Operator:

Good Morning. Welcome everyone to TOTVS' 3Q11 results conference call. Today with us we have Mr. Laércio Cosentino, CEO; Mr. Alexandre Dinkelmann, EVP, CFO and IRO; and Mr. Gilsomar Maia, Planning Officer.

We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. After TOTVS' 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' website at www.totvs.com/ir.

Before proceeding, we would like to mention that during this conference call, forward-looking statements may be made relating to TOTVS business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS management, and on information currently available. Forward-looking statements do not guarantee performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions, and other operational factors could also affect TOTVS future results and could cause these results to differ materially from those expressed in such forward-looking statements. This call is also being recorded

Now, I would like to turn the conference over to Mr. Laércio Cosentino, who will begin the presentation. Mr. Laércio Cosentino, you may begin.

Laércio Cosentino:

Good morning everyone. Welcome to TOTVS's earnings release 3Q11. First of all, I would like to invite you to proceed to page two. By the way, let me introduce Alexandre Dinkelmann, a new Executive Vice President, Chief Financial Officer and Investor Relations Officer who started his activities with us on last October 17th.

Alexandre holds a degree in Engineer and a Master's Degree from Stanford University. His experience involves various activities in sectors of the economy, such as banking, capital goods and real estate. He has held the position of Head of Merger and Acquisitions in investment banking and CFO of several companies in his career.

In TOTVS he will be responsible for the financial strategy and management, IR, merger and acquisitions, planning communications as well as structuring international operations and new businesses. Now, I ask Alexandre to begin our 3Q11 earnings release presentation.

Alexandre Dinkelmann:

Many thanks, Laércio. Good morning, everyone. First of all, I would like to say it is an honor for me to be part of TOTVS team. Initiating the presentation, I ask everyone to go to page three, where we mention the main awards received by TOTVS this quarter.

Firstly, the recognition of TOTVS by Valor Econômico Newspapers Annual Ranking, as the Enterprise of the Year and the Best Company in the information technology sector in 2010. We had also Abrasca award for value creation in the information technology sector, received by the Company for the second consecutive year. I also wanted to mention the Article at World Finance Magazine about TOTVS, which was featured on the cover of September/October issue.

These awards and disclosures help to strengthen the perception of TOTVS brand in and outside Brazil, which is an important element in our market. Now, let me invite you to proceed to slide four.

The main 3Q11 financial highlights lay on the 18.7% increase on maintenance fee revenues, as well as 20.3% on net income, compared to the same period of last year, confirming the consistency and resilience of our business model.

License fees revenues amounted to more than R$82 million in the 3Q11. Here, it is worth mentioning that the comparison of this line with 3Q10 should take into consideration the historical pick of license sales in the same quarter last year.

On the following slides, we will approach license fees in further details. Service revenues grew 11% in the quarter, once again higher than the accumulated growth in the year. The maintenance fees remained at acceleration, with growth of almost 19% in 3Q11, mainly reflecting the strong contribution of license sales in previous quarters, combined with the facts of annual adjustment of maintenance contracts by inflation.

EBITDA surpassed R$77 million. Here, it is worth the same comments of comparability with the 3Q of last year, due to the relevant concentration of license sales during that period. Against 3Q10, it represented a reduction of 12.5% and in relation to the 2Q a growth of 5.5%.

Among the operational highlights, the Company added 732 new clients to its base. In the quarter, there were more than 3.600 sales with existing clients, what represented almost 14% growth over 3Q10 in terms of financial figures.

As other quarterly highlights, we had the conversion of 15% of debentures in August, which contributed to reduce the net debt and, consequently, our financial expenses for the quarter. We also emphasize the acquisition of a minority interest in Argentina, making this operation a wholly-owned subsidiary.

The Extraordinary General Meeting in September, which was represented by 49.7% of the Company's total shares, approving the incorporation of seven wholly-owned subsidiaries and amendments of the Company's Bylaw, due to the adhesion of the new rules of the Novo Mercado.

And Brasil Maior plan, announced by the Federal Government in early August, which is under debate in Congress, seeking the exemption of payroll, formalization of the markets and encouraging the development of software in the Country.

Now, let us please proceed to slide five. On the left side, you can see the evolution of revenues for the last 3Q since 2006, with a CAGR closed 90% in the period. On the right, we have the same analysis for the period of 9M, reducing the effect of concentration in the 3Q10, with a growth of 13% between 2010 and 2011 and CAGR very similar in both graphs.

On page six, relative to the already mentioned sales concentration in 3Q10, it can be observed that license revenues accounted for almost 29% of total revenues in the 3Q10, compared with 25% in the 9M of the same year.

In the graph on the right-hand side, it may be noticed that 3Q11 accounted for 33% of license revenues in the 9M11, compared with more than 41% in the 9M of previous year, what demonstrates that the relevance of 3Q11 is much closer to the historical pattern of license revenues.

On page seven, the first chart shows that 3Q11 revenues follow the historical growth trend, not considering 3Q10. The analysis of the accumulated 9M presents a CAGR in the same order of 19%, and contributes to a longer term analysis, without much influence of any short-term strings.

On page eight, we present the services revenue development, with 11% growth in 3Q11 year on year, and more than 10% in the nine month period in 2011 year on year.

On page nine, the accelerating growth of maintenance fees is clearly on the chart on the left-hand side, where you can see that the 3Q11 growth of 18.7% exceeded the CAGR for 2006 to 2011 and surpassed the 9M period growth.

This acceleration reflects the concept presented in the slide on page 10, where we illustrate the dynamic of maintenance contracts updates and the effects on the revenue. A better way to view this chart is to look at the bottom line, which represents a maintenance contract with a readjustment base dated January 2011.This adjustment will impact the remaining months of the year. So we see this line all in blue. As for our contract reset in February, the fact of price adjustment is only captured in 11 months of this year, and so on.

This fact confirms the typical resilience of our business model, with respect to revenue, with a high degree of recurrence of this business line. I would like to invite our Planning Officer, Maia, to proceed with the presentation.

Gilsomar Maia:

Thank you, Alexandre. Good morning everyone. Please, let us go to the slide on page 11. In the slide, we have the traditional cost and expense dashboard. Research and development is still growing, as a percentage of net revenue, comparing 2011 and 2012. However, unlikely the past two quarters, remained below 14% of total revenues.

R&D, costs of services and sales expense growth are among the main reasons for the increase of total cost and expense above the revenue growth in the period.

This growth is partially due to costs and expenses from wage pressures throughout the year, besides additional expense with allowance for doubtful accounts, especially from international markets.

G&A expense increased, but in the year to date it reduced as a percentage of net revenue. Marketing and advertisement expense has reduced absolute and relatively, due to the review of the Company’s communication plan that seeks to keep TOTVS brand in the mind of the public by means of mass media and focus on the participation of the industry events to reach specific publics in 2011.

On slide 12, chart at the left, we have the 3Q evolution of EBTIDA since 2006. At the chart on the right, there is a net revenue evolution in blue, expenses and costs in red, and EBTIDA in yellow in a rolling base of 12 months, which enabled us to a long-term view that is reducing quarterly volatility. This chart makes clear the EBITDA expansion in a long-term run.

On slide 13, we have traditional financial dashboard, highlighting the expansion of 13.2% of net sales, 15.6% of gross profit and 14.5% of 9M11 net income, and 20.3% of 3Q11 net income. 3Q11 EBITDA margins reached 23.8%, against 29.1% in 3Q10 and 23.2% in 2Q11. In 9M11, EBITDA margin was 23.5%, compared to 25.4% in 9M10.

These EBITDA margins represent the consolidation of all companies operations. Considering only the Brazilian operations for management software that is excluding international market, TQTVD and non-recurring items, the EBITDA margin was 26.2% in the 3Q11 and 25.7% in the 9M11.

In practice, it demonstrates that the Brazilian operation for management software has been supporting the Company's investments in other operations under development and at earlier maturity stages such as those international markets and related to Digital TV, TQTVD.

Operations in international markets are being restructured, what comprehends a review of their business plans, internal process and organizational restructures in reporting in order to establish the foundations for sustainable growth and profitability in the long term.

Regarding TQTVD, the Company has taking actions to adjust the current operation restructure and to stimulate the development of interactive applications providing a software development key to independent developers.

Now I turn the presentation back to Alexandre.

Alexandre Dinkelmann:

Thanks, Maia. I ask everyone to go to page 14, where we take a look on the Company's net debt. The evolution of our debt demonstrates the Company's capability of strong cash generation after successfully integrating its business with the acquired companies. Because of that, we could year after year reduce our debt as well as increase cash balance.

I call attention to the current net-debt-to-EBITDA ratio, which is at 0.4x. What leads us to a strong balance sheet, rate of financial flexibility and differentiated access to different sources of funding that will support our growth.

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

Laércio Cosentino:

In this final part of presentation, I think it is important to take a more strategic perspective about the moment in which the Company is, considering its best stage of development and where we are targeting our future.

So, on page 15 we have a summary of TOTVS history, which is divided into five phases. The foundation was the first one, when we identified unique opportunities in the SME market and developed an innovative franchisee system, what enabled our capillarization across the various regions in Brazil, a model that represents a strong barrier to entry.

The second phase was the time when we understood the global software concept and invested in technology for scalability and technology independence. The third phase, short but crucial for our consolidation, was the moment when we identified and formalized the demand's model and the Company's DNA.

At that time, we also planned the fourth phase, establishing the challenge of being the market leader and reaching R$1 billion in revenues by 2010. This phase paved the way for the social integration of the acquired companies.

The fourth phase was marked by the achievement of indisputable market leadership, also with the IPO and the market consolidation by accelerating growth. Looking back, we recognize that we are ambitious in setting successive goals for the Company but through which planning, execution, capability and alignment through the organization's DNA, we achieved our goals.

And to where are we going from now on? TOTVS will be a global reference. The rational of this new phase is based on conquering emerging markets that present high-growth rates, like Brazil. We also want to follow our customers that expand across the multiple boards.

For that it would be essential to use our knowledge and experience in serving clients in all development phases, our new distribution strategy, scalability and technology independence, our expertise in acquisition and our spirit of innovation. And, talking about innovation, in 2012 the interface of our system will be the interface of ByYou social network, wait for it.

Thus, 2011 was dedicated to a complete integration of our operations regarding the consolidation of TOTVS brand, distribution channel, the solution portfolio, the unification of the technology platform and the shared-services center, creating the base of a new cycle, turning TOTVS into a global reference.

I would like to thank everyone who contributed to the completion of the fourth phase. And I call everyone to participate of the fifth stage. From now on, we are available for the question and answer session.

Susana Salaru, Banco Itaú:

Hi, good morning. I have a couple of questions here. First on license costs, I just was wondering when we should expect it to start contracting, I mean, when will start the internal development of the technology to be implemented on the client base? That would be my first question.

And the second question will be about the long-term guidance of EBITDA margins, if you still have the same numbers between 27% and 30% until 2016. That is it. Thank you.

Gilsomar Maia:

Good morning, Susana. The first question, in terms of cost of licenses, as you know, we have been investing in our technology in order to integrate all the developments done, based in other platforms. The first initiative we took in that direction was to integrate applications before having the technology platform 100% integrated.

We have still in course a project that is specifically to integrate application and the platform used by Datasul Solutions. And our expectation, we have part of that solution already running based on our technology in our technology laboratory here and our intension is to have sooner a customer using that solution totally based in our technology. That is going to be a kind of a pilot test in which we can see if we were really successful in our technology efforts.

Conceptually speaking that is going to be concluded, this kind of pilot test, next year. So, I do not have a specific date for you now, because since it is a kind of pilot test, we cannot assure exactly when we can consider that project 100% concluded. But certainly this is going to be concluded next year.

Having this test well succeed, we can consider that we can extend that benefit to the rest of our customers. Still, it is not in the short term the effect we can see, but the recent growth you saw in the cost of license is more connected with other solutions we sell that are not embedded in our solutions, like database, operational systems in other software, but not only those used in our solutions, as the Datasul Solutions, for example. Is it clear?

Susana Salaru:

Yes, thank you.

Gilsomar Maia:

And the second question is regarding the long-term guidance. The long-term guidance is totally preserved, this recent behavior of our EBITDA margin is totally part of the game. We have always said that we can have some volatility on our EBITDA margin, but we see that the performance of our core business, specially the Brazilian operation, is presenting evolution.

And we are very focused to conduct the other operations in an earlier maturity cycles to the same direction in the future. So we consider the long-term guidance still or totally preserved.

Laércio Cosentino:

We are working for the margin, but we know that we need to make some investments to get to this in the next years.

Susana Salaru:

OK, great. Thank you.

Valder Nogueira, Santander:

My question is regarding R&D. It ended the quarter at about 13.5% of net revenues and it goes to bring this number down 12%. How are you going to manage to bring this down? Is it about reducing personnel? Is it about an equipment cost? Is it about royalty fees? What are the main drivers that are going to lead us to that 12% long-term target?

Gilsomar Maia:

Good morning, Valder. It is a very interesting question. In the last quarters we saw the R&D coming up a little bit, it achieved like 14% of on net revenues. And recently we started to see a change in that trend. So, in the last two quarters we started to stabilize the level of R&D, and in this 3Q it started to be reduced as a percentage of net revenues and also as a nominal amount.

But looking forward, about the R&D line, the dynamics of our business is always to think about R&D as an investment. Naturally, you know that we do not capitalize our R&D investments, but we have to keep in mind that the easiest way would be to reduce R&D just to achieve a higher EBITDA margin in the short-term, but it can provoke some damages in our quality, specifically product quality. And it can create some difficulties for us in the future.

So, consequentially we have to think about the R&D in terms of dilution, so we have to invest in things that can generate more revenues for us, in order to dilute costs. Of course at first we have to invest to see results in the future, but we have to return on that investment.

So, being very straight to your question, the R&D is going to be reduced by dilution, selling more. That is the way. Of course all the time we can try to integrate better our development area, having everyone using the same platform, following the same methodology can provide this additional productivity, but we should not consider reductions in terms of headcounts, developments and in nominal terms. For us it is more important to analyze that line relatively to the revenues.

Valder Nogueira:

OK. Thank you.

Marco Locascio, Equinox Partners:

Hi. Good morning. Two questions here. First of all, could you comment on what you guys are seeing in the pipeline for license sales, and whether there is sort of any change in the outlook for the growth right there?

And the second question would be in relation to selling expenses. You guys mentioned the growth there being related to the incorporation of the sales team and consolidation of the distribution channels.

As we look into next year, what are the prospects for I guess reducing the selling expenses as a percentage of revenues? Are those sort of changes in the adjustments in the sales infrastructure completed at this point and should we expect to see operating leverage coming through there?

Gilsomar Maia:

First question is related to the pipeline, we have not seen any significant deceleration in our pipeline. So, our pipeline is still very strong, it looks pretty well, we have very good opportunities to the rest of the year, and some opportunities we understand that maturity will drive us to a conversion in the beginning of next year. So, there are a couple of good opportunities to be explored still in this year and for next year. So, we have not seen significant changes in our pipeline structure.

The second question, about the selling expenses, you are correct. The higher level of selling expenses in 2011 is more related to the size of our direct team, considering the acquisitions of some channels we had last year. So, the size of our direct sales team is established. Of course we can have an organic growth in that team, since the Company is evolving in terms of the approach and segmentation.

But one thing that we try to get is more productivity. So, more directly to your question, yes, you are correct; we should see some leverage in this specific term for the sooner future.

Laércio Cosentino:

We have space to reduce the expenses of sales. We are working on it.

Gilsomar Maia:

Relatively, and as a percentage of revenues, certainly we have to increase the size of the team, but at a lower rate than the revenue line. So, again, getting some leverage in the selling expenses.

Marco Locascio:

So, you do not think that there is a trade-off between the resources you are putting into the selling expenses and the purchase of licenses?

Gilsomar Maia:

There is a correlation, because if we consider this year specifically, the growth rate of selling expenses is higher than license sales, for example, demonstrating that we have that opportunity mentioned by Laércio to gain some additional productivity.

Of course we always have some fine tuning to do in terms of gradual selective approach in our team composition. But it is more in terms of productivity, to be more effective in our approach to the client.

But as the Company is getting more complete in terms of portfolio of solution, we need a more skilled sales team. Part of the investment in the selling expenses is also related to training programs we have to provide to that sales force, and also we have to be more selective in terms of the sales force skills as well.

Marco Locascio:

What has been the change in headcount in the sales part of your operation?

Gilsomar Maia:

Nominally?

Marco Locascio:

Yes, just in terms of the number of people.

Gilsomar Maia:

I am not sure now about the figures, but it came from 900 to something above 1,000, 1,100.

Laércio Cosentino:

Around this.

Marco Locascio:

OK. Thank you.

Tatiana Feldman, Morgan Stanley:

Hi, guys. Good morning. Just a follow-up on the comment on not seeing any real changes on your pipeline or your customer behavior, you know, we are seeing the press reports this morning that SAP is talking about 30% plus growth in Brazil. Obviously, no real granularly, they do not report those numbers.

But just wanted to get your reaction, I mean, do you think there is something now that you guys are not seeing as a different product line and not necessarily ERP? Or just any thoughts would be great. Thanks.

Gilsomar Maia:

OK. There is some good news. That proves the opportunity in the market, there are opportunities for all players in this market, because specifically at this time, not only small and medium companies are growing, also large corporations are investing in IT.

And you know that those large corporations, when they face some downturns they are more conservative. But when they see opportunities in the future, as Brazil is presenting now for the next years, they see huge opportunities to invest as well. So, it makes sense to see some growth for SAP figures.

As you said, consequently they do not breakdown that figure in terms of size of companies and regions. But considering the portfolio of the clients here in Brazil, of very, very big corporations, it makes sense for us. But we have not seen significant changes in the respective landscape in our market here, if that is your question.

Laércio Cosentino:

One important point is when you have good competitors, the market grows faster.

Gilsomar Maia:

Have we addressed your question or not?

Tatiana Feldman:

You guys have. In fact I think that is a really good point. You guys need people opening up the market, so having competitors helping on that effort is definitely important. Thank you for that.

Operator:

I am showing no further questions at this time, so I would like to turn the conference back over to Mr. Laércio for any final remarks.

Laércio Cosentino:

OK. I would like to thank everybody and say that we will work so hard to leave the fifth phase of TOTVS and to implement a new and pioneer social interface in our system, just because we believe in more social, more business. Thank you, everybody.

Operator:

Thank you. TOTVS' 3Q results conference call is now over. Have a nice day.