

Operator: Good morning. Welcome to the TOTVS conference call to discuss the results of the first quarter of 2016. We have with us Laércio Cosentino, CEO and Gilsomar Maia, CFO and IRO.

Note that all participants will be on listen-only mode during the presentation. After that, we will have a question and answer session for investors and analysts when further instructions will be given. If anyone needs assistance during the call, please press *0 to reach the operator.

The audio is being simultaneously webcast at ir.totvs.com

Before proceeding, we wish to clarify that any forward-looking statements that may be made during the conference call, related to business outlook, operational and financial projections and targets of TOTVS are based on beliefs and assumptions of the Company's management as well as information currently available. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and, therefore, depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions and other operational factors could affect the future performance of TOTVS and could lead to results that differ materially from those mentioned in these forward-looking statements.

Now, I will turn the call over to Mr. Cosentino, who will begin the presentation. Mr. Cosentino, please go ahead.

Laércio Cosentino: Good morning everyone. Thank you for attending the Company's earnings conference call regarding the first quarter of 2016.

I wish to kick off with the main recent events, shown on **slide 3**.

On February 15, 2016, the São Paulo IT Companies Association and the IT employee's union signed a collective bargaining agreement that fixed a 10.7% wage increase, of which 8.5% with effect from January 1st, 2016, and 2.2% with effect from November 1st, 2016. Note that São Paulo represents about 43% of TOTVS' total payroll.

On April 26, 2016, the Annual Shareholders Meeting approved the distribution of dividends in the amount of roughly R\$66.6 million, equivalent to R\$0.40 per share, for the fiscal year of 2015, to be paid on May 11th, 2016. This dividend amount, added to interest on equity paid on August 19th, 2015 and January 13th, 2016, corresponds to 65% of 2015's net income.

The same shareholders meeting also approved the composition of the board of directors, consisting of nine members, including eight independent members, with mandate up to the annual general meeting of 2018. In addition to myself, Pedro Passos, Germán Quiroga, Pedro Moreira Salles, Maria Helena Santana, Sérgio Földes, Danilo

Ferreira da Silva and Wolney Betiol were reelected, and Mauro Rodrigues da Cunha was elected to the board.

At the first board meeting after the shareholders meeting, Pedro Passos and Germán Quiroga were re-elected chairman and vice-chairman, respectively, and also were indicated the board members who will be part of the Company's committees. For the Personnel and Compensation Committee, Pedro Moreira Salles and me, as CEO of TOTVS. For the Audit Committee, Maria Helena, Danilo Ferreira and Mauro Rodrigues da Cunha. And for the Strategy and Technology Committee, Germán Quiroga, Wolney Betiol and me.

I now turn the floor to Maia for his comments on the results of the quarter, starting from **slide 4**.

Gilsomar Maia: Thank you Laércio. Good morning everyone.

The consolidated results of 1Q16 presented in the Quarterly Information report include Bematech's results for the period. In order to preserve comparability, we have presented the pro forma unaudited consolidated results that combine the results of TOTVS and Bematech corresponding to three-month period for 1Q15 and 4Q15.

Total revenue in the quarter declined 1.0% year on year and 3.5% quarter on quarter, mainly due to the non-recurring revenue decrease of 12.9% year on year and 12.2% quarter on quarter, as shown in the chart on the left. In contrast, recurring revenue grew 8.7% year on year and 3.1% quarter on quarter.

This behavior of recurring and non-recurring revenues led the share of recurring revenues to 60.6% of total revenue in 1Q16, which is 5.4 percentage points above the 1Q15.

When analyzed by business, the chart on the right, software revenue increased its share of total revenue to 64.4% in the quarter, mainly due to: (i) the decrease in the share of hardware revenue in the period, which corresponded to 10% of total revenue in 1Q16; and (ii) the growth in software recurring revenues, as shown on **slide 5**.

As shown in the chart on the left, software revenues maintained their performance of previous quarters, that is, growth in recurring revenue from subscription and drop in the share of non-recurring revenues from license fees.

Subscription revenue grew 16.3% year on year and, and for the first time, exceeded the quarterly license revenue, even the latter having incremental license from the corporate model in the quarter.

The growth in subscription revenue was due to the higher share of sales to new small and medium clients, especially under the TOTVS Intera model, which also helped to increase the average new monthly subscription of the quarter.

Maintenance revenue grew 5.6% year on year, despite the lower volume of license sales in the previous periods and the higher volume of partial maintenance cancellation due to the economic crisis.

Together, subscription and maintenance revenues offset the license fee fall and led the recurrence of software revenue to 85.5% in 1Q16, which is 6.2 percentage points above 1Q15.

In the chart on the right side, we see that the software contribution margin fell 2.5 percentage points year on year, mainly due to license fee fall and the mismatch between the inflation passed in maintenance revenue, measured by IGP-M, and the cost inflation for the period.

In the quarter on quarter comparison, the contribution margin grew 3.2 percentage points, despite the 8.5% wage increase in São Paulo, with effect from January 1st.

This margin growth is mainly due to the reduction of recurring labor costs as a result of the restructuring promoted by the Company during the second half of 2015.

In the chart on the left side of **slide 6**, license fee revenue fall 30.2% year on year and totaled R\$51.5 million in 1Q16. The drop in licenses was mainly due to: (i) the economic crisis in Brazil, which affected most notably the sales dynamics to large clients; (ii) the migration of part of the sales pipeline to new clients to the subscription model, especially among smaller clients; and (iii) the 40% decrease on the incremental license fee of the corporate model.

In the corporate model, clients have unlimited access to management solutions, for which they pay an incremental license fee at the beginning of each year based on their real growth of the previous year. Thus, this reduction is a consequence of the lower growth of the clients under the corporate model in 2015.

In the chart on the right side, we see that the number of software clients added decreased by 21% year on year and by 4.4% quarter on quarter. The year-on-year decline is mainly due to the lower level of new subscription sales to microenterprises on account of the economic crisis in Brazil.

In the quarter-on-quarter comparison, the decline was mainly among new licensing clients added, which, besides the economic moment, reflects the migration of part of the sales pipeline of new clients to subscription.

Now, I invite you all to move to **slide 7**, to discuss services and hardware.

In the chart on the left side, services declined by 0.9% in 1Q16 compared to 1Q15, and by 4.5% when compared to 4Q15. The year-on-year variation is mainly due to the 8.3% decline in software implementation services in the period, due to the lower pace of sales in recent quarters; and the 14.2% increase in services not related to software implementation, which accounted for 37.7% of the services revenue in 1Q16.

Services contribution margin increased by 9.4 percentage points in 1Q16, when compared to the previous quarter, despite the wage increase in São Paulo and the

reduction in service revenue in the period. This recovery in service contribution margin is chiefly due to the reduction in personnel costs resulting from the restructuring carried out during the second half of 2015.

In hardware, in the chart on the right side, the year on year drop of 4.6% in revenues is due to the lower number of new establishments openings as well as the changes in tax legislation, especially in São Paulo, where fiscal printers were replaced by the fiscal equipment named S@T, which has lower price.

It is worth mentioning that changes in tax legislation should collaborate to grow recurring revenue from tax software solutions, reducing the share of non-recurring hardware revenue in total revenue.

In the quarter-on-quarter comparison, the 25.3% decrease in revenues is also due to the seasonal effect on hardware sales in the period.

This trend in hardware revenue, combined with the increase in hardware costs due to the FX rate during 2015 and the reduction in the income grant by the Paraná state government since September 2015, resulted in the decline in the hardware contribution margin during the period.

For comments on selling and administrative expenses, please move to **slide 8**.

Starting from the chart on top left corner, selling and commission expenses taken together dropped 1.8% year on year and 6% quarter on quarter, declining by 0.4 percentage point their share of net revenue in 1Q16 in the quarter-on-quarter comparison.

This reduction was mainly due to: (i) the decrease in commission expenses, mainly resulting from the sales mix between license and subscription fees and the sales mix between franchises and own units; and (ii) the restructuring in personnel costs carried out during the second half of 2015, despite the wage increase in São Paulo already mentioned.

It is also worth mentioning that we have recently adjusted the remuneration model of our sales team in order to align the incentives mainly related to the subscription model, which tend to cause a short-term increase in selling expenses at a higher rate than total software revenue.

On top right corner, advertising and marketing expenses corresponded to 1.5% of net revenue in 1Q16, versus 1.8% in 1Q15. The decrease is chiefly due to the revision of the Company's general marketing plan and the beginning of the integration of TOTVS and Bematech marketing activities.

Expenses with allowance for doubtful accounts, on bottom left corner, corresponded to 1.4% in 1Q16, compared to 1.8% in 1Q15 and 2.0% in 4Q15. This allowance reflects the level of delinquency observed in the operation during the period.

It is important to mention that, considering the current level of delinquency in the market, the Company will continue its credit analysis policy and its efforts to recover the debts already provisioned.

Finally, on bottom right corner, general and administrative expenses plus management fees and other expenses increased 2.2% year-on-year but decreased 3.5% quarter on quarter, after excluding the non-recurring items of 4Q15.

In the quarter-on-quarter comparison, the decline chiefly reflects the headcount reduction carried out in 4Q15 and the beginning of the integration of administrative areas of TOTVS and Bematech.

Moving now to EBITDA and Net Income on **slide 9**.

In the chart on the left side, EBITDA in 1Q16 totaled R\$114.6 million, down 12.4% year on year and up 34.8% over the adjusted 4Q15.

EBITDA margin in the quarter stood at 20.8%, which means a reduction of 270 bases-point year on year and an increase of 590 basis points quarter on quarter.

This year-on-year decline was mainly due to: (i) the decrease in software contribution margin, resulting from the decline in license sales; (ii) the mismatch between the revenue inflation and recurring cost inflation; and (iii) the decrease in hardware contribution margin, specially by the of FX rate effects over price and costs and also the reduction in the income grant by the Paraná state government.

The quarter on quarter growth resulted primarily from the recovery of software and service contribution margins, and the optimization of administrative structures.

In net income, chart on the right side, the year-on-year decline was largely due to the negative financial result in 1Q16, primarily due to: (i) the increase in net debt; and (iii) the financial revenue from the sale of minority interest in ZeroPaper in 1Q15.

In the quarter-on-quarter comparison, adjusted net margin increased by 30 (thirty) basis points, mainly due to the growth in EBITDA margin in the period.

Now speaking about cash flow and debt on **slide 10**.

Gross cash decreased by R\$71 million in the quarter mainly due to:

- (i) the net income, excluding non-cash items, in the amount of R\$102 million
- (ii) the working capital investments of R\$74 million, impacted by the pre-payment of solutions hired for cloud operations, in the amount of R\$18 million, and the increase in inventories in the amount of R\$8 million in the period;
- (iii) the payment of interest on equity for the second half of 2015; and
- (iv) the partial amortization of the principal of the BNDES loan hired by TOTVS in 2013 and the partial amortization of principal amount of Bematech debentures issued in 2014.

Thus, net debt ended the quarter at R\$473.5 million, corresponding to 1x adjusted EBITDA for the last 12 months.

I now turn the presentation back to Laércio for his closing remarks on **slide 11**.

Laércio Cosentino: Thank you Maia.

In 1Q16, the economic scenario in Brazil combined with the transition from the licensing model to the software subscription model resulted in a year-on-year decrease of 1% in the Company's total revenue. Subscription revenue grew 16% and, as a percentage of total revenue, overtook licensing fee revenue, which declined 30% year on year.

EBITDA margin ended 1Q16 at 20.8%, 590 basis points higher than adjusted EBITDA margin in 4Q15. Margin recovered quarter-on-quarter despite the 3.5% decline in total revenue and the seasonal effect of wage increase in São Paulo, mainly because cost and expenses structure adjustments rolled out by the Company in the second half of 2015.

We believe that the economic situation is complex, but we are confident that we are on track in the integration of Bematech operations, that is part of the execution of our strategy, which has as pillars:

- i) Segmentation – providing business solutions even more essentials, that is, specialized in the client core business;
- (ii) SaaS – providing solutions based on the subscription model, prepared for cloud through mobile devices; and
- (iii) Fluig platform - by integrating things (IoT), individuals and businesses in an agnostic way.

Now we are available for the Q&A session.

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press star and one on your keypad, and to withdraw your question from the queue, press star and two.

Our first question comes from Suzana Salaru of Itaú.

Suzana Salaru: Good morning Laércio, good morning Maia. I have two questions. The first is regarding maintenance revenue: can you add some color as to how it is evolving, is it close to an inflection point where we'll see maintenance revenue once again growing in line with inflation, or whether the trend of companies reducing the scope of their orders will continue and we should continue to see a higher churn rate than historical levels. And could you also comment on the current churn rate. That is my first question, regarding maintenance revenue.

The second question is, could comment on the process of integration with Bematech, especially in relation to the coverage ability of resellers; how many have you been able

to access already, how many of the 4,000 resellers will be converted to also sell Totvs software, how many will remain exclusively Bematech? How is that going to happen and how you can benefit from that coverage? Thank you.

Gilsomar Maia: Good morning Susana. This is Maia speaking. In relation to your first question regarding maintenance, it has in fact been impacted by the decrease in license sales, that's the first point.

The second point is especially last year, the issue of IGP-M, which I think is more closely related to your question. And third, we have churn too.

In relation to the first variable related to licenses, I think the volume of license sales speaks for itself, as the lower volume led to lower maintenance needs. The churn in the quarter was very similar to in 4Q, and I even mentioned in 4Q that if we annualized the churn in 4Q we would have something close to 6% in the year.

We didn't see any significant change in it, that is, neither deterioration nor improvement, so it was relatively stable, which is still above our historical levels.

As for IGP-M, that recovery in IGP-M in the last two or three months of last year, as I mentioned last quarter, had a minor contribution to last quarter's results, but contributed more significantly this quarter.

Now, of course with this churn rate and the reduction in license sales, maintenance revenue is not growing fully in line with the increase in IGP-M because of these two opposing forces.

At least in the short term, it's hard to think of any aspect that can significantly change this scenario because for this to happen, the churn rate should decrease significantly or license revenue should recover strongly for maintenance revenue to grow more in line with IGP-M.

Compared to 4Q, on a quarter-over-quarter analysis, maintenance revenue in the quarter grew 1.2% and this quarter it has already grown 2.4%, which shows that the recovery of IGP-M is already reflecting in maintenance, maybe not completely because of these other two variables I mentioned.

Regarding your second question on the integration of Bematech's resellers in a timeframe in relation to the Bematech integration, the administrative integration of Bematech's and TOTVS' administrative areas were the first fronts to be integrated and where we've made the most progress so far.

The second was what I'd call a more commercial integration and which was more closely linked to the software team itself, with TOTVS's software team and Bematech's hardware team, which basically absorbed our operation for microenterprises, which we call Fly-01.

So, for this market of microenterprises, which is an important market for resellers, there hasn't been any significant change in operations. We haven't changed the day-to-day routine of resellers. They continue to operate much like they did before the merger of TOTVS and Bematech.

I'd say this change tends to take longer, because we have to evolve further in the integration of these solutions to be able to run TOTVS software on Bematech hardware and make it ready for sale.

So, it has a maturation curve. Today, we don't have yet a significant change in the reality of resellers.

Laércio Cosentino: just to complement the answer Susana, this is Laércio. Commercial integration will take place at the bottom, exactly at the channels selling software to small businesses, which is what they excel in, with the integration of software and hardware in the subscription model. This has been progressing and I think this year we will capture some good synergies.

And in large accounts, far from SMBs, which are primarily large retail companies that could see in this merger of TOTVS and Bematech a company capable of providing adequate support to the operations of especially large distribution chains in Brazil.

And SMBs will be addressed in the third phase, as Maia mentioned.

Gilsomar Maia: in large accounts, Susana, we do not have resellers. Bematech always had a team they called 'corporate' that used to serve large accounts and this 'corporate' team now works together with our 'Private' team, which also served large accounts.

So, there exists synergy because we have different kinds of expertise. The Private team already has expertise in selling software together with consulting services and Bematech's Corporate team will bring hardware expertise to TOTVS's Private team, as Laércio mentioned.

It's a comprehensive approach for these clients, where we can talk about commercial automation, back-office and front-office solutions and tax solutions. A truly comprehensive approach indeed.

Susana Salaru: Great guys, thank you.

Gilsomar Maia: You're welcome.

Operator: The next question comes from Diego Aragão of Morgan Stanley.

Diego Aragão: Good morning everyone and thanks for taking the question. I have two questions: first, on the improvement of PDD in 1Q, I'd like to understand whether there is any specific factor in 1Q, because when I look at the historical pro forma figures, I see this figure was slightly lower. Thank you.

Gilsomar Maia: Good morning Diego, this is Maia speaking. There wasn't anything extraordinary. You are right, compared to last year's results, PDD was lower. I know this moment demands caution on this specific aspect because delinquency in the market in general has been high.

Of course, when we talk of 1.4% of our revenue, if we look back more than a year ago, 1.4% is still higher than our historical levels.

Obviously we have to consider it in the current market scenario and I think your comment is directed more to this respect. Nevertheless 1.4% is still higher than the company's historical levels, although slightly lower than our recent history.

There is no extraordinary item in it. I think maybe last quarter was a bit off the curve when we had 2.2%, if I remember correctly, over 2% of net revenue. I don't recall any other moment, at least in the company's recent history, of PDD corresponding to 2% of our revenue.

So maybe 4Q was off the curve and that left us with a bigger provision, but this is something we've been paying close attention to. Just like last quarter, when I was asked if 2% was a level we should consider as normal for the company and I didn't see it that way, I think we have to wait a while longer to not consider 1.4% as the current level either.

I think we have to be cautious in this respect. Naturally, you can consider we are doing everything we can every day in relation to this matter, but there are market variables too that we can't ignore. But to answer your question objectively, there's nothing extraordinary that should be taken into account about this level.

Diego Aragão: Perfect, Maia, very clear. My second question is probably for Laércio. Please feel free to answer because it's somewhat more related to structure. We've been seeing this strong decline in license, which is still the main driver of service revenue and maintenance revenue, like Susana asked.

Do you expect this license revenue to at least stabilize at some point in the coming years? And why do I ask that? Since it still accounts for a large share of your business model and I can't see this inflection point, it will probably affect all my future expectations.

And within this question, how much can you revert through your subscription model or what should be a mix of a stabilization in license revenue plus accelerated growth in subscription for you to grow once again at the rate you had two or three years ago. Thank you.

Laércio Cosentino: Diego, it's Laércio here. Within our subscription plan, if we exclude the "Dilma effect", it was a four-year plan where in the first year we expected to recognize 25% of subscription revenue, then 50, 75 and 100, and from then on have an important additional revenue for the company especially in the medium and long term.

So, our initial plan was a four-year plan where revenue from CDU would be declining, because today we have a large base and for this base to migrate to software, considering it still has the license for some more time and will continue to purchase licenses for some time. So, as part of our plan, subscriptions would overtake licenses starting from the second year, and this is what you saw this quarter, OK?

So, if you exclude the economic effect of the country right now, if we hadn't planned like we did, we would have this point we are telling you now, we'd have it only a year or later from now.

So, what we believe in is this: as the economic scenario improves, you'll have an activation of businesses, with the activation of a business, purchases will resume and it will be more aligned with our original four-year plan of migration of the model.

So, if you consider the medium and long term, the value of the company that brings SMS and services, I would change a little. Let's consider service separately. The fact that we have a faster subscription makes service move even a little faster, because you have a lower down payment, so there's more money left for total investment to spend also on service and on expediting things. So I think it's positive if you consider service versus subscription.

The maintenance contract is embedded in subscription, which means when you subscribe you have a part of the maintenance contract, which is equivalent to what we charged before, right? So, this too isn't affecting much what used to be revenue from SMS. At the end of the day, what really affects is the decline in license of use due to lower cash with the company now and which will recover further on, OK?

When you talk in terms of value of the company, as you mentioned, maybe at this first moment we'll see a reduction in cash, a slightly lower margin, but it's because we're building a new model. Did I answer your question?

Diego Aragão: Yes, very clear. The only thing that's still not clear to me is, in the original 4-year plan, whether you considered an average quarterly addition of license of around 50, 55 million, or whether it was based on the 70-million average that you produced over 4, 5 years.

Laércio Cosentino: OK. I answered that indirectly when I said we drafted a 4-year plan and the breakeven point when subscription would surpass license of use would be the second year, you have the curve you mentioned, do you see?

I mean, what we were saying is this: since I allocate in the first year 25%, then 50%, 75% and 100%, our plan was to surpass during the middle of the second year, because you had 75% of the revenue coming from subscriptions, from the first substitutions, OK? And license of use with a steeper decline.

Diego Aragão: perfect, it's clear now, Laércio, thank you for your answers.

Laércio Cosentino: Thank you.

Operator: Our next question comes from Luis Fernando Azevedo of Bradesco.

Luis Azevedo: Good morning everyone. My first question is regarding synergy gains with Bematech.

You mentioned you've done much on the administrative side. I wish to understand in terms of costs and taxes: when will we have – I think you mentioned something about it 1Q – I wish to know if there is any number you could share with the market.

And when do you expect this synergy to mature? In one year or two years? I think there is a lot to do to improve margin, both in aligning Bematech's G&A to TOTVS's, and also in terms of costs and in software operating margin.

Could you give us a little more color on that? That's my first question, thank you.

Gilsomar Maia: Good morning Luis, this is Maia speaking. With regard to administrative integration, I think the word here is really “integration”. Of course we’ve already rationalized some of the overlapping of structures we had.

Henceforth, administrative work will be more complex in the sense that we have to have the same level of tools. I’d say that for more administrative efficiency, ideally we must have the same tools and systems and effective management in both operations, which isn’t the reality yet.

We integrated operations, but they’re still running in different administrative realities, even in terms of systems and internal routines. So this is something, Luis, that I believe will take around a year or a year and a half, or maybe even two years, for us to achieve homogeneity of administrative systems, routines and structures.

I believe that in the short term, what we've seen so far and what we'll probably see in 2Q, is that a good part of the administrative synergies we can capture because you're talking of two listed companies, which obviously have a higher administrative cost than a single listed company.

To obtain greater efficiency, we'd have to work on these processes, systems and routines.

Of course, if we think as a percentage of revenue, if we cross this first “valley” of a change in the commercial model from license to subscription and start to see a lower impact on growth from the model migration, if we see a lower impact of that on growth, in terms of top line, that will also help in diluting administrative costs.

And those of you who have been following us since the beginning, if you look back you’ll see we’ve always been able to dilute fixed and administrative costs because we always managed to dictate a brisk pace of revenue growth.

So, you can’t just think about this activity in terms of reducing the absolute value. I think we have a structure that can also support the company’s growth and one that you’re able to grow at a slower pace than the growth of revenue from it.

Of course, the moment we are in is probably the least favorable for change in financial terms, as Laércio explained to Diego earlier, which probably does not that explain clearly the administrative synergy we can have. But I imagine that about a year from now, maybe less than two years, we can achieve greater administrative efficiency, and as the company reaches a more favorable point for model migration, we’ll see more clearly this synergy happening in terms of dilution of administrative costs as a percentage of revenue.

Laércio Cosentino: and also important to note, Luis – Laércio here – that we had an increase in our tax burden, so if you consider the issue of INSS, the issue of tax regulation

in Paraná, that would lead to a greater revenue and we'd already be able to see some of the improvements achieved by the company. A part of the synergies we captured we gave it to the government.

Gilsomar Maia: not to mention, since you talked about taxes Laércio, the increase from 2% to 4.5%.

Luis Azevedo: Great. My second question is regarding top line revenue, which is harder to predict: when do you expect to see a more positive performance in terms of your top line?

Gilsomar Maia: Luis, that's something more complicated today (laugh), because reflecting a little on the work that you guys do, which is making market projections, if variables depended only on us, I think it would be a much easier thing to do.

But we have external variables that influence the results of TOTVS and all other market players, which are not under our control and it's very hard for us to make any assumption here.

If we think of only a model, as Laércio mentioned, the first two years would be the most difficult for model migration. Seeing a steeper decline in license, we could perhaps bring forward this point of inflection, but there are market variables that are hard to predict now and which are not under our control.

Laércio Cosentino: I think it's important – and this is not a guidance whatsoever – but there's a lot of pent-up demand, I mean, we're all in the market and we know this: investment decisions today, especially in these last two quarters, given the possible decisions we'll have next week, completely inhibit someone from making a decision... or from having made a decision in the past 30, 60 days.

Of course recovery is not immediate after a decision has been made in Brasília, but that of course gives you some direction, some indication and then I think things will start to move.

Luis Azevedo: Great, thank you, guys.

Gilsomar Maia: You're welcome.

Operator: The next question comes from Valder Nogueira of Santander.

Valder Nogueira: Good morning everyone. I was taking a look at the metrics of license fees and, I might be wrong, but the changes we see in key performance indicators of revenues, fees, sales and average ticket from licensing between 4Q and 1Q are showing a greater pressure on the existing client base, while the metrics for new clients improved.

Is there any explanation here? Is it a seasonality problem? That's my first question. How should I read these changes?

Gilsomar Maia: Good morning Valder, this is Maia. Valder, there's something here that's important to highlight: we combined these indicators with Bematech's indicators, which are included in the comparison too.

We recompiled the 2015 figures quarter by quarter, which is available in spreadsheets and the indicators already include Bematech's indicators. It is something we hadn't done last quarter; we had reported Bematech separately since we didn't have Bematech's indicators ready yet.

But, back to your question, when we look at the indicators already including Bematech, in fact we saw that happen a little. As Laércio mentioned, in the client base we've been seeing a lot of people "on hold", waiting for the economy to show some sign of stabilization.

We've been seeing weekly projections of successive and increasingly steeper decline in the GDP. So I think that, in some way, there's a massive volume of news everyday pounding on the mentality of the Brazilian business community and of course there's a natural reaction to hold back investments a little, which reflects on our base.

On the other hand, if you look at sales of new clients, even in terms of license, the average ticket was still relatively low - we're talking of R\$15,000 - which shows that smaller accounts, even in the universe of licenses, have been generating business volume.

Laércio Cosentino: I think it's important to note, Valder – here's Laércio – that when you talk about larger clients... it's not that they don't have ERP, they want to improve their ERP, the management system and so on, so from the moment they don't have the

pressure to decide, and quite to the contrary, they have to generate results too within the company, so postponing and purchasing the bare minimum explains one path.

And even for our subscription model, we provided a new level of companies access information technology, but they start very small and that bring s the average ticket down.

And those already in the base, will they move to purchase more? They wait. That's it.

Valder Nogueira: because of the wrong reading of these variations here is that the pressure on top of the existing client base is greater than on new clients. OK, that was my question, thank you.

Laércio Cosentino: Thank you.

Operator: As a reminder, if you would like to ask a question, please press star and one. Once again, to place a question, please dial star and one.

We now conclude today's question and answer session. I'd like to invite the company to proceed with their closing remarks.

Laércio Cosentino: I wish to thank everyone for participating in our conference call and I'm really hoping that next week we have a decision underway, whatever that may be, so we can recover our Brazil. When the country starts to recover, investments will happen and of course information technology is one of the most important items, essential to all companies. Have a nice day!

Operator: That concludes today's TOTVS conference call. We thank you all for your participation. Have a good day and thank you for using Chorus Call.