

Operator:

Good morning. Welcome everyone to TOTVS 2Q11 results conference call. Today with us we have Mr. José Rogério Luiz, 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 an operator. Today's live webcast may be accessed through the 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.

Now, I will turn the conference over to Mr. José Rogério Luiz, who will begin the presentation. Mr. José Rogério Luiz, you may begin your conference.

José Rogério Luiz:

Good morning, good afternoon, everyone. Welcome to TOTVS earnings release 2Q11 call. As in previous quarters, I would like to remind you that the figures of today's presentation are compared to the pro forma figures since we added 2005 numbers of the main acquired companies, allowing a better and clearer vision of our performance among several periods.

I would like to invite you to proceed to page number two. The Company has also gained an important period of growth results. TOTVS ended June 2011 with the 22nd consecutive quarter presenting double-digit revenue growth; another quarter of net revenue historical record of almost 17% growth when compared to the 2Q10.

As you can see in our traditional chart, TOTVS has reached revenue of almost R\$1.3 billion in the past 12 months. The solid business model as well as an efficient and consistent performance enabled the sequence of positive results. This growth has been accounted by an increase in market share.

So, now, I would like to ask you to go slide on page three. In this chart, at the left-hand side, we can see that according to the study conducted by IDC, named IDC Latin America Semiannual ERM Applications Tracker 2010, where the total ERP and ERM software market in Brazil is taken into consideration, that is including micro, small, medium and large companies, TOTVS has ended 2010 with absolute leadership at

46.4% of market share. In 2009, this leadership was with 42.5% of market share. Regarding the small and medium caps, as shown on the chart on the right-hand side, the Company reached 68.9% of share.

Although these numbers are significant, we shall remind you, it is known that market remains low penetrated, still allowing favorable opportunities to ERM and ERP software supplies. And TOTVS is in a very favorable position to keep being the main choice of the market due to its quality, innovation and distribution structure.

The results show TOTVS' continuous growth, and now I would like to invite Mr. Gilsomar Maia, TOTVS' Planning Officer, to cover these figures.

Gilsomar Maia:

Thanks, Rogério. Good morning, good afternoon, everyone. I kindly ask you to proceed to the slide on page four. The total revenue growth of almost 17% was the main highlight of the quarter, accompanied by a double-digit growth in all revenue lines.

The license revenue grew by 13%, mainly influenced by the average ticket evolution both new clients as well as base clients. In services revenue, the Company established a new quarterly record with more than R\$102 million, representing an increase of 13.2%, a percentage more than 2x higher than the one presented in the 1Q11.

Maintenance revenue presented acceleration again with 16.3% growth in the 2Q11, mainly reflecting the license sales from previous quarter and updates of contracts with anniversary in 2011. In a few minutes, we will discuss in more details the design of the maintenance curve of TOTVS.

EBITDA grew by 16.5%, in line with revenue, which led the margin to remain at 23.2% in the quarter. Such maintenance of margin occurred despite the negative impacts of salary adjustments, of 7.5%, retroactive to January for the teams based in São Paulo, so a non-recurring impact, and additional expense generated by the lots of stock options granted in the 2H10.

Among the operational highlights, we had the average ticket progress, an increase of 18.7% in tickets for new clients and an increase of 26.7% in the tickets for base clients, demonstrating the clients' intention to invest in information technology.

As other highlights in the quarter, we emphasized TOTVS being part of the IBrX index, already in the position number 64, the realization of TOTVS Day attended by a significant group of analysts and Brazilian and foreigner investors, the management changes as well as the creation of the strategy committee.

Now, I invite everyone to go to slide five. On the left side, we have the revenue progress in the last 2Qs since 2006 with more than 19% CAGR in the period, a constant and consistent curve. Note that the figures are pro forma of major acquisitions, and if it were not so, the growth would be even more prominent. On the right side, we have the license revenue progress with 17% of CAGR over the period. Such license growth was influenced by the average ticket growth.

On slide on page six, on the right side, we have the evolution of the average ticket for base clients and for new clients, as previously mentioned. On the right side, we have the results of multiplying the average tickets by the number of sales for base clients, which means license fee revenue with base clients.

Even with this evolution of sales to base clients, the Company still considers that it has a great opportunity with base clients, especially after the consolidation of distribution channels in recent years. So, opportunity to obtain new clients in a market even low penetrated and base clients buying more technology.

The graphs on page seven illustrate that the license growth influences the growth of services and maintenance revenues, the cause-and-effect module. Regarding maintenance, the chart on page eight help us to understand the dynamics of maintenance contracts adjustment, illustrating importance of the adjustments of contracts completing an anniversary during the year.

As you can see, in each month a portion of the maintenance contracts are doing anniversary and being updated based on inflation over the past 12 months. Let us imagine 12 buildings of 12 floors, on the horizontal axis, we have each of the 12 months of the year and on the vertical axis, we have contracts being updated monthly.

On January 2011, we have the first floor being updated by the past 12 months' inflation. As a rule, all contracts doing anniversary in January were adjusted by approximately 11%. Thus, from the total of 36 slots in the 1Q, only six were updated, or one in January, two in February and three in March or 6/36.

For those doing anniversary on the 2Q, the impact on the quarter was 15/36. This effect becomes more relevant when there is a significant difference between the curves of the last 12 months inflation, because over the year there is substitution of a curve for another one.

On this slide on page nine, we have the revenue breakdown progress. It is important to highlight the consistency of license revenue being over 23% of total revenue. Since the license is the first step in the Company's revenue model, this volume in license represents more in maintenance and in services in subsequent periods.

Now, I invite everyone to go to slide 10, where we have the traditional costs and expenses dashboard. R&D keeping the level of 14% and costs and expenses grow at the same level of revenue in the period. Remember that the 2Q11 was impacted by a retroactive salary adjustment in São Paulo of 1.5 p.p. as the difference between the 7.5% determined by the Labor Court and the 6% anticipated by the Company in the 1Q11. In comparison with the same period of 2010, 2Q11 brings a 9% adjustment as a sum of 7.5 % plus 1.5% retroactive to the 1Q11.

In relation to general and administrative expenses, the Company was able to reduce it as an absolute amount and as revenue of percentage and advertising expense growing at a slower pace than revenues.

On slide 11, on the left hand, we have the EBITDA progress in the 2Qs since 2006. In the 2Q11, the Company's expenditures had an additional expense of R\$1.2 million related to stock option plan plus additional expenses with allowance for doubtful accounts, especially from the international market. On the right, revenue, expense and

costs evolution in a rolling base of last 12 months demonstrated that in a long-term vision the EBITDA expanded.

On slide 12, we have the financial dash board with the growth in revenue and EBITDA in the same rate in both views, quarterly and semi-annually, having net profit expanded at a slower rate, mainly due to increase in the effective tax rate, arising from the non-deductible expense of stock option plan and marketing to market of convertible debentures.

Now, I would like to invite Rogério for his final remarks.

José Rogério Luiz:

Thanks, Maia. The slide on page 13 shows TOTVS' fundamentals and differentials list. Strong fundamentals and strong execution lead to solid results. It has been TOTVS' historical. A company that invests in technology and innovation, with growth and profitability, building its reputation and leading it to longevity, the Company provides to clients with fundamental solutions in a low-penetrated market. This scenario of growth in consumption in Latin America, as well as the investments in infrastructure, enables a favorable environment to TOTVS' performance continuity.

I do appreciate your attention and now we would like to proceed to the Q&A.

Andrew Campbell, Credit Suisse:

Yes, good morning. And first of all, thank you, Rogério, for your great assistance in all of these many quarters over the years since the IPO. And well, I was hoping to get some insights from you just on the dynamic for license sales that we saw in the quarter.

License sales coming in a bit slower, and I wonder if there is any takeaway that we should draw from this in terms of the overall market environment and also, as we look ahead to the 3Q, last year in the 3Q, as I recall, you have some very big clients that came on board in the quarter. So, is there any indication you can give us as to how the pipeline is looking especially with regards to some of these larger clients? Thank you.

José Rogério Luiz:

Andrew, good morning. Thank you very much for your words. So, first thing, in terms of license sales, we think that in this quarter we had a fair market in terms license sales. In terms of number of clients and, of course, we had a very positive scenario in terms of average ticket, not only in terms of new clients, but also in terms of existing clients.

Our perception, not only because of our results, but because of the results of other software companies around the world is that companies are buying more technology nowadays. So, even our existing clients, they are buying more license from us.

The number of clients, the conversion that I had with our sales team and all the information that we have is that we remain with a very, very consistent pipeline. We are always tracking the pipeline because one thing is the conversation of the pipeline into new transactions, but the other thing is the creation of the pipeline.

Transforming the pipeline into new transactions, as you may know, you have been following since the before the IPO, Andy, is that it has a certain volatility in terms of the quarters. Some quarters are stronger than others. But we have to have a certain consistency while building the pipeline. And all the information that I have is that the pipeline remains to be a very consistent one. No big change in relation to the past. What I mean by that is it is able to provide to TOTVS very good opportunities.

In terms of larger accounts, we see in terms of larger accounts that we do have a pipeline and this pipeline is a very positive one and with these larger accounts, you know the time in order to transform this pipeline into actual sales. We do not control the time, we try to speed up the process but the clients take more time than the small and medium companies in order to decide. So, even if this pipeline of larger clients, we are comfortable that there is a very positive pipeline.

One last thing about the 2Q in terms of revenues, in terms of license revenues, it is important to mention that in the 3Q10 we had some larger accounts and it was our best ever quarter in terms of license revenues. The second one was the 1Q11 and the corporate model had a big influence in the figures for the 1Q.

So, when we pay attention to the 2Q11, it is the third best in our history in terms of license sales, but the important thing is that not only we had a very good volume of sales, it could be better, yes, but we had a good volume, but the average ticket has been growing. So, it grew in the 1Q and in the 2Q as well. So, this also brings to us a picture that the companies are buying more software than they used to buy.

Andrew Campbell:

Great, thank you very much.

Tatiana Feldman, Morgan Stanley:

Hi, guys, good morning. Rogério, definitely a little bit bitter-sweet to notice maybe one of your last earnings call, so, hopefully you will visit us. Quick question in terms of sort of understanding the margin trend, do you guys have a sense for what the core business and by that I mean Brazil software, where margins would have been for the 1H of the year? I am sort of doing some back-of-the-envelope calculations, I would guess that it would be above 25%, and I just wanted to check that with you guys. Thanks.

Gilsomar Maia:

Good morning, Tatiana. In the last few quarters, we have been providing more details about the international market. Specifically in this quarter, we provided the EBITDA impact from the international market, and also the allowances for doubtful accounts, and there we can see how much of the negative EBITDA from international market came from the allowance for debt or bad debt.

And if you go to calculations as you want, you can see an EBITDA margin very close to this one you said, because what we have been doing in the international market, we have been adequate the structure of the international market in order to be more aligned with the level of results and the revenues they are providing.

Specifically in this 1H, if we take into consideration the revenues for the international market, in the total the international market contributed with less than 2% of the total revenues. And in terms of EBITDA, the international market brought almost 10% of the total results. So, it affected our EBITDA margin. The EBITDA margin could have been close to 25% in this 1H.

And the recent movements we have been doing in the management, we are starting to try to have more focus on international market in order to separate in two parts. One, regarding the South Cone of South America with Marcelo Monteiro and the Central America and Mexico with Claudio Bessa. It is a starting movement in order to have a better international market in the future.

Tatiana Feldman:

Great.

José Rogério Luiz:

But, Tatiana, just to add some points here. You can easily go to your calculation in terms of getting out the international market and even some other investments that TOTVS has made in other initiatives, like digital TV. So, having this said, there is a homework that we were already developing within TOTVS, and we expect to have this communication in the near future to the market.

In order to clearly show to you guys, it is within our release, but even clear what is about the basic business of TOTVS in terms of management software for Brazil and in this specific case, our data, they show that you are OK in your calculations in terms of margin.

And at the same time, we are working in order to clear separate the other initiatives that we are having, that if they are not bringing the results in the short term, we have expectations that this is going to contribute to the Company's results in the future.

Of course, there are things like international market that are at this point in time kind of creating and they have been creating a kind of negative results to TOTVS. Negative in two aspects, the first one not bringing the volume of revenues that we expected and the other thing is that with our cost structure that we are working and we are reassessing this point, I can assure to you and to the market that this specific subject is under deep analysis within the senior management and the Board of the Company. So, that is why I am confident that TOTVS is going to address this point.

Tatiana Feldman:

Great. And then maybe just to touch on that, if we sort of think about your margin guidance which tends to be a little bit more long term in nature, at this point, would you feel more comfortable if we thought of that as sort of the margin guidance for that core business of Brazil management software, or do you guys still think within the timeframe that you are giving guidance that the work will be done so that these other initiatives do not pollute or drag that margin to a different level below that of the guidance?

Gilsomar Maia:

So, the EBITDA guidance is related to the total of the business, including international market. Of course, if we have earlier success in this new approach to the international market it can help us much more. But the total EBITDA guidance margin is totally conserved and includes also the international market.

Tatiana Feldman:

Great. Thank you so much. And then if I could ask one more quick question just on CAPEX. We are seeing a trending a little bit higher this year as a percentage of revenue than we have seen in the past. And I am just wondering if this is something that we can think of as more of a sustainable rate going forward, you know, what are the drivers there in terms of CAPEX and how you guys are thinking about investing going forward?

Gilsomar Maia:

Yes. So, in this 2Q we had a lower level of CAPEX than the first one, but still much higher than we had in the previous year. It is more related with our recent investments in our data center, and that trend, trying to address better our infrastructure for our clouding environment. So, we do not believe that we are going to have four quarters in this year in the same level, because the majority of the investments are more concentrated in the beginning of the year. Probably we are going to have a higher level of CAPEX in this year than the last year, as we said to the marketing at the end of 2010.

Tatiana Feldman:

Yes. Perfect. Thank you so much.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. José Rogério Luiz for any final remarks you may have.

José Rogério Luiz:

So, thank you very much for everybody in supporting us at TOTVS. I should, again, remind you and reinforce that in the 2Q we had our historical record in terms of revenues. We ended the semester with growth of almost 17% in revenues. So, this is far more significant than the year 2010. And I do understand that there are some interesting messages within our structure, revenue structure, not only in terms of license and service but also in terms of maintenance that has been one of the questions of the market and I think that the 2Q is already addressing some of these, I may say, concerns that the market had in terms of the maintenance revenues.

Having this said, I would like to say thank you very much for all your support during the last years that I have been in the daily activities here in TOTVS. I am going to be at the strategic committee and it will always going to be a pleasure to be talking with you.

So, thank you very much for this great experience up to this point in time, and I would like to ask Maia to have his final words about this conference call. So, thank you very much.

Gilsomar Maia:

Thank you, Rogério. Thanks everyone for the attention and for the questions, and we are more than open to answer any complementary questions further. So, thank you very much. Have a good day.

Operator:

Thank you. TOTVS' 2Q results conference call is over. Have a nice day.

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