



Operator:

Good morning. Welcome everyone to TOTVS's 1Q13 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's business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS's 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's 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:

Alexandre Dinkelmann:

Good morning, everyone. Welcome to TOTVS's 1Q13 results conference call. Firstly, I will start talking about the acquisition of PRX, announced last April, presented on slide two. PRX develops and implements TOTVS solutions for the agribusiness industry, serving approximately 60% of the Country's sugarcane mills, as well as several grain cultures.

With the acquisition of PRX, aligned with our specialization strategy, we will create a center of excellence for Agribusiness, which will combine TOTVS' solutions portfolio with the expertise of more than 180 PRX's employees.

Brazil is a global benchmark in agribusiness and with this move we aim to raise TOTVS to this level, and thus explore the opportunities in this sector, both in Brazil and abroad.

Going now to slide three, we have the total net revenue, which grew 8.7% in 1Q and 10.8% in the last 12 months, both periods excluding the social contribution impact from Brasil Maior Plan.

Much of this growth is a recurring revenue result, which has grown above the average of total revenue over the past 12 months, as shown on slide four.

Between 1Q12 and 1Q13, recurring revenue grew by 13.8% and reached almost 59% of total revenue, compared to 56% in 1Q12. In the last 12 months, recurring revenue increased more than 11%, reaching 57% of total revenue. The recurring model may reduce the total revenue growth rate in the short term, since it is recognized in a monthly-base, but on the other hand it brings greater predictability and growth in the long term.

Just to illustrate, if the 1Q13's recurring revenue is annualized, it would result in approximately R\$900 million for the full year, or 10.5% growth over 2012, even not counting the inflation adjustments that would be captured over the period.

The expansion of recurring revenue is part of the Company's strategy, addressing both pillars of growth and loyalty, since we believe that a model favoring the recurrence is more effective, especially among the small and medium companies, adding greater predictability of revenues to the business.

Now on slide five, we observe the evolution of license fee revenue, which grew by 6.8% in the last 12 months and decreased 1.7% over the 1Q12. This quarter is influenced by charging the incremental license of the corporate model, which can see on slide 6. Remembering, customers under this model pay an incremental license to TOTVS in 1Q based on their actual growth of the previous year. That means, only if there is real growth there is incremental license.

In 1Q13, the increment amounted to R\$17.3 million, 4.7% lower than the 1Q12, indicating that the clients under this model kept growing above the overall average of the economy in real terms, since the deceleration of the incremental license was much lower than the deceleration of the Brazilian GDP.

Sales to new customers were 26.7% lower in 1Q13 than in 1Q12, mainly due to the decrease of 22.0% in average ticket. However, in the last 12 months, sales to new customers grew 23% and average ticket grew 23.4%.

In summary, short-term fluctuations in average ticket are common, because it represents the average size of customers added in the specific period. In our view, the last 12 months shows more clearly the market dynamics. But the beginning of the year has been more challengeable than expected, so sales came below our expectations. We are not happy with this performance.

Historically, sales to new customers are more sensitive to economic scenario, especially larger companies that reduce investments in the short term, lengthening our sales cycle. When slowdowns like these extend, this more conservative approach is also observed in medium and Small-sized companies.

Moving to slide seven, service revenue ended the quarter with 6.8% growth over 1Q12. In the last 12 months, this line grew by 11.4%. The growth of this revenue stream in 1Q13 at a slower pace than in the past 12 months is mainly due to the sales mix of licenses with greater participation of franchises and as well as to the established basis for comparison in 1Q12, when this line grew almost 23% over 1Q11.

Concluding comments over revenue on slide eight, the maintenance revenue ended the 1Q with 15.2% growth over the same period of 2012. In the last 12 months, this line grew by 12.4%. This growth was due, among other factors, to the emphasis on recurrence, especially with smaller customers, and focus on the loyalty of the customer base, enhanced by the creation of the Clients Vice-Presidency.

Now, I invite Gilsomar Maia to proceed from slide nine.

Gilsomar Maia:

Thanks, Alexandre. Good morning everyone. Now, on slide nine, we have the evolution of the three main groups of operating costs and expenses as a percentage of total net revenues. The first line of the chart represents the group of license cost, services cost and R&D, which concentrates most of the personnel expenses. Once again, I remind that TOTVS does not capitalize its investment in R&D, so the reported result presents the entire investment performed, with no deferred effects.

In 1Q13, this group reached 46.8% of total net revenue, representing an increase of 0.7 p.p. over 4Q12, mainly because of the 7% wage increase due to the collective bargaining agreement in São Paulo, which was higher than the overall growth of net revenue for the same period.

The second line regards the group of advertising expenses, sales commissions and allowance for doubtful accounts, representing 19.4% of 1Q13 total net revenues, a decrease of 0.3 p.p. over 4Q12. This reduction was concentrated in the provision for doubtful accounts, which was 52.6% lower than presented in 4Q12.

The decrease in delinquency of consulting and implementation services provided to larger customers in Brazil was the main reason for the reduction of this group, since part of the provisions booked in previous quarters has been reversed in 1Q13.



The third and last line of the chart represents the group of G&A and management fees that declined 0.4 p.p. primarily by the combination of scale gains and reduction of certain statutory positions eliminated in 2Q12, after changes of hiring regime for some officers.

Moving to slide ten, the EBITDA margin of 26.1% was stable compared to 1Q12. When analyzed over the last 12 months, the EBITDA margin reached 26.7%, up 1.8 p.p. over the previous period.

The 12 months view illustrates well that over the years the Company's EBITDA margin may fluctuate, but the combination of TOTVS' business model and target-market leads to a margin expansion in the long-term.

On slide 11 we have a summary of the quarter presenting, among others, a net income of R\$51.9 million in 1Q13 and R\$209 million in the last 12 months, which means an year-on-year growth of 4% for 1Q12 and 12.6% for the last 12 months period respectively.

In 1Q13, the growth difference between EBITDA and net income is mainly due to the higher effective tax rate.

Moving to slide 12, the chart shows the net cash position changing from R\$162.7 million in 4Q12 to R\$84.5 million in 1Q13. The main reasons for this reduction are the payment of PC Systems of acquisition, considered as intangibles, the payment of interest on equity declared in 4Q12, and the amortization of a financing line with BNDES, denominated Prosoft.

The Company's capacity for cash generation and leverage, through competitive credit lines in terms of cost and tenor, supports the execution of the Company's investment plan, which has presented its first results with the acquisitions of PC Systems, UMove.me and PRX.

Now, the conference returns to Alexandre, who proceeds from slide 13.

Alexandre Dinkelmann:

Thanks, Maia. Ending with slide 13, we summarize how the Management guides its agenda and analyzes the operation's performance, seeking a balance between the three pillars of growth, loyalty and margin, with the goal of creating value for the Company in the long term.

Regarding growth, we highlight the 10.8% growth of net revenue in the last 12 months, besides reinforcing the specialization strategy with the acquisitions of PC Sistemas and PRX.



On loyalty, we emphasize growth of 12.4% in revenue from maintenance and recurring revenue growth of 11.4%, both in the last 12 months. And for the margin pillar, we highlight the EBITDA margin of 26.7% in the last 12 months.

The management reiterates its view on the relevant potential of the Brazilian market of software and management systems, especially among small and medium enterprises, and keeps deepening the specialization strategy, with the goal of increasing the Company's ability to capture market opportunities, even in adverse economic scenarios, such as the one in the beginning of this year. Thus, increasingly we are becoming stronger, both internally and externally, for the next cycle of growth in our markets.

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

Michel Morin, Morgan Stanley:

Good morning, everyone, thank you for taking my question. I was wondering, given that license sales were a little sluggish this quarter, do you think part of that might be related to the calendar effects this year? Specifically the timing of Semana Santa, one less day in February, I do not know if any of that might have played a role, or if you are seeing any change on the competitive front. Thank you.

Alexandre Dinkelmann:

Good morning. Thank you for your question. This is a factor and we opted not to highlight that for you investors, but of course it affects marginally the business when we compare the number of working days in the period to the last quarter.

In Brazil, when we have these big holidays close, in general, what we perceive is that the economic activity tends to react after the sequence of these big holidays. But again, we believe it is marginal, it was not a key factor.

Michel Morin:

OK. And then I may, you mentioned the PRX acquisition, would you mind sharing with us its revenue run rate? I think you gave a number for 2012, but given that it is growing fairly fast, I was wondering if you could give us a 1Q revenues figure for that entity. I know you are not consolidating until 2Q, but a more recent info would be helpful.

Also, on the bad debt, in the release you mentioned that it returned to normal historical levels, and I was wondering how we need to interpret that, because it seems to us that perhaps the 1Q is a bit lower than historical levels, and we would anticipate that it would go up a little bit from here on a sequential basis. If you can clarify that, that would be helpful.

Alexandre Dinkelmann:

Just to clarify your question, are you asking about PRX or PC Sistemas, PC is a logistics, whole sales—

Michel Morin:

I was asking about PRX, which you are announcing today, what the revenues were last year and specifically what they were in 1Q. I know that you had no contribution to xxx in 1Q, but how much revenue did they do in 1Q?

Alexandre Dinkelmann:

We are not disclosing this information. What we inform you, as you have said, are figures from 2012, so, as you also know, we have not included these numbers in our 1Q. So far our intention is to not disclose this information.

It is a Company that is growing well, has been growing well in the past. What is worth mentioning here is that the strategic rationale for this acquisition really reinforced our positioning in the agricultural business and it is becoming global. It is not only limited to Brazil. We are seeing decision making process taking place in Brazil related to other countries, so that is why it is very strategic for us. We want to be recognized in an international basis, as one of the strongest players in the agriculture space.

Michel Morin:

How significant is the non-Brazil part of the business for them?

Alexandre Dinkelmann:

The trend is relevant for the international expansion, but so far it has been marginal. But the prospect is very good, the prospect for Brazil is also very good.

Michel Morin:

OK. And on the bad debt question?

Alexandre Dinkelmann:

Could you repeat the second question about bad debt?



Michel Morin:

The bad debt was that you, in your press release, you said that provision in this quarter returned to historical levels, and I was not sure how to interpret that, because as a percentage of revenues, it was much lower than what we have seen in a very long time. So, I was wondering if we should anticipate that it might actually go back up a little bit in 2Q, as a percentage of revenue.

Gilsomar Maia:

When we say historical levels, historical levels in terms of allowance for doubtful accounts is about 1% of total revenues, and, as you know, last year this line was running about 1%, 1.5%, so higher than historical. Specifically this quarter, it came at 0.8% total revenues, so a little bit below historical, but we indicated that this quarter we have some reversal of provisions, of allowance for doubtful accounts we had in previous quarters.

So, excluding those reversals, we are in a trend to the historical levels, but I would not drive you in this direction to assume that the next quarter will present exactly our historical, because, if you remember, in 4Q12 we implemented a new credit policy, specifically for services, in terms of consulting services, and these policies are going to be applied to the new sales.

The previous ones were under the old and more flexible credit policy, and we can never say that we would not have problems with those. Have I been clear?

Michel Morin:

Yes. Just to make sure on your last point, you are saying that the new policy is stricter, tighter, so you expect to kind of reverse the trend of the last few years? Because if I look at the last two years, it has been going up.

Gilsomar Maia:

Our intention is to bring it back to historical levels, of course that is not automatic.

Michel Morin:

OK. Thank you.

Andrew Campbell, Credit Suisse:

Thanks for taking my question. I wanted to know, since the end of the 1Q, have you sensed any relevant change in the market dynamics compared to what you saw throughout the 1Q?



My second question is on the international operations, because I noticed that this quarter there was no specific disclosure of the performance of international operations, so, if you could give us any updates on how they performed. Thank you very much.

Alexandre Dinkelmann:

Good morning. I will start with the second question. International market, as you know, we had the guidance for 2014, at the end of this year we intend to reach breakeven, we are working in this direction. So far, results are in line with our expectation.

The idea of the Company is to disclose international operations information on an annual basis, in order to really give you visibility. You can see the growth of international operations on a quarterly basis, but you know, in order to give you visibility of this breakeven guidance, we intend to disclose that on an annual basis. So far, results are in line and we are confident we will reach our objectives.

In terms of market dynamics, just to make clear, you asked about April, and the beginning of May, how we are seeing compared to the 1Q or the 1Q compared to the year?

Andrew Campbell:

You are correct, actually, April and the beginning of May, if you have seen any relevant change in the market dynamic, compared to what drove the sales performance in the 1Q.

Gilsomar Maia:

Just to clarify a little bit, when Alex said breakeven about international markets, the breakeven will be achieved by the end of 2014. Getting back to your question on market dynamics, we have not seen any significant change from the 1Q to this moment, to be frank.

Andrew Campbell:

OK, thank you very much.

Michel Morin, Morgan Stanley:

Thank you. I just wanted to check, you have been highlight the impact of the change on your social contribution effect on the top line, am I correct in assuming that will disappear in the 2Q?



Alexandre Dinkelmann:

Yes, 2Q we will have the same legislation, the same rules applied for both quarters.

Michel Morin:

OK, so that will no longer be highlighted. You have also started providing the recurring revenues since last quarter, and I just wanted to know how can we think about trying to model that? I am assuming that this is all your maintenance revenues, and I think you were mentioning on the last call that portion of the service revenue is as well.

I was just wondering if there is anything you would suggest we could be thinking about, and how to think about that going forward, also thinking about the impact of any future acquisitions. Is there anything in the acquisition strategy that is focused on growing that recurrent component? Thank you.

Alexandre Dinkelmann:

This is the thing we have been talking with analysts and investors since the beginning of 2012. Actually, one year ago we were preparing you for this theme, and we told you that we would start to disclose this recurring dimension in 2013.

That is the idea, and of course we intend to also improve the disclosure of this kind of business. This is a trend, in our view, and we believe that it is adherent to our typical clients in the SMB space. It also helps us in terms of improving predictability in the Company, from the financial perspective.

In terms of M&A, what we see, depending on the potential targets, yes, they tend to bring this kind of revenue mix. An example is PC, the company we acquired in January, related to whole sale, retail, and logistics. They have a very strong recurring profile in their revenue mix.

So, probably you tend to see also targets acquired by TOTVS bringing this recurring model to our Company.

Michel Morin:

That is very helpful. Thank you.

Loren Lewallen, Select Equity Group:

Hi, good morning, thank you for taking the question. My first question is if you could talk a little bit about the changes you have been making to your sales force. Sales expenses are up quite a bit, and I remember a bit over a year ago you went through a



big wave of hiring, a couple of years ago, to build the vertical capability, and then last year the selling expense was not that large, and now we are seeing it pick up again.

I am wondering whether you can talk a little bit about how many people you added, and how large the overall sales force is currently, and also where in particular these people are going, what verticals you are focusing on.

Gilsomar Maia:

Good morning. You are correct, this is not a new move. We have started this kind of change in our sales force since the last year, and this process is still ongoing. We are giving more and more focus on vertical and segments, and this requires some investment in terms of our team.

It does not mean we are mandatorily increasing the number of our headcount. This sometimes represents some changes we have to make in our team, in order to adequate to this new approach. In our sense, it can be more effective in terms of capturing the opportunities in the market.

We have said that frequently, and that is one of our beliefs, specializing more and more our sales team and also service team, we believe it is going to be more effective in terms of sales and delivering our solutions on the field.

Loren Leawallen:

That is helpful. I guess what I still do not fully understand is that this expense was up 20% year over year, despite the fact that Brasil Maior should be benefiting you and actually, excluding the Brazil Maior effect, it is fur more than that. But then you said you were not necessarily adding people, so are you changing the Company's structure meaningfully? I am just trying to understand what is driving that expense increase and what are the run rates going forward.

Alexandre Dinkelmann:

What I mean is that you should understand that 100% of this growth or this increase represents a headcount addition. Naturally, there is a headcount increase, but the other part represents substitution.

Loren Leawallen:

Represents, sorry, what did you say?

Alexandre Dinkelmann:

Replacements.

Loren Leawallen:

Replacements, OK. Are there certain sectors or areas, when you saw license growth negative, were there certain sectors of the economy you saw performing better, and maybe those were areas you are investing in versus others which are tougher at this point?

Alexandre Dinkelmann:

There are no big news here. Sectors more connected to services, we are investing more, because those sectors are showing more prominence in terms of opportunities, especially those connected to education, for example, logistics, sectors more oriented to services than industrial are presenting more opportunities, and consequently we are investments and effort at this moment.

Loren Leawallen:

And from a market share standpoint, are you seeing any shifts in these places where you are focusing and putting more investment?

Alexandre Dinkelmann:

Not really at this moment. We are trying to track a little bit deeper this kind of indicator, but up until now I do not have any relevant change to describe.

Loren Leawallen:

Thank you for your time.

Diego Aragão, Morgan Stanley:

Good evening. Just a follow-up question regarding the competition: can you describe how the competitive landscape is at this point? Is there any impact from the competition in the results? Thanks.

Alexandre Dinkelmann:

Good morning. As I have said in the previous conference call, the competitive landscape is pretty much the same, as we saw last year. So, it is a tough competition, the competition is not in just one dimension, so it depends on the segment we are talking about, on the niche.



So, in the high-end market we have one kind of competition, in the middle-space the competition is much more related to verticals, so it is a specialized and regional competition at the base of the pyramid, so the competition is different in more segmented markets.

We have not seen any difference in the competitive level during this quarter. The level of difficulty is the same. We understand that the macro scenario and the length of this economic cycle has affected more on a relative basis our performance rather than competition.

Diego Aragão:

Great. Thank you.

Operator:

At this time I would like to turn the floor back over to Mr. Alexandre Dinkelmann for any closing remarks.

Alexandre Dinkelmann:

I would like to thank you all for your participation in the call, and mainly I would like to thanks TOTVS team, the team is committed to keep working hard in order to maintain TOTVS as the best software Company in Brazil and also Latin America. Thank you all.

Operator:

Thank you. TOTVS's 1Q results conference call is over. Have a nice day.



TOTVS

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