Operator: Good morning. Welcome to the TOTVS conference call to discuss the results of the first quarter of 2018. Today we have with us Gilsomar Maia, CFO, Alexandre Apendino, Services and Relationship Officer, and Sérgio Sério, Investor Relations Manager.

Note that all participants will be on listen-only mode during the presentation. After the presentation, 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 ri.totvs.com.br.

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. I will begin the presentation by commenting on the main recent events on **slide 3**. The first is the Shareholders Meeting held on April 5, in which shareholders representing 85% of total shares participated, with shareholders representing 49% of total shares being represented via remote voting form. The Meeting approved all the items on the agenda, among which I highlight the following:

The new Board of Directors composition, consisting of 7 reelected members: Pedro Passos, Claudia Elisa, Gilberto Mifano, Laércio Cosentino, Maria Letícia Costa, Mauro Cunha and Wolney Betiol; and 2 new members elected: Guilherme Stocco Filho and Paulo Sérgio Caputo.

Guilherme Stocco Filho - was an advisory member of the Strategy and Technology Committee of TOTVS last year and is currently a member of the Technology Committee at B3, as well as a consultant to Buscapé and Soluti.

Paulo Sérgio Caputo – independent board member at CSU CardSystem, founding partner of Ória Gestão de Recursos, with large experience in technology companies such as Bematech and Datasul, and also served as vice president of Strategy at TOTVS between 2008 and 2009.

The elected board members will hold their mandates until the Annual Shareholders Meeting of 2019 and their profiles are available on TOTVS' Investor Relations website (ri.totvs.com.br), in the "Corporate Governance > Board of Directors" section.

Another item approved at the Meeting was the changes in the share-based incentive and retention plan, which include: (i) to delink the investment of annual bonus of participants in shares of the Company for eligibility to the Incentive Plan; (ii) to establish the annual individual performance appraisal as a criterion for granting the restricted shares set by the Board of Directors, within the limits approved by the General Meeting of 2015; and (iii) for the "Shareholders Program", to require eligible participants to hold, continuously and uninterruptedly, the equivalent of 12 gross salaries in TOTVS shares on the date of the grant.

These changes were made to improve the plan approved in 2015 to achieve the following objectives: (i) increase the medium- and long-term alignment of interests between participants and shareholders, enhancing the sense of ownership and commitment of participants through the concept of investment and risk; and (ii) strengthen the incentives for retaining and providing long-term stability to participants within the context of a public company.

Moving on to **slide 4**, another event of the period occurred on April 3 was the election by the Board of Directors of Juliano Tubino as Vice President of Business Strategy and Digital.

In his career, Tubino has gathered experience in the areas of digital marketing, sales and innovation, having held diverse executive positions, including Chief Marketing Officer at Accenture Digital, Netshoes and Amazon.

In this quarter, we also inaugurated the new Bematech Hardware plant in São José dos Pinhais, Paraná, which enabled us to unify the operations previously distributed over three facilities in the cities of Curitiba and São José dos Pinhais.

TOTVS also entered in the Internet of Things solutions market with the launch of the Bema platform, that can bring together data from connected devices and be used in business applications.

Before beginning the comments on the results of the quarter, I wish to point out that the new accounting standards IFRS-9 and IFRS-15 came into effect this quarter.
The adoption of IFRS-9 resulted in a provision of allowances for doubtful accounts based on the historical losses recorded in the accounts receivable aging-list ranges, including trade notes due, combined with the clients' propensity to pay provided by credit bureaus.

On the other hand, the adoption of IFRS-15 resulted in revenue recognition during grace periods, upon deferral and/or provisioning of selling expenses and commissions, in order to "linearize" the result over the estimated life cycle of recurring contracts.
Revenue from services was also adjusted by determining the percentage of completion of projects based on the costs incurred versus the updated estimates of total costs required to conclude the projects.

The adoption of these new accounting standards resulted in a positive impact of R$5.9 million in net revenue, R$3.0 million in EBITDA and R$2.0 million in net income in the quarter. The application of these standards on balances on December 31, 2017 resulted in a negative impact of R$8.0 million, which was recognized under equity in January 2018.

I now turn the presentation to Alexandre Apendino, who will comment on revenues in the quarter on **slide 5**. Apendino, please go ahead.

Alexandre Apendino: Thanks Maia. Good morning everyone.

As shown in the chart on the right, with last 12-month figures, and in the chart at the center, comparing year on year, net revenue growth has been driven by recurring revenues, which already exceeded two-thirds of total revenues in the quarter, corresponding to almost 3 percentage points above the level of 2017.

In this quarter, non-recurring revenues grew 2% quarter on quarter and, as we can see on **slide 6**, this increase is mainly associated with software revenue, which grew 6.8% over the previous quarter and 6.5% year on year.

As shown on **slide** 7, software revenue was leveraged year on year by the 38% growth in subscription revenue and the 14% growth in licensing revenue.

Here, I wish to draw your attention to the growth in subscription and licensing revenue in all comparison bases, which reflects sales growth and market recovery in the period. The reduction in maintenance revenue shows that the growth in licensing, combined with inflation update from the IGP-M, has not yet been sufficient to offset the financial churn of this recurring revenue.

In the chart to the left on **slide 8**, we can see that the growth of the licensing model during the quarter came mainly from the increment in the corporate model, which totaled R$17.9 million, an increase of almost 29% compared to the increment in 2017, which itself was 29.5% higher than in 2016.

In this model, clients have unrestricted access to the TOTVS management systems, for which they pay an increment in the license fee at the beginning of each year based on their actual growth in the prior year.

As such, this growth in the increment amount reflects the pace of growth among clients under this model in 2017, especially in the Manufacturing, Health-care and Logistics industries.

Another aspect that draws attention to this chart is the increase of subscription revenue, caming from 18% of software revenue to almost 24% in a year.

This performance is mainly due to the sales of subscription, which can be observed from the net addition of annual recurring revenue from subscription, which is shown in the chart to the right on the slide. Note that as ARR accelerates, subscription revenue accelerates in subsequent periods.

I now hand over the presentation to Sérgio Serio, who will comment on the software results on **slide 9**.

Sérgio Sério: Thank you Apendino. Good morning everyone.

The year-on-year increase of 20 basis points in Adjusted Software Contribution Margin is essentially the result of the growth in subscription revenue, as just commented by Apendino.

The reduction of recurring costs with personnel in 4Q17 also contributed to this performance and to face the probable effect on the wage bill resulted from the collective bargaining agreement to be concluded in São Paulo.

In the quarter-on-quarter comparison, apart from the growth in subscription revenue, the seasonal contribution from the increment in the corporate model also contributed to the 210 basis point growth in adjusted software contribution margin.

Talking now about services, on **slide 10**, despite the decline in revenue, adjusted contribution margin grew 390 basis points year-on-year and 140 basis points quarter-on-quarter, this is mainly due to the reduction in recurring costs with personnel during the second half of 2017 and the effect of R$3.7 million resulting from the adoption of IFRS-15.

In the comparison with the last 12 months, the reduction was due to the decline in revenue from software implementation services and the reduction in revenue from consulting services. These decreases were mainly due to the slower pace of sales and consequently, lower allocation of professionals, especially in the first half of 2017.

Moving now to hardware on **slide 11**, the drop in adjusted contribution margin from hardware year-on-year and for the last 12 months was mainly due to the drop in sales of fiscal solutions, which have a higher gross margin, and by the increased investment in Research and Development due to the normalization of expenses with institutes contracted to comply with the IT Law or Lei da Informática.

In the quarter-on-quarter comparison, the decline in adjusted contribution margin reflects, apart from the drop in sales of fiscal solutions, the negative seasonal effect of the 1st quarter shown on the chart to the left on **slide 12**.

In the chart to the right on the same slide, the drop in sales of fiscal solutions is clear, especially due to the discontinuation process of fiscal printers.

On the other hand, the chart clearly shows the growth in the share of sales of other solutions, especially those related to the so-called direct corporate sales to large clients. These sales are largely cross-selling synergies between the TOTVS and Bematech operations, by which higher value-added solutions are offered to new clients, as well as cross-selling of solutions to TOTVS clients.

Moreover, Bemacash sales in the period totaled 1,042 units, compared to 1,530 in 1Q17. This reduction is mainly due to the change implemented in January this year in the Bemacash sales model transactions using the individual taxpayer number. This sale model is now made exclusively with credit card through the TOTVS Store. Besides simplifying process for clients, this change aims to reduce default levels.

To discuss about selling and administrative expenses, please go to **slide 13**.

The year-on-year decline in aggregate selling expenses and commissions essentially reflects the net effect of the reduction in recurring costs with personnel in 4Q17, the increase in commission expenses as a result of the sales mix between own channels and franchises and the growth in license sales.

In the year-on-year comparison, the increase in general and administrative expenses together with management fees and other expenses is associated with the provision for contingencies in 1Q17 being lower than the quarterly average of 2017 and the higher provision in 1Q18 due to the R$2.2 million adjustment resulting from the reconciliation of judicial deposits balances and their positions on the legal proceedings at the courts.

The quarter-on-quarter decrease in this group of expenses was mainly due to the additional expenses incurred in 4Q17 with the merger of Virtual Age and the integration of the administrative operations of Bematech, both of which contributed to the reduction in recurring personnel costs.

Regarding to the allowance for doubtful accounts, the increase in the quarter mainly reflects the higher level of client defaults at the start of the year, which resulted in a negative effect of R$3.2 million with the adoption of the new IFRS-9 standard.
I now return the presentation to Maia, who will comment on EBITDA on **slide 14**.

Gilsomar Maia: As we can see in the charts, the result of services was once again positive in both the quarter-on-quarter and year-on-year bases, despite the reduction in revenue, compared to the still negative result in the 12 months.

The change in the product mix still continues to reduce hardware results, with the discontinuation of fiscal printers in a more advanced stage than the development of higher value-added solutions such as Bemacash and smart devices for the Internet of Things.

But it should be noted that in all comparisons, result from software, being the Company's core activity, has recovered its contribution to EBITDA, with growth in revenue, especially in subscription, and the reduction in selling and administrative expenses despite the additional impacts of provisions for doubtful accounts and for contingencies.

As such, we can concluded that the year-on-year and quarter-on-quarter improvement in EBITDA is mainly driven by the growth in software result and cost control.

Moving now to **slide 15**, this performance of EBITDA is the key element that, combined with the reduction in the amortization of intangible assets from acquisitions, led to the growth in net income both year on year and quarter on quarter.

Now, I'll move to **slide 16** for the comments on cash flow and debt.

Though taxeble income grew 21% year-on-year and 625% quarter-on-quarter, operating cash flow generation decreased by 11% and 27%, respectively.

The two main factors leading to this reduction were: (i) the increase in working capital, since the quarter did not end on a business day, which resulted in the settlement of receivables by customers at the start of 2Q18; and (ii) the increase in Income Tax and Social Contribution payments due to the new rule established by the Brazilian IRS, which does not allow the offset of federal taxes with credits before the filling of some fiscal obligations that will occur in June.

The decline of 37% year on year and 14% quarter on quarter in net debt, with the reduction in free cash flow in the quarter, is related to the change in the flow of investments, which resulted in an increase in Capex, as opposed to the reduction in disbursement with lease agreements and, consequently, the reduction in gross debt. Compared to the last 12 months, free cash flow grew 18.7% This increase in cash flow led to a 37% reduction in net debt, which went under 1 time adjusted EBITDA in the last 12 months.

I now move on to **slide 17** for the closing remarks.

During this call we saw that:

Recurring revenue grew 5%, driven by subscription revenue, which grew 38% year on year and reach almost 24% of total software revenue.

Annual recurring revenue from subscription grew more than 43% and surpassed R$400 million.

The growth in licensing revenue from the corporate model grew 29% year on year.

The growth in software result and the reduction in selling and administrative expenses were the main factors that contributed to the year-on-year growth of 7% in adjusted EBITDA and 9% in adjusted net income.

And net debt declined 37% year on year, returning to below 1 time EBITDA.

This result underlines our focus on sustainable growth, without compromising the capacity for growth, profitability and innovation of TOTVS.

We are now available for the Q&A session.

Operator: Ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue please press star two.

Our first question comes from **Andre Baggio from J.P. Morgan**.

Mr. Andre Baggio: Good morning everyone, we can see that you use to had a good sale of license and it seems that subscription remains with healthy growth. Can you say that part of this is already do the 18-recovery economy in Brazil, is there anything new in the software that you are developing that is also causing this acceleration in the license?
Mr. Maia: Hi Baggio this is Maia speaking... If I get correctly your question you are asking about the growth of license if it is related to some behavior related to our products or maybe related to the market…

Mr. Baggio: correct.

Mr. Maia: actually no. If you take a look on our figures of license you are eventually going to see that the number of new clients added declined in line with the trend we see on the Quarters and consequentially we will see an average ticket increase as a consequence reflecting the average size of clients we have been sold licenses to them.
Actually it is more a matter of economic dynamic in our market and it is not directly related to our product. I do know if you want to complement something? So it is really more a reflects of especially entrepreneurial environment, so business owners seem to be little bit more confident about the environment and they are not so driven by a fiscal year results for example. They tend to take decisions in accordance with their market confidence.

Mr. Baggio: thank you and then I have a follow-up question that I remember talking to you about the migration of slots, people are switching from the traditional model into the subscription model. How ready the software itself for this transitions? How… You think are the clients? What prevents you from accelerating? I saw that there was a small number of clients that migrated the models. So what is preventing a bigger migration of clients at this stage?

Mr. Maia: you are right. The migration is really in a very low pace. Actually we have no change in this manner. We have been more reactive in this matter because we understand we might be proactive when we see more clearly a very favorable moment to have this kind of conversations with our clients.

Actually our product is ready to the migration if you mean in terms of cloud and so that you can see among the subscribers addition we have the majority of those subscribers already running our solution in the cloud - and here we are talking about exactly the same solutions that maintenance payers are using today. So in terms of products there is no big issue to be addressed.

Of course part of our research and development investment is related to some technical elements that we can improve in order to be more and more efficient in some public clouds, because our software was originally designed to run on premises and more recently we have been able to get a very good performance in our own infrastructure.

Today we are working hard in order to have a similar performance or even better in some public clouds like Amazon, in AWS or Azure from Microsoft and more recently we were talking to Google Cloud as well. So I would not associate directly that low level of migration to a product reason; it is more a matter of our confidence about the moment of the market to address the conversation with our clients.

We do not want to end up that conversation having some discussions about the maintenance, the current maintenance contracts or even not having a relevant number of clients migrating to subscription.

Mr. Baggio: okay understood thanks a lot.

Mr. Maia: okay you are welcome.

Operator: ladies and gentlemen as a reminder if you would like to pose a question please press the star key followed by the one key on your touchtone phone. Again if you want to pose a question please press star one. Once again if you would like to pose a question please press the star key followed by the one key.

This concludes today's question-and-answer session. I would like to invite Mr. Maia to proceed with his closing statements. Please go ahead sir.

Mr. Maia: I would like to thank everyone again for participating in our conference call today and wish everyone a good day, thank you, bye-bye.

Operator: That does conclude the Totvs audio conference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.