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 **Susana Salaru of Itaú**

Susana Salaru: Good morning everyone and thanks for taking my question. We have two questions, first for Apendino. Could you explain to us how you see the sales cycle dynamics at the start of 2Q? Have there been any changes since 1Q? In other words, is the economy already proving to be more favorable.

The second question is for Maia. Could you talk a bit about how Bematech's resellers are evolving and their conversion to also sell software? Thank you.

Mr. Maia: Good morning Susana, this is Maia speaking. I'll start with the second question and then I'll turn the floor over to Apendino so he answers the first.

Regarding Bematech resellers, we made important efforts throughout last year to expand the channels that we call Bemacash Fly. Many of those were only hardware resellers. That plan was executed and we reached the start of this year with around 1,000 Fly Bemacash channels.

It is possible that we see some growth during this year, but I believe the first great challenge was to establish this base of sales channels for these solutions.
Over the past year, we also learned a lot in terms of not only giving sales training to the channel, but also to have a monitoring process for the channel in the sales process. We realized that we needed to improve post-training assistance for the channels for some time, to give them more support. This was done.

Over this year, a second lesson we learned was that we started selling these solutions through our app store, Totvs Store, and Bemacash also started including the complete solution with commercial automation devices, including tablet, other suites, items that make up the Bemacash suite also started being sold through this Totvs Store platform.

One thing we also noticed was that we had a slightly higher default rate when purchases were made by individuals, and as we said a bit earlier in the call, we chose to restrict this type of sale exclusively to credit cards.

This entire Bemacash sales process has been shared with the channels too, they have been very dedicated partners of ours. I believe that progress has been pretty satisfying. Of course we were also experiencing a learning curve at Totvs itself. In a way, it's a new market for Totvs and also a new network of channels for Totvs that we developed. Of course, as I said, a major part of it came from Bematech, but it's a relatively new experience for Totvs.

Regarding the sales cycles I think Apendino can answer…

Mrs. Susana Salaru: Sorry, Maia. Is there any target number of resellers to be reached over time?

Mr. Maia: No. I believe that now this will follow a natural growth process, because the combination of Totvs Store with this number of channels we have already established seems adequate to us for the moment. Obviously we can increase it, but we're not pursuing a specific number of additional channels at the moment.

I think the work now that this channel base has been established is for us to gain more sales traction on this base and work on greater synergies between these "physical" channels and the Totvs Store digital channel.

Mrs. Susana Salaru: Got it, thank you.

Mr. Maia: You're welcome.

Mr. Alexandre Apendino: Good morning Susana.

Mrs. Susana Salaru: How do you do?

Mr. Alexandre Apendino: Susana, about what you said regarding subscription sales we continue to have an accelerated cycle. I believe that what we saw in 1Q demonstrates this. I saw a report from Credit that it took subscription to License (CDU)… showed very strong acceleration of what we're seeing. So, we keep seeing subscription growing a lot.

The sales cycle, I still see it very similar, we didn't have great changes in it. There's still strong competition in the market, I think everyone suffered and everybody is trying to get out of the crisis. I have never seen so much change in this regard; The benefits we're seeing now are the result of the work we did in the pipeline last year. I think we got the issue of pipeline right and this is helping us to have accelerated sales this year, especially in subscription.

Mrs. Susana Salaru: Perfect, thank you.

Operator: As a reminder, if you wish to ask a question, please press asterisk one. Once again, to place a question, please dial asterisk one.

Our next question comes from **Daniel Federle of Credit Suisse**.

Mr. Daniel Federle: Good morning everyone. My first question is about the service business. Last 4Q you identified that there was room to reduce the team based on revenues that were not coming as strong as expected. Back then you were recording revenue of around 125, 130 million per quarter.

In 1Q this number came below that level from end last year and my question is: is there any room for reducing more people in this segment to take margins to higher levels or do you expect revenue to increase over the coming quarters?

The second question, regarding licensing, is that even ex-corporate there is good year-on-year growth and that sales were similar to in 4Q, which usually are the strongest.
I'd like to know if this seasonality still exists and if 1Q is actually a weaker quarter regarding ex-corporate normal license sales and can we expect better license sales in Q2 and Q3, thank you.

Mr. Maia: Good morning Daniel, this is Maia speaking. I'll do this a little different from what I did with Susana, now I'll answer the first question and Apendino can complement the answer to the second. Regarding services, well, I think it's somewhat like you said. In fact we had a decline.

We had to downsize the team at the end of the last year to reduce the issue of allocation that was not being achieved at the teams. Today, we believe we have an adequate level of allocation per team, especially considering the moment at the market. We always have changes happening in the team, but I don't see a structured reduction in the team as was done at the end of last year.

I think now it's ordinary course of business, it continues in the day-to-day routine. A part of the reduction we had in revenue, we even commented about it in the earnings release, also has to do with consulting business, where we saw a reduction in the sales of some types of projects. We understand that this reduction in consulting projects is a structural reduction, I don't see how we can turn this around; Our goal is to maintain the focus on projects that are more closely related to selling software.

Regarding the sales of implementation services, we saw a recovery in sales especially during 3Q to 4Q last year that I still believe has not been fully translated into this service revenue. This can bring some growth in service revenue in the coming quarters.

But frankly I think service can have an incremental improvement. I also believe the focus has been on working on the cost structure to have a minimum of profitability in this line of business, which is an ancillary business, but at the end of the day its main purpose is to generate more software sales, generate the use of our software by clients.

And when we look at the medium and long term we know some factors such as solutions that more oriented to the cloud, even the size of clients we have been selling subscriptions to, are factors that do not contribute to the growth in the service line.

On the other hand, when we look at license sales, which is the next question you asked, we see that there is a decline in sales volume in terms of quantity and an increase in the average ticket, as we have already seen in previous quarters, which conveys the average size of the client that continues to buy licenses, a bigger size. These bigger clients in general proportionally demand a little more service and this can also be another factor that can also incrementally improve the result from services.

And there's also something we know is natural in the market, which is a large number of independent professionals, who are not directly from our franchises or even our operations, but who provide services and, in some situations, also implement our solutions.

So, we have the software sale and in this specific situation not necessarily the sale of service, which we don't see as something negative. As I said, at the end of the day the purpose of service is to enable the client fully use our solutions.

With regard to licensing, corporate in fact delivered strong performance once again this year. I think the characteristic we saw in this growth in 2018, which reflects the growth in 2017, was a more diversified growth. In the past, growth was more concentrated in agribusiness, which was one of the first sectors of the economy to post stronger recovery.

Last year we saw growth once again in manufacturing as well, but a bit more spread out, as we also saw growth in health and logistics. So, it's a good sign for us and shows that there is indeed a more widespread recovery in the market. And even excluding this revenue from increment in the corporate segment, as you put it, we still see a level of licenses which, in comparison to the last quarter, was quite positive.

I always like to remind that this is a good result in licenses, about which Apendino can provide more detailed comments; but I wish to highlight that this is a greater sales volume more concentrated in fewer accounts. Bigger, naturally; but which obviously also carry within them a bit more volatility, because we rely on fewer accounts to achieve the result from license sales.

As a result of this, our performance could be better in some quarters since a set of factors could contribute with the closing of more relevant accounts in the quarter, while the opposite can also happen in other quarters. So I believe that the twelve-month figures are always more favorable than numbers of just one quarter.

Mr. Alexandre Apendino: Daniel, this is Apendino, good morning. With regard to licensing in 1Q, we have a purpose at Totvs that we work with a lot of entrepreneur-owned companies, and entrepreneurs operate somewhat differently from large companies that have the issue of fiscal closing, budget and all that.

And, as Maia said, we closed big accounts at the beginning of this year for which we didn't have this fiscal year requirement, so we really had an impact of big accounts we obtained running against our competitors for large accounts, for domestic entrepreneur-owned companies. So, we did have the impact of accounts we negotiated last year and which actually happened in January, when we had the impact of these accounts, as you said, excluding the corporate segment.

So, as Maia also noted, these are one-off situations, but it's a good sign for us that we made headway into big accounts, that we continue to work with very strong focus on entrepreneurs and our domestic market, which are companies that usually aren't part of our everyday radar but we were able to obtain. These accounts ended up occurring in January and February.

Mr. Daniel Federle: Great, thank you guys.

Mr. Maia: Thank you.

Operator: Once again note that if you want to ask a question, press star one. As a reminder, if you would like to ask a question, press star one.

The question and answer session has now ended. I'd like to invite Mr. Gilsomar Maia to proceed with his closing remarks. Mr. Maia, please go ahead.

Mr. Maia: Well, I'd like to thank you all for participating in our conference all, for the questions, the patience to listen through our comments on the quarter's results. I wish you all a nice day and we remain available if anybody has any more questions. Thank you and have a nice day.

Operator: That concludes TOTVS conference call today. Thank you for participating. Have a good day and thank you for using Chorus Call.