Alexandre Dinkelmann:

Good morning, everyone. Welcome to TOTVS' 1Q12 earnings conference call. We ended this 1Q at a significant higher level than that obtained in the 1Q11, taking the first step towards the achievement of our annual internal goals. The main highlights of the 1Q were: margin expansion; reflecting our actions to increase our profitability; international market; strategy and action plans made the turnaround of operations outside Brazil; revenue growth; growth according to our internal expectations on all lines.

Now, I would like to invite Maia, TOTVS's Planning Officer, to proceed with the presentation of the results.

Gilsomar Maia:

Thanks, Alexandre. Good morning, everyone. I would like to ask you to proceed to page two. The Company's net revenues grew 15% in the 1Q12, amounting R$351 million. The left chart shows the robustness of TOTVS' business model, with the unbroken stream of revenue growth. On the right, a comparison between 1Qs and 4Qs shows that the negative seasonality was broken again by TOTVS in the 1Q12, with a growth rate higher than that observed in the same period last year.

Moving on to page three, we can see that the revenue breakdown in the 1Q12 was in line with the historical, differently from the 1Q11, when the license represented 26.4% of total revenues or approximately 200 b.p. above the historical average share for this line, turning the 1Q11 into a strong base to compare 1Q12 license.

On page four, on the left, please note that license in the 1Q12 grew 6.5% over the 1Q11, when a new record of license in a 1Q was established; growing 41% over the 4Q10. In the chart on the right, we can also observe that the 1Q12 license increased 14.7% over the 4Q11, the same growth rate between the 1Q11 and the 4Q10, breaking again the industry seasonality, which traditionally present a contraction in sales after the 4Q. In this context, the commercial flexibility and TOTVS' business model has proven to be effective and seasonal tools.

On page five, the chart on the left illustrates the last year GDP evolution, and the 1Q's incremental revenues from the corporate license model. Incremental revenue of R$90 million in the 1Q12 represents 3.1% over the 1Q11. Taking into consideration that the GDP growth in 2011 was significantly lower than in 2010, the 3.1% growth becomes even more relevant, since incremental license is charged in the 1Q based on customers' real growth from previous years.

On the chart on the right, we highlighted that the other license revenues, that means excluding incremental revenue from corporate model, grew 7.5% in the 1Q12, over a strong base established in the 1Q11, showing that TOTVS' business model does not depend exclusively on a single commercial mode.

On page six, the left chart shows that revenue of services increased 22.7%, meaning 540 b.p. above the historical CAGR of this line. The chart on the right shows the reduction of negative seasonality observed in the 1Q. The pace of growth comes from efforts done by the management to increase the efficiency of services teams aiming margin improvement, in addition to faster growth of consulting services and infrastructure that are contributing to increase the customer base loyalty and expansion of the Company's consolidated margin.

Moving to page seven, both charts show the consistent growth of recurring revenue, which reflects the high level of customer base retention and potential growth of medium and small companies. Here, we also highlighted the growth of 16.9%, in line with the historical CAGR.

Now on page eight, we have the costs and expense dashboard in which we gathered the Company's major expenditures, just like last quarter. In the upper left corner, we have consolidated R&D, cost of services, and license costs. Monitoring these three lines of expenditure jointly is important to check whether the investments in R&D result in long-term margin gains through more efficient implementation and dilution of license costs, and also in R&D investments. In the quarter, this group decreased again as a percentage of net revenue, even with the impact of wage increases resulting from collective agreement in São Paulo in the 1Q12.

In the upper right corner, we have the second block of selling expense, commission, bad debt, and marketing. As a percentage of net revenue, this group of expenditures declined by 110 b.p. over the 1Q11, and increased 80 b.p. on the 4Q11, and remained a point of attention to the management in terms of efficiency. In the bottom left block, G&A and management fees are stable between the 1Q11 and the 1Q12 as a percentage of revenues, increasing 50 b.p. when compared to the 4Q11. This increase was mainly due to the accrual of bonuses in 2012, proportional to the achievement of financial and non-financial goals of the period.

The bottom right corner, the last block represents the line of other income and expenses, which is negatively impacted by the 4Q11, with non-recurring provision of R$1.8 million related to the restructuring process of international market operations.

On page nine, comparing the 1Q12 versus the 1Q11, we highlight the growth of 15.1% of net revenue, 29.1% of EBITDA, 48.7% of net income coming from additional 280 b.p. from EBITDA margin combined with the reduction of Company's net debt. Comparing the 1Q12 and the 4Q11 we highlight the growth of 4.8% of net revenues, 5.8% of EBITDA, and the additional 20 b.p. of EBITDA margin.

Moving to page ten, the left chart shows the evolution of EBITDA and the margins in the 1Qs. We highlight EBITDA growth of 29.1% between the 1Q12 and the 1Q11, the expansion of 280 b.p. of EBITDA margin in the same period. And on the chart on the right, the long-term vision with 12 accumulated months in each 1Q, demonstrating the solidity of the Company's business model.

Now I ask Alexandre to proceed.

Alexandre Dinkelmann:

Thank you, Maia. On slide 11, we provided visibility to our margin in three different layers. The purpose here is not to show any pro-forma adjustments, neither non-recurring effects on EBITDA. The purpose is to improve the visibility of the operation, which has different dynamics in terms of maturity and evolution. We broke down EBITDA margin into the Brazilian operation; that is our core business and the impacts of the Digital TV venture called TQTVD, and international markets.

In the first line, we have the EBITDA margin of the Brazilian operation, which reached 26.6% in the 1Q12 representing 90 b.p. over the 1Q11, indicating that TOTVS started 2012 with more efficiency here. In the second line, we have the impact of TQTVD in the consolidated margin. In the 1Q12, TQTVD contributed with 20 b.p. Since a new legislation was enacted for the sector, we are internally analyzing the business potential and the strategic options that we have to maximize returns of these operations for TOTVS' shareholders.

In the third and fourth lines, we see the impact of the international market operations, since the non-recurring item refers to provisions related to the closure of some operations abroad. Consolidating these two lines, the international market had its negative impact on the consolidated margin decreased by 120 b.p. compared to the 1Q11, and 140 b.p. compared to the 4Q11. This improvement is a consequence of a set of actions we are taking since the 4Q in order to make our international operations profitable.

On slide 12, we provide some of the guidelines we are using in the international plan. We reviewed internal processes and the organizational structure, replacing parts of the management team of this division. We reduced our exposure in Portugal, franchising this region to a local entrepreneur who will take care of the current installed client base. We shut down two branches in Mexico, located in Guadalajara and Monterrey. Despite this closure, Mexico remains an important country for our expansion. In this sense, we are expanding the role of local entrepreneurs who are our franchisees in this country, which will help us increase the effectiveness of distribution with an adequate cost structure.

We are searching and negotiating partnerships and new channels, reinforcing our capillarity in these markets. And we suspended our entrance in Australia and India, despite investments made on product roadmap in the past two years for these two countries. The set of actions is part of the revision of our international plan, aiming sustainable growth and long-term profitability.

Additionally, it is worth mentioning that we will focus on Latin America at this time, specifically on the SMB market within selected industry segments. Geographic selectivity combined with offering selectivity in segments with high growth potential and lower localization efforts, allows us to create a competitive positioning in these markets. Therefore, the Company expects that international market operations reach breakeven of EBITDA in the 2H14 and represent between 3% and 5% of the Company's consolidated revenues in 2016.

We believe that international expansion is a strategic initiative that positively impacts our long-term position in Brazil, among other reasons due to the increased internationalization of the Brazilian economy and our clients. International expansion also aims to meet one of the main strategic objectives defined by the Company for its fifth phase of development, which is making TOTVS a global reference.

For TOTVS, being a global reference means being remembered by those who come to Brazil and who expands beyond its border abroad, providing solutions for selected countries on the road map for expansion; means being recognized in several parts of the world; does not mean having operations in the five continents; and does not mean reducing attention to the countless business opportunities to our core business in Brazil. Therefore, I reinforce the message that Brazil will remain the Company's driver for growth and profitability expansion in the coming years, considering the market potential shown in slide 13.

In the left-hand side of the slide, we have an overview of how companies are distributed in terms of size. At the top of the pyramid, where the larger companies are, we created our private division, which leverages TOTVS' capacity to retain our clients that gain bigger scale. It is important to mention that TOTVS provides products and services for nearly 30% of companies listed on Bovespa.

In the range of SMB, TOTVS consolidated its leading position. This segment also has an estimated penetration of around 12% to 15% of ERP. At the base of the pyramid, which includes the micro-companies, we see a relevant opportunity to consolidate the fragmented and unexplored market.

At the right side of the slide, its important to note the share of software in the composition of IT spending in Brazil and in the main countries of Latin America, which is about 13%, whereas in more mature economies, like the United States, this share is that 27%. We understand that TOTVS is better positioned to capture the high growth potential of the Brazilian and Latin American ERP markets.

So we can go to slide 14, where we analyze in more details on our market share. On page 14, this leadership is confirmed by Gartner, which presents a 2.4 p.p. expansion in TOTVS' share in the Brazilian ERP market, with a total participation of 53.1% in 2011. However, our estimates indicate a market share of 50.9%, the comparability of the data provided by the Research Institute is impaired by the retroactive modification on informed revenues of Player A in the chart. The analysis, using the same criteria conducted for Latin America, indicates a stable market share of 34.6% for TOTVS.

On slide 15, we mentioned our recently-launched advertising campaign, which has a strong sales orientation and demonstrates the unique position that TOTVS has in the Brazilian market. Here we reinforce our ability to offer solutions for businesses of all sizes and in different segments of the economy in Brazil. We understand that this competitive position is very difficult to be replicated.

Finally, let us proceed to slide 16. TOTVS' management team has three statistic pillars in its agenda; growth, fidelity, and margin. For growth, as previously announced, Brazil is and will be the cornerstone of our growth, combining organic and M&A initiatives. For the fidelity pillar, we highlight the consolidation of our private and consulting divisions, TOTVS brand reorganization, our corporate social network called by You, aiming to add a social layer to our offerings, the positioning of TOTVS as an international company, reinforcing our position in Brazil in the mid-term. Finally, our agenda also focuses on margin expansion through efficiency gains, especially in services and development, the increasing adoption of scalable solutions and businesses, and this expected turn around in the international market.

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

Michel Morin, Morgan Stanley:

Yes, hi. Thanks for taking the question. So two things, can you hear me Alex?

Alexandre Dinkelmann:

Yes, we are here.

Michel Morin:

OK. I was not sure if we all got disconnected or something. But anyway, so first of all, thank you for the added disclosure and for the added clarity on your international plans. I think that is every helpful. On that topic, I just wanted to know, I think you are targeting 3% to 5% of revenues from international by 2016. Can you just remind us where that stands today?

Alexandre Dinkelmann:

Hi Michel. First of all, I apologize for the technical problems. We are here also with difficulty to listen. Actually we are around 1%. So it is 1.3% in terms of 2011.

Michel Morin:

OK. So, is it fair, then, to assume that to get to 3% to 5% by 2016 that you will more likely than not rely on some acquisitions, or do you think you can get there organically?

Alexandre Dinkelmann:

We believe that it is feasible to get there organically, but M&A is part of the tools that we have to grow internationally. When we analyze M&A opportunities abroad, we think that the deal tends to be a niched deal, smaller deals than the ones that we did in the past in Brazil.

Michel Morin:

OK. All right. And then secondly, I was just wondering if you can talk a little bit about what you are seeing on the ground with respect to your sales force, given that we have seen wage growth accelerate in Brazil and we know there is a very tight labor market. Are you experiencing any difficulty at retaining or even attracting additional sales people and perhaps if you can mention just by how much your sales force has grown or has been growing, that would be helpful as well. Thank you.

Gilsomar Maia:

Michel, good morning.

Michel Morin:

Hi, Maia.

Gilsomar Maia:

In 2011, our selling expenses grew about 22%. So, actually we ended 2011 with a very well structured sales force. And for us it is natural to have selling expense growing less in this beginning of year. In terms of retention, we have not observed any significant changes in terms of retention or attrition rate.

Michel Morin:

OK, all right. And is the sales force still expanding at this stage? I mean, what is happening on that front?

Gilsomar Maia:

In what sense?

Michel Morin:

You are still adding feet on the street, you are still growing the sales force this year, or are you focused more on trying to get more productivity out of your existing sales force?

Gilsomar Maia:

For 2012, we are trying to get more efficiency.

Michel Morin:

OK. All right. Thank you, very much.

Operator:

At this time we show no further questions. I would like to turn the floor back to Mr. Alexandre Dinkelmann.

Alexandre Dinkelmann:

I would like to thank everyone's participation in the call. Again I apologize for the technical problems. So, please, contact us if you have any further questions. We are available to address your questions.

And I would like also to thank TOTVS' team and our partners and also to say that we are confident that this is the first step to a great year for the Company. Thank you.

Operator:

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