

**Operator:**

Good Morning. Welcome everyone to TOTVS' 4Q10 and 2010 results conference call. Today with us we have Mr. Laercio Cosentino, CEO; 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](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 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 4Q as well as full year 2010 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 only TOTVS organic growth, since we go back to 2005 figures of the many acquired companies.

We present organic results in order to allow comparison among several periods. Would you please proceed to slide on page two? Now I would like to invite Laercio Cosentino, TOTVS CEO, for his initial remarks.

**Laercio Cosentino:**

Thanks, Rogério. Good morning, good afternoon, welcome to our presentation. I am glad to inform you that TOTVS once again presents a healthy growth and records on its main indicators. We have reached new clients, average ticket and net profit revenue historic records.

In 2010, we have improved market share and nowadays we are ERP leaders not only in Brazil, but also in Latin America, in all company sizes, I mean micro, small, medium and high-end companies.

According to the slide on page two, you can see that our growth line remains, I can say, growing due to several actions taken in the past years. Therefore, I would like to review some of the most important issues since 2008.

Let us go to the slide on page three. In the early 2H08, we announced Datasul merger. It is important to remind you that it was a period in which the financial crisis, which started in the United States, was getting larger and stronger, and Datasul integration seemed to be a huge challenge.

We had within TOTVS management team, the energy and experience of previous and highly innovative corporations such as Logocenter and RM Systems, but the economic environment present at that time was an additional painful element. For this reason, in 2009, we had worked on a plan to consolidate the brands, meaning a single brand to build on the five distribution channels as well a unified internal management system by means to a single ERP implementation at TOTVS.

Additionally, we improved the segment creation in order to support attending sectors such as health, construction and education. As you may know, in 2009, results have been extremely positive. What was good got even better and we experienced several improvements on our main financial and operational indicators as well as consolidate our leadership at the market.

For 2010, we focused on creating new foundations for an even stronger growth. Thus, besides having started actions in 2009, improving and consolidating that is branding and distribution channels, we started to work in a crucial step for the future of the Company to the finally integrated development structures by means of the incorporation of the former Datasul development franchisees. This process involves the merger of five companies into one, which was acquired by TOTVS in August 2010.

For those of you who are not familiar with technology, I would like to mention that the integration of development areas is extremely important to enable the R&D scale. Very few software companies are well succeeded in this process. However, TOTVS has a very positive history in this kind of initiative.

First integration results are as expected and 2011 will be a period to dedicate on an extensive TOTVS software development. Additionally, the Company in 2010 has intensified the investments in segmentation in a process led by market strategy vast presence enabling a better customer service, speaking the language of specific industries and consequently enlarging the new sales capacity not only of the basic ERP, but also specifically on the vertical ones.

The results obtained by the branding, distribution channel and segmentation efforts were important to both new clients and average ticket increase that the Company achieved in 2010. TOTVS is getting more and more noticed as a vanguard company, not only in Brazil but also abroad. In order to approach these issues, I would like to invite you to go to slide on page four.

Throughout 2010, both TOTVS' business model and software has been analyzing by two important American universities measured in technology, Stanford and San Jose. The slide four shows TOTVS insertion in the technologies aspects which at present are considered of vanguard, with solid elements in infrastructure as a service, platform as a service and software as a service.

I do not intend to get into much technical details in this year results presentation, but I would like to briefly mention that TOTVS nowadays is one of the few companies able to add at the same time vanguard with growth and profitability. For this reason, TOTVS is distinguished among the other companies in this sector. The market recognizes its very objective way buying more and more from TOTVS.

I would like to invite Rogério, our Executive Vice President, to address about the Company's growth.

**José Rogério Luiz:**

Thanks, Laercio. I would like to invite you to go to the slide on page five. Gartner published numbers in 2010 showing that TOTVS has become the leader in Latin America for all company size, beating traditional, old-fashioned or outdated companies of this segment.

In the past quarter, IDC announced the numbers concerning the 1H10. TOTVS market share increased in total Brazilian market, as you can see at the left-hand side, and also increased for SMB companies, small and medium companies, as you can see to the right-hand side.

The conclusion is obvious. TOTVS leadership has been enlarged. I would like to remind you that IDC research is based on revenues. If it was in client numbers or number of clients, TOTVS leadership comparing to the other companies would be even larger. At last, TOTVS has a strong leadership in our market, which is still underpenetrated.

TOTVS leadership has been also recognized by awards. On the page six, we have listed a few ones and I would like to highlight some of them. Best corporate governance in Brazil by World Finance, 22<sup>nd</sup> most valuable brand in Brazil according to IstoÉ Dinheiro magazine and Brand Analytics. One of the top 1,000 in R&D investment worldwide according to Booz & Company and as number one as the most profitable IPO of the decade according to Economática published by EXAME.com.

The recognition is based on solid and consistent results. Now, let us go to the slide on page seven. TOTVS reached the 20<sup>th</sup> consecutive quarter of double-digit organic growth and another year of profitability improvement. Total revenue surpassed R\$1.1 billion and revenue in license grew over 22% in 2010. Annual EBITDA amounted to almost R\$290 million, 16% over 2009 and the margin reached 25.6%, a new set of historical records. Operational evolution led to a new profit level, adjusted net income not related to the goodwill expense was over R\$190 million.

In 2010, TOTVS registered 2,840 new software clients and the average ticket to both new and base clients grew significantly reaching a new historical record. Considering operational area, it is important to mention that in the 4Q10, a partnership contract was signed between TOTVS and IBM, enabling us to use IBM's sales structure and implementation teams in countries where there is accelerated growth other than Brazil and it will also TOTVS to sell Business Analytics software complementing to our current offers.

It is also important to highlight the contract signed with Banco do Brasil in December 2010 in order to develop initiatives to enable bank clients perform banking transactions through the digital TVs. This is a vanguard and unprecedented program. That means we had another quarter and notably a year of records.

TOTVS evolution gets even clear on the slide on page eight. Let us start with revenues. To our left-hand side, the comparison among the 4Qs since 2005 and to your right-hand side the yearend figures. In the past four years, the Company has practically doubled organically its size.

On page nine, we can see the main reason for this growth. Both new clients and new software license revenue increased. Among the change for the last year, there was an effort to increase new license revenues. And in 2010, we registered growth of 22% over 2009. Once again, we would like to highlight that the most perceived brand, the most recognized product and the unified distribution structure were fundamental factors to reach this result.

On page ten, at the left side, we can see that the effect of this growth has not occurred in the same proportion in service revenues. On the other hand, to the right, you can see that maintenance revenues improved, especially in the past semester, influenced not only by new software contents, but also by inflation-index adjustment that impacts this revenue line. In short, revenues have been positively influenced by strategic actions taken by the Company.

On the table in page 11, we see that 2010 ended with a healthy revenue composition, being almost 25% coming from new license software sales. TOTVS historic model shows that license revenues acceleration is the trigger for the other revenues.

TOTVS has been consistent not only with revenues, but also with cost and expense, as you can see on the slide on page 12. At the upper-right side, we can see that the expense increase has been lower if compared to the quarter and the annual revenues. It occurred specially due to the control over issues such as G&A and with a greater efficiency in marketing expense, for instance, but without affecting the investments in the future of the Company, which is the R&D as presented to the upper-left side.

As mentioned, TOTVS has been working to have a more efficient structure in R&D and the development franchisee incorporation last August is one of the several initiatives in this direction.

Concerning cost effectiveness, G&A example can be observed on the chart to the left on slide 13. The Company's efficiency improvements got better with the shared service center implementation in 2009 and the ERP software unification as well as the beginning of the new follow-up and control process in 2010.

To the right-hand side, you have the table that represents the 12-month accumulated revenue, blue line, and cost plus expense in red line, thus with no seasonality. The conclusion to this table is that looking back or looking to the past, the Company presents a clear trend, profitability increase.

In the slide on page 14, we can see profitability in two ways: at the left-hand corner, EBITDA, consistent organic growth; and to the right, the growing trends presented by EBITDA margin, which is in absolute figures and percentage growth.

In the slide on page 15, the financial dashboard shows the main indicator highlights on the increase of margin, profit and revenues.

On page 16, the table shows the Company's cash and debt summary. The current long-term debt is more than 95% with BNDES, the Brazilian Development Bank, with

very competitive rates. Current net debt is 0.6x 2010 EBITDA. And if we take into consideration the short-term accounts receivables with a very low historical default, TOTVS presents a positive liquidity position.

Now, I would like to thank you and ask Laercio to go for his final remarks.

**Laercio Cosentino:**

Thanks, Rogério. I would like to invite you to go to the slide on page 17. We have been growing throughout the past years. Datasul integration, brand unification, brand efforts, distribution and franchisee improvement and development and franchisees incorporation result in the growth and profitability, but yet below our potential.

We start a new phase in 2011, and the Let us Share campaign represents that, greater focus on segmentation, increasing specialization for industry with a stronger use of Web technology in order to enlarge leadership on this market which still remains low penetrated.

The most difficult task with franchisee has already been completed. The effects of development areas are well addressed. Now, we are to have a great focus and aggressiveness in reinforcing TOTVS role on being the client's passport to a new age with communication barriers and great competitiveness.

The Company is in a special position and you can see on the slide 16, vanguard and the growth and profitability is what makes TOTVS unique. We know we are still far away from the efficiency level we can have. In 2010, we were below our potential, but I believe we are on the right way. I would like to thank you for the time and let us now proceed with the Q&A session.

**Marcelo Gonçalves, Credit Suisse:**

Thank you. My first question is about SPED, could you give us a quick update of how SPED has been implemented so far in Brazil and also how this has been impacting our client base so far? Thanks.

**José Rogério Luiz:**

Hi, Marcelo. Good morning. Thank you very much for your question. As you may remember, the SPED implementation that was issued in 2001 started to be implemented within the companies, in fact, for 20,000 companies in 2009, around 178,000 companies in 2010 and then we have a schedule that goal up to 2014 for another cycle of 3 million companies.

So it started in four major verticals: cigarettes, automobiles, beer and beverage, and supermarkets. This was in 2009. And then you had in 2010, other companies in other sectors that they were "invited" to enter in this process. And of course, in 2011, 2012 and 2013 and 2014, we have a sequence of companies. And it is natural that throughout the time we are getting smaller companies entering this process.

Well, having this said, a company in order to be linked or to be within this electronic bookkeeping system, they do not need to have our software, but of course having an integrated software makes their lives easier. So what was being realized and what we identified within our volume of new clients is that an important number of not only new

clients, but existing clients return to buy more software from us. For sure, they will buy from us in order to comply with this aspect of the SPED.

**Marcelo Gonçalves:**

OK, thank you very much for your answer. And just if I may a second question, it is about your commission expenses. In fact, they dropped a lot if you compare either year over year or quarter over quarter. Like, year over year they dropped like 20%. This is because of the sales mix that you had in the quarter and you should expect the commissions to go up again during 2011 or this is the result of the franchisee integration and the consolidation that you did throughout the year and this is the new level of commission expense that we should expect? Thank you.

**José Rogério Luiz:**

Marcelo, one thing is a fact that throughout the time we have been getting more efficiency within our controls, and the franchisees nowadays are getting bigger and also they have better controls. So this is a point that can help us to have a more accurate number in terms of commission, but this is playing very little of the variation.

The most important aspect, Marcelo, is linked to the mix that we have in terms of sales. As you may know, we pay a lower amount of commissions when we go for the sales with our own teams and when we have the franchisees, we pay a higher commission. So if we had a decrease this year, it was because the majority of the sales were made by our internal team.

Although it is important to mention that we had a very strong evolution in terms of sales coming from the franchisees, but our internal team was the responsible not only for the majority of the sales, but also when we are talking about larger clients, there is a strong influence from our internal team. Having this said, what the main aspect is to explain the drop in terms of the commission was in terms of the mix of the sales that we had in terms of internal sales and franchisees.

What we can see, our perception for the next one or two years, the years ahead from us, is that if we have the franchisees selling more than our internal teams, this is going to be "bad" because it is going to increase our volume of commissions. But on the other hand, if they are selling more, we are going to keep a larger margin because the majority of implementation is going to be in the hands of the franchisees. So having this said, our business model provides a kind of balance that is very favorable and allows us to have this volatility in the short term, but throughout the time to have a very balanced structure.

**Marcelo Gonçalves:**

OK, perfect. Thank you very much for your answers.

**Michel Morin, Barclays Capital:**

Yes. Good morning, everyone. Two quick questions, first, given your very strong financial position and your net cash position and considering that perhaps there are not really too many big acquisitions left to make in this sector, certainly in Brazil, are there any plans to return more cash to shareholders either via dividends or buybacks? And do you have a more specific leverage target that we should be thinking about?

And then secondly, what can you tell us about the financial health of your franchisees? Are they in a similarly strong position as you are and how do you monitor this? Thank you.

**José Rogério Luiz:**

Michel, thank you very much for your questions. The first one, we are a Company with strong cash generation. Our position nowadays in terms of cash is to prepare us especially for acquisitions. Sometimes the market has no clear view about the potential targets that we have within Brazil and within Latin America. There are targets, sometimes they are not names that are very familiar to the market, but they are very good targets for us.

Just to give you an idea, at this point in time, we remain analyzing six transactions. Our M&A team, internal M&A team, has always been working in circa of six transactions. In the beginning of this year, we went for a small transaction for Gens that is linked to health, but there are other targets within the region with reasonable size.

Having this said, keeping the cash for us is an important point to help us to go for the acquisitions. Taking into consideration that at this point in time our shares, as we have the perception that they are under evaluated in relation to the other software companies of the world, especially the vanguard ones, it makes no sense to use the shares for acquisitions. That is why we keep an amount of cash.

On the other part of your question, in terms of the franchisees, TOTVS has a certain structure in the franchisees that allows us, because of our contracts, not only to audit them in terms of quality, but does in terms of their financial strength. Having this said, we have one of the four major auditing companies of the world auditing the franchisees every year and we keep monthly control and monitoring in terms of their data and to see their financial health.

One of the positive aspects that we had in incorporating the franchisees or asking them to merger in order to create one single distribution system, which is the TOTVS system, is that we create throughout the time companies that are very strong in terms of financial aspects.

If we realize through our auditing process or through our very close monitoring that we have over the franchisees, if we identify a franchisee is not making a lot of money, we try to get close to them and help them, if necessary, to merger with other companies, if this is the case.

I do not know if I addressed your points. If you need any additional information, we can provide you.

**Michel Morin:**

No, that was what I was looking for. Thank you. And then if I may, just one quick follow up also on the slide that you showed your margin evolution since 2005. There does seem to be a little bit of a tapering off from 2009 to 2010 on the margin expansion. And the question would be, is there a targeted margin for the current base of business that you think is kind of the ideal sustainable margin level?

Because obviously at some point if you target too high of a margin you may be foregoing growth, and so are we close to that point where you think kind of 25% is the ideal margin level? Thank you.

**José Rogério Luiz:**

Michel, in fact, launched sometime ago a guidance that by 2013 to 2015, we should be with an EBITDA margin in the range of 27% to 30%. So if you go to the slide 14 in our presentation, you see that, and this is just organic, we have been having a step-by-step process in terms of gaining margin.

In 2008, we were affected by the incorporation of Datasul and some shaking in the market because of the financial crisis. But as you could see, in 2009, we had a jump in terms of our margin. Historically, we have been telling the market that we do not believe in jumps. We believe in a kind of step-by-step approach in terms of gaining margin. So when you see the average line between 2005 to 2010, it seems that we try to grow this step by step.

Having this said, we are not happy with 25.6% of EBITDA margin. We think that we can do more in two ways. The first thing is that our business model, the more we sell, the more maintenance we keep, this helps us to dilute fixed costs. This is number one.

The second thing is that, even Laercio mentioned when he was talking to the market, we do think that we are far from the level of efficiency that we can have within the Company. I think that we have been doing good in G&A, but there are other areas that we have to do better. That is why we have been working internally in terms of process in order to get better results throughout the time.

**Michel Morin:**

Great. Thank you very much.

**Daniel Gittes, Equinox Partners:**

Hi. I was wondering if you could talk a little bit about the decline in the number of base clients.

**José Rogério Luiz:**

In terms of what? Nowadays we have over 26,000 clients and we added new clients, 2,840 in 2010. What can I add to you?

**Daniel Gittes:**

Sure. It appears that the churn rate was higher in 2010 than it has been in the last couple of years. I am curious why that is.

**José Rogério Luiz:**

No, this is not a fact. We ended the year with over 26,800 clients. So our churn historically has been circa of 2% to 3% and this year was not different. And again, this number of churn that we have has been truly stable throughout the years. Even during the crisis in the beginning of 2009, we saw this number very stabilized. In fact, what happened this year, we added, in terms of new clients, these 2,840 that we had this

year, it was like an increase of 9.6%. So it was higher than the CAGR of the last five years.

**Daniel Gittes:**

OK. And the total customer base is now 26,800?

**José Rogério Luiz:**

It is around this number now.

**Daniel Gittes:**

OK, thank you.

**Charles Eschinger, Gartner IT Research:**

Hi. Good afternoon, gentlemen. How are you? I was hoping that, you know, can you give us any color on business outside of Brazil, Mexico perhaps or some of the other Latin American countries?

**José Rogério Luiz:**

OK. Chad, thanks very much for your question. So, Brazil has been passing through a very interesting moment. And this thing regarding, for instance, the electronic bookkeeping system, the SPED system is something that the Brazilian Government has been showing to other governments. We have Mexico preparing to implement this in the beginning of 2011. They are postponing a little bit this, but they are prepared for this. What we saw is that in Argentina as well is working what they call the "*Faturación Electrónica*".

What we had in the last 24 months outside Brazil, especially Mexico and Argentina, we grew in terms of sales, especially in Argentina, in both countries in a faster speed than we had within Brazil. And in terms of margins, Argentina is better nowadays than three years ago. And while Mexico, we are still working in order to reach the breakeven. But in terms of growth, both countries presented a higher potential, higher growth because they are more underpenetrated than Brazil in the last two years.

One thing that we understand that is going to create a new momentum within Mexico is this implementation of the electronic bookkeeping system and the electronic invoice within Mexico. As I told you, it was performed from the beginning of this year to other months ahead.

**Charles Eschinger:**

Great. Thank you.

**Operator:**

At this time, it appears that we have no further questions. At this time, I would like to hand the conference back over to Laercio Cosentino for any closing remarks. Please go ahead, sir.

**Laercio Cosentino:**

OK. I would like to say thanks for everybody that has been following TOTVS history and remember everybody you can trust in TOTVS because we are working and we know that we can do more than what we are doing. Thank you.

**Operator:**

And we thank you, sir. And we thank you all for attending TOTVS' 4Q results conference call. At this time, you may disconnect your lines. Thank you, and have a good day.

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