

Operator:

Good Morning. Welcome everyone to TOTVS' 1Q11 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 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.

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 and good afternoon, everyone. Welcome to TOTVS 1Q11 release call. As in previous quarters, I would like to remind you that due to governance reasons and respect to the market, today's numbers presentation takes into consideration TOTVS' organic growth since we go back to 2005 figures of the main acquired companies. We present organic results in order to allow comparison among several peers.

1Q11 was highlighted mainly by revenue growth acceleration, reaching more than R\$300 million, a new historical record and with a growth of 70% over the 1Q10. In the 1Q11, TOTVS reached the 21st consecutive quarter of double-digit revenue growth. It is important to mention that revenues in the 1Q11 were even higher than the 4Q10, breaking the usual seasonality of the industry in which the 1Q usually presents lower volume when compared to the last quarter of the previous year.

Consistent and sequential results have been formed by market share gains. I would like to invite you now to proceed to slide on page two. In the 1Q, TOTVS celebrated the announcement of its evolution in the Software World Ranking. Gartner Institute, in a study entitled All Software Markets Worldwide 2010, present TOTVS as the sixth larger management software company in the world, moving one position forward on the ERP Suite 2010 World Ranking.

TOTVS has strengthened its position as the largest company in the emerging markets presenting the biggest progress among the six main global players, growing at least 3x faster than the other five companies.

On slide three, at your left hand side, still based on the mentioned study, the table presents that TOTVS has reached over 34% of participation in Latin America, enlarging its leadership in the region when compared to global players, even when all segments are taken into consideration, that is micro, small, medium and large ones, meaning an absolute and unquestionable leadership.

As you can see at the right hand side, Brazil remains being the main geography for the Company. TOTVS acquired another 0.5 participation point reaching 48.6% of market share, once again with absolute leadership, even when all company sizes are taken into consideration.

1Q11 brings a favorable perspective to the upcoming studies, since the Company has significantly improved its license and maintenance revenues. In order to briefly comment d results, I would like to invite our Planning Officer, Gilsomar Maia.

Gilsomar Maia:

Thanks, Rogério. Good morning, good afternoon. Let me invite you to proceed to slide on page four. Main quarter's highlights are linked to net revenue historical record, which has increased 17.1% over the 1Q10. This significant growth was mainly due to the increase of 35% of license fee increase. The corporate model innovative in its concept has contributed with approximately R\$30 million for the Company's growth, 124% over 1Q10.

Maintenance revenue presented acceleration in the quarter, it grew 10% over 1Q10, especially due to license revenues and IGP-M's performance. The EBITDA of R\$71 million represented more growth, being higher 17% over the 1Q10. But this EBITDA and its margin were affected by approximately R\$3 million due to the write-offs from Mexican operation.

Operationally, the Company added 654 new software clients and reached the highest number of sales to base clients, increasing 18% the average ticket for both new and base clients. Among several highlights in this quarter, TOTVS opened a new development center in São Paulo for where approximately 600 developers were moved to.

Concerning to corporate governance, TOTVS split its share and Mr. Rogério de Oliveira has been elected to the Board of Directors. Mr. Rogério has large experience in the technology sector and is the current IBM CEO for Latin America. Another important issue to be mentioned is that Mr. Gilberto Mifano, former BOVESPA CEO and current IBGC CEO, the Brazilian Institute of Corporate Governance, accepted the Board of Directors' invitation and now is a member of TOTVS' audit committee. Continued improvements in corporate governance with strong fundamentals are the base for good results.

Now, let me invite you to proceed to the slide on the page five. At your left, there is a table presenting revenue growth of the best five quarters since 2006. The picture of the evolution is clear and to the right we can see the growth leverage that is

improvement in license fee revenue, which is in acceleration with the CAGR higher than the accumulated one. This improvement reflects the work done since 2008, seeking a single brand, a unique distribution model and a technological restructure that allows clients scale.

On slide on page six, base clients' growth is evident. At the left hand side, the new clients' growth and, at the right, the progressing number of sales to base clients, this later group has been positively affected by the corporate model.

As you can see on page seven, growth from license fee revenue impacts maintenance revenue, at the right, which is in an acceleration process. On the other hand, services revenue has not grown as much, reflecting the usual seasonality of the vacations at the beginning of the year and the carnival celebrations in Brazil, what is translated into a reduction in the delivering piece of software implementation and consulting projects.

Now, I would like to ask José Rogério, TOTVS' EVP to proceed with the next two slides.

José Rogério Luiz:

Many thanks, Maia. It is clear, the 1Q11 revenue growth brought something very important and which has always been part of the Company's history until Datasul incorporation, 1Q seasonality break.

On slide on page eight, there is a table presenting this break. In the software sector, the 4Q is usually the most significant one concerning revenues, it is very common in the sector. However, TOTVS used to break this seasonality. In 2008, due to Datasul incorporation, it has changed and in both 2009 and 2010, we had both first quarters below the fourth ones.

But now, in 2011, TOTVS was able to recover its historical, strong organic growth and seasonality break. Once again, we highlight that those results were only possible due to the reorganization as well as TOTVS' permanent pursuit for better results.

The slide on page nine presents revenue growth composition. On the 1Q11 more than 26% of the revenues are from new license, meaning future. New license revenues will bring new service implementation and consequently more maintenance. The business model keeps working consistently.

Now, I would like Maia to proceed to slide on page 10.

Gilsomar Maia:

Thanks, Rogério. On slide 10 we have the cost and expense table. R&D investments reached 14% of revenue with little evolution as compared to the 4Q10, even considering the anticipated wage readjustments in São Paulo. So, with a deceleration trend process, expecting a stabilization in our lower range in the next 12 months.

G&A continued to fall on an annual base and marketing expense also fell in the quarter due to a new campaign development. We do not expect this expense line to surpass the historical base line of 3% of net revenue in 2011.

The negative highlight for the quarter lies in allowance for doubtful accounts receivable growth, in Mexico specifically, due to some contracts with local clients with doubtful receivable, especially because of the implementation, which turned to be longer than expected. Mexico is being analyzed by the Board of Directors as well as senior management in order to reorganize and provide guidelines to TOTVS's growth in the international market.

Revenue growth and the cost management resulted in an EBITDA growth, as shown on the table on the slide 11. At the left, the acceleration is clear when compared to 2010. At the right, in a long-term perspective, the historical growth track is clear.

On the slide on page 12, we have our traditional financial dashboard, in which revenue growth is highlighted with the new record of R\$35 million, EBITDA and net income as well. Despite Mexico, the EBITDA margin remained in 23.4%.

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

José Rogério Luiz:

Thanks. We had a positive 1Q11. It was meaningful this historical record in terms of sales. On the slide on page 13, TOTVS growth revenue curve is presented. Here we can see that both organic growth and acquisitions led TOTVS to a consistent trajectory. TOTVS management commitment is to keep this course and all necessary actions are being taken in order to assure growth and profit improvement.

Thank you very much again, and we are now available to the Q&A session. Thank you very much.

Marcelo Gonçalves, Credit Suisse:

OK. Thank you very much. My first question is about the services revenues, the growth is decelerating in services revenues, and could you elaborate more on why the growth is slowing down in services, and if it is due to mainly the holidays or it has something to do also with the lack of quality or efficiency in the implementation of the licenses that you sold in the past? Thanks.

José Rogério Luiz:

Marcelo. Good morning. Services, first point, we have, as you could see, in terms of license, the majority of our license, the increase in the license sales came from the franchisees and this is clear when you pay attention to the commission line as we have been explaining to the market. So, if the majority of the license sales is coming from the franchisees, they are the ones responsible for the implementation. So, this is the explanation, number one.

The aspect number two, specifically in terms of our own structure, in January this year we had the number of clients that were on vacation, it was far higher than the average number that we had in the previous years, and at the same time, so, we decided to have a lot of our guys from implementation also on vacation.

Having this said, what we had was a lower number of delivered hours, so we had lower chance in terms of recognizing these revenues. As you may remember, you

recognize the revenues in terms of services when you deliver these hours to the client. If we do not have a client to be waiting for us, because they are on vacation, especially in January, so this impacted.

What we saw in February and March was a better scenario in terms of delivering hours within our own areas. But at the same time, it is important to mention that a very strong part or the majority of the growth that we have been seeing has been outside areas like São Paulo and Rio de Janeiro. And these other areas, the majority of these other areas are under the structure or under the areas of our franchisees and they are going to be responsible for delivering the services.

Marcelo Gonçalves:

OK. Thank you. It is very clear. And if I may a second question, your investment budget for this year, if I am not mistaken, what you sent to the regulator was about R\$220 million. We know that you are building a datacenter facility and you have some payments to be done by the acquisition you made in the past, but anyway, I think there is still like a gap of R\$100 million, I would say, and does this mean that you plan to ramp up acquisitions during this year? Thanks.

Gilsomar Maia:

Good morning, Marcelo. Probably you are regarding to our financial statements from 2010, when we have to justify the retention of accumulated income in the Company. Of course, there we have a kind of resource that we have to retain in the Company in order to pay the acquisitions we have been doing in the past and also that can be related with new transactions.

It is not certain to have that large amount of acquisitions in this year, but if you consider the amount we have to pay from the past acquisitions and if we keep in line the volume of acquisitions we have been having in the last years, we can use most of that amount we had as a provision.

Marcelo Gonçalves:

OK. Perfect. Thank you.

Andre Baggio, JPMorgan:

Hello. Good morning, everyone. I just want to know what your outlook is for the Mexican operations, which have been either EBITDA breakeven or in this case negative in this quarter.

José Rogério Luiz:

Good morning, Baggio. Look, Mexico operations, we have two aspects: the first one is in terms of sales, increase in sales. What we have been seeing in the market is that the potential demand that we should have in Mexico is not happening. We see the Mexican economy not going in the same pace or the same speed that in relation to other economies.

Having this said, one important aspect that we had for our operation in Mexico in terms of increase in sales was the perspective of the electronic invoice being incorporated to the Mexican economy, and the Mexican Government decided by the end of 2010 to postpone for some months what was expected to begin by the end of the 1Q11. So we have two aspects in Mexico in terms of revenues, or sales.

The first one is the Mexican economy not going at the same speed in relation to other economies, this is number one, and the second one is that one thing that would positively impact our operation in Mexico was postponed. There is this aspect of the electronic invoice. This aspect of the electronic invoice, we expect to have this gaining momentum again by the end of 2011, but again, this is something that we do not have a confirmation at this point in time. This is number one.

Then we go to the other part, regarding to some of our internal challenges in delivering some of the projects that we had to deliver. Like three years ago, we had projects to deliver something like 210 projects in Mexico, and our team, they did a very good job there and they delivered 200 of these 210 projects, but we still had a problem with some like 10 projects. Well, this was our fault, the fault of TOTVS in the majority of these cases, not in all of them, but in the majority. So, it was our fault. Some of the clients, they are postponing the payments of some of the invoice. Having this said, we have to take the measures to protect our balance sheet. So, that is why we recognized a provision for doubtful account, specifically some of these projects.

What do we expect? This analysis about Mexico and the international market is no longer in the operational aspect of the Company. We are moving the view and the decision very clear to not only to the senior management or to the executive committees, but also to the Board of the Company. And this is the message that I have to the market that TOTVS is going to focus in the following months in order to put a new level of energy within the international operations.

Andre Baggio:

OK. Thanks a lot.

Alex Liuzzi, M Square:

Hi, Rogério. Hi, Maia. My first question is just to confirm this provision in Mexico. So, basically given it was because of specific projects, we will not be seeing this happening in the next quarters. That is my first question.

José Rogério Luiz:

Alex, at this point in time, my perspective is that we can have some of this within the 2Q, but not in the same amount. But we are re-analyzing some of the accounts receivables and some of the projects, and, yes, we can put some additional provision within this specific case that is linked to the international markets.

Although at this point in time I do not expect to have the same level, but what I am sure is that there are some projects that we are analyzing at this point in time and we can put an additional provision.

Alex Liuzzi:

Thank you, Rogério. My next question is regarding maintenance revenues. Given the current levels of inflation in license growth, should we expect the maintenance revenues to increase substantially in the next quarter or in the 2H of this year?

José Rogério Luiz:

Alex, you know the dynamics of our maintenance contracts, they are impacted positively by two things. The first one is the number of new clients and new contracts and the second aspect is linked mainly to the IGP-M inflation index update that we have in every anniversary of the contracts that occurs every month. So, having this said, it seems to be natural to see in the next month a positive impact coming from these two areas: new contracts and the IGP-M update.

Alex Liuzzi:

And how is the churn behaving?

José Rogério Luiz:

It remains in the historical levels, I mean, very low.

Alex Liuzzi:

OK. Thank you very much, Rogério.

Marco LoCascio, Equinox Partners:

Good morning, guys. I wanted to ask a bit about the corporate model. You guys talked about the very strong growth in that line of business in the quarter. Can you talk or give a little bit of color about whether that was coming from growth within existing clients in that business or whether you are signing on new clients to that model?

José Rogério Luiz:

Marco, good morning. Basically, the growth that you saw this month is related to the new contracts that we signed during 2010 and in the previous years, and the update of this contract that is made based on some metrics. So, the specific amount that you saw during the 1Q is not related to sales in this quarter, but it is related to previous sales that are updated by some metrics in the 1Q11. Every 1Q we have this. OK?

Marco LoCascio:

I see. And so, that contribution to license sales will drop off for the rest of the quarters in this year?

José Rogério Luiz:

But at the same time, this is a kind of one time every year in the 1Q and then in the following quarters what we have is the normal business that, as you may remember,

historically what we have is a kind of evolution throughout the year in terms of new sales.

So, in terms of the impact of the corporate model is the 1Q, but then you have the business as usual aspect in the following quarters. I think that one of the important readings that we can have in our 1Q11 figures is that the number of new clients was a good one and more than this, the average ticket for new clients, it also increased. So it was a very good combination of factors that helped us to have this record in terms of revenues in the 1Q11.

Marco LoCascio:

OK. Thank you.

Marcelo Gonçalves, Credit Suisse:

Thank you very much for the second opportunity. I just would like to ask about wage increases. You gave 6% wage increase in the 1Q and negotiations are still going for what will be the full increase. When do you think it should be concluded and if you could give an estimate of how much wages should increase overall for your labor force? Thank you.

José Rogério Luiz:

Marcelo, we expect that this is going to end during this 2Q. This is our expectation. And it should be marginal in relation to what we gave to the employees at this point in time, the 6%. So, some other categories, or some other group of employees, they had something around 7% to 7.5%. I do not know if this is going to be the case in specific of the guys related to IT, but our expectation is that it is going to be marginal in relation to what we already provided to our employees.

But it is also important to remember that the labor force for TOTVS corresponds to 70% of our total cost and expense and this is fully covered by our maintenance contracts, and, historically, the IGP-M contracts have the possibility to go faster than this updating the wages. Having this said, you can have, as we always have this impact in the 1Q of the year, but throughout the year, we are getting the benefit of this update of the maintenance contracts and there is at least this set of the update of the wages.

Marcelo Gonçalves:

Yes, perfect. I see your point, thank you. And if I may just follow-up, you are building a datacenter facility, if I am not mistaken. So, you believe there is a lack of datacenter to rent right now in the Brazilian market, you plan to expand to this area in the future, what is your main goal with these investments on datacenter right now? Thank you.

José Rogério Luiz:

Marcelo, some of our clients do not require for their daily transactions, the 99.999% in terms of SLA or reliability in the datacenter. And there is a huge difference in terms of price when you pay for a datacenter as a client, if you go for something like that is 99% in relation to 99.99%.

Having this said, our clients will like to use datacenter, external datacenter. We offer to them our datacenter and several of them like to use our datacenter, but if they need the 99.99%, then we can have some other partnerships in order to support this demand for our clients.

So, what I am telling you is that building our own datacenter is much more linked to a market opportunity to the market that we address. So, several of the small and medium clients, they see the quality that we provide linked to the price of this as a very good deal for them.

Well, besides that, our own datacenter also helps when we are talking about the model of Software-as-a-Service, and as you may remember, when we put together our corporate model that links not the client to pay monthly for the product, when we have our datacenter plus the corporate model, we are going to be linked to the business cycle of the client. So, if the client grows, we are going to receive an additional amount. If the client is not growing, we are going to have just the service of implementation plus the maintenance.

So, having our datacenter plus our corporate model offering is what brings to TOTVS that innovative Software-as-a-Service structure. And we understand that there is room for growth, specifically in this area for the Company, but there is a limit for TOTVS in terms of investments in datacenters. If we need, then we can go for third-party datacenters.

Marcelo Gonçalves:

OK, I understand. Thank you very much for your answers.

Operator:

I am showing no further questions at this time. So, I would like to turn the call back over to Mr. José Rogério Luiz for any closing remarks you may have.

José Rogério Luiz:

So, again, thank you very much for everybody. It is important to mention that, again, we were able to have this very strong growth in the 1Q, 17%. This was a result of all the actions that we took in the last years including one single brand, one single channel of distribution, restructuring the franchisees, restructuring the franchisees of development and enhancing the brand of TOTVS.

And what we are providing to the market now is a very significant growth, it is growth over growth and in the 21st consecutive quarter of double-digit revenue growth, and achieving during this 1Q the historical record in terms of net revenues.

Having this said, we know that in the top line there is room for improvements, especially within the service area, but we know that there is a positive perspective within the Country for IT in the next years and software is going to be one of the key aspects in this IT segment.

On the other area, we know that we have some evolution to do within our cost and expense structure and especially in the international market. And, as you may know, historically, TOTVS, every time that we focus in something, this changes in the positive side. And what I am telling you is that the Senior Management and the Board is paying a lot of attention at this point in time to the international market, more than in the past.

So, thank you very much and feel free to contact us anytime you need.

Operator:

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

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