

**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.

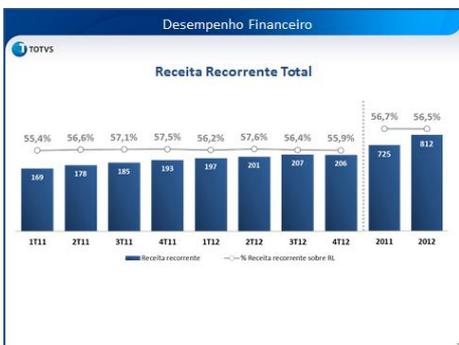


Services revenue, on **slide 5**, ended 2012 with growth of 15.2% in FY and 10.1% in Q4. Important to note here that this service revenue growth was accompanied by margin improvements.

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

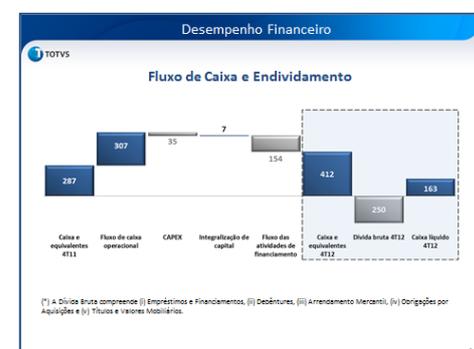
TOTVS

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:

<b>Crescimento</b>	<ul style="list-style-type: none"> <li>Receita Líquida de Serviços (+15,2% vs. 2011)</li> <li>Receita Líquida Total de R\$1,437 milhões (+12,4% vs. 2011)</li> <li>Vendas de licenças a clientes novos (+31,3% vs. 2011)</li> </ul>
<b>Fidelização</b>	<ul style="list-style-type: none"> <li>Receita Líquida de Manutenção (+12,4% vs. 2011)</li> <li>R\$812 milhões de receita recorrente em 2012 (56,5% da RL)</li> <li>23ª Marca brasileira mais valiosa pela Interbrand</li> </ul>
<b>Margem</b>	<ul style="list-style-type: none"> <li>26,7% de Margem EBITDA (+260p.p. vs. 2011)</li> <li>Mercado Internacional (-39% de impacto vs. 2011)</li> <li>14,7% de Margem Líquida em 2012 (+150p.p vs. 2011)</li> </ul>

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 Marilia, 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.

At this point we are available for the question and answer session.

**Alexandre Garcia, Citibank:**

Good morning, everyone. Thank you for this opportunity. Laércio, Alexandre, what can you say with respect to guidance for 2013. That would be my first question. Thank you.

**Alexandre Dinkelmann:**

Good morning, Alexandre. Thank you for your question. As you know, we don't have a policy to provide guidance for the year. In terms of helping you show our vision, we plan to continue working on the three pillars of our strategy, which are growth, expanding margins and client loyalty. This will continue to be the case in 2013, and we see good prospects for the year. We're starting the year with a healthy dose of confidence.

Now, in terms of numerical guidance, no. In terms of themes, in recent quarters we've been talking about deepening segmentation, expanding our profitability in services and further improving our results on the international market. We have an agenda of acquisitions for the coming years, we now have the launch of TOTVS Ventures. The themes are there, our business is focused on the long term, so that's why I believe that 2013 will be a strong continuation of what we have already been doing.

**Laércio Cosentino:**

TOTVS is fully prepared to face 2013. Everything that we have been doing, especially in 2011 and 2012, as Alexandre mentioned, with respect to the Company's client loyalty, growth and margins, and making adjustments in the context of a significant segmentation project that involves everything from development to distribution, leaves us fully prepared to take full advantage of 2013.

**Alexandre Garcia:**

That's great, thank you. A second question, if you'll allow me, is if you could provide an overview of what you see in terms of the competition, the competitive environment. We recently saw that a competitor disclosed fairly high growth rates and a stake in the segment that you operate in, which is small and medium-sized business. Have you noticed any change, any aggressive competitors or a solution that you see as competitive, that has led you to rethink a certain strategy?

**Laércio Cosentino:**

It is unlikely that we will rethink our strategies due to the competition. We have a whole condition line that we're working on at the Company, and when you talked about a competitor that announced higher growth, it's important that this competitor provide all of their figures in the Brazilian market. It's important, when announcing growth, to make a pro forma announcement, if there was a relevant acquisition abroad that induced growth within the country, if the product was already being sold in Brazil, and so on.

What we've seen is that we continue to participate in a majority of the bids for software needs. We're attracting a variety of accounts, with growth that far outpaces the macroeconomic scenario in Brazil, which you can see in our numbers: 12% growth with a GDP of 0.8%. I think that gives a significant advantage to the Company, which would be our response to that question.

**Alexandre Dinkelmann:**

In the segment of small and medium-sized businesses, Alexandre, complementing what Laércio has stated, the competitive environment is the same as before, and we've been talking about it with you already. It's a regional form of competition, a focused, niche competition. We don't see any major player positioning itself in the small and medium-sized business segment, if it's the player that I think you mentioned.

**Alexandre Garcia:**

Great. Thank you for your answers.

**Daniel Federle, Credit Suisse:**

Good morning, everyone. Thank you. My first question has to do with the EBITDA margin. I would like to know if this small drop in the margin, both in terms of quarterly and annual comparisons, if this is more a reflection of the adverse macro scenario or if it is the normal volatility of the business costs.

My second question is related to the overseas operations and digital TV. It appears, given the numbers for the year, that in 4Q they had a positive contribution to the margin. I just wanted to know if this calculation is correct.

**Alexandre Dinkelmann:**

Hi, Daniel. Thank you for the two questions. Let's start with the first one, regarding the EBITDA margin. It's what we always say, our business has a long maturation process and it is a long term business, particularly when we look at investment decisions and the dynamics of our relationships with our clients, which are long-term relationships. We always take care not to consider a quarter to be a trend, regardless of whether it is headed up or down. We've always been very clear about this with you.

I would call attention, looking at the snapshot of 4Q in terms of the margin, to two accounts that are worth analyzing. One is R&D, you can see a growth in R&D. TOTVS has a policy of accounting for all of its expenses on research and development. So, TOTVS's entire product innovation investment policy is always reflected in the Company's income statement. That's an important message.

Why am I calling attention to this? Obviously, an investment in R&D does not mature during the same quarter. Today's R&D initiatives are focused on future revenues. This type of disconnect in the quarterly outlook can take place, but in our software business this is extremely normal for us, given that the investments will be exactly reflected, in the case of TOTVS, in the income statement.

For us, it's normal. And throughout the year we have been saying to you that R&D would probably pick up towards the end of the year. It's a part of our plans, our road map, etc.

Another line that I wanted to call attention to - the provision for doubtful accounts - worsened during the course of the year. It wasn't just in 4Q. 4Q accelerated 12% over 3Q, but a large part of this is due to major accounts that, due to specific situations faced by the clients, resulted in more delicate financial situations for these clients, and this impacted our provision for doubtful accounts.

How do we operate in the face of this type of situation, mainly made up of major contracts for services and consulting? We raise the bar for managing the risk from this type of contract. The Company worked on this throughout 2012 in order to avoid falling into this type of situation. Throughout the year there was also a slight deterioration in the overall R&D indicator for small and medium-sized businesses. We included this in the release, but we do not anticipate a worsening scenario in 2013. We don't expect this type of scenario for our provision for doubtful accounts, we're anticipating that this line will remain stable.

I'm calling attention to a line that wound up having a little of the macro component, which is the provision for doubtful accounts. R&D didn't. It has a direct connection with our strategy for investments and the Company's growth. That's why the conclusion is: when looking at the quarter, which is a snapshot in the software business, it should never be taken as a trend. That's why, especially when we close 2012 with this conference call, it's important to see

what we've accomplished over the year, which will begin to provide the Company's trends in how we conduct our technology and software business.

In response to your second question, the international market in 2012 showed a gradual increase in the quarterly results. That's our aim. We have already provided formal guidance to investors and analysts that we will reach breakeven at the end of 2014. The year 2012 shows that we are on the right path. The choices that we've made on the international market are leading the Company toward this goal. And the objective is fairly important, because we have combined growth on the international market with the quest for the best results.

Obviously, it is worth pointing out that each quarter can feature a certain amount of volatility in the margins of the international market, because we work with investment projects that produce revenue later on down the line. This disconnect between quarters is normal, so we never want to give an outlook to you, investors and analysts, that one quarter from the international market will serve as a foundation for the next one. Be careful with this. But the trend is there and we're going to work year after year to show improvements to you, investors and shareholders.

With respect to digital TV, there is also a strong focus on balancing the results. We took important steps at the Company, in mid-2012, adjusting the cost structure to the level of revenue. The year 2013 begins with clear perspectives for revenue, given the mandatory adoption of the Ginga platform in the TVs manufactured at the Manaus Free Trade Zone. Our objective this year is to focus on the economic equilibrium of the Digital TV operation.

**Laércio Cosentino:**

Just to reiterate what was said about the EBITDA margin, we have three pillars that we repeatedly stress in our communications with you: loyalty, growth and margins. You have to always evaluate TOTVS based on the EBITDA margin for the year, because we believe that in order to enhance customer loyalty and continue growing, we need to have products and technology, we need to invest in new ideas, invest in new forms of distribution and so forth.

One quarter or another we might prioritize a slightly lower margin, but in no way are we destroying all of the margin growth the Company has been building up to that point.

**Daniel Federle:**

Great. Thank you.

**Luis Fernando Azevedo, Bradesco:**

Good morning, everyone. I noticed that you have started to open the concept of recurring revenue, and obviously I imagine that this includes maintenance and a part of revenue from services. What are you considering in this revenue? *Webhosting*? Is there any SaaS in there? If you could explain a little, I would appreciate it. That's the first question.

The second has to do with revenue. Do you believe that 2013 will be better in terms of growth, particularly with respect to licensing? You started to provide a little more information about the digital TV project. How much do you expect this revenue to grow in 2012, with the 75% adoption of digital TVs? Thank you.

**Alexandre Dinkelmann:**

Good morning, Luis. Thank you for the two questions. Let's start with the recurring revenue. Those who followed TOTVS will recall that throughout 2012, since the beginning of the year, we have been bringing this topic to you and promising that we would give more visibility to recurrence, which is a fundamental pillar for our business. And you're right, our recurring revenue isn't just from maintenance, but also from services and licenses as well.

The objective of this increase in visibility for all of you is a little bit of education for everyone, so that you understand that this is the beginning of new business models that are being consolidated in the Brazilian market, and TOTVS is leading this process. Some example of the recurring revenue that we're discussing here are SaaS sales, as a subscription, in which the client pays a monthly fee. We're growing in this and increasingly we're going to seek to grow in this modality.

Our datacenter is one example of a series of service components for our clients that are a source of recurring revenue. We can talk about e-learning solutions, which is another example. This visibility is important because, in the traditional concept, obviously the percentage of growth reflects an anticipation of an investment made by the client. In the subscription model, this is deferred over time, so we're going to increasingly bring these elements to you because, once again, it's a very important pillar for our business.

In terms of the outlook for 2013, we can obviously say that we will always work and our plans are always to perform better than the previous year. This goes for profitability and growth. In fact, our plans include growth that is even higher than what we reached in 2012. We feel much more prepared, as Laércio said.

The year 2012 was focused on deepening a series of measures that we had been taking in previous years and it's a continuous process. It never ends. And we ended 2012 with a much stronger internal vision focused precisely on reaching these objectives in 2013. The outlook is always focused on improving performance with respect to the previous year.

Could you please repeat your question about TQTV D?

**Luis Fernando Azevedo:**

What is the expectation for growth now with the mandatory adoption Ginga by digital TV manufacturers. You mentioned that revenue went from 7 to 12, growth to 13, how much is it expected to be, more or less?

**Alexandre Dinkelman:**

I'm not going to be able to respond to that because, as a policy, we don't like to release forecasts for individual businesses. Digital TV is one of those, so we avoid providing that type of guidance.

**Laércio Cosentino:**

We even have a confidentiality agreement with all of the manufacturers.

**Luis Fernando Azevedo:**

I understand. Just to understand a little about the response you gave about SaaS, how much, more or less, is the revenue from SaaS?

**Alexandre Dinkelman:**

We prefer not to provide that information, but as we put in this release for the first time, when you take a maintenance revenue at a level 47% and you elevate the Company's recurrence level to somewhere around 56%, order of magnitude, we're talking about nearly 10% of the TOTVS revenue through the recurring revenue model. This is a significant contribution for the recurring revenue model.

**Laércio Cosentino:**

We promised you that beginning this year we would begin to present the recurrence of TOTVS's revenue. We understand that simply saying that we are a company with SaaS would do little to help you understand exactly what it is that we are doing.

So, we decided to effectively close one year reporting the data in a traditional way for you, and begin a year showing, going back two, three years, as was presented in the slide, saying that it was a recurrence, demonstrating that we saw successive growth, i.e. growth this year of 12%, maintaining the recurrence that is in line with the work we've been doing two, three years ago, in order to truly have recurring revenues, increasingly relevant within the Company.

**Luis Fernando Azevedo:**

OK. Thank you.

**Diego Aragão, Morgan Stanley:**

Hello. Good morning, everyone. A quick question with respect to the bad debt. I wanted to understand if you feel that there is a change in the mix of your base, and that this level, given

that you flagged a greater amount of bad debt from your large accounts, that it will continue from this point forward, or should we expect some type of churn effect within this large account base. Thank you.

**Gilsomar Maia:**

Good morning, Diego. If I correctly understood the question, you're referring to the average ticket for the year and the issue of the provision for doubtful accounts, correct?

**Diego Aragão:**

Exactly, perfect. I wanted to understand if there is a change in the mix of your base, given that you are indicating that the provision for doubtful accounts has been increasing due to large account clients, and if this is expected to continue going forward. And if it continues, what is the timeframe for you to cancel the service provided to these clients?

**Gilsomar Maia:**

Well, we have not had a change in our client mix. I think that the year 2011, and we stressed this a lot in 2011, was a bit atypical in relation to the absence of sales to larger customers, because TOTVS serves customers of all sizes, including large clients.

The year 2011 was a negative outlier, where we had few sales to clients of that size, so the 2011 ticket is a little lower. So, when we carry out a comparison between 2012 and 2010, for example, you see that in nominal terms it is basically a small increase in relation to 2010, in terms of the ticket.

With respect to the provision for doubtful accounts including larger clients, I don't see this being perpetuated. The services, in this case, have already been provided. That's why you have a provision for doubtful accounts. The revenue has already been recognized. I don't see this being perpetuated in 2013, and I would connect this with Alexandre's previous response to say that we don't see the scenario deteriorating, coupled with the credit analysis policy that we have implemented. The previous services, OK, that's already in the provision for doubtful accounts. But the new sales have already passed through this credit screening process.

**Diego Aragão:**

Perfect, Maia. If you'll allow me to ask a second question, Alexandre commented about this movement to boost SaaS within TOTVS. How do you see this impacting the franchises? Given that it is a business model that differs from the traditional model, how could this impact relationships or franchise revenue? Thank you.

**Laércio Cosentino:**

The franchises are totally aligned with the process that we've carried out, in terms of recurrence, in terms of software as a service, etc. Especially because our model is not a franchise that sells something and does not have any recurring revenue on that which we have recurrence. It's not a franchise that just provides a service, like several of our competitors.

So, it's through this mix that, upon bringing in the client, they have a share of the usage license, in the service provided by us, as well as the revenue from their own service.

The SaaS model that we're adopting is a model in which we believe that there has to be a point person to look after our brand, to serve our clients, to increasingly handle quality assurance, to check what we're delivering, the level of satisfaction, and so on.

This year, when we spoke about educating all of you about what SaaS is for us, mainly because SaaS is not CMB, which is different from SaaS in what we call the "base of the pyramid," which is a completely different SaaS when compared to a large company, we're looking at all of these points, and I'm certain that it does not have any impact on our distribution system, because it is increasingly part of who we are, and is in keeping with our vision of the Company as a software business that offers the best customer service, within the concept of delivering software in a simpler, more agile manner, with better results for our clients.

**Diego Aragão:**

Excellent, Laércio. Thank you.

**Bernardo Miranda, BTG Pactual:**

Good morning, everyone. My question gets back to the issue of TQTV. It's clear that with this increase in the minimum percentage for 2013, this is a business that should gain value for you.

My question is about this, exactly. How will you focus on this business. Will it continue to be a major focus of attention, or is the idea to seek out new partners and eventually sell this business for someone else to run? Where is your thinking with respect to this? Thank you.

**Alexandre Dinkelmann:**

Good morning, Bernardo. Thank you for the question. For us, the digital TV business is like the other businesses that we have, we're selling a software component or software for a specific segment of the economy. In this case, to TV manufacturers and the media sector.

We look at this and obviously for us it's important to show that the operation has reached an equilibrium, that's why we've been providing this disclosure about this operation, and it is our understanding that the operation is very close to reaching an equilibrium and profitability appropriate for the business. And because of its size, it is another business.

Perhaps when we show you that this business has reached an equilibrium, perhaps we may even disclose this type of information, because we have a variety of other segments of operation, and the emphasis that is sometimes given to digital TV is not in line with the relevance of this business for us.

I believe it is important to show to you, investors, and our shareholders the equilibrium of the operation, and we will show this, because we are seeking this, and then we can have the peace of mind to make decisions that are best for the business, that can involve partnerships, involve new investors. It will allow us to have the peace of mind to make the best decisions going forward.

**Laércio Cosentino:**

Just to complement what Alexandre said, TQTV is yet another component of a successful TOTVS software. In other words, when we say that we operate in 10 segments, in each segment we have some components that are important for us to sell more ERP, more of our other solutions, given that we are meeting a specific need.

So, digital TV contributed significantly to our expansion into the electronic segment, the electronic industry in general. So, sometimes a component that many people see as an unnecessary investment winds up being part of our investment that enables us to increase our participation in the sector that uses that component.

**Bernardo Miranda:**

That's clear. Thank you.

**Marcelo Santos, JPMorgan:**

Good morning, everyone. My question is related to maintenance revenue. You mentioned that there are clients with old versions of software and, for that reason, they had to hire personalized maintenance services. They migrated to new licenses and now only pay the standard maintenance. Why did this happen now? Was there something that triggered these clients to take this step? Were you the trigger that motivated the change? And how much more might this happen in the coming quarters? How much might this depress the growth of maintenance in the near future?

**Gilsomar Maia:**

Good morning, Marcelo. With respect to the issue of the clients who changed versions, this was motivated by us. It's best for us if all of our clients are using the most updated versions. There are even advantages in terms of efficiency, when everyone is using the same version.

Going forward, I would say the following: there are always some clients. We have clients who pay for this type of service, but I don't see these clients having a combined movement, as happened in 4Q, in other quarters. It's something natural that happens over time. What we had in 4Q was a set of clients for some specific solutions and we were able to work together with them to cause this migration.

**Laércio Cosentino:**

And that's important, Marcelo. The fewer clients we have on older versions, the lower the TOTVS maintenance costs on versions that are being used by a smaller number of clients. So, in this last quarter, some of our software being used by a small number of clients even contributed to us being able to use that money for the research and development of new products.

**Marcelo Santos:**

Excellent. Thank you very much.

**Tiago Munhoz, Gerval Investimentos:**

Good morning. I wanted you to talk a little more about the growing costs of licensing fees, as well as the costs of services and sales. If we put everything together, research and development winds up bringing things down in the annual comparison. But if we just look at these two lines, we see stronger growth. That's the first question.

The second question is about the acquisition agenda, which Alexandre commented upon. What can we expect in terms of future acquisitions similar to that of PC Sistemas, if there are bigger things in store, or something along the same lines. Thank you.

**Alexandre Dinkelmann:**

Let's start with the second question, Tiago. Good morning and thank you for the two questions. In terms of acquisitions, as we have always stated to you, they are a part of our agenda, a part of who we are. We know how to do it. We've shown a very strong track record of carrying out relevant acquisitions and generating value from these acquisitions, which is always the hardest part. And, yes, it's on our agenda to combine organic growth with growth through acquisitions.

TOTVS is highly disciplined, regardless of our financial firepower. We believe that this discipline is extremely important in allowing us to continue with this track record of success that we have had acquiring companies.

And I would call your attention to this last point in relation to our strategy: perhaps TOTVS is unique in Brazil in terms of bringing in synergies. When we look at our distribution structure, which covers the continent, when we look at our extremely broad portfolio of products and our in-house technology platform, we are one of the few companies in the world that has this possibility. The chance to add value through acquisitions is significant, even with smaller, niche acquisitions, such as that of PC Sistemas.

And I will let Maia respond to your first question, about revenue growth.

**Gilsomar Maia:**

I believe that you were mainly referring to the cost of licensing fees, is that right, Marcelo?

**Tiago Munhoz:**

Exactly.

**Gilsomar Maia:**

This licensing fee cost is mainly related to third-party solutions, which we implement through our solutions. Historically, I would say from 2009 to 2011, the main component in this line was technology.

The year 2012 I believe was the year in which TOTVS was able to resume a series of partnerships, not as partners in technology, but also as partners in some very specific solutions that, when we implement these solutions through our solutions, provide significant benefits for the client. Since they are very specific solutions, it often doesn't make sense for us. We wouldn't have the scale to develop these solutions. So, partnerships make a lot of sense.

If the solution proves to be more important over time and its scale reaches a minimally acceptable level, we can make a future evaluation as to the internalization of that solution. This is something normal. I would imagine that this exists in several other software companies. What I see as the difference between, for example, the partnerships that other competitors have and those of TOTVS is that we centralize customer service. So, we bill the client and the partner bills us.

I've often seen other competitors allow their partners to directly bill the clients. So, you don't have visibility in the results of these competitors, but the client is also paying for these partner solutions. What we have here is a greater visibility with respect to this point. I also don't see a trend, before you ask about it, in relation to having a significant expansion as we had this year and next.

**Tiago Munhoz:**

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OK. Thank you.

**Suzana Salaru, Banco Itaú:**

Good morning. Most of the questions have already been answered. I just had a question with respect to the difference between the growth dynamic of revenue and commissions. I wanted you to talk a little about whether there was a change in the breakdown between direct sales and indirect sales for the quarter. Thank you.

**Gilsomar Maia:**

The volatility in terms of quarterly breakdowns always exists in our business, because there is a dynamic of closing accounts that is carried out by our own team and by the franchises. If you evaluate the year, returning a little to the point made by Alexandre, in response to previous questions, closing the year, for us, eliminates these quarterly fluctuations, and provides a more panoramic view of the subject. If you look at the percentage of commissions in relation to net revenue in 2012, I might be wrong, but if I'm not mistaken it's exactly the same percentage as in 2011.

So, addressing your question, there was no change in the commissioning policy in 2012.

**Suzana Salaru:**

Your breakdown remains 50/50, more or less? That's your target?

**Gilsomar Maia:**

For the year we've just closed, it's very similar to what we had before.

**Suzana Salaru:**

Excellent. Thank you.

**Operator:**

If there are no further questions, I would like to invite Mr. Laércio Cosentino to make his closing remarks.

**Laércio Cosentino:**

I want to thank all of you for taking part in this conference call and reiterate the work that we've been doing at TOTVS. Our focus isn't on the short term. We're looking to the medium and long terms, providing special attention to each of our stakeholders, to our clients, partners and shareholders. Thank you very much.



**Operator:**

Thank you. The TOTVS conference call has now ended. We thank you all for taking part in today's presentation. Have a wonderful day.