

Operator: Good morning. Welcome to the TOTVS conference call to discuss the results of the fourth quarter of 2016 and full year 2016. Today we have with us Mr. Laércio Cosentino, CEO, Mr. Gilsomar Maia, CFO and IRO, and Mr. Douglas Furlan, IR Manager.

Note that all participants will be on listen-only mode during the presentation. After that, we will start the 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 the 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, hence, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors could affect the future performance of TOTVS and could lead results to differ materially from those mentioned in such forward-looking statements.

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

Gilsomar Maia: Good morning everyone. Thank you for participating in our conference call to discuss the results of the fourth quarter and full year of 2016.

Before starting the presentation, I would like to remind everyone that, to preserve comparability, 4Q15 and 2015 numbers are pro forma, as they include Bematech's three-month and full-year results respectively for these periods.

Now, I begin my comments on the quarter's results on slide 3. Net revenue grew 2.3% over Q3. Year on Year, net revenue fell by 3.7% in 4Q and 3.5% in the year, due to a 16.8% drop in non-recurring revenues. Recurring revenues grew 7.2% in the year and accounted for 61.8% of total net revenue in 2016, or 6.2 percentage points above 2015.

When analyzed by business, on slide 4, we see that the year-on-year drop in net revenue was concentrated in services and hardware revenues.

In Services, the reduction resulted from a drop of almost 6% in software implementation services, due to the slower pace of sales to larger clients throughout the year, as well as a reduction of 13.5% in services not related to software implementation, negatively affected by the sale of the HR BPO operation in August, 2016 and by the lower sales volume of consulting services in the second half of 2016.

In Hardware, the decrease reflects the recession in the Brazilian economy and the mix variation resulting from the changes in state legislations, such as in the State of São Paulo, where fiscal printers were replaced by the fiscal equipment S@T, which has a lower unit price.

Software revenues closed the year at R\$1.4 billion, despite the transition to subscription model and the economic recession in Brazil. In the quarter, software revenue grew 2.3% over Q3, mainly due to the 9% growth in subscription that I will now talk about, on slide 5.

Subscription revenue totaled R\$64 million in 4Q16 and already accounted for 18% of the software revenue. This is the second quarter in a row that software revenue grows over the previous quarter, mainly due to the acceleration of subscription growth throughout the year.

This acceleration in subscription growth more than offset the drop in license sales and the lower maintenance growth over the last two quarters, as shown in the left chart of the slide.

The growth in subscription is mainly a result of more than 4,000 clients added organically in this model in 2016. Among these new clients, we can highlight microenterprises with our Fly01 software, and the small and medium companies in the Intera model, our subscription model launched in June 2015.

Intera has a shorter sales cycle due to its lower initial investment, which also tends to be very positive for new sales to existing clients, since the clients do not need to buy new licenses to add identities, only the value of the Intera monthly fee is adjusted to the new number of IDs.

In addition, the Intera monthly fee includes standard cloud infrastructure, access to the fluig platform and access to the e-learning center, key elements for the digital transformation we are promoting in the market.

It is important to mention that Intera's sales in December did not affect the 4Q subscription revenue, since the first billing is made in the following month, but has already affected the Annual Recurring Revenue (ARR) of Subscription, presented on the chart on the right side of the slide.

In 4Q16, the subscription ARR totaled R\$260 million, 28% higher than 4Q15. The net addition of ARR was R\$25.1 million, against R\$21.0 million in the 3Q. The ARR is a common metric used in the SaaS world to measure the evolution of recurring revenue over the next 12 months, based on contracts signed up to the end of the period.

ARR's growth reflects, in addition to the growth of Intera and Fly01, the migration of 45 clients from maintenance to subscription in the 4Q and the acceleration of Bemacash sales, which I will comment now on slide 6.

Bemacash includes Fly01 software and Bematech's tax and commercial automation solutions. Most of Bemacash's sales made over the the year did not affect the subscription revenue yet, since new Bemacash clients become software clients between the 8th and 11th month after contracting the solution, when they start paying for the software subscription.

We have sold nearly 2,800 Bemacash units in 2016 for the Retail, Apparel, Bars and Restaurants and Food Truck segments, and certified more than 300 resellers throughout the year. In 2017, we will continue the training program to resellers with the goal of ending the year with 1,000 certified Bemacash resellers.

Bemacash is another initiative from TOTVS to explore Brazil's microenterprise market, which comprises more than 4 million formally established companies, and is also an entry point to our business solutions, contributing to generate new software sales opportunities in the medium-term for micro-enterprises that become small and medium in the future.

Now, I invite Douglas, which will comment on the software result on slide 7.

Douglas Furlan: Thank you, Maia. Good morning everyone.

The software contribution margin closed the year at 62.6%, when excluding the additional costs of R\$1.0 million with layoffs from the structure adjustment in fourth quarter 16.

The decrease in the adjusted contribution margin is a consequence of the stability of software revenue in the year, already mentioned by Maia, combined with the increase in the cost of support and R&D expenses due to wage increases from collective bargaining agreements, investments in the integration of Bematech's solutions portfolio and the renewal of clients service and support processes.

In the quarter, the adjusted contribution margin fell mainly because of the wage increases in Joinville, Porto Alegre and São Paulo, where the Company has development centers.

On slide 8, the service contribution margin fell by 190 basis points in the year, when excluding the additional costs of R\$2,0 million with layoffs from the structure adjustment in the fourth quarter 2016.

This reduction in service margin was mainly due to the lower volume of sales from consulting services, already mentioned by Maia, in addition to the collective wage increases throughout the year.

In 4Q16, in addition to these factors, the reduction in the service margin was mainly a consequence of the remaining wage adjustment from the collective bargaining agreement signed in the first quarter 2016 in São Paulo.

It is important to mention that the additional costs with layoffs from the structure adjustment represents a reduction of recurring labor costs of about R\$1.8 million per quarter.

On slide 9, the hardware contribution margin, excluding the non-recurring items, was 34.2% in 2016, against 40.3% in 2015.

This reduction was due to the decrease in hardware revenue, combined with the lower economic subsidies established by the Government of the Paraná since September 2015, and Bematech's R&D capitalization in 2015.

It is important to mention the evolution of the hardware margin throughout the year, most notably in the third and fourth quarters, when margins were above the full year margin.

In 4Q16, the contribution margin was 37.5%, 240 basis points higher than the 4Q15. The year-on-year growth in contribution margin, despite the 8.8% drop in hardware revenue, was mainly due to the growth in hardware gross margin and the increase in economic subsidies resulting from the change in the sales mix during the period.

Now talking about selling and administrative expenses, please move to slide 10.

Selling expenses and commissions, excluding the additional costs with layoffs from structure adjustments, increased their proportion of net revenue mainly due to the growth of selling expenses.

This growth is a consequence of the change in sales mix between franchisees and own branches and the higher volume of software sales in the subscription model.

In the fourth quarter 16, the quarter-on-quarter growth was mainly due to the growth in software sales and the wage increases in São Paulo.

G&A expenses plus management fees and other expenses, excluding non-recurring items, increased its proportion of net revenue by 160 basis points in 2016, mainly explained by the additional provision for contingencies of R\$19.7 million in the fourth quarter 2016, as a consequence of the review of the past outcomes of lawsuits and the circumstances of new proceedings in which TOTVS is the defendant.

The combination of the decline in the Company's net revenue and the wage increases made throughout the year also collaborated for the increase of these expenses as a percentage of net revenues.

Advertising and marketing expenses corresponded to 2.2% of net revenues in 2016, compared to 2.5% in 2015, chiefly due to the revision of the general marketing plan and the synergies from the integration of marketing activities of TOTVS and Bematech.

Now I'd like to turn the call back to Maia, to discuss EBITDA, on slide 11.

Gilsomar Maia: Thank you Douglas.

In Q4, the Adjusted EBITDA totaled R\$60.7 million, a 28.5% decrease year on year, and the margin was 11%. This reduction is mainly a consequence of the additional provision for contingencies mentioned by Douglas.

In the year, the Adjusted EBITDA decreased by 21.5% and totaled R\$358.7 million. Adjusted EBITDA margin for the year was 16.4%, compared to 20.2% in 2015.

As presented in this conference, this reduction in margin came mainly from the software and services businesses, once we can see a clear hardware margin recovery in the last 3 quarters.

The growth of the subscription model reestablished an upward trend in software revenue, that ended the year stable. In parallel, labor inflation and investments in the portfolio integration and customer service resulted in an increase of costs and expenses. This dynamic, combined with the Brazilian economic recession, explains the margin pressure we've been having.

The acceleration of Subscription ARR, which ended the year 28% above the 4Q15, together with the structure reductions that we've been conducting, give us the confidence that we are close to reach a turning point in the software and service margins.

Now, talking about net income on slide 12.

The decline in Adjusted Net Income in 2016, at a faster pace than the decrease in Adjusted EBITDA, is mainly due to the change in the Company's capital structure, from a net cash position in 3Q15 to a net debt in 4Q15, and the higher Long-term Interest Rate (TJLP) in 2016, which is the main index for financial costs of debentures and financing lines from BNDES.

Moving now to slide 13 to talk about cash flow and debt.

In 2016, Gross Cash decreased by R\$212 million, chiefly due to:

- (i) Working capital investments of R\$124 million;
- (ii) Net investments in fixed assets of R\$53.6 million, of which R\$22,6 million related to investments made in the Company's new campus;
- (iii) The payment of R\$50.0 million related to intangible assets, including the payment of part of the acquisition price of Unum, a Bematech invested company; and the investments for the creation of TOTVS Digital;
- (iv) Amortization of principal amount of financing lines taken from BNDES in 2013; and
- (v) Amortization of R\$48 million referring to the remaining principal amount of debentures issued in 2008.

Net Debt totaled R\$479 million in 4Q16, equivalent to 1.3x 2016 Adjusted EBITDA.

Now I turn the presentation to Laércio to continue on slide 14.

Laércio Cosentino: Thank you, Maia. Good Morning everyone.

In 2016, we took another important step towards promoting digital transformation and becoming a "Single Subscription Company". We invested even more in the innovation of our solutions, especially in platform, mobility and cloud, and we grew more than 20% in subscription in a year of economic recession in Brazil.

We evolved in the alignment of commercial incentives related to the subscription model, as well as in the elaboration of a new marketing plan, increasingly digital, aiming to increase sales leads, especially in the subscription model.

We also made progress in the development of TOTVS Digital, to be launched in the first quarter of 2017. TOTVS Digital is a completely new digital environment focused on the interaction between TOTVS, distribution channels, salespeople, clients, prospects and partners.

We renewed a part of the senior management in 2016 and hired new executives aligned to the culture of a subscription-based company, as part of the Company's succession plan.

Today, we have a collaborative, digital and results-driven team that uses technology and business knowledge to promote innovation and understands that the client success is our success.

We will continue our journey to turn TOTVS into a Single Subscription Company, developing solutions for clients of our clients and increasingly connecting people, things and businesses.

The progress made in the transition to subscription over the last 18 months, combined with the Company's investments and the opportunities in Brazil, give us the confidence that TOTVS is on the right path to resume growth and profitability in 2017.

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 Fred Mendes, with Bradesco.

Fred Mendes: Good morning everyone and thank you for the conference call. My first question is regarding costs, just to get a better understanding of the dynamics. Why can't you cut costs more aggressively? Is it because you have a legacy, and then you end up maintaining this legacy most of the time, and you have to hire specific labor for each product? Is it something around those lines? Just to get a better idea of the dynamics. That'd be my first question.

And my second question is regarding your guidance. When I look at the bottom of the guidance range here, EBITDA of 359 million, and considering that maintenance will be under pressure in 2017 with lower inflation and a still-high churn rate, and even if subscription grows 30% and licenses decrease by only 15%, considering even an optimistic scenario, I still find it hard, or at least challenging, to deliver this guidance.

So my question is whether perhaps the hardware and license lines could surprise us or whether there's any further cost-cutting that hasn't been done yet. That'd be my second question, thank you.

Laércio Cosentino: Hi, Fred, Laércio here, how are you? Thank you for your question. To answer your first question, why don't we further cut costs? We're an innovation company, we're a technology company, I mean, it'd be easy to drive results by making inferior products. We believe TOTVS is destined to be a disruptive company, one whose innovations will make our clients increasingly more competitive in their segments.

If you analyze the global scenario for companies that already have and started adopting the SaaS model, many of them are growing very close to what we're growing, but with negative margins many times, or most of the times. Of those that have already been through the process we're going through – and I've been saying we're in the second year of a four-year journey, where you want to transform a license-based company, which had upfront revenue even before you implemented, even before you actually delivered the software to the client, into something that you will gradually receive according to what you implement and to the usage of each client.

When we talk about cutting costs, if we were more radical and made cuts, we would lose our capacity to have new products in the company in two, three, four or five years. We look at the company not just considering simply the scenario of year 1, year 2 of subscription. We are looking at the company for years 3, 4, 5, 6, at least.

Since the move to our new headquarters, now at the beginning... as of Friday, it really motivated the entire team to work in this innovative company. So, I think that if we reduced... intensified these cuts, it could yield some temporary results for the company, but the responsibility to maintain this company in its path, its objective, forces us to live at the edge of cost cutting without compromising quality, without losing our capacity to be a disruptive and innovative company. Maia?

Gilsomar Maia: Good morning. To answer your second question, regarding the bottom of the EBITDA guidance range, I think it's important to remind you that we have businesses of various natures within the company. The software business itself will always have a recurring portion that is much more relevant in the revenue mix, and as we move more into the SaaS world, this percentage tends to increase.

We talked a lot about other opportunities, about the time effect on the recognition of revenue, that in these first few years we have a mismatch of costs, even in line with what Laércio just said. But, apart from that, we have the factor of scale in the software business. As we close this gap between revenues and costs, we start capturing once again the benefits of cost dilution, which is inherent to the software business, a scalable business.

Secondly, we also have other businesses that do not have exactly the same nature, such as services. Services have experienced a substantial loss of profitability in recent years, and we have been conducting, as you mentioned in your first question, cuts and adjustments to the structure.

We did it in the past, we completed an additional adjustment at the end of the year, and I hope not, but like I said last year, we will not spare cuts when necessary – but it's not a recurring business. So, as we adjust the structure, we tend to capture benefits also in profitability from businesses such as services.

The hardware business has been improving its profitability as well. It's another non-recurring business where we've been working in adjusting the product mix, and even though we do not have

exactly the same level of hardware revenue that we had a few years ago, it's undeniable that the evolution in profitability over the course of this year in this business brings a positive outlook for us. So, I think that the combination of the software business, which is more scalable, with these other two that are not as scalable as software, in our opinion, will lead to a margin recovery over the course of this year. Of course this is not achieved through the flick of a wand, overnight, because margin recovery in a business like this, even because of the growing recurrence, it has to be more gradual, but that's what we have in mind.

Regarding the behavior of lines... then really, Fred, we'll always have some difference between the assumptions used for projecting revenue, from maintenance or subscription. Of course that in the last two years we've been experiencing churn rates, mostly due to delinquency, at levels that are unreasonable to perpetuate in the company.

We saw some mild signs of improvement, I think they are not as evident in the quarter, churn in the quarter was not so different from previous quarters, but the outlook is a little less negative than in the past couple of years.

I think that's the general scenario, that's what I've been observing, and that's even the vision of the bank you work for, a little more optimistic for this year. Trabuco himself expressed a more positive expectation for this year in his speech.

Fred Mendes: Yes, that's great. Thanks, Maia, thanks, Laércio.

Operator: Our next question comes from Susana Salaru, with Itaú.

Susana Salaru: Hi, good morning, everyone, thanks for the conference call. I was wondering if you could add some color as to what you're thinking in terms of synergies with Bematech. You mentioned during the presentation that you hoped to reach 1,000 accredited re-sellers by year-end.

How should we see that? How does that translate into revenue and, perhaps, how should we see any cost savings, cost efficiencies, that'd be my first question.

My second question is related to Bemacash. You are already present in some verticals and we understand you're entering a new market, expanding the addressable market of TOTVS with Bemacash, aimed at these micro-client verticals.

My question is: "OK, you're entering a new area so the addressable market tends to grow"; the second thing is: do you intend to expand the number of verticals to expose yourselves to any other market you're not currently exposed to? That'd be it, thank you.

Laércio Cosentino: Susana, Laércio here, I'll start with your second question then Maia can answer the first one. Regarding Bemacash, we elected some specialties and the trend is not to increase much more into new specialties, but to strengthen what we already have.

Bemacash has two effects: one of the direct effects is to expand our share among micro-companies, but the most important is: in a subscription company, what will ensure its success and perpetuity is precisely its capacity to generate new leads.

And we understand that the generation of new leads for the SMB market, small and medium businesses, comes from mastering the mix of small businesses. So, when we look at what TOTVS is doing, if you take a photo today, is it a new market for TOTVS? No, we're addressing these new market participants to use TOTVS solutions in the years to come.

So, going forward, this will reflect in lower costs to acquire customers, which is one of the aspects we've been discussing a lot here. When you talk about subscription, models often state things like: "how much will you invest in marketing?", "you are doing a percentage of NOR", and so on – and we're working a lot with new indicators of SaaS companies, and the actual cost to acquire a customer, even because revenue is no longer upfront, we now have monthly installments.

So Bemacash has this effect to give us the ability not to enter a new market, but to strengthen our presence once these companies grow. So we expand our share while we strengthen ourselves and reduce the cost of generating new leads in the future. We won't increase these specialties too much, but we'll strengthen what we already have. And increasingly more, in a simple manner, and increasingly more prepared and with re-sellers distributed nationwide. We currently have 300, we're working to close 2017 with 1,000, and that'll certainly come back to us as solid share gains, as increased recurring revenue from Bemacash.

Gilsomar Maia: To answer the first part of your question, Susana, regarding cost synergies with Bematech, over the past year, we even discussed this a few times, we are working on integrating the portfolios, and I think that has advanced significantly.

So, the investments we make, for instance, to be more objective, the CMNET solution for hotel management we'll have with our back office. Today, this solution is already fully integrated, so the CMNET team that last year dedicated some time and energy to develop part of the back office is now completely focused on developing the core solution for hotel management, and we were able to focus this effort more intensely in the first stage of the interaction with our back office, which we already had, and from now on we tend to see lower costs in this respect, as we no longer have to work to integrate this product.

Other gains we have, even in the case of Bemacash, as we increase the number of companies – of course there're hardware sales involved in this too, which comprises the first eight to ten installments, depending on the version of Bemacash we're talking – but as we add more and more companies, because we don't have services, as we have zero customization in the Bemacash software, this is also very scalable, it also creates synergies with Bematech. And the same thing I mentioned for hotel is valid for food service too, on which we're working – in this case maybe not as advanced as with hotels, but it'll soon reach the same level – we're integrating a food service solution too. The part of management of passenger transport, ground transport, with our solutions too.

We tend to increase our competitiveness even in the sale of these front solutions, already natively integrated to our back office, and then consequently we can free up these teams to focus on what they really make a difference, and then no longer have these costs with integration that have an initial impact.

Susana Salaru: Great, Maia. Just a quick follow-up question: so you think we could say Bemacash will have a margin, if we had to put margins in order by revenue line, we always had in our minds that maintenance had the highest margin, and services perhaps the lowest; maybe Bemacash would be better than maintenance?

Gilsomar Maia: Yes, in the medium terms it would, Susana. Since we're talking about a very big volume of companies to include in Bemacash to achieve a level of profitability we already have in SMB, for instance, we still have to add a substantial number of companies. I think we have very material targets with Bemacash, that I think we'll be able to talk more about over the year, as the numbers, as they did in the past, materialize. I think that'd be more concrete, not to look like we're merely talking about a dream.

Susana Salaru: Perfect, thank you.

Laércio Cosentino: Thank you Susana.

Operator: Our next question comes from Diego Aragão, with Morgan Stanley.

Diego Aragão: Hi, Maia, Laércio, good morning everyone and thanks for taking my question. Regarding the subscription guidance, I'd just like to understand what is included in that figure, I mean, a greater push of migration of clients currently in the traditional model, and that have been contributing to your maintenance revenue, or just organic growth? That's my first question, thank you.

Gilsomar Maia: Good morning, Diego, thank you for your question, which I think is very appropriate. The guidance for subscription growth does not take into consideration any structured movement of migration of clients from maintenance to subscription. So, to answer your question more objectively, it is based largely on this scenario we've seen for subscription so far, which is focused on sales to new clients, i.e. organic, in line with your question, OK?

Diego Aragão: Perfect, Maia, very clear. Just a second question, and I'm sorry if I missed anything, but in relation to Bemacash, you mentioned that clients buying the product today are not paying for subscription yet.

So, I'd just like to understand this process a little better and, if I'm not mistaken, you mentioned they start paying for subscription as of the eighth or tenth month. So, during these initial months, what is the client effectively paying? And in the future, what would be the gap between what they are paying, I don't know if it's just hardware, and the monthly subscription? Thank you.

Gilsomar Maia: Well, I think it's important to make it clear here that Bemacash has a monthly fee and that fee is stable, the client pays it every month. Depending on the version of Bemacash we're talking about, the first eight to ten monthly fees the client pays are in fact installments of the

hardware. So, during these eight to ten months we don't recognize any subscription revenue. OK, Diego? So, in the month we sell Bemacash, we are recognizing hardware sales, hardware revenue, hardware costs.

And we go through these seven to nine months without any revenue from Bemacash, if we were talking about a single sale, to a single client. Then, as of the ninth or eleventh month, the client starts paying a monthly fee in the same amount they had been paying monthly for the hardware, but from then on he is actually paying the software fee, which we recognize as software subscription revenue. Was that clear?

Diego Aragão: It's clear, so, just one more thing I'd like to clarify: how do you recognize hardware revenue? Is it recognized fully at the moment of sale or on a monthly basis?

Gilsomar Maia: Fully.

Diego Aragão: Fully?

Gilsomar Maia: Fully at the moment of sale, because this is in fact a hardware sale. I sell the equipment, transfer the rights and ownership of the equipment to the client. What resellers are currently doing is to deliver and install, unbox and install the equipment, show the client how to use it.

We can't talk about implementation service, as we have in our core business with SMB, so we recognize this hardware revenue upfront and then in eight to ten months, like I said, we start recognizing the software monthly fee. In the meantime, the client is actually paying for installments of the hardware sale we recognized upfront.

Diego Aragão: Perfect, Maia, and sorry to extend just a little more: how do you hedge yourselves against a possible termination of the client after six months?

Gilsomar Maia: In the case of hardware, we have the software activation by the reseller. Please note that a substantial portion of the solution runs in the Bemacash tablet computers, and the other portion runs in the cloud server, and these solutions are integrated, both for the issue of electronic invoices, receipts and integration of the mini ERP cloud solution. If a client doesn't pay us, they are prevented from accessing these services and then the equipment becomes useless to them. That's what happens in practical terms.

Laércio Cosentino: And, Diego, just to add – it's Laércio here – just to complement with Susana's question. When you talk about Bemacash, at the end of the day, this is our first big IOT, when you combine everything you have, the device is connected, part of its functionality is processed locally and part remotely in the cloud. It can't do everything locally, so it depends on the cloud computing. This is a global trend, especially in retail, to have these "big" IOTs - let's put it that way just to simplify it -, which does everything they need to capture at the point of sale, everything they need

to find information, provide customer service and then return to the owner relevant information to help manage the business, that's exactly what we're doing.

So, when you talk about the model, it's a model where you don't have just one version, you have an upgrade, it's simple to install, you have additional apps that will gradually be available at the TOTVS Store... so it's closely aligned with what we're doing in other solutions, but in this case "it's a clean slate", I mean I don't have licensing, I don't have maintenance, I don't have anything, I'm starting from scratch.

Douglas Furlan: Diego, here's Douglas speaking. Just to remind you that the Bemacash contract with clients is a 36-month contract, OK?

Diego Aragão: Perfect, great guys, thank you very much for the clarifications.

Gilsomar Maia: Thank you, Diego.

Operator: Our next question comes from Daniel Federle, with Credit Suisse.

Daniel Federle: Thank you, good morning everyone. My first question is about license sales. You reported an increase in the Average Revenue Per User (ARPU), the average ticket, in the last quarter, and you mentioned sales to larger clients. I'd like to know whether that was a one-off impact this quarter or whether you've started to see a recovery among larger clients.

And my second question is regarding Bemacash. I'd like to know more about the importance of Bemacash in the retail segment as a whole in five years' time, how much of retail revenue will come from Bemacash?

And if I could just pose a follow-up question to Douglas' answer on contracts: the 36 months means they can't terminate the contract in less than three years, they are required to pay for 36 months, is that it? Thank you.

Douglas Furlan: Daniel, Douglas speaking. It's a 36-month contract, and in case of early termination by the client they have pay a penalty so that we can close the gap in terms of margin, for instance, both in terms of hardware and in terms of the minimum margin for subscription.

Daniel Federle: Perfect, thank you, Douglas.

Gilsomar Maia: With regards to license sales to large accounts, Daniel, we have – and even in line with what I told Fred – we are coming from two tough years in terms of licenses. License fell more than 30% in 2015, and another 30% in 2016.

In a way, there's a universe of opportunities with this audience of larger companies, which have been kind of "put on hold". Of course, I can't see yet a structural movement of this volume of opportunities "materializing", but I think that in some cases it's hard to postpone certain investments for too long, you know?

So what we saw was that some companies that had already postponed their investment decisions for some time got to a point where they couldn't postpone them any longer. We should eventually see other cases like this throughout the year.

Of course, if the market consolidates a more positive trend, that helps, perhaps, generate a more substantial volume of opportunities of "materialization", like I said, but I think thus far it's important to be cautious. It's a first sign, but I think we should monitor it for a while longer to be able to say anything more concrete in this respect.

In relation to Bemacash, I think you had asked another question...

Laércio Cosentino: In relation to Bemacash, it's Laércio here, I'll answer to you, Daniel. What's the relevance of Bemacash to our retail strategy? It's relevant. You take a large chain of franchises, where you have medium-sized franchises, our retail solutions can serve them. When you take a chain of franchises of micro and small businesses, the Bemacash solutions is almost essential.

So, it's like, what'll be the share of it? It will be a relevant share, we won't give you a figure, even because it's part of our retail strategy, by the integration we have today, at the moment you are running Bemacash at the point of sale, uploading the information to the cloud, and this information is fully compatible with TOTVS's other retail solutions, fully integrated with our data gathering network, information we start providing our clients at some point too.

I mean, from the time you know how much the market is selling – not in individual terms, because individual data belong to each company – but how much it's selling, the average price, to which regions, growth and so on, this integration will be the strength supporting our share in retail.

We also see retail itself not just as points of sale, but the integration of information, motion sensors and monitoring of each client's performance, and then together with Ciashop, the entire effort of taking it online, to e-commerce, most of our clients, and that's also fully integrated with Bemacash if the client wants that. And including means of payment, I mean, today we have an agnostic solution for means of payment, with Bemacash, you have Bemacash as our solution, you can run the same solution you're running in our Bemacash in the LIO, in Cielo itself, Point, Rede and other things to come.

So, Bemacash has the following importance: you have a single software, a single version, running in multiple means of payment platforms, integrated through the internet, capturing and searching for information to strengthen micro and small businesses. When we understand that in retail as a whole, usually small and micro businesses are linked to franchise chains, so we're also taking it to franchise chains. So this is one of the fundamental components of our strategy to continue to maintain our current leadership in retail.

Gilsomar Maia: Daniel, if I could just give you a quick example, we're talking about a market today of around 4.2, 4.3 million micro-companies in Brazil. If we assume, let's say, a 5% market share – which is not a guidance, but merely a hypothetical exercise here – we're talking about some 200,000 companies, more or less.

Assuming the average Bemacash ticket is between R\$200 and R\$300, so let's say R\$250/month, we're talking about an installed base of this size generating revenue of approximately R\$50 million

a month, or R\$600 million on an annualized basis. In other words, it's bigger than the entire Bematech today, just to give you an idea of size.

Of course, we're still at the very beginning of Bemacash compared to this scenario I described to you, but I'm using realistic market figures.

Daniel Federle: Prefect, very clear guys, thank you.

Gilsomar Maia: Thank you.

Operator: Our next question comes from André Baggio, with JP Morgan.

André Baggio: Good morning. Laércio, could you shed some light on how you see demand going forward? I mean, the Brazilian economy is showing signs of recovery, but which are still contradictory, I mean there're all sorts of different readings.

How do you see this demand, the increase of new licenses, new sales – in other words, excluding subscription – for 2017 and 2018?

Laércio Cosentino: Baggio, thank you for your question. We're very optimistic with 2017 and especially with 2018. I think that with everything that's going on in Brazil, now the economy separated slightly from the political scenario, from everything that's happening.

And on the other hand, after two years of recession, people can't just sit and wait for something to happen. So in this beginning of the year we saw an increase in demand due to the following mindset: "either we do our part or 2017 will be exactly the same as 2016."

So when you look at the service industry, manufacturing, a lot is said about manufacturing 4.0 in large companies, that will happen in 2017, 2018, 2019 and 2020. But when you look at small manufacturers, small businesses, there's a lot going on.

So our strategy with Bemacash, to take a simple solution, one that's easy, fast, cloud-based, it makes all the sense, and when we look at not having an entry barrier to sell software through Intera, that could also push service revenue a little, because you have smaller projects, but there's no longer a barrier to implement a management software.

So, we are optimistic and we strongly believe in 2017 and 2018. And we have to acknowledge all the work done by TOTVS in 2015 and 2016, the adjustments made to the Company to reduce its headcount, why always trying to keep the necessary team to deliver innovation, to deliver technology and so on.

So, even though we sacrificed our margins slightly in 2016, we think that was important to have the necessary structure to come back, even because of the guidance we gave, to grow in 2017 and 2018. The cost of downsizing is one thing, but the cost of hiring is equally as big.

André Baggio: Thank you. My second questions is: you've been talking as if you think of the company as two entities: one is the company that you want, which is a subscription company, and the other is, let's say, a legacy company, which has license, maintenance, software, hardware and

etc. Do you have any idea of the margin levels in these two separate businesses or is it too complicated because of the allocation of common costs?

Gilsomar Maia: Baggio, this is very hard to know, because today I have the same sales team, for example, working in the two models, so I'd have to make a series of assumptions to distribute this cost.

But I think that if we did this exercise, even if we excluded all this subjectivity, the conclusion we'd arrive at today is that we have a subscription company with a strong growth pace, and I think that's easier to see, but still not generating profits or cash. Even because, as we don't capitalize R&D, our P&L represents something much closer that what happens in our cash flow. On the other hand, we have a company operating under the traditional licensing model that is very profitable, but not growing.

So, these are the two sides we have today: the traditional business, let's put it that way, funding the growth of the new business.

André Baggio: That's great. Thanks, Maia, thanks, Laércio.

Gilsomar Maia: Thank you Baggio.

Operator: Our next question comes from Leonardo Olmos, with Santander

Leonardo Olmos: Hi, good morning, everyone. I have a very quick question. Back to the subject of hardware, which I think was discussed in Diego's question. Hardware, I understood that the Bemacash portion was quite important, for instance, for the hardware revenue this quarter, selling 1,000 units, and then you recognized revenue for these 1,000 units in the period, and then you have receivables, the eight installments.

What I wanted to understand is whether there is any relevant hardware revenue from any other product or even from Bematech. And, on top of that, Bematech used to disclosed its recurring hardware revenue, which is something that's not so clear to me. Is there any type of recurring hardware revenue?

Gilsomar Maia: Good morning, Leonardo. Starting with the recurring hardware revenue, I imagine that recurring hardware revenue was probably related to hardware technical support contracts, especially for large retailers. We still have that today, but it's not too relevant.

In relation to Bemacash, although we have already sold a large volume, in my opinion, at this point, in terms of the total hardware revenue, it still doesn't make a difference. I think that it will soon, but not yet.

Because if we take a closer look, and we're talking about a Bemacash that currently costs, on average, around R\$2,500, talking about 1,000 units, it's easy to calculate, we're talking about around R\$2.5 million to R\$3 million, not more than that within the total hardware revenue.

And in relation to the mix of other products, we have a wide variety, but Bematech hardware is usually related to commercial automation. So we'll be talking about displays, monitors, touchscreen monitors, that sort of thing, OK? That's the kind of equipment.

Laércio Cosentino: Barcode readers, in other words, equipment that complements the software offer.

Leonardo Olmos: Perfect, very clear, thank you.

Operator: Our next question comes from Vinicius Ribeiro, with Brasil Plural.

Vinicius Ribeiro: Good morning, everyone. As a follow-up question to the answer you gave to Baggio, still in relation to the profitability of the SaaS company. I'd just like to understand in this respect, and even as a reading for your guidance, do you think you already have a sufficiently large installed base of SaaS to begin capturing economies of scale going forward? I mean, my question is whether your client acquisition cost in 2017 and 2018 will be diluted by the scalability of your installed base. That's my first question.

Gilsomar Maia: Well, as we add new clients and grow the subscription base, the natural trend is that the acquisition cost, it... because the acquisition cost is usually related to the cost of acquiring a new client.

So, in this respect, if we consider it in a straight-forward manner, no. But if we consider the track record of TOTVS, considering that a substantial portion of our sales is made to clients of the installed base, and we can see that from historical figures, additional sales to this installed base have a much lower cost, because they're almost reactive, my client comes to me, let's say, to buy more.

Where we are right now, because subscription has been focusing a lot on acquiring new clients, we still haven't seen a significant volume of sales to clients of the base. But, in my opinion, that's a potential we still have to explore within the subscription base, to generate sales volumes to these clients, who are no longer new clients, who are already in our base, and are purchasing from us. Even because, differently from the subscription model, where when a client from the base needed a new access they had to purchase a license, the client over the licensing contract they don't have this investment, they simply add more accesses and the monthly fee is adjusted accordingly.

So, if we analyze from that perspective, including sales to clients of the base, my sales costs would tend to decrease over time, as I start to have a sales volume not concentrated exclusively newly acquired clients.

Vinicius Ribeiro: Just a follow-up question: looking at 2017 and 2018, would you say this installed base of clients that you have, who are already paying recurring revenue and already have a larger base of what you've done going forward, due to your growth guidance, do you think that'll be sufficient to have margin growth exclusively from SaaS or is it still too early and we should wait for the fourth or fifth year of this product?

Gilsomar Maia: There's a particular factor here, because since I have a high acquisition cost, as Laércio mentioned earlier, in SaaS, to acquire the client, since there's no upfront revenue, the faster I grow in SaaS, this economy of scale is not evident at first, because although I'm gaining scale with my installed base, I'm also having a high cost to acquire new clients – and perhaps that won't be as evident within 2017.

Vinicius Ribeiro: Excellent. If I could ask just one more question, I'd just like to know more about your provision for contingencies. I understood it was a reassessment of the history of claims you have, but I just have one question: going forward, does that mean you are more conservative in terms of provisioning for contingencies or was it a one-off impact in 4Q?

Gilsomar Maia: Look, provisioning for contingencies results from two factors: the expected likelihood of loss, and that is assessed case by case, and also based a lot on court precedents in relation to specific matters, and also the analysis of historical losses, which is more statistical. So, what we had this year was a slightly higher statistical history of loss, and that automatically adjusted provisions.

What we were unable to do, unfortunately, was to make this adjustment in a more diluted manner throughout the year, so it was concentrated in 4Q, which should not happen going forward because of this historical factor.

Of course, we may have some event, both of accrual or reversal of provision - and we had several cases of reversals -, due to revised prognosis of the natural dynamic of lawsuits. But because of this history, we shouldn't see any more bumps.

Laércio Cosentino: And another important aspect when you talk about contingencies: today, the process of going to court for almost anything in Brazil is a reality, and when we underwent two processes of downsizing in 2015 and 2016, the trend was to see an increase in labor claims, and a trend of courts to act much more in terms of social distribution than in terms of assessing the results of the claims themselves.

So we have to analyze the Brazilian scenario improving in terms of employment, of growth, job creation and all that... the downsizing of TOTVS and with that we have a balance of what TOTVS has had historically in terms of contingencies.

Vinicius Ribeiro: Perfect, very clear.

Operator: We now conclude today's question and answer session. I'd like to invite Mr. Laércio to proceed with his closing remarks.

Laércio Cosentino: Like I said, the year of 2016 was very important in a journey of transformation of TOTVS into a single subscription company. We had challenges, we adjusted and we evolved. Just before closing the call, I'd like to mention the creation of the governance committee and the nomination of its members, with the function of assessing the nomination of new members to

TOTVS's Board of Directors and of further strengthening the Company's corporate governance practices.

This means we are working on subscription, working on the Company's governance, we are really working on what we need to make the Company a single subscription company.

Finally, I'd like to thank all of you for listening to the conference call and hope you have a good day. I'm sure that 2017 will be a great year for TOTVS. Thank you.

Operator: This thus concludes today's TOTVS conference call. Thank you for listening. Have a good day and thank you for using Chorus Call.