

**Operator:**

Good morning. Welcome everyone to TOTVS's 4Q12 results conference call. Today with us we have Mr. Laercio Cosentino, CEO, 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](http://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. Laercio Cosentino, who will begin the presentation. Mr. Cosentino, you may begin your conference.



**Laércio Cosentino:**

Good morning, everyone. Welcome to TOTVS's last quarter of 2012 results conference call.

2012 was another year of achievements for TOTVS, being able to combine growth, loyalty and margin, the three strategic pillars that guide the Management's agenda, seeking the goal to make TOTVS a global benchmark of enterprise management solutions, with flexible and scalable solutions for companies in different maturity stages.

Despite the complex macroeconomic scenario of the year, the Company presented growth in all revenue lines and deepened its vertical segmentation process in 2012, which involved from development to distribution of its solutions, making its channels increasingly prepared to explore market potential.

Important to highlight that this growth was achieved while paying attention to the loyalty of our customers, reflected in maintenance revenue growth and the stability of recurring revenues over the year. Besides the attention to loyalty, this growth also came accompanied by margin expansion and cash generation which, among other things, resulted in efficiency gains in different company areas, in particular in services and development areas, and also the payroll tax relief resulting from Brazil Maior Plan.

Now, I would like to invite Alexandre Dinkelmann to proceed the last quarter of 2012 earnings release.



**Alexandre Dinkelmann:**

Thanks, Laércio. Good morning, everyone.

Firstly, I'll start talking about the two acquisitions we announced recently, PC Sistemas and Umov.me, presented on [slide 2](#).

With PC, we expanded our position in the Brazilian Segment of Distribution, Wholesale and Retail, a segment that shows great dynamism and above-average growth of the Brazilian economy, in which PC is leading with 34% of the largest wholesalers / distributors as customers, according to the ranking of the Brazilian Association of Wholesalers and Distributors.

We see significant opportunities for synergies with this operation. PC adds solutions to TOTVS's portfolio that integrate the value chain comprised by distributors, wholesalers and retailers, including the so-called 'cash and carry' market. On the other hand, TOTVS expands the spectrum of PC's solutions portfolio, preserving its differentiated service model provided to customers.

With Umov.me, we initiated TOTVS Ventures operations, performing the first investment in a cloud mobility technology platform provider, which provides solutions for companies of different sizes and segments, supporting multiple platforms for smartphones and tablets, facilitating the field process automation and their integration with management systems.

TOTVS Ventures will enable the acceleration of this start-up, which will have TOTVS as a partner, as well as user and distributor of such mobile technology. The investment will complement the offering of mobility solutions for TOTVS' customers, with applications that meet the segments of Retail, Distribution, Logistics, Manufacturing and Services, among others.

TOTVS Ventures is a TOTVS' subsidiary focusing on investments in start-ups with high market potential, seeking to leverage the revenue generation and growth of invested companies, going beyond the role of a financial investor, due to our capacity of generating synergies with TOTVS.

Both acquisitions are fully aligned with the Company's acquisition strategy set in early 2012. We will continue to focus on execution of this strategy, being selective and surgical, aiming to strengthen TOTVS' market leadership and strategic position, adding businesses with prospects of high growth rates, and clear opportunities for synergies with TOTVS, thus replicating the Company's historical growth with margin expansion and value addition.



We understand that TOTVS has a unique position in the Brazilian market to create synergies in acquisitions, when we take into account our own technology platform, our wide range of products and solutions, as well as our broad distribution network on a continental scale.

Now, I invite Gilsomar Maia to proceed from **slide 3**.

**Gilsomar Maia:**

Thanks, Alexandre. Good morning everyone.

Going now to 2012 results, the Company's total net revenues grew 12.4% in 2012 and 10.0%. This result reflects the strength and resilience of the TOTVS business model, besides the potential market for enterprise management software, especially among small and midsized companies.



Net revenue from licenses, presented on **slide 4**, grew 9% in 2012 and 10.5% in Q4. The growth of licenses in 2012 was concentrated on sales to new customers, which grew 31% over 2011, with the average ticket 30% higher, mainly due to a lower level of sales to larger customers in 2011 when compared to the Company's historical average.



This license growth of 9% in 2012 surpassed the 8.0% growth achieved in 2011, even with the Brazilian GDP growth rate dropping from 2.7% to approximately 1%. This growth behavior is due, among other factors, measures for deepening the segmentation, initiated in the last quarter of 2011, which will continue in 2013.



Services revenue, on **slide 5**, ended 2012 with growth of 15.2% in FY and 10.1% in Q4. Important to note here that this service revenue growth was accompanied by margin improvements.

The growth of services above the licenses is due to the faster growth of services not directly related to software implementation, such as management consulting, e-learning and services related to cloud computing, which also contribute to the margin improvements.



With 12.4% growth in the year, maintenance revenue exceeded R\$680 million in 2012, as shown on **slide 6**. In Q4, the QoQ growth of this line showed slowdown mainly due to licenses sold in prior periods, the lower IGP-M in Q4, and also the cancellation of differentiated support level (SLA) of old versions that were used by customers who migrated to current versions.



In addition to maintenance, TOTVS has other recurring revenues, consisting primarily of monthly software rental, BPO and cloud computing services. The total recurring revenue, shown on **slide 7**, was about 56% of total revenue, surpassing R\$800 million in the year. As indicated in previous quarters, we begin to disclose the total recurring revenue of TOTVS.

Here, we highlight the stability of recurring revenue percentage, even with a consistent double-digit growth of total revenue, what shows the long-term relationship we have with our customers, allowing us to expand the universe of solutions and services offered to them over time.



Now on **slide 8**, total operating costs and expenses fell 2.6 percentage points between 2012 and 2011, as a percentage of total net revenues. This reduction is more concentrated in the group of licensing fee cost, cost of services and R&D expenses, which decreased by 2 percentage points over the same period, as shown at the bottom of the slide.

The reduction of this group occurred mainly by efficiency gains in service teams and also by accelerated growth in revenues of services not directly linked to software implementation, which add more margin.

As this group concentrates most personnel expenses, the payroll tax relief resulting from Brasil Maior Plan, also contributed to this reduction in the year.

The larger relevance of this costs and expenses group between Q3 and Q4, as a percentage of total net revenues, came primarily from increased headcount of development teams, already flagged in previous quarters, and due to wage increases resulting from collective agreements in Belo Horizonte, Porto Alegre and Joinville.

The Company will continue to seek efficiency gains in this block of costs and expenses in the coming periods, especially in the lines of licensing fee costs and services.

TOTVS pursuit gradually reaches the R&D level of 12% of net revenues by 2016, without jeopardizing the investments necessary to run its R&D roadmap. So, this level will be reached through scale economy, i.e., revenue growth faster than the expense.

Moreover, it is important to reiterate to all analysts and investors that the Company's R&D investments are not capitalized. Thus, the profit reported by TOTVS fully reflects the performed R&D investments and there is no deferred effect on such line.



Moving to **slide 9**, the group of expenses related to the commercial process of the Company, consisting in advertising expenses, sales commissions and bad debt, remained stable as a percentage of net revenues between 2012 and 2011.

In this group, selling expenses grew less than revenue in the period, since this line had an opposite behavior in 2011. On the other hand, marketing expenses and bad debt grew faster than net revenue in the same period.

This growth in advertising expenses was expected, because of a revision on the communication plan held in 4Q11. And, the bad debt growth is mainly related to the delinquency raising especially on consulting and implementation services rendered to larger companies in Brazil, although the delinquency also increased among small and mid-sized customers over the year.

The G&A and management fees group of expenses reduced 0.5 point as percentage of net revenue in 2012, basically due to the combination of: (i) scale gains; (ii) reduction of certain statutory positions eliminated in Q2 after changes of hiring regime for some officers; and (ii) payroll tax relief before mentioned.

EBITDA grew 22.5% in 2012, representing 1.9 percentage points above CAGR of last 5 years, as shown on **slide 10**.



The EBITDA margin reached 26.7%, the historical highest annual margin obtained by TOTVS, representing 2.6 percentage points above 2011 margin. This reflects gains on development, selling and implementation, mentioned in the two previous slides.

The chart on the right illustrates well that over the years the Company's EBITDA margin may fluctuate, but the scale gains proportionated by the combination of TOTVS' business model and target-market leads to margin expansion in the long-term.

Now, the conference returns to Alexandre Dinkelmann proceeds from **slide 11**.

**Alexandre Dinkelmann:**

Thanks Maia. As we all remember, in 4Q11, we began a process of reviewing the strategic plan for the international market that comprised:

- (i) Revision of internal processes and structures and change of the main leaders of the operations;
- (ii) Franchising of regions where we used to have only branches, strengthening of the role of local entrepreneurs with franchises, helping to increase the distribution effectiveness with the appropriate cost structure; and
- (iii) Adjustment of the geographic and offering scope, focusing on verticals with attractive growth potential and low localization effort.



This revision resulted in a new strategic plan, orienting international operations to achieve sustainable growth and profitability in the long term. The initial effects of this plan on international market operations are presented **on slide 11**.

In Brazilian Reais, net revenue grew 22% and negative EBITDA declined 39% in 2012. Even disregarding the Brazilian Real devaluation of 9% in 2012, these results give us the confidence that we are on the path of sustainable growth, seeking to reach the EBITDA breakeven by the end of 2014, and grow sales in order to have international operations representing between 3-5% of the Company's consolidated revenue by 2016.

We reiterate our view that international market is a strategic initiative that positively impacts our long-term position in Brazil, among other factors, due to the growing internationalization of the Brazilian economy and our customers.



Moving to **slide 12**, the Digital TV operation (TQTVD) ended 2012 with net revenue growth of 61%. In addition to revenue growth, the reduction of cost structure held at the end of first semester resulted in a decrease of 84.5% of the negative EBITDA.

2013 will be the first year with the mandatory adoption of the Brazilian Standard of Digital TV, which established a minimum of 75% of the TV set produced in the Manaus Free-Trade Zone with this technology embedded. The effect of this rule and the current cost structure creates a more predictable and favorable scenario for the decision making process about the future of this business, as well as for the achievement of breakeven in this operation in 2013.

Desempenho Financeiro

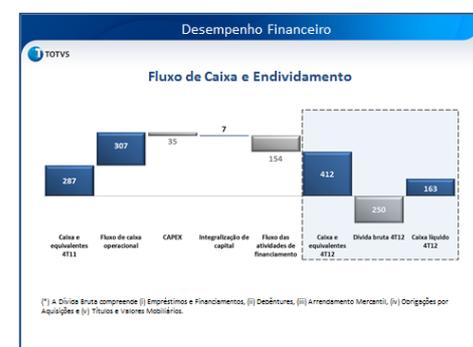
TOTVS

Painel Financeiro

RS milhões	4T12	4T11	Δ 4T/4T	2012	2011	Δ2012/2011
Receita Líquida	361,5	335,0	7,9%	1.414,0	1.279,2	10,5%
Custos e Despesas	267,7	248,0	7,9%	1.035,9	970,5	6,7%
EBITDA	93,8	87,0	7,7%	378,0	308,7	22,5%
Margem EBITDA	25,9%	26,0%	-10 p.p.	26,7%	24,1%	260 p.p.
Lucro Líquido	66,8	60,0	11,4%	207,1	169,4	22,3%
Margem Líquida	18,5%	17,9%	60 p.p.	14,7%	13,2%	150 p.p.

Now on **slide 13**, the EBITDA growth of 22.5% in 2012 was accompanied by 22.3% net income growth, resulting in a 150 bps of net margin increase that reached 14.7%.

The debt reduction in 2012 was offset by a bigger effect of marking to market of convertible debentures and a higher effective tax for the year.



Regarding cash generation presented on **slide 14**, the 2012 generation amounted to R\$307 million, accounting for 81% of EBITDA. CAPEX remained low and in line with historical levels.

In the same period, gross debt declined 30%, mainly due to debentures conversion and to the amortization of the BNDES finance line. Thus, TOTVS ended 4Q12 with a net cash position of R\$163 million. This scenario shows the Company's financial strength for new organic and M&A investments.

We understand that TOTVS is able to access competitive funding instruments, in terms of cost and term, for our investment plan. And I reiterate, we will go for them when needed.

TOTVS em 2012 – Pilares Estratégicos

TOTVS

Execução demonstrada em resultados:

- Crescimento**
  - Receita Líquida de Serviços (+15,2% vs. 2011)
  - Receita Líquida Total de R\$1,437 milhões (+12,4% vs. 2011)
  - Vendas de licenças a clientes novos (+31,3% vs. 2011)
- Fidelização**
  - Receita Líquida de Manutenção (+12,4% vs. 2011)
  - R\$812 milhões de receita recorrente em 2012 (56,5% da RL)
  - 23ª Marca brasileira mais valiosa pela Interbrand
- Margem**
  - 26,7% de Margem EBITDA (+260p.p. vs. 2011)
  - Mercado Internacional (-39% de impacto vs. 2011)
  - 14,7% de Margem Líquida em 2012 (+150p.p vs. 2011)

Lastly, the **slide 15** summarizes how the management team has been guiding its strategic agenda and how it sees the performance of 2012, based on the three pillars of Growth, Loyalty and Margin.

Regarding Growth, we highlight the services revenue growth of 15%, net revenue growth of 12.4%, besides 31% growth of license sales to new clients, despite a more complex macro scenario in 2012.

In terms of Loyalty, we highlight the maintenance revenue growth of 12.4%, more than R\$800 million of recurring revenues in the year and TOTVS brand ranked as the 23th most valuable Brazilian brand, as per Interbrand study.

Finally, regarding margin expansion, we have 26.7% of EBITDA margin and net margin of 14.7%, an increase of 260 base points and 150 base points, respectively, over 2011.

These indicators show that TOTVS is on track of its strategic objectives, having the rare combination of resilience, growth and margin expansion.

Now, I would like to invite Laércio to proceed with his final remarks.

**Laércio Cosentino:**

Thanks, Alexandre.

As it is already known by all, in the last board meeting, held on January 24, the Board of Directors unanimously elected Mr. Pedro Passos as chairman and Mr. Germán Quiroga as vice chairman.

This change aimed to meet the best practices in corporate governance laid out in the rules of the Novo Mercado and to prioritize the best personal contribution to the operation and growth of the Company, since I chose to stay ahead of operations as CEO, and remain a board member.

At the same meeting, Marília Rocca, presented her resignation as board member to assume the vice presidency of business. In place of Marília, as independent board member, the Management indicated Maria Helena dos Santos, former CVM president and Bovespa superintendent, being submitted for approval in the next Ordinary Shareholder's Meeting to be held on March 5.

Therefore, TOTVS will be the first among public companies with accumulation of chairman and CEO positions listed on the Novo Mercado no longer pursue the transition rule for that matter.

So, the Board will have the composition shown on **slide 16**, with two independent board members ahead of its presidency and vice-presidency.



Also on January 24, the Board of Directors elected executives who are ahead of strategic positions, from February 1, 2013, and will be responsible for medium and long term strategic goals of the Company, as presented on **slide 17**.

Apart from the Executive Vice Presidency of Strategy and Finance, led by Alexandre Dinkelmann; Vice Presidency of Services and Relationship, led by Rodrigo Caserta; and Vice Presidency of Technology, led by Weber Canova, TOTVS will count on the following vice-presidencies:

- Systems and Segments – led by Gilsinei Hansen;
- Clients and Remote Services –led by Wilson de Godoy Júnior;
- Businesses– led by Marília Rocca; e
- Human Relations and Organizational Infrastructure – led by Alexandre Mafra.

So, TOTVS begins 2013 stronger and better prepared to reinforce its leadership and capture the growth of the Brazilian and Latin American market. Trust us, we are working.

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

## **Q&A SESSION**

### **Michel Moran, Morgan Stanley:**

Good morning, everyone. Thanks for taking my question. On your maintenance revenues in your press release, you flagged that the slower growth there this quarter was related to the lower adjustment from inflation, but also from the migration of clients from older solution versions.

I am wondering on that second point if you can help us by giving us a sense of how meaningful that was, given that I am assuming it is not necessarily recurring in nature. Thank you.

### **Gilsomar Maia:**

Good morning, Michel. In terms of the second element, as you said, regarding customers migrating to current versions, there we see the effect in terms of revenues, but there is a secondary effect in terms of our efficiency, because in relative terms we prefer to have all customers based on the same version.

In terms of revenue effect, we are not disclosing isolated elements, but what I could say is that it is not a recurring element, as you mentioned, so maybe you can try to estimate that based on the effect of IGP-M inflation index in the 4Q.

### **Michel Moran:**

Right, OK. I guess we can figure out what the inflation impact was, but as I look at this on a sequential basis, I think this is the first time ever, maybe the second time ever that you had a sequential decline in maintenance revenues. So, that is why it would be helpful to know. I am assuming that there is not anything else underlying that would have caused that.

**Gilsomar Maia:**

That is the main element dropping this figure, but we should also consider the previous license sales as well. There are three components there affecting this line.

**Michel Moran:**

Right, OK. But your license revenues have been growing sequentially throughout the last 12 months, which is why normally we should see a sequential uptake here.

So, just on that point still, can you give us a sense of how many of your clients, I do not know if you want to talk about it in terms of the revenues you generate from maintenance, but how many of your clients are on the main platform, if you want to call it that, and what is the potential for you to, in the future, migrate other clients to more current versions? Can you give us a sense of what is left to do there in terms of future migrations?

**Gilsomar Maia:**

OK. Just to make this clear, our normal maintenance covers this current version and the previous one. These customers paying a kind of SLA service, like additional maintenance, they are based in older versions. When we consider our total installed base, customers under older versions is a small percentage of it. There is no relevant element similar to that in the future.

**Michel Moran:**

OK, great. Thank you very much. OK, there is no one else in the Q&A; I will keep on asking questions. Alex, I think at the Investor Day we had asked you about the long-term margin guidance that you have provided, which I believe is to deliver a margin of between 27% and 30% by 2016. So, you are obviously on the cusp of hitting that goal already, but I think at the Investor Day you had specifically said that the trend between now and then really should be an upward trend. Given that you ended 2012 kind of at a low point in terms of margin, is it still fair to assume that 2013 should be an up year in terms of margins as a percentage of revenue?

**Alexandre Dinkelmann:**

Hi, Michel. Good morning. Of course we are always working to perform better than the previous year, this is something natural for TOTVS, not only in terms of margins but also in terms of growth. I would not like to give you guidance in terms of margins for 2013; as you know our policy is not in this direction.

For the time being, I would say that we are pretty comfortable about achieving this long-term guidance, we want to operate by 2016 within this range, and for us it is really important to really allocate capital in our investment program in order to really reinforce our growth

prospects, and as you know all investments in R&D are reflected in our profit and loss statements.

So, in this sense, we believe we can increase our margins in the next years, but for 2013 I prefer to not give any guidance.

**Michel Moran:**

OK. Thank you very much.

**Loren Lewallen, Select Equity Group:**

Good morning. Thank you for taking the question. I am wondering if you could comment at all about the current margin and also the margin you expect to get eventually with the PC Sistemas acquisition.

**Alexandre Dinkelmann:**

Hi, Loren. We do not want to disclose the margins of PC Sistemas, but it is important to mention that we see a lot of opportunities in order to increase profitability. This is a profitable company, and we can add a lot of synergies in terms of our capacities of distribution, the portfolio we can bring to PC clients, and also some synergies in terms of technology.

In our sense, this deal is accretive. We are pretty confident we can increase margins in the next years of business, we can make it grow more than it did in the past.

**Loren Lewallen:**

OK. And if I could just ask one other question, a bit unrelated. If you could talk about how the 4Q came relative to your own internal expectations. It seems like it was a bit below the street. And I was wondering if it also is below what you were expecting.

And also if you could comment on the current business environment in Brazil. Obviously you are seeing an economy that failed to accelerate as expected, going through the back half of last year. And I am wondering, as you look at the current business environment, what you are seeing.

**Alexandre Dinkelmann:**

Hi, Loren. We are never satisfied with our results. We believe that we can do better. So, of course, when we look at revenues our expectations were higher than that. But it is important to analyze the results in light of the whole macro scenario. So, we ended the year of 2012 growing the business more than 12% top line, of course taking into account the social security contribution, just to compare 2011 and 2012 with the same basis.

So, in line with this more complex scenario, we are happy with the performance of the top line, but of course we could do much better, and our plans were higher than this performance. It is also important to mention in terms of margins, the R&D that increased this quarter, it is very important for us really to pave the way for the next years in terms of growth. So, it is very important, and as we have said before during 2012 we were actually expecting an increase of R&D in our cost structure. So, this is in line with our expectations.

As you know, in software R&D, the cycle of the R&D is larger than one quarter. The results that will be captured because of this R&D will be reflected in the next quarters.

**Loren Lewallen:**

That is very helpful. In terms of the current environment you see in Brazil?

**Alexandre Dinkelmann:**

We believe that this year, 2013, will be better than 2012 when we look at the macro scenario. 2012 was really disappointing when we look at how GDP growth performance was. So, we started the year with the confidence that this year will be better than last year across different industries.

**Loren Lewallen:**

Are we seeing signs of that in the business, or is this more a macroeconomic observation?

**Alexandre Dinkelmann:**

It is a combination of these two dimensions. When we see macro indicators, and also the pipeline and the level of activity we have with our clients, and discussing opportunities projects. So, it gives us confidence that this year will be better than 2012 for the whole economy.

**Loren Lewallen:**

Great. Thank you very much for your time.

**Michel Moran, Morgan Stanley:**

Hi. I was wondering, Alex, if you could comment a little bit about what you are seeing on the competitive front. Are any of your competitors doing anything that you have noticed that may be impacting the market?

And also I think you were quoted in the press yesterday about acquisition pipeline. I was wondering if you can comment a little bit about what you are looking to do in terms of

acquisitions. What specifically are you looking for, and in particular whether or not there is anything that would take you more meaningfully beyond Brazil.

**Alexandre Dinkelmann:**

OK, Michel. In terms of the competitive landscape, the situation stays the same. So, we are not seeing any relevant change in the level of competition. Of course we analyze competition depending on the segment that we are talking about. So, at the high-end market, as you know, we compete directly with SAP and Oracle. In the S&B the competition is more related to regional players and niched guys, so players that are dedicated to specific niches of the industry.

And at the base of the period, when we talk about micro enterprise, then the market is really fragmented. So, no news in terms of competitive landscape, the competition is tough for everybody, which makes us work better every day.

In terms of M&A, as I have said, TOTVS is active. We are always analyzing opportunities. For us it is really important that the targets bring very good fit with our strategy, so we want to explore the maximum synergy in terms of distribution, in terms of portfolio of products, in terms of technology. This is the mantra for us when we talk about M&A.

So, yes, you should expect M&A activity in the next years. It is part of our DNA, we could present to you, investors and shareholders, a very good track record in terms of M&A and we will combine M&A opportunities with organic growth.

**Michel Moran:**

And specifically is there anything beyond Brazil that we should anticipate to either this year or next?

**Alexandre Dinkelmann:**

We are analyzing some opportunities abroad, but they tend to be small and niched. So, nothing that should be understood as “international”.

**Michel Moran:**

Great. Thank you.

**Alexandre Dinkelmann:**

And just a final comment, even when we talk about M&A abroad, we want to really exercise possibilities of synergies between Brazil and the international market. That is also a very important pillar in our strategy.

**Michel Moran:**

OK, perfect. Thank you very much.

**Operator:**

At this time it appears that we have no further questions. We will go ahead and conclude our question and answer session. At this time I would like to hand the conference back over to Mr. Laércio Cosentino for any closing remarks. Sir?

**Laércio Cosentino:**

I would like to say thank you all who contributed to the success of TOTVS in 2012, especially our analysts, customers, partners, and shareholders. Thank you very much.

**Operator:**

We thank you, sir, and to the rest of management for your time. We thank you all for attending TOTVS's 4Q results conference call. At this time, you may disconnect your lines. Thank you everyone, and have a great day.