Operator:

Good morning. Welcome everyone to TOTVS' 4Q13 results conference call. Today with us we have Mr. Laércio Consentino, CEO of the Company, Mr. Alexandre Mafra Guimarães, CFO, and Mr. Gilsomar Maia, IRO and Corporate Finance Officer.

We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. After TOTVS' remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Today's live webcast may be accessed through TOTVS' website at www.totvs.com/ir.

Before proceeding, we would like to mention that during this conference call, forward-looking statements may be made relating to TOTVS' business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS' management and on information currently available. Forward-looking statements do not guarantee performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions, and other operational factors could also affect TOTVS' future results and could cause these results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Laércio Consentino, who will begin the presentation. Mr. Consentino, you may begin your conference.

Laércio Consentino:

Good morning, everyone. Thank you for participating in this conference and giving us the opportunity to discuss TOTVS's 4Q and 2013. I would like to start by sharing our understanding of 2013, a year in which our convictions on the adequacy of our strategy were put to test, a year that began with good economic prospects. Although, as the months passed, inflation proved to be resilient and the projected GDP was constantly revised downwards by the market, even with the high credit availability and the low level of unemployment indicators. This combination of factors resulted in a general increase of labor cost, in real terms, without productivity gains. As a consequence, the businesses profitability and the confidence of the Brazilian businessmen fell, making them adopt a more conservative approach regarding new investments.

In this context, we decided to maintain the planned investments for the year, even facing a more complex short-term macro scenario. When I say investments, I mean projects connected to the Company's future. We put focus on investments, organic and inorganic, that comprise human capital and ensure the enhancement of products and services offered by TOTVS.

And talking about human capital, I would like to introduce Alexandre Mafra, our Vice-President of Human Relations and Organizational Infrastructure that assumed the CFO role in the first week of 2014. The choice of Mafra for this position was based on our succession plan, which takes into account mainly his professional experience with the business and his alignment with the DNA of TOTVS.

Mafra, please share with our investors a bit of your background, that is summarized on slide two.

Alexandre Mafra:

Thanks, Laércio. Good morning everyone. My professional career has always had more emphasis in finance. During 12 years at AmBev, I acted at the Central management as Finance Manager, General Factory Manager, National Financial Services Manager, and Planning and Performance Management Officer.

I joined TOTVS in March 2007 as Planning Officer, being responsible for the Company's financial planning. After two years, I took the financial and administrative office, when the Shared Services Center was implemented, unifying all Company's administrative areas, such as billing, accounting, and treasury, all areas which continued under my management as Vice-President of Human Relations and Organizational Infrastructure.

These administrative areas are still under my responsibility, and by accumulating also the Executive Financial Vice-Presidency, I will be able to unify and optimize all administrative and financial structures.

Now, I turn the call to Maia to proceed with his comments about the quarter and the full year results on slide three.

Gilsomar Maia:

Thanks, Mafra. Good morning, everyone. Beginning with the total net revenue, the 14% growth in 2013, as well as the 19% in the quarter, outperformed the 5-year CAGR, highlighting maintenance and services lines, which together represented more than 78% of total revenue.

In Maintenance fee, we grew 17% in 2013 and 23% in the 4Q, year on year, surpassing the 5-year CAGR of this line, which is our main recurring revenue and already accounts for almost 49% of total revenue. These results reiterate the resilience of our business model. Service revenues grew 16% in 2013. In the 1H, this line grew 12%, showing the speed up of services execution in the 2H, as shown by the 23% growth in the 4Q. This performance in the 2H resulted from the actions taken in the 2Q to recover the services efficiency.

Moving to license revenue, the 6% growth in 2013 was driven by sales to existing clients, which rose 12% year on year. In the 4Q, the highlight was the 14% growth in sales to new clients, with the addition of 970 new clients. Part of this performance was due to the marketing campaigns to sales of new projects, based on specific templates for each industry. These templates are pre-configured solutions with a specific scope, shortening the implementation cycle, reducing the solution cost, and improving the implementation teams' efficiency. This sort of experience reinforces our beliefs in the specialization strategy effectiveness to enhance the solution usage by existing clients, as well as increasing the solution attractiveness to new clients.

Our sales pipeline has taken longer to convert into new sales, nonetheless it is consistent, with good opportunities especially in the service-oriented sectors, which have been gaining relevance in our total revenue. Strategic marketing actions are also being taken within each industry sector, aiming to reduce the amount of time needed to close the deals, shortening the sales cycle. This sector dynamics and its impacts on revenue growth became clearer with the revenue breakdown by the most representative industries, shown on slide four.

On the left, we have the representativeness of each sector towards the revenue and, on the right, the revenue growth of these industry sectors. Notice that Manufacturing and Financial Services together accounted for 40% of total revenue, having their share lowered by 4.8 p.p.

between 2011 and 2013. On the other hand, Distribution and Logistics, Retail and Services, gained 5.5 p.p. of share in the same period.

It is worth mentioning that the manufacturing industry is a traditional investor in IT that contributes relevantly to our recurring revenue and plays an important role in our approach as value chain integrators for the Distribution and Logistics, Retail and Credit, which are industries with high growth prospects.

Financial Services is another traditional IT investor, with significant contribution to the recurring revenue. The loss of share presented by this sector is mainly a consequence of the consolidation process of the Brazilian financial institutions and the moment of the Brazilian capital market, reducing demand for solutions by the asset managements.

This behavior diversity illustrates the different levels of maturity of the industry sectors in terms of IT adoption, as well as the dynamics of the Brazilian economy in recent years, which is getting more service-oriented. Among these industries, we highlight the demand for our solutions to carriers, distributors, and cash-and-carries that have leveraged their participation in the distribution and logistics industry. These solutions place us in a unique position in the chain that integrates manufacturers, distributors, and retailers. By the way, retail has been a great industry with demand, especially for new solutions of point of sales and credit analysis that integrated a unique solution for this industry.

We believe that investments in our solutions and in the expertise of sales and service teams, through organic and inorganic actions, are key to focusing on industry sectors with higher demand, making TOTVS an effective vehicle to capture the growth across the industries in different moments of the economy. In addition to this, TOTVS business model has also resilience as a characteristic. Since its origins, the model emphasizes the recurrence, in detriment of short-term revenues, also a profile of the operations acquired by TOTVS. In summary, TOTVS' model applies the concept of software as a service, regarding revenues, even before the SaaS definition became popular.

This is more evident when we analyze the pace of sales to existing clients and recurring revenue. Since the SMB is the main focus of TOTVS, as these companies grow, they buy more and generate more recurring revenue.

On slide five, the total recurring revenue growth, in both the last three years and in the 4Q, shows the pace, which was 12% between 2011 and 2012, and 14% between 2012 and 2013. It is also worth mentioning the year-on-year growth of nearly 18% in the 4Q, without considering the results of August and September of RMS, that were consolidated in the 4Q, and the non-recurring effect of about R$9 million from maintenance contracts settled this quarter. This growth shows that the recurrence of TOTVS business model has responded positively to the work performed.

Now, I turn the presentation back to Mafra, so he can comment on the acquisitions made by TOTVS in 2013, presented on slide six.

Alexandre Mafra:

In the 4Q, we acquired two companies: Seventeen, a development franchise focused on the development of TOTVS management solutions, especially those for large health insurance providers in Brazil. This transaction reinforces our expertise in the development and services for this very specialized industry sector.

The acquisition of Ciashop, which develops an e-commerce platform in the cloud, having more than 1,000 online stores among its clients. It is important to highlight that its business model has more than 80% of recurring revenue. This investment allows TOTVS to enter in the cloud e-commerce platform business, complementing the fluid offering and enhancing the support by industry sector of its clients, which have or intend to have an e-commerce business.

Looking back on the M&A operations in 2013, we began this new M&A cycle by acquiring PC Sistemas in January, in the Distribution, Wholesale, and Retail segments; in April PRX, in the Agribusiness segment; in August RMS, in the Retail segment, focused on supermarkets. All of these acquisitions fit with our industry specialization strategy, bringing specific know-how to our solutions and to our sales team, with opportunities to capture synergies, especially through cross selling. Right after the acquisition, the acquired companies start to benefit from revenue synergies of new sales leads, from the business ecosystem and from the TOTVS branding.

In a second stage, the sales synergy is captured as the solutions are integrated into our portfolio and distribution channels. On average, these companies grew 16% in 2013, above their average prior to the acquisition.

To conclude my comments on M&A, I see TOTVS' strategy strongly connected with the economy dynamics, focused on investing mainly in segments with higher growth prospects in the coming years.

Now, let us talk about the international market operations on slide seven. Since 2011, these operations have been speeding up its revenue growth and reducing its negative EBITDA, both in Brazilian Reais and USD. At the end of 2013, revenues from these operations represented 1.7% of TOTVS' consolidated revenues.

This is the outcome of the action plan that has been implemented since the beginning of 2012, which aims to grow these operations to a range of 3% to 5% of the consolidated net revenue by 2016. However, this growth shall be sustainable, gradually reducing losses to achieve EBITDA breakeven by the end of 2014.

Now, moving to EBITDA, on slide eight. We ended the year with more than R$400 million of EBITDA, and the 4Q with more than R$100 million, which represent an increase of 6.4% in the year and 7.5% in the quarter. This growth, lower than the net revenue growth, led to an EBITDA margin decrease of 1.8 p.p. in the year and 2.5 p.p. in the 4Q.

In order to comment a little bit more on margins, I ask you to go to slide nine, where we have the breakdown of costs of our solutions, sales, and G&A, as a percentage of our net revenue. In this slide, we can see that the cost of solutions, which includes the costs of license fees, services, and R&D were those that presented the highest growth. This group is crucial for the Company's perpetuity, since it includes the labor costs of those who have the knowledge of our solutions and services.

In addition, it challenges us all the time to pursuit a good cost balance, considering people training, medium and long-term performance, and top line growth. Thus, as mentioned by Laércio in the beginning of this conference, we decided to keep an appropriate cost balance to maintain the investments for the year, even with the top line below our expectations.

We chose not to stop investing in projects related to Company's future, mainly those related to our technology platform innovation and the ones related to the industry specialization process, which are more mature in the solutions development side.

It is important to emphasize our confidence about the return on investments in the medium and long term. We will not lose focus on the cost discipline in this group. I do not mean just R&D here, but also cost of services, which has evolved in the 2H13.

In short, the focus of this group is to increase efficiency in services and dilute R&D investments, considering top line growth. In the group of costs related to sales, we also had significant investments in the year, especially in advertising and sales. Investments in advertising were enhanced in 2013 to support marketing campaigns per industry sector. Despite this increase, advertising expenses were in line with historical levels, as a percentage of net revenue. Regarding selling expenses, investments are also mainly related to industry specialization, both in training the sales team and the back office structure.

Now, on the G&A and management fees group, we will keep our efforts aiming to increase administrative efficiency in managing the day-by-day operations and also in the M&A integration. The merger of the Vice-Presidencies of Finance, HR, and Infrastructure itself, which are now under my management, is an example of this effort to have an optimized administrative structure that supports the Company’s growth. In summary, without putting TOTVS future at risk, we will seek efficiency in all areas, either by increasing revenues or by the alignment of the cost structure.

Now, Maia will proceed the presentation from slide ten.

Gilsomar Maia:

Starting with the net income of the 4Q, it is important to keep in mind the positive impact from interest on equity, that in 2012 were fully declared in the 4Q and in 2013 it was declared partially in the 3Q and in the 4Q, diluting its effect during 2013.

This chart shows that if we had declared 100% of the interest on equity in the 4Q, as we did in the previous year, the 4Q net income would have grown 1.8% year on year. In the year, the 7.7% net income growth surpassed the EBITDA’s growth, mainly due to the reduction of financial expenses from a higher average net cash position in 2013.

In slide 11, we have the evolution of the cash flow for the year. We started 2013 with a net cash position of almost R$170 million, with R$420 million in cash and R$242 million of gross debt. The operating cash flow of R$282 million accounted for about 70% of the EBITDA and 127% of the net income. The R$189 million invested in M&A and Ventures operations are mainly comprised by the payment of PC Sistemas, PRX, RMS, Seventeen, uMov.me, GooData, and Zero Paper operations.

The positive amount of R$194 million in the net loans is formed by the inflow of R$250 million from the R$658 million financing line approved by the BNDES in October, and the payment of R$70 million of previous financing lines.

By the end of 2013, the cash position amounted R$533 million, and the gross debt amounted R$407 million, totaling a net cash position of R$126 million. So, we enter in 2014 with a cash position that gives us the financial capacity to execute both our organic and inorganic investment plans. This capacity already includes the dividend proposal of R$0.96 per share, presented on slide 12.

This proposal will be submitted to the General Shareholders Meeting, to be held on March 14th, representing a 31% raise in the dividend per share when compared to 2012, totaling R$ 155 million. Excluding the Interest on equity declared on 2013, this proposal represents an additional dividend payment of R$116 million, corresponding to R$0.71 dividend per share.

Now I would like to invite back Laércio for his final remarks on slide 14.

Laércio Consentino:

By the beginning of this conference, when I said that our convictions were put to test on 2013, I meant the convictions that TOTVS is a pioneer and innovative company, that grows and invests in order to grow even more and to have its clients, employees, partners, and investors happy.

2013 was a year that we invested in the fundamentals to create a new cycle of sustainable growth for TOTVS, besides not having the expected top line, and consequently an EBITDA margin below our guidance, even though we closed 2013 with 14% of revenue growth, 6% of EBITDA growth, and a 7% of net income growth, with a consistent cash generation.

TOTVS reason for existence is making our clients more competitive in their industry sectors. We believe in costs and expenses management based on austerity and responsibility, without compromising the Company's future.

We start 2014 pursuing margin recovery, emphasizing the discipline on costs and expenses and on the top line growth, based on offerings by industry sector, assuring that we are even more essential to our clients' day-by-day operations.

This is a very important moment for us, as our teams have been delivering important structural projects and moved forward in the implementation of the three TOTVS' concepts of: Fluid Technology, Essentiality, and Agile ERP in our products and services, as well as in the training of our teams, the enhancement of our distribution, and in the loyalty of our clients.

2014 begins with a team that is both ready and aware of the five-priority guidelines of our strategic plan for 2014 to 2020, which are: Simpler – in our processes and structures; More agile – reducing the development and implementations cycles, being more efficient and productive; More connected – connecting our clients and users by any available devices; More cloud – Promoting integrated platforms and management solutions in the cloud; More essential – to the core business of our clients.

To stamp this moment that is so important for TOTVS' future, we decided to evolve our logo, so everyone will remember the day that we started to be a company that is simpler, more agile, more connected, more cloud, and more essential. This logo which represents, through the light that shines from the interaction of two screens, the ideal positioning for people, enterprises, or devices that want to be connected and become more essential.

Thank you. From now on we are available to the Q&A session.

Susana Salaru, Itaú:

Good mo   rning everyone. You mentioned in the press release and now in the conference call that you are committed to expanding margin from now on. I'd like to know which sectors will drive your margin going forward.

And secondly, I'd like to understand better this level of marketing expenses. Was it only in 2013 or should we expect the same in 2014 as well? Thank you.

Gilsomar Maia:

Good morning Suzana. Starting off with your question on margin, the first and foremost driver of margin growth is revenue. Since we had also made investments, these will generate returns for us in the form of additional revenue. That is the first driver.

The second driver, naturally, is the pursuit of efficiency gains in the areas. Since we are talking of investments and of preparing the company for revenue growth, we naturally have the means to increase the efficiency of our areas since annual revenues fell short of expectations.

Thus, we are entering 2014 with a strengthened structure but from which we must extract significant results.

As for the marketing expenses you referred to, especially in 4Q they were mostly related to a specific campaign with a defined purpose that we held for projects and which we call a “quick dash”. These are projects in which our proposition is to implement them within 90 days, and this campaign played an important part in helping us win 970 clients in the quarter.

This helped a lot in the conversion within the pipeline, in terms of new clients. In summary, we entered 2014 with a highly sectoral footprint. The marketing efforts tend to follow this line because the company’s strategy is focused on platform and segments and so the entire structure - from the development of solutions to delivery and sale, and advertising of course, must have this segment-based focus.

What I don’t want people to think is that we’re going to have these one-off events in the fourth quarter every year as I would be able to foresee that. I’d rather consider the evolution of this line much more in terms its historical performance. Historically, we have always had the seasonality factor here, with a higher concentration of expenses between 2Q and 3Q. At least that’s how I see it right now.

So, to encapsulate these two things I said now: as Laércio mentioned at the end of his speech, with regard to both margin and marketing, we’ll strive to be increasingly quicker, simpler and more connected to our clients. It’s a very strong interaction, and we really strive to be more efficient in our daily activities.

Laércio Cosentino:

Complementing his response, we started 2014 on January 17, with the Company’s kick off that involved the entire sales team and the team of managers, directors and vice-presidents. In 2014, we have been full throttle since January, well before the Carnival holiday and all that is always said about Brazil.

Susana Salaru:

Great. Maia mentioned the second driver is efficiency between the areas. Can you be a little more specific? It’s kind of hard to grasp what it would be and how exactly will it happen.

Alexandre Mafra:

We just gave an example of synergies captured from the merger of two vice-president positions that I took over. Moreover, there are several synergy opportunities that we’ll certainly capture both internally and from the companies we acquire.

Susana Salaru:

Thanks everyone.

Daniel Fedele, Credit Suisse:

Thank you, good morning everyone. My first question is about license revenue. I wish to know how much is this being affected by a weaker economy, has there been a decrease in license sales, and what extent of this impact is the result of your higher sales focus on SaaS, which could not be recognized in service revenue as license revenue but instead going directly to maintenance revenue.

My second question is regarding the growth of services, which was quite strong. I'd like to know whether it was a one-off impact or whether it is really a structural change. You mentioned that one of the factors behind it was stronger sales through own channels. I'd like to know if this is only now or you see own channels selling increasingly more in the future. Thank you.

Gilsomar Maia:

Starting with your question on license revenue growth in the year, I don't see SaaS as a factor. There is a natural emphasis on recurring revenues, which is part of the process, but I wouldn't say license revenue as whole would be affected specifically by it.

I think there is a process that happens gradually over the years, in which license increasingly loses importance in monetary terms. If you analyze in terms of sales transactions within the year and every quarter, we ask you not to focus only on the quarterly figures, the rationale is the same here.

When we look year over year, we see that the client additions number is quite similar, something like 3,600 clients added in the year, which gives an average of 900 per quarter. It's a pretty substantial figure, I don't know of any company that can add so many clients in a quarter, on average.

We also notice a large number of transactions made with base clients. This happens a lot with the market profile that we deal with. We know that the small and medium business market is marked by fragmented acquisitions, initially of a smaller size but which increase as they grow and expand the use of solutions.

There is even a correlation between this behavior of sales to base clients with the services themselves, since as we gain our clients' trust and they increase the use of our solutions, it creates an increasing number of opportunities to offer value-added services to these clients.

I also notice that the more we penetrate the core business of our client with segmented solutions, more such service opportunities arise. You asked me whether this is something one-off or a structural change. I'd say that looking back at the past two or three years of TOTVS, we have indeed performed better in terms of service and maintenance.

In its daily operations, the Company has indeed focused on these two aspects because these help to strengthen its relationship with its clients: the long-term relationship that translates into recurring maintenance revenue and the increasingly deeper knowledge of clients' business, which enables us to offer them value-added services.

Of course, if we look at the medium and long term, and combine everything that I just told you - of having a greater focus, the SaaS model gaining increasing importance - the license revenue will probably play a less important role in our business model. This is a transition in the model that happens gradually.

Laércio Cosentino:

Complementing his response, Daniel, when you look at the TOTVS model, where we have licenses, maintenance and service contracts, we always try to strike a balance between these three aspects, contrary to some of our competitors, which depend entirely on licenses and maintenance contracts.

When it is important that clients adopt our faster solution and bring us into their daily routine to increase their competitiveness, we can strike a better balance between recurring maintenance revenue plus service and postponing license revenue for an appropriate moment.

Daniel Fedele:

Great. Thank you very much.

Diego Aragão, Morgan Stanley:

Good morning, everyone. A quick question on margin: I'd like to understand, if we analyze the issue of Brasil Maior, what was its net benefit for margin in 2013 or in 4Q13. I wish to know what benefit did Brasil Maior bring. Thank you.

Gilsomar Maia:

Good morning, Diego. I must confess that I am not sure if this Brasil Maior exercise has any relevance. First because we have the basis for comparison as 2012, so we already have Brasil Maior on both ends of the comparison.

Secondly, because as this program was increasingly disseminated and understood, it was also being absorbed by the cost structure in the form of wage hikes and collective bargaining agreements, which was a matter of debate as well.

Today, it's hard to tell what the bottom-line impact of Brasil Maior was because we've already had almost the entire impact reflected in other lines as well, especially personnel expenses.

Diego Aragão:

I see, but Maia, imagining the margin guidance for the next three years, if there's a chance or a scenario where Brasil Maior could end in 2016. How do you see your cost structure being able to achieve this margin guidance of, let's say, above 27%?

Gilsomar Maia:

The first thing I'd say is: we know it's a legal issue that the program is scheduled to end this year. We don't really consider this scenario much, especially because I think it's highly improbable that the Government will backtrack on this process. I think this was a major step forward by the Government, not just for the sector in which TOTVS operates but for almost 70 other sectors.

A large number of companies today are working on this mechanism. This was included while fixing the price because it became a tax levied on revenue and all the costs of operations no longer have this tax calculation. I find it very hard to consider withdrawing it.

Of course, the Government, I think you're considering multiple scenarios, and that is its role. The Government should be discussing this issue especially because of the deadline and if it withdrew the program, it would affect not only TOTVS but all other players in this and other sectors covered by it. This would have a wide ranging impact.

Laércio Cosentino:

Diego, I am the Chairman of the Brazilian Association of Information Technology and Communication Companies (Brasscom), which consists of the 38 largest Brazilian technology companies. This is an issue that we are discussing. As Maia said, if it was only our industry that had this tax relief, it would really be a problem, but with the number of companies and industries involved, any change to the program will not be easy.

Diego Aragão:

Perfect, got it. Thank you.

Valder Nogueira, Santander:

Good morning. Here's my first question: how are you managing the issue of inflation, both in services0020or revenue and in costs? How do you see that? What is the inflation scenario you are looking at in 2014? How was it in 2013?

Laércio Cosentino:

If we divide the three lines we have, the first is the issue of contracts and maintenance. In maintenance contracts we have the guarantee from the GPM inflation index, so when you talk about inflation, the contracts are protected by the annual price adjustments in each of the contracts.

When we talk of services, we adjust our price list annually, at least compensating for the inflation and as a result new contracts and new projects already capture these increases. In case of contracts from other periods where we have to maintain the previous price in a new project for an existing client, the GPM index is applied directly to the contract after one year.

Licenses are sold at the market price, so we increase prices at least at the same rate as inflation, though we do give discounts in order to be more competitive. We are being very pragmatic and are monitoring it closely.

As for the inflation expected in Brazil, I think we are protected within all our policies.

Valder Nogueira:

What about costs?

Gilsomar Maia:

As for costs, there was an increase in the last quarter. Also being discussed is the adjustment in São Paulo and we're considering the scenario of the current inflation levels continuing through.

As Laércio mentioned, our revenues are more distributed throughout the year whereas our biggest cost adjustments are concentrated in 4Q and 1Q. This is already known and TOTVS' plans already take this into consideration. When we talk of improving the efficiency of the structure, we already take this into account.

Laércio Cosentino:

To complement his response, I think there are two important levers we are looking at. Of course, we must always have a pyramid of highly competent manpower, which is very important for any margin gain we may have. And there's also the productivity factor.

I think, together with price control, these are the factors we should work on to improve margins.

Valder Nogueira:

OK. And now, putting the ball in your court, the chart on page four of the earnings release deserves applause for the team for having made this type of disclosure, this breakdown. This is something we had always requested from you to enable us to understand exactly all that you said in the conference call about what expect in verticals, going forward. And to have this vision was quite useful.

Now, is there any specific point in these large verticals that you have broken down that you think deserve further comment? Because this was really exciting to me. I liked the level of disclosure and I appreciate it, but is there anything you consider relevant? For instance, you registered significant share growth in retail, from 12% to 15% overall, but how much of it reflects the capex you already invested for this specialization, and how much more can we expect from the capex that you invested, as increased share not just in terms of revenue share but also nominal share of growth, and expanding to other lines. For instance, services, which is a line that really rocketed.

Gilsomar Maia:

Well, as you mentioned, we provided this breakdown in response to the requests throughout the year, and our commitment was to provide this breakdown on an annual basis because a quarterly breakdown does more harm than good.

I think it's quite clear from the chart that a few segments pull this average down, yet our approach is deeply connected to the chain - despite the specialization in each of these segments, we have an integration vision of the chain. I think we were even a bit repetitive in our statements on this aspect; when we look at manufacturing alone, its growth has been below the average. I'd say that if we look at manufacturing in general in Brazil, it grows at a slower pace than manufacturing at TOTVS. Hence, since TOTVS is able to dive deeper into the operations of clients, it captures a unique dynamic, especially in small and medium businesses.

But when we analyze manufacturing together with logistics and retail, we integrate this chain, and I see this as a differential of TOTVS in comparison with its competitors who, as we always point out, are really specialized in niches. TOTVS has this ability of having a more holistic vision of chain integration. That's the first point.

Second, I think it makes it clear about TOTVS' tactical approach, here linked to strategy. TOTVS knows that these sectors that are pulling the average down have a more complicated macro dynamic. So, we have to help these companies face this more complex scenario, by providing them with tools that can increase their competitiveness and make them more efficient. And these are important also for our recurring revenue, for business stability, for greater predictability.

And on the other side, we have sectors in full expansion and which TOTVS can help gain maturity in technological perception and walk hand in hand in their growth trajectory. So, you can have a balanced model that combines both recurrence and predictability of revenues, while also capturing industry growth with its specific dynamics. I think that, at the end of the day, it's what this chart helps to explain, this combination of strategy and tactics of TOTVS.

Laércio Cosentino:

To complement his reply, when you look at the sequence we mentioned here, that's exactly what is happening. I mean, from manufacturing you go to distribution, logistics and then to retail; then you have to provide a service in what you sold in retail and so on. So, if you look well, either you do it domestically with manufacturing, or you import it. So, we are managing to capture what comes through TOTVS, imports from outside de country, what was built outside the country, we are capturing both distribution and retail, and more importantly: services outgrowing retail, which we are capturing in the chain after retail, and this fundamental. This is a competitive advantage of TOTVS.

Gilsomar Maia:

And the financial services segment itself, which I did not comment on, has been undergoing consolidation, and you know better than we do that the capital markets have been more challenging for these assets in recent years. Nevertheless, the financial sector is able to collaterally contribute to this chain that we mentioned.

For instance, in our speech on this quarter, we explained that our credit offering combined with solutions, for the retail segment – where credit is an important factor - is actually creating a competitive advantage for TOTVS. And these credit solutions that we offer, coupled with retail solutions, came from the team that originally served only the financial sector.

Laércio Cosentino:

And, to sum up, what is important is that we have paved this road. As I told you, the financial area's support to manufacturing, imports, distribution, retail and services is costing a bit for us, of course. A little more advertising, a little more development, a few more alliances and partnerships. But I'm sure that we are going in the right direction.

Gilsomar Maia:

And your question was highly related to our capex. It is in fact the beginning for us. These are the first signs that what we did is in fact going in the right direction. We expect much more from it. These are only the first signs, in our opinion.

Valder Nogueira:

OK. Thank you.

Susana Salaru, Itaú:

Hi. A quick follow-up question on Valder's query. Laércio mentioned that license prices must be a mix of inflation pass-through and the competitive conditions in the market. So, my question is whether you feel an increase in competition and if you are unable to adjust license prices at the same rates as you did in previous years. Thanks.

Gilsomar Maia:

Well, Susana, picking up where we left in our comment to Valder, every time we were asked by you guys and by buy-side analysts as to who are TOTVS' competitors, since TOTVS operates in diverse segments and different company sizes, we have always clearly stated that we have several competitors, depending on the market. In the small and medium business market, there are numerous companies that choose specific niches to specialize and try to stand out in these segments. These competitors who specialize and focus all their energy, place all their hopes on those segments, so they are actually strong competitors, given the level of specialization they manage to achieve.

This competition has existed always; the point is that TOTVS, through specialization, is also becoming a tougher competitor for these companies. This competition is fierce, but TOTVS is also getting stronger in the segments. I'm not sure I was clear in addressing your question.

Susana Salaru:

But, compared to last year, for instance, do you think it has improved, is the same or has worsened?

Gilsomar Maia:

Competition evolves year after year, evolves constantly. But so does TOTVS, Susana. So, if you ask me if competition is more specialized and stronger, yes, it is stronger. On the other hand, TOTVS is also much stronger with regard to addressing the segments. I think everyone became stronger and the market is really good; we see new players coming from outside, underscoring this aspect of our market, which still holds tremendous potential for everyone.

Susana Salaru:

Thanks.

Operator:

There being no further questions, I now turn the floor back to Mr. Laércio Cosentino for his closing remarks.

Laércio Cosentino:

I'd like to thank you all for participating in this conference call, and say that we did not lose a single minute in 2014. We started the year on January 17, with the Company's kick-off made by the entire sales team and top management. Today, there are more than 12,000 people, including franchises, working with us on the challenges we have discussed and are focusing on our objectives, which we should accomplish.

We are working, count on us. A great 2014 for all. Warm regards.

Operator:

This concludes TOTVS' conference call. Thank you for participating. Have a nice day.