,
  - e. in the development of the housing related activities business line and, finally,
  - f. in our operating with strategic allies like Aureos to attend workers nonaffiliated to Infonavit or Fovissste.

**4) What are we achieving?** An affordable innovative solution for our clients in the lowest income segments, for both affiliated and nonaffiliated workers; with more economic, bigger and better equipped vertical homes. In communities capable of connecting the needs and skills among neighbors to work, learn and play. And we are doing it in a profitable way. **Once it is fully**

implemented, this solution will become the most important contributor to the company's free cash flow.

### **Why now?**

- Because as Mr. Cano, Conavi's CEO, highlighted in its 3Q11 call, there have been significant developments which reinforce our view of the industry's successful transition into a new stage of sustainable growth.
- Because the challenge for the industry is not in housing demand, subsidies or mortgage availability but in the fact that there is enough homes ready for delivery equivalent to only 4 months of sales.
- Because we have prepared ourselves during a long time for this moment; and the housing initiatives that we have supported have now become public policies.
- And because, as a result of 3 years of our prudence and liquidity strategy, now we have the financial resources necessary to accelerate the investments that will allow us consolidate an irresistible offer for a huge market that has not been properly attended.

**And what will the benefits be for Urbi and its investors?** to double the size of our company in 5 years, improving our return on equity and

most importantly, move into a business cycle of growing and sustainable free cash flow.

**What do these decisions mean for our goals in 2011?** It means ratifying our operating goals and modifying our fcf estimate from MX\$500 million positive to MX\$800 million negative for the full year.

In summary, after the most recent developments, we have reached the conclusion that the current combination of industry fundamentals, new public policies and incentives, and economic environment present TODAY a blend of conditions attractive enough to TAKE ACTION... reason why we have decided to use our operating cash flow to capture these opportunities now.

## **(PAUSE)**

As you heard at Conavi's call last week, over the past 3 months there has been significant progress on the industry's transition into a new stage of sustainable growth.

I would like to highlight the following 4 incentives:

- 1) A 70% increase in the budget of subsidies for 2012 versus 2011, which will allow us to attend almost twice as many families.
  - ◆ This budget includes a scoring system based on the location, densification, equipment and competitiveness

of each project, which implies that the more committed a housing developer is to sustainability, the more and larger subsidies it can secure for its clients.

- ◆ On this sense, I would like to highlight that Urbi has the lowest Average Home Price in the industry and its commitment to sustainability has allowed it to have a **preliminary** ranking of all its projects in the top two tiers of the scoring system, which underscores our expertise on both low income and sustainable housing, guaranteeing ongoing access to the subsidies for our clients.

2) A new program for the MASS attention of workers nonaffiliated to Infonavit or Fovissste, which represents 5.8 million of today's housing deficit, was launched in September.

Over 35% of the subsidies in 2012 will be targeted to this population

- ◆ Thanks to our 8 years of expertise operating the Alternativa Urbi program and our alliance with Aureos Capital among others, Urbi is uniquely prepared to take advantage of this new initiative.

- 3) There are more incentives for the development of vertical housing, among which is up to 23% higher mortgage value for clients and priority for subsidies and mortgages.
- ◆ To capture these opportunities, we have been using UrbiNova over the past 5 years. Our proprietary construction technology for low-income vertical housing has evolved and provides additional flexibility for the customization of the homes and for the urbanization of the land allowing us to deliver bigger and superior homes with better equipment, furniture, community services and green areas even in the metropolitan areas; granting us the expertise and know-how needed to capture the benefits and incentives created for vertical housing.
- 4) The government has proposed a 60% increase in the budget of subsidies for DUIS in 2012. There is also progress on the implementation of an inter-secretarial commission that will strengthen the basket of incentives and allow for a faster and more efficient certification process of the projects.
- ◆ Over the past 8 years, Urbi has been the industry's leader on sustainability, as the 1st DUIS certified project in Mexico was Valle San Pedro, an Urbi project in Tijuana. Urbi has 6 additional projects on the pipeline to be certified.

## (PAUSE)

- These are great opportunities that TODAY are enlarged by the fact that the volume of homes ready for delivery is equivalent to ONLY 4 months of sales, which highlights that the industry's challenge is NOT housing demand or mortgage availability, but the ability of small and medium size HBs to adapt to the industry's increasing sophistication and to access construction financing on good terms and conditions.

1) Our more than 4 years' experience with the CLM scheme is granting us with an excellent opportunity to structure a win/win dialogue with small and medium size HBs who can understand the added-value of becoming an integral part of Urbi and benefit from our technology, know-how and financial strength to operate successfully on today's industry; while Urbi can benefit from their knowledge of the local market, management skills and business network

- This vision and our strong liquidity have allowed us to integrate 11 HPPs over the past 1½ years; which represents volumes of more than 28k units that will be delivered over the next 3 years.

- During this transition period, new business opportunities have arisen, and Urbi is capturing them through its housing related activities business line, which already represents over 16% of our revenues

- 1) These are... land sales for industrial and commercial purposes in macro-projects, sale of housing equipment and furniture, casa capital plus and other services

**(PAUSE)**

It is important to remark that the transition into the new stage of sustainable growth is requiring considerable innovation and investment in time and resources that COULD only be done by:

1. Companies with talented people and solid track record in innovation
2. Companies with strong operating cash flow and access to adequate debt

Urbi has been doing these investments since 2007 so we are uniquely positioned to take advantage of the new business opportunities... reason why we decided to use our operating cash flow to capture these opportunities now. With the belief that once we have completed this transition to verticality and re-densification, Urbi's working capital will stabilize and the solution will become a growing and sustainable cash flow generation.

But the most important thing is that this affordable integrated solution is allowing to create an IRRESISTIBLE OFFER for our clients.

Let me conclude by mentioning that Urbi has successfully overcome the financial crisis of 82, 86 and 94, and there are basically 2 lessons that we have learned:

- 1) Housing is a resilient sector that supports the internal markets, and
- 2) In the words of Mr. Warren Buffet... be fearful when other are greedy, be greedy when others are fearful.

On this context, we would like to ratify Urbi's guidance of revenue growth 12-14% and ebitda margin of 27%; and we modify FCFE expectations to minus (MX\$800) million for 2011.

We also ratify our guidance for the next 5 years of average revenue growth of 13-15%, ebitda margin of 27% and a growing and sustainable positive fcf of up to MX\$1bn by the end of this period.

Thanks for listening and now I will pass the call on to Selene.



**Selene Avalos:**

Thanks Cuauhtémoc and good morning everyone.

As you probably have read, Urbi's operating results are mostly in line with our guidance. As Cuauhtemoc mentioned, during 3Q11 the management team took the strategic decision to increase its level of investment in construction in progress for vertical housing, infrastructure and urbanization for re-densification, and other assets to take advantage of the new opportunities, incentives and policies available for the industry and strengthen Urbi's business plan for the next 5 years. We also made some investments in the integration of 2 additional housing projects in progress.

As a result of the management's decision to use the company's cash flow generation during this quarter to take advantage of these opportunities, Urbi now expects its FCFE to be negative on around MX\$800 million for the full year; which implies a positive FCFE generation for 4Q11 on around MX\$1.2bn.

Investments made today are investments that we will not have to do in the future.

These investments will allow us to accelerate the transition period and move faster into the cycle of positive and sustainable free cash flow generation.

## **(PAUSE)**

After 3 years of the successful implementation of our strategy of prudence and liquidity, Urbi has the liquidity, balance and efficiencies that allows us to capture these opportunities

Let me give you some numbers of the benefits of this decision:

- Urbi has today over 5,751 hectares of land that at a current average density of 54 units per hectare represents enough for the development of over 300k units.
- Without considering the 1,000 hectares of strategic land in macro-projects for commercial, industrial and housing purposes
- UrbiNova's new housing design allows us an average density of over 100 homes per hectare; which would mean that our land bank would have capacity for over 600k units, twice as many!
- If we consider between 12-15% of revenues coming from Housing Related Activities, to double our revenues in 5 years, Urbi would only need approximately 260k units
- Which means that by increasing housing density to only an average of 80 units per hectare
- We could transfer additional benefits to our clients through bigger and more affordable homes in high quality sustainable communities

- What will allow us to enter a new business cycle of growing and sustainable positive cash flow generation over the next 5 years, which is supported by:
  - a. Our ability to sell part of the excess land and obtain at least an additional MX\$900 million of cash flow
  - b. The reduction in housing construction, infrastructure and urbanization costs by an additional MX\$800 million
  - c. And the reduction on future land purchases by around MX\$1bn...which would bring an additional cash flow of over MX\$2.7bn in 5 years.
  
- Therefore, maintaining Urbi's debt level at around MX\$13.5bn,
- We will achieve to double the size of our company in 5 years and deliver growing positive free cash flow of up to MX\$1bn per year by the 5<sup>th</sup> year.

**(PAUSE)**

These are great news! As Urbi has been preparing itself for this new stage of sustainable growth over the past few years, and we have anticipated investments that position us as the only HB with enough assets to successfully execute its business plan without additional significant investments.

The effectiveness of some of these decisions are already reflected in Urbi's ROE which has been increasing consistently during the year to achieve 14.1% this quarter, in line with the goals for the year.

**(PAUSE)**

And now, I would talk about the most relevant aspects of the 3Q11.

Urbi had a good quarter; we grew homes sold and titled by 15.4% and revenues by 8.0%. The accumulated revenue growth for the year is 12.7%, in the mid-range of the goals for the year.

The Ebitda margin was 26.1%, 259 bps lower than in 3Q10, which reflects a lower level of amortization of pre-operating costs which -due to the application of the IFRS- are registered as Sales & Administrative Expenses since the end of 2010. It also reflects a higher level of affordable housing in the product mix for the quarter which has a lower average gross margin.

**(PAUSE)**

During the quarter, the comprehensive cost of financing was positive on MX\$424.2 million; mainly due to an increase in the net interest income of MX\$235.5 million, as a result of higher interest income and lower non-qualified D-6 financial expenses, a foreign exchange gain of MX\$25.5 million and a non-cash gain of MX\$222.8 million related to Urbi's US\$ denominated debt financial hedging instruments valuation.

In line with our estimates for 2011, income taxes increased by 98.1%; reflecting the increase in the pre-tax income and higher expected tax rate due to the gradual reduction of the deferred taxes in our balance.

As a result, the Net margin for the quarter was 19.2%; without taking into consideration the financial hedging instruments effect, the company's net margin for the quarter would have been 15.9%.

Our ability to deliver the industry's highest operating margins even with an increasing focus on low income housing remains as one of Urbi's strongest competitive advantages; which highlights the efficiencies of our business model and the higher profitability obtained from having the most diversified product portfolio and sales schemes in the industry.

## **(PAUSE)**

Urbi's housing development business line represented 81.2% of revenues, with 90.5% coming from affordable and low-middle income housing.

The breakdown of volume sales per mortgage provider in 3Q11 was 67.3% from Infonavit, 8.3% from Fovissste and the remaining 6.0% from Commercial banks, SHF and other sources. Of the total, Alternativa Urbi represented 18.5%.

Urbi's housing related activities represented 18.8% of revenues; with 78.8% coming from commercial land sales and macro-projects, 9.0% from Casa Capital Plus and the remaining 12.2% coming from housing equipment and furniture, and services.

**(PAUSE)**

Moving on to the balance, Urbi finished the quarter with MX\$6,931.3 million in cash, a strong liquidity position that continues to represent one of the pillars of our strategy for 2011, as it provides us with the flexibility to capitalize from the opportunities available in today's market conditions.

Urbi's A/Rs for the quarter were as follows:

- The A/Rs type 1 increased by MX\$164.4 million versus 2Q11; due to a small increase of receivables from Fovissste, as it has been the constant during most of 2011. We estimate that the company will maintain this level of revolving receivables the next 2 quarters.
- The A/Rs type 2 related to Alternativa Urbi decreased by MX\$144.4 million. We expect to finish the year with a stable level of MX\$2.5bn of A/R.
- The A/Rs type 3 related with the housing related activities business line increased by MX\$423.6 million; mostly as a result

of an increase in land sales that were not collected during the quarter. We expect to finish the year at the same level.

All combined, accounts receivable were MX\$7,691.2 million which represented 170 days, an increase of 6 days versus 2Q11.

Based on the current levels of A/Rs and the progress of each type of receivable during October, we NOW expect accounts receivable days level to finish the year at around 160 days, practically at the same levels as today.

## **(PAUSE)**

In regards to our inventory line, the company recognizes 3 different types of operations according to their nature:

- The inventories type 1 related with Alternativa Urbi increased by MX\$97.1 million vs. 2Q11.
- The inventories Type 2 related with work in progress and urbanized land increased by MX\$511.2 million as we increase the level of construction in preparation for vertical housing.
- The inventories Type 3 related with land reserves and others increased by MX\$1,171.5 million, mostly as a result of the acquisition of additional land for vertical housing in metropolitan areas, investments made in infrastructure, urbanization and land densification work. It also reflects the

investments in Housing Projects in Progress during this quarter.

- It's important to mention that during this quarter, Urbi decided to complete the purchase of some lots of land that had previously been secured under option schemes. As we prepare to obtain the permits and authorizations for the densification of the land from the local authorities for the 2012 business plan, it is requisite that Urbi had full ownership of the land.

Thus, without considering the land bank, Urbi's working capital days were 338 days, 17 days lower than in 2Q11.

### **(PAUSE)**

As per our liabilities, the company's level of debt is MX\$14,046.4 million, MX\$1,585.7 million higher than in 2Q11.

This level of debt reflects an increase of only MX\$398.7 million in new debt, and an increase of MX\$1,187.1 million from the fluctuation of the US\$ denominated debt versus 2Q11.

The current level of debt is transitory as it reflects a temporary increase resulting from a prefunding exercise for the liability management of Urbi's debt.

Urbi's target of Gross Debt /Ebitda remains at 2.5-2.7x for December 2011 without considering the increases in the value of the US\$ debt resulting from exchange rate fluctuations, as the US\$ debt is covered by financial hedging instruments.

It is important to mention, that Urbi has MX\$1,961.7 million of short-term that matures by the end of 2011. All of that debt already has some sort of debt instrument or credit line available at maturity to refinance it. In addition, it is worth mentioning that Urbi's current cash level cover the short term debt maturing in 2011 more than 2 times.

The company will continue evaluating options to optimize its debt structure in terms of cost and maturity.

**(PAUSE)**

To conclude let me mention that we are excited about this new industry outlook. Over the past few years, we took the right decisions to prepare ourselves in line with our strategy of prudence and liquidity, which allowed us to achieve remarkable progress in operating efficiencies, strategic investments and cash and financial strengthening of our balance, reaching an outstanding position to capture opportunities in this new industry stage.

To finish up, let me ratify our guidance for revenue growth estimate of between 12-14% for 2011. Additionally, we are expecting to maintain our Ebitda margin at between 27.0-27.5%, and achieve positive FCFE

during the 4Q11 which will partially offset the use of resources made until the 3Q of the year.

We ratify our guidance of revenue growth of between 13-15%, ebitda margin at around 27% over the next 5 years; and we increase our guidance for fcf generation to up to MX\$1bn by the end of that period.

Last but not least, I am glad to invite you all to participate to this year's UrbiDay on November 22<sup>nd</sup> in Mexico City, when we expect to discuss our strategy in more detail.

With this, we conclude the description of our financial and operating performance and move on to the question and answer session.