

Operator:

Good morning. Welcome everyone to TOTVS' 3Q13 results conference call. Today with us we have Mr. Alexandre Dinkelmann, Executive Vice-President of Strategy and Finance, and Mr. Gilsomar Maia, 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's 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's 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. Alexandre Dinkelmann, who will begin the presentation. Mr. Dinkelmann, you may begin your conference.

Alexandre Dinkelmann:

Good morning, everyone, welcome to TOTVS' 3Q13 results conference call. I would like to start on slide two, talking about the new financing lines hired from the National Bank for Economic and Social Development, BNDES, amounting to R\$659 million. Of this total, R\$597 million will come from the line called Prosoft, for funding the research, development, and marketing of TOTVS solutions.

This line bears interest at 1.5% per year plus long-term interest rate, TJLP, which is currently at a nominal rate of 5% per year. R\$59 million will come from the financing line called PFI, with interest of 3.5% per year, for funding the research, development, and marketing investments of our agnostic platform Fluig, for process, collaboration, and identity management.

The remaining R\$3 million will come from a social credit line, which bears TJLP, in order to finance investments made by the Institute of Social Opportunity, which is maintained by TOTVS and aims to support and monitor the employability of youth in need and people with disabilities.

The amortization will occur in 72 months with a grace period of 24 months for the principal amount amortization. These lines establish funding for the already planned investments in innovation and specialization of TOTVS solutions and also improve our capital structure efficiency and strengthens our financial capacity for inorganic investments.

Still on slide two, we have Intelie as the winner of TOTVS Start It Up, a contest of startups launched by TOTVS Ventures in April of this year. Intelie develops real-time data analytic solutions. It is worth mentioning that the contest had over 1,100 startups enrolled. The winner's award is an immersion of five days in TOTVS' lab, in Silicon Valley, as well as a

potential capital investment of R\$1.7 million by TOTVS Ventures. An MOU is signed with the company and the due diligence process is on the way.

I reinforce that TOTVS Ventures is the venture capital arm of TOTVS, which seeks to leverage the value creation through investments in high growth potential companies that have relation to the core business strategy of TOTVS.

In addition to the contribution of financial resources, our differentiation is the creation of synergies between invested companies and our business ecosystem, from the standpoint of technology, solutions, and distribution, as well as approaching TOTVS to entrepreneurs with ideas that can further accelerate the innovation pace for our customers.

Going now to the financial performance, on slide three, net revenue grew 14% year on year, higher than the LTM growth in the last five-year CAGR. In the same period, license fee revenue grew 8%, mainly due to sales to existing clients, which grew 28.5% year on year. This growth came not only from the natural growth of our clients, but specially from our ability to offer additional solutions that meet their needs, including the core ERP itself.

In the sales to new clients, the average ticket decreased 22% when compared to the 3Q12, and increased 34% when compared to the 2Q13. This quarterly variation of the average ticket is common about TOTVS, as the average value reflects the average size of projects sold in the period.

LTM average value is more stable and reflects in a better way the market behavior. Our sales pipeline remains very consistent, with a lot of opportunities, especially in industries that are service oriented. However, the sale cycle remains longer, especially the opportunities related to large clients, which affect our short-term visibility on the conversion rate of these opportunities into new sales.

Moving to service revenue, we had a growth of 15% year on year, also overcoming the growth in the LTM and the average growth of the past five years, showing that the increase in the service team's productivity is still on going. Over the past 12 months this revenue line increase was around 13%, also reflecting the strong growth in consulting service, e-learning, and services related to cloud computing.

Maintenance revenue remains strong, showing the high level of loyalty of the Company's client base, which is composed mainly of small- and mid-size clients. It is worth mentioning that the performance of this line is very important to keep our level recurring revenue.

Now, on slide four, we have the recurring revenue consisting primarily of maintenance contracts, software licenses leases, subscription, and cloud computing. Recurring revenue grew more than 13% in the quarter compared to the previous year.

For example: assuming that the 4Q13 recurring revenue is equal to that of the 3Q, recurring revenue of the full year 2013 would have grown 13.5% over 2012. In practice, the stability of the recurring revenue reflects the long-term relationship we have with our clients, allowing us to expand the solutions and services provided to them overtime.

TOTVS will keep the specialization process of its solutions and its sales team, intensifying investments, both organic in inorganic, in sectors and regions with greater business opportunities, in order to continue capturing the growth of the Latin America software markets.

Now I invite Maia to proceed from slide five.

Gilsomar Maia:

Thanks, Alexandre. Good morning, everyone. Now talking about costs and expenses, on slide five, the group of licenses costs, services costs, and R&D had its participation of net revenue increased by 2.5 p.p. in the quarter when compared to the previous year. About 2/3 of this increase are related to R&D, which has its increase as a percentage of net revenue mainly explained by the fact that these investments in innovation and specialization are in line with the plan for the year, unlike sales, which are below the plans. We are confident about maintaining our investments in R&D, even in a still complex macro scenario, because of our medium- and long-term vision about business opportunities related to technology is encouraging.

Another line that grew as percentage of net revenue was the cost of licenses, which represents the cost of solutions provided by partners. This growth is due to the expansion of the ecosystems of partners maintained by TOTVS, which is more important to convert opportunities into industry-specialized sales. Most of these costs does not have the same relevance when analyzed with the recurring revenue.

Finished this first group of costs, the cost of services decreased when compared to the previous quarter, having the gross margin of the quarter reached the same level of one year ago. The Company reiterates that it will continue its efforts to gain efficiency in each service operation, recovering from a below-than-expected performance in the 1H13.

Going to the second group of expenditures, in advertising, sales, commissions, and allowances for doubtful accounts, there was a decrease of 0.4 p.p. as a percentage of net revenue when compared to the previous quarter, and 0.7 p.p. in the year-on-year comparison. This change is mainly due to the reduction in participation of commission expenses as a percentage of net revenues, which was affected by the sales mix in the period.

This third group, comprising G&A and management fees, remains stable in the quarter, and has been decreased as a percentage of net revenue historically. These efficiency gains over the years result from the combination of administrative efficiency in managing the daily operations, and the integration of acquired companies. We understand that there is room for efficiency gains in this group, and we will continue to pursue these gains.

Moving to the evolution of EBITDA, on slide six, for the first time in the history of TOTVS the quarterly EBITDA surpassed R\$100 million, totaling almost R\$105 million in the 3Q13. Moreover, when the decrease of margins, EBITDA for the last 12 months already exceeded in 4.5% the amount of the entire year of 2012. Here, the history of the last five years help us to illustrate that margin shrink in the short term may occur, since investments in advertising and R&D are not capitalized and follow the medium- and long-term planning, contributing directly and indirectly to the revenue generation.

We will continue to seek increase in the Company's operating efficiency, while keeping a strict cost management discipline. Given its target market and its continental presence on the ground, TOTVS has a business model that leads to margin expansion in the long term.

Moving to slide seven, net income reached R\$56.4 million, representing 31% growth year on year. This growth was positively affected by a better financial result due to the lower gross debt and by the income tax reduction arising from the payment of interest on equity in August.

Also, it is worth to highlight the historical growth of recent years above 20%, as well as the expansion of almost 4 p.p. in the net income margin.

Now the conference returns to Alexandre so that he can proceed from slide eight.

Alexandre Dinkelman:

Thanks, Maia. The Company's net cash position changed from R\$18 million in the 2Q to R\$38 million in the 3Q13, even with the payment of interest on equity in August, the semi-annual amortization of the Prosoft financing line obtained in 2008, the semi-annual amortization of debentures issued in 2008, and the payment of the acquisition of RMS.

Here, I would like to remind you that the gross debt shall present an increase of R\$250 million in the 4Q, due to the release of the first tranche of the financing line recently hired from BNDES, as mentioned earlier in the call.

Before we move on to the Q&A session, I would like to reiterate the pillars that guided the management's agenda in the Company's value creation in the long term, as well as the ongoing initiatives presented on slide nine. In innovation, the launching of Fluig, our agnostic platform that operates in different environments and with different systems for identity processes, content and collaboration management, which is becoming the natural interface of management systems used by the Company. These investments reflect our vision about the software market future, enhancing the clients' productivity, as well as bringing a lighter and more natural interface for management systems. We are excited about the potential adoption of this platform.

The specialization of our solutions to address the core business demands of companies. As mentioned, more and more we need to deepen the adherence of our solutions for the customers' core business. We are moving forward according to our plans, investing in several verticals that we are currently serving. TOTVS Ventures initiatives to attract disruptive innovations in the industry of information technology to our ecosystem. And finally, the financial support from BNDES for investments in innovation and development of TOTVS Solutions portfolio. This fund brings us more firepower to make our organic and inorganic investments.

In growth, the revenue is growing 14%, in line with our historical CAGR, and the organizational structure being guided to capture opportunities by sector and region, especially in sectors more service oriented, both organically and by acquisitions.

In loyalty, some evidences of the high level of our clients' loyalty, such as the growth of 13.3% in recurring revenue and 28.5% in sales to existing clients, and the maintenance of investments in brand building, which is also a key element for the future of both loyalty and growth.

And in margin, the focus on service efficiency and the commitment to the expenditures discipline, combined with scale gains of the Company's business model, tend to lead to margin expansion in the long term.

From now on, we are available for the Q&A session.

Daniel Federle, Credit Suisse:

My first question is about M&A. The Company has been much more vocal on making acquisitions recently, especially after contracting financing agents from the BNDES. Could you give me a bit of color about what you're planning to do on the organic growth front? Would it be more small acquisitions? Are there any larger acquisitions on your radar? And would the focus be on the national or international market? And if it were international, given the not-so-

great results in recent years in the international operations, why would this now be a good strategy for TOTVS? That's my first question.

Alexandre Dinkelman:

Good morning, Daniel. Thank you for your two questions. M&A has always been part of our strategy. It's part of our corporate DNA and we have a positive track record in integrating new businesses, and it should continue. This combination of strong organic growth complemented by M&A in areas where we believe it is important will continue to be part of our strategy.

And M&A could be used for segmentation to explore or expand our presence in niches in which we would like to invest more. This year, we did some transactions in this direction and it's very important, because it always leaves our portfolio better aligned in sectors where we believe we need more top-line growth.

The possibility of complementary technology always exists. That's because we are continually mapping around the world what's going on from a technological standpoint so that we can make internal development decisions or accelerate a process through acquisitions. It's a driver.

And there's also the issue of region, as you put it. We're always doing our homework on new regions that we could tap into and expand our business fronts.

When we talk about the international market, I believe that we have done a good job since 2011 in the sense of growing the business, but accompanied by growing profitability. Our formal objective to our shareholders is to balance the operations by year-end 2014, and we are making progress in this direction.

Every year we work together with everyone to provide these accounts. In our conference call in January, we presented the progress being made in the international market, so we are very confident on this front.

One of the aspects that we had to develop to make the international operation more profitable and to ensure its sustainable growth was choices, and we opted to base our decisions mainly on market positioning and geographic selection.

Market positioning means to explore the SMB market, where we are very strong in Brazil, and we know that. And Latin America began to be an important focus of our international expansion, which came at the expense of other initiatives on other continents that were on the table at that time.

We will continue to follow this path. We see very important synergies between the Brazilian and Latin American operations, especially because of the international expansion of the Brazilian economy, with Latin America ending up serving as the natural destination of many of our clients.

M&A activity could accelerate. As I've said before, we have an active system to analyze and screen all opportunities, and if we think that a certain opportunity offers an interesting fit in terms of a positioning or region that we seek, then yes, we would do another acquisition.

So there is the possibility of deals outside of Brazil, and such a move would be completely aligned with our current strategy.

As for your question about why the international market, as we have been saying, this is an important move for our positioning in Brazil, and we have planned for that adequately. To us, Brazil is and always will be our major growth pillar and wealth generator.

We have lots of potential to explore, but making intelligent moves to expand internationally, always connected to what we have here in Brazil is the path that we want to follow.

We do not want to be an international player merely to be international. It's not a question of geographic diversification. It's the possibility of making selective moves to expand internationally in order to strengthen our regional position. And that's the case for technology, for products and for distribution.

The GoodData movement is very important to us, because it gives us a better footing in California in a big innovation ecosystem that could provide a very innovative solution in clouds, BI for Latin America.

We maintain a development unit in California called TOTVS Labs, which is a very focused team working on highly specialized solutions. It's a way to complement our operations in Brazil and it's working very closely aligned with the Brazilian development team. It's also a way to play different games from the standpoint of culture and innovation capacity.

And Latin America is also very closely related to our strategy in Brazil. So everything we do outside Brazil has to meet a basic premise: it must add value to what we do here.

And we see that even verticalization, the segmentation we always tell you about that covers the major sectors of economy, has a natural international appeal to certain sectors. Some industries are already more globalized, with international clients driving specialized solutions outside Brazil, or Brazilian companies that are references in these sectors moving abroad, which ends being great advertising for our solutions.

And once again, it's always doing something that is linked to what we do here. This is a very robust and solid strategy and obviously it's a gradual process. This is what will continually increase the profitability of our operations.

In terms of breaking down M&A transactions, we don't like to give too many details, because the market is very competitive. Generally where we are there are people involved, investors and our markets and the markets into which we want to expand are already naturally more attractive, and of course competition exists.

In general, our pipeline is formed by a group of small and medium companies that as a whole create relevance for our business, and then there's a road map being executed across a relatively long cycle, because we don't rush in the case of M&A. We don't see any transformational deals that would fundamentally change the capital structure in an isolated manner.

It is the combination of deals that helps position TOTVS from the standpoint of sector and technology and as a whole they end up adjusting the capital structure, which is our goal: to better plan the amount of equity debt, in order to significantly reduce the average cost of capital of TOTVS.

Daniel Federle:

Great. Thank you very much, Alexandre.

Suzana Salaru, Itaú Unibanco:

Good morning. I have two questions. The first is related to service margin and the improvement we've seen. Can we continue to assume that the margin will improve as a result of the improvement in the mix and the increased efficiency of the team? Or do you think you've reached a level that will be recurring going forward? That's my first question.

For the second, I'd like to hear your comments on the R&D road map. You have said that you're in line with the estimated R&D budget for this year, so I'd like to know if going forward we should delink this from revenue growth; in other words, if for the coming quarters we should expect R&D as a percentage of revenue that exceeds historical figures. Thank you.

Alexandre Dinkelmann:

Suzano, thank you for both of your questions. I'll start with the question about the service area. It's an important area. You know that on the whole it accounts for some 30% of the Company's total revenue. And you did mention two important drivers for this division: the issue of mix and the actual service efficiency, services related to software implementation.

On the mix, our long-term plan is to add increasingly more value to this mix, because this means meeting our margin expansion targets and building client loyalty.

Of course, on a quarterly basis some volatility is involved, so I don't want to give any sort of target of what we are expecting for the near term. But without a doubt our strategy is to increasingly improve this mix, effectively adding technology-related services that have a high degree of scalability and recurrence.

Our effort in cloud computing, for instance, is one example of this. E-learning is another good example of this initiative, and for TOTVS Consulting, which is currently one of Brazil's main consulting firms, our goal is to leverage the software business with this consulting arm, since our competitors, the larger ones, have an ecosystem of consulting partners in their business who sell the concept of their solutions. Our *modus operandi* in this area is to have this consulting arm, and this has brought very interesting results. This synergy between consulting projects leveraging our solutions is very important.

Today, I don't think there's any company that undergoes a change management or internal restructuring process in which consulting can't help, because you always have to adjust the technology. You'll have to adjust your software, bring in more robust software and that's where we want to capture value from this business line.

And the second dimension of the service area is of course our entire effort to implement software at the client. An effort that can take place on site most of the times, but is increasingly more often adopting remote implementation solutions using technology we develop in house.

Just to recall the history, the service area in this part of software implementation, which is a relevant share of the service line, experienced a series of good improvements in results in 2012. We had already commented that in the long run our goal is in fact to increase service margin. This is one of TOTVS' margin expansion drivers as a whole.

In the first half of this year, our performance was well below our expectations and we said so to you clearly. We had problems allocating analysts, a mismatch between costs and revenue in the service area.

Of course, the bottom line was affected and in the third quarter we began to see a recovery. Of the units that had performed poorly, most of them have done their homework, and that takes time; there's a cycle to look back at. Our goal is to remain on track and to increase profitability.

On again, this doesn't mean that next quarter or two quarters from now it'll improve, since this is not a conversation about short-term guidance. But our goal is to resume the direction we were seeking in 2012, which is to improve the profitability of this operation.

And in the third quarter we were, in fact, able to show improvement, with better allocation of analysts and higher productivity. So this goal is very important for the coming years.

When we talk about the Company's R&D road map, this is a key item in our strategy and very important, which we believe creates value in the Company; on the one hand, innovation, and on the other, presence, always evolving our distribution model.

In the case of R&D, the two main vectors of investment are segmentation, expanding the use of our solutions in the sectors on which we chose to focus, which are the ten main sectors of Brazilian economy. This is an important driver.

The second driver is the Fluig platform, which, as explained, is a cloud platform that provides functionalities and tools for our clients to manage identity, content, processes and collaboration tools, removing the weight of activities from the ERP and creating a more natural layer, a more fluid interface for both our clients and the clients of other software houses too. It doesn't have to be connected solely to TOTVS' system, but can also connect to the system of any other company. These are the two main drivers.

When we allocate capital here, it's a decision like you guys in the financial market make, from an asset management point of view. We have a theory, we know where we want to grow and from there we approve the investment plans presented by the various divisions. There's a dispute for capital since every company has a limited amount of capital and has to make choices. And we're following this theory.

The maturation cycles of these R&D investments are usually one to three years. That's why it's natural, in our case, since you guys are always going to look at our result and the investment in that result, since R&D is only an expense, and there is this natural connection between revenues and R&D expenses, because we are making investments and our revenue, our theory, is that it will accelerate growth further down the road.

So it's hard for me to give a reference in terms of a percentage of revenue, because it depends a lot on how revenue will evolve quarter by quarter. We look much more at capital allocation in absolute terms; and basically in this R&D budget we're talking about highly skilled and trained technicians. So you should consider the 3Q figure as a base line.

And it will evolve not only due to wage increases, which we see occurring nationwide in Brazil, but also in the additions we expect to make in the years to come.

I'll avoid giving you a reference as a percentage of revenue, because that's not how we see it here when we make capital allocation decisions. We're looking at it more from the viewpoint of net present value, a road map of one, two or three years, as payback, a return on the investment also within a period of one to three years.

Suzana Salaru:

Perfect. Thank you, Alexandre.

Diego Aragão, Morgan Stanley:

Good morning, everyone. My question is more about an update of the competitive environment and if you see any different movement with regard to the international players, especially SAP, which has been reinforcing its strategy a little, in Brazil at least, or that's the impression we get from their exposure in the media, etc. If you could comment a little on the positioning of both your competitors and TOTVS in this scenario, I'd appreciate it. Thank you.

Alexandre Dinkelmann:

Diego, good morning. Thank you for your question. Brazil is already a large market and when we talk about competition we have to segregate the competitive spaces. And they are very different.

Let's start at the base of the pyramid, where we have a universe of small and micro businesses, which is a very different game, and within this universe of micro companies you have very clear segments, such as accounting software.

Sage, a large company based in the United Kingdom, made three acquisitions here in Brazil that were very focused, 100% focused on accounting software. That's not a game we play and now they're in the phase of trying to extract from the operation the amount they paid in the acquisitions. But this obviously shows a greater interest by international players in our market. But it doesn't mean any direct competition for TOTVS. They're in a very clear niche, which is accounting software.

When you climb the pyramid a little, you find a very wide range of companies, we're talking about some 600,000 companies that we define as small and medium companies, the game, in fact, is segmentation. These are regional players. And about SAP aggressively advertising in the media its interest in small and medium businesses and investing in certain channels and regions to serve small and medium businesses, well we haven't really seen a practical result of this strategy so far.

We did see the advertisements. We have to stay alert, it's a large company and powerful from the financial perspective, but there's a learning curve involved even when it comes to SAP, especially when we look at its international operations. I can't really see the relevance of the SMB world to SAP, even in their own backyard, which is Europe. So there's a learning curve there that is not that easy for a player who operates with a strong focus on the high-end segment.

And in practice, when we really look at SAP's global discourse on Wall Street or in Europe, their focus and key message is always slightly different from what they announce here in Brazil. Their focus is HANA. It's a database game that is more related to an in-memory database platform linked to infrastructure. It is very different competitive environment from our own.

All these players, IBM, Microsoft, Oracle, are our partners in this type of game. Sometimes our client needs a complete solution, integrating infrastructure, database and software, and we work together with these players.

So in SAP's global strategy we actually see a very big emphasis on the platform game, especially HANA in-memory, which brings the concept of a new offering in databases.

But Oracle is coming. Larry Ellison announced he will be launching an in-memory solution, so there's a competition and a race to see can get the biggest share of this new database approach, which basically increases the performance of these solutions. And, of course, this has greater penetration in some sectors than in others.

So, we could theoretically partner with all these players that sell database solutions, as we do with Microsoft, Oracle and IBM.

In the case of TOTVS, the last point of your question you asked how TOTVS is operating. Actually, our entire discourse on strategy is affected by our understanding of the competitive environment and on how the market can create opportunities and threats.

So when we talk about increasing segmentation, it's because we believe that's a success driver in SMB. When we talk about increasingly strengthening our private area to serve some of our clients that have grown substantially to become Brazilian multinationals and major companies, it's so that we can be increasingly more protected in our high-end market against direct competition from SAP. And when we talk about the base, still looking at a vast ocean of opportunities, a very fragmented market, we are making our moves and analyzing how we can fill the right niches.

So the strategy addresses these three competitive dimensions and that's what we're doing.

Diego Aragão:

Perfect, Alexandre. Very clear. Thank you. Good day.

Valder Nogueira, Santander:

Two aspects caught my attention in this quarter's results: on the revenue side, the very strong revenue, even during times when not all of the verticals in which you operate, especially manufacturers, are enjoying their best years or phases. Was there any specific recovery in this vertical, or did the other verticals more than offset this one? That's my first question.

My second question is about delinquency, which has come under a bit more pressure and posted a level similar to that of last quarter, but has not yet reached the company's historically good levels. Could you shed some light on these two subjects?

Alexandre Dinkelmann:

Good morning, Valder. Let's start with revenue, which grew by 15%, which is in line with our historical CAGR. We always feel that we can do more, if for no other reason than because of our strength in the market and the homework we've been doing. But when we compare it to what's happening in Brazil in all sectors of economy, it's a figure that leaves us relatively well positioned, especially when we look at the bottom line growth of 31% in profit.

I think that looking at the results in general on the Brazilian stock exchange in 2013, few companies will be able to post revenue growth of 14% and profit growth of 31%.

So trying to add a bit more color to what's behind this revenue growth, and we have been able to sustain this performance, I'd call your attention to some sectors of non-tradables, which for us have been performing very strongly. They're growing at 20% to 40% per year, based on the strength we already have in our solutions or the degree of specialization we already have in our sales team or in our service team.

That gets our attention, the service industry, retailing, logistics, education. These have been very significant industries in terms of top line and which have helped us maintain this performance.

Under our strategy, it's our responsibility to increase our strengths in these segments and to complement them with strategic niches. M&A is a part of this strategy, so that we can be increasingly better positioned across regions and segments in order to post strong growth over the next five, ten years.

When you ask us about the manufacturing industry, we've been saying that. It's a very relevant industry for us; we value manufacturing clients a lot and invest heavily in our solutions. Traditionally, it's an industry that initially adopted technology in business management and that generates recurring revenues for us. So the quality of service to this base is essential for ensuring the strong recurring value driver we have.

That said, I was happy to see recently some recovery in the manufacturing industry, especially for small and medium companies. We have great, well packaged offerings for the SMB segment, which we are calling TOTVS Eficaz. We have a different package of solutions for each sector that are well accepted in the industry and have short implementation times.

We even advertised it, you must have seen it, "implementation in 90 days," precisely because we want to get our clients' attention at a time that's complex for everyone. Everyone is encountering obstacles to growth and everyone's been facing difficulties in productivity, which is a severe problem in Brazil.

So this value proposition of getting the system up and running in 90 days and help you achieve your goals, that's been going well. The average ticket ends up being lower, but it's a mass strategy. The idea is to scale it. We are at the beginning of all this, but are very pleased so far with its acceptance. And the bright side of this whole thing is that in manufacturing we saw healthy acceptance of this offering by small and medium manufacturing companies.

Here this is much more a qualitative comment, because what really moves the needle for us are in fact the other sectors that I mentioned, but there's a qualitative aspect here that I found very interesting about the acceptance of our offerings by manufacturing SMBs, by clients who need it. And Brazil does in fact need to try to increase its importance in manufacturing.

Valder Nogueira:

OK. Thank you.

Alexandre Dinkelmann:

As to your second question, about the provision for doubtful accounts, you're right, it's at a level we're not historically used to. We're operating this year with a level similar to that in 2012, which was already above our average as a percentage of net revenue.

What color can I add for you investors and analysts? It's a more concentrated provision, actually. We are talking basically about three sectors of economy: retailing, manufacturing and services, and large accounts. If you get 50, 60 clients, they represent the bulk of this provision.

On the one hand, that's good. Why? Because we don't see this spreading into SMBs. If we're talking about a more highly fragmented PDA, then the actual collections process is more complicated. It's more expensive to recover a small ticket. Sometimes it's not even worth it.

Here when we talk about large tickets, the work is really more concentrated and focused. We were happy with the recovery in the first quarter, if you remember it was actually a large reversal of the provision, because we acted on large accounts and were able to obtain a reversal, but in fact during the second and third quarters we returned to a level that we're not pleased with. The work continues, with a focus on recovering it over time.

There could be some volatility in this line, precisely because in a certain quarter we may be more successful in our recovery, but it's something we watch closely.

Internally we've been working on approval processes for special cases and how we control credit risk on larger projects. And basically PDA is caused by companies that are undergoing rough times.

So I would say that these issues are less of a structural nature and more specific to each company. Each of them has their own story about why they're in difficult times, even if they are in industries that are doing well. From the macro perspective, the industry is going well, but one or another company ended having specific difficulties.

And we try to work together with the company to help it recover. We also have a partnership approach and as much as possible we adopt this partnership approach with clients that are facing challenges.

Valder Nogueira:

OK. Thank you, Alexandre.

Operator:

It appears that we have no further questions at this time. We will go ahead and conclude today's Q&A session. At this time I would like to turn the floor back over to Mr. Alexandre Dinkelmann.

Alexandre Dinkelmann:

I would like to end this conference reminding everyone that TOTVS has a unique positioning in the market due to the combination of both our continental coverage and the very relevant presence we have in major industries of our economy. So, this positioning allows us to innovate with solutions, which integrate value chains. When we talk about innovation, I mean R&D investments, which puts TOTVS among the five main Brazilian investors in R&D worldwide. So, it is very relevant.

So, we will keep investing to be even more essential to our clients. So, thank you very much for your participation in the conference, and most importantly, thank you for TOTVS team for its daily hard work in order to make us the strongest firm in the industry.

Operator:

We thank you, sir, and to the rest of the management team for your time today. TOTVS' 3Q results conference call is now over. Thank you everyone for your attendance, take care, and have a nice day.



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