

Operator:

Good Morning. Welcome everyone to TOTVS' 1Q10 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 ladies and gentlemen, welcome to TOTVS earnings release 1Q10. I would like to remind you that due to governance reasons and respect to market, the figures showed

here are concerned only to TOTVS organic growth. They come back to 2005 acquired companies' figures so that you can compare them throughout the years. We are very pleased to present numbers which reflect our growth and investments on TOTVS longevity.

I would like to invite you to go to slide number two. In our traditional chart we present once again growth in sales and continue our consistent positive track record of strong expansion, so that this is the 17th quarter in a row of two-digit organic growth. It is a very important figure, not only because of the hostile scenario faced since the middle of 2008 in terms of economy, but also to the M&A process conducted by TOTVS since 2005.

The results so far obtained lead TOTVS to a new position in the industry, so I would like to invite you to go to page three. This slide represents the world market share ERP's suite result published this week by Gartner Institute. TOTVS ended 2009 as the seventh largest world ERP provider, decreasing considerably the difference towards the sixth ranked and also consolidating the Company as the first in all emerging markets.

On the right side, it is clear that the Company grew while the others reduced their revenues. It is important to mention that the study only takes into consideration revenues with licenses and maintenance, not including service revenues and other services and software revenues, as CRM for instance.

Slide number four, Gartner world study elected TOTVS as the first ranked in Latin America, no matter the company size, that is whether is micro, small, medium or large one. Latin America is the only continent in which a company is based and also leads the ERP market. It is important to mention Argentina and Mexico progress, where according to the study TOTVS is ranked number three surpassing local players. In Portugal, TOTVS is already in the position number four.

On page five we present market share in Brazil, according to Gartner TOTVS has more than the double when compared to the second ranked, once again considering all markets segments, although approximately 80% of the Company's revenue is originated in what we call SMB segment, small and medium companies.

The Company's growth is accompanied by other market awards. Slide number six shows some awards granted in the beginning of 2010, giving special attention to Best Managed Companies in Latin America, by Euromoney, and Best Corporate Governance in Brazil 2010, by World Finance, as well as top five Corporate Governance in Latin America and Best Financial Disclosure in the IT worldwide segment, the last ones given by IR Global Rankings.

Market share and the awards are based on results. In 1Q10, TOTVS presented once again growth in all revenue lines, in comparison to the same period of 2009, as you can see on slide page seven. Net revenue grew 14% even with natural sector seasonality which affects the first quarters with sales volume lower if compared to others, especially the 4Q of the previous year.

Even so, sales result in the 1Q10 was the third highest in TOTVS's history and the 17th quarter in a role of two-digit organic growth, if compared to the same period of previous year, growth after growth, something very rare in the IT software industry in the last years, not only the IT but also in the software industry.

It is important to mention that the quarter presented two different periods, until Carnival that is in the middle of February, sales volume was very small, nevertheless after Carnival business recovered very fast and it is clear not only by the number of new clients in March, 622, or 36% more than the same quarter 2009, but also by the increase in the average ticket, suggesting that larger clients are in purchase recovery.

License revenue was 8.8% over the 1Q09. Service revenues grew 15.3% despite the reduced number of working days in the period. Maintenance revenue reached another record of approximately 17% of growth in relation to the 1Q09. Comparing the 1Q09 to the 1Q10, cost and expense grew by almost 18% when we excluded depreciation and amortization, the main aspects that impacted this were: number one, the labor agreement of 6% granted at the beginning of the quarter to the teams in São Paulo, which concentrates the Company's largest workforce; number two, the increase of investments in R&D, linked to the digital TV efforts, and; three, the increase in the structure absorbed during the consolidation of the channels in the last four months of 2009, we received the structure, the people and now we have them to generate the revenue with these new teams.

Mentioning specifically the service line, and comparing to the 4Q09, revenue decreased 6% due to seasonality and costs grew by 6%, so we had a revenue decrease of 6% and the cost increasing 6%, basically the cost because of the labor agreement and this labor agreement was over inflation. Historically, the increase in wage is benefited during the year due to the maintenance contracts, which are adjusted by IGP-M.

Also in the 1Q10, according to job rotation practice that TOTVS has, we elected Rodrigo Caserta who was formerly the head of the consultancy business area to become the VP of Marketing Strategy and in this area he is going to be responsible for the link between market sales and product. This position was opened since mid 2009.

According to TOTVS's fundamentals, growth remains as part of our history. On slide number eight, you can see the revenue growth with our CAGR over 19% in the last years.

A very important point to be highlighted is the new license revenue growth. On slide page nine, we can see the increase of new clients, 622, again over 36% in comparison with the 1Q09, as well as the very good demand from existing clients. Almost 4,000 of our existing clients returned to TOTVS to buy more licenses in the 1Q10. Consequently, as you can see on the chart on the right side, the new license volume reached R\$64 million, the third highest in history.

On slide page 10, the chart on the left side shows service growth, while the one on the right side the maintenance growth, both with solid and steady growth, which are and tend to be positively affected in the future by the growth in sales license, as we have that effect in the number of new clients, new licenses, new services, more maintenance.

Concerning the maintenance, IGP-M increase that is expected in 2010 is also expected to influence TOTVS positively throughout the year, and as we said, this seems that is going to somehow set off the increase that we had in terms of the labor demands.

On page 11, the balance among the license, maintenance and service revenues remain in historical patterns, which is extremely positive in our view. It is a very strong and consistent balance with license revenues being over 22% in a certain quarter.

On page 12, you can find costs and expenses chart. Cost and expenses, as mentioned previously, have increased faster than the revenue, especially R&D and service. The strong effort in R&D to drive investments into historical patterns, creating new processes with new product metrics and integrating the technological base of the acquired companies, especially Datasul. All these efforts support this vision to drive R&D investments to the historical record of 11% in relation to the net revenue.

As you can see in this chart in the left-hand side, G&A remained being a variable mean, and nowadays corresponds to 7% of net revenue. On the right-hand side you can see marketing expense that grew if compared to last year, especially as a preparation to the new campaign that is going to be launched during the 2Q. But we do expect marketing expenses to be around 3% of net revenue for the 2010 yearend figures. So we remain with the same guidance in terms of marketing expense of around 2% of net revenues.

Concerning the service costs, which have been affected by the labor agreement, it will benefit with the greater integration of incorporated franchising teams resulting in a better productivity.

As a result and consequence, we have the 13th slide, the next page, where the left chart shows margin and EBITDA growth. We have reached R\$51 million in terms of EBITDA and margin of 23.4%, even considering the first 45 days of the year which were not that strong as we already mentioned.

The right chart with 12 months moving average of revenues in the top line and cost and expenses in the bottom line, you can see in the middle, of course, the effect of the EBITDA. So, in this chart, we do not have the effect of seasonality and it shows in a very clear way that we can have volatility within the quarters and among the quarters, but the trend is a very clear one. In this context, volatility, slide page 14 shows clearly the impacts suffered in the first months of 2010, as well as March results with activity resumption.

On your left-hand side, in the slide of page 14, we can see the seasonality aspects that we have already mentioned during this presentation, and on the right-hand side, March with a strong growth in a comparison to March 2009. The message is quite clear, there is volatility according to what has always been mentioned to the market, but the trend remains within TOTVS's history, on historical records.

On slide 15, we have the traditional financial dashboard with highlights to growth and EBITDA.

Before we go further to the final slides, I would like to approach the announcement released to the market early this morning, Datasul has completed several mergers before being incorporated by TOTVS. One of them was Soft Team, and one of the major activities of Soft Team was fiscal BTO which is out of TOTVS's line. For this reason, it has been sold to Chilean group Sonda, Grupo Sonda, historically we have a very good relationship with them, and they bought Soft Team this morning for R\$9.5 million.

Now, I would like to invite you to go to slide on page 15. We just want to remind you that the fundamentals remain consistent, all the fundamentals in terms of TOTVS, underpenetrated market, basic-need solution and the other aspects. This provides TOTVS with an extremely favorable environment, since actions remain tight to the historical Company's success. So execution remains to be mandatory, we are leaders in Brazil and we are also leaders in the region, with a solid and steady growth, and we are eager to work daily in order to improve our efficiency. That is the senior management commitment of TOTVS.

So, thank you very much for your support. Now we are going to go for the Q&A session. Thank you.

Marcelo Gonçalves, Credit Suisse:

Hi. Thank you. My first question is about margin outlook for the year. It looks like margin was pretty strong with 47% of the revenues of the quarter in this month, and what could you say about the rest of the year? Would you expect the growth to accelerate going forward in the 2Q, so the growth rate of 40% in the 1Q year over year would be the low end of the growth that you would present going forward? Thanks.

José Rogério Luiz:

Marcelo, thank you very much. Basically, what we see is that, we do not think that March was a point out of the curve, what we saw is that January in fact was the point out of the curve. So we remain extremely confident that the fundamentals remain the same. So, there is no reason to not remain, I would not say optimistic, but to not remain with the same posture that we also had, which was a posture to work very hard in order to attack this market that remains to be underpenetrated.

So, if you ask me if all the months are going to be like March, I do not know, but for sure they are not going to be like January.

Marcelo Gonçalves:

OK. Perfect. Thank you very much. Just on the cost side, your cost of service was pretty high during this quarter, should we expect that to actually drop in nominal terms going forward? Or would you expect it to be stable or slightly growing going forward and be diluted by the growth in the revenues? Thanks.

José Rogério Luiz:

I think that will be a kind of mix in terms of your points. The first thing is that when you make the comparison among the 4Q09 to the 1Q10, you are going to see like 6% in terms of increase, and part of this increase was because of the update in the wages, the mandatory update in the wages.

Of course, part of this was within a kind of inefficiency within TOTVS so we are working on it. At the same time, what really hurts is the aspect of the decrease in terms of revenue, and the decrease in terms of revenues of service in this 1Q was basically because of the number of working days and because of January.

So, what we saw in March and what we have been seeing in April is a more stable situation terms of working days to deliver the results and the service. Having

said this, I expect to see throughout the next quarter an increase in terms of the revenues and at the same time to be more efficient in terms of the cost and expenses related to services.

Marcelo Gonçalves:

OK. Thank you very much for the answers. Perfect.

Alexandre Liuzzi, M Square:

Hi. I would like to know if this change in gross margin is due to the cost of service was structural or was temporary, like to have gross margin coming back to what it was during 2009, before 4Q09, you will need to have higher revenues or will you be able to cut down the cost of service?

And the second question is if the integration process between the franchises is 100% over or if we can expect some of this impacting 2Q results. Thank you.

José Rogério Luiz:

The first thing, again, we are trying to see the short terms and trying to project this to the longer term. So, again, we had two main aspects. The first thing in the last quarter last year, the integration with the franchisees of Datasul etc, and at this point in time with the vacation and the weak January that we had.

What I expect for the next quarters is a mix, as I explained to Marcelo moments ago, it is increasing the revenues of service; I am quite confident this is going to occur. Historically this will occur because if we have the main power and the work force to support, we have been full in terms of demand. If we go to March and April, we had all our employees related to services; they within clients. So, this is going to mean, of course, more revenues.

At the same time, we have to be more productive, more efficient, and we have been working on it. So, in terms of the gross margin, I expect this to return first to historical patterns, number one, and after that, of course, being even more efficient.

In terms of cost of integration, I am going to repeat what I said in the last quarter. It is a process. As a process, it is nothing which you move from one day to other and it is going to be solved. We think that we are better in the integration, in a better situation than four months ago and for sure we are going to be more efficient in this aspect in the next two or three months.

Have I addressed your point?

Alexandre Liuzzi:

Yes. One more question that I had is: would you be able to tell us how can you expect results to be impacted with the integration of the development franchises, with the acquisition of the development franchises?

José Rogério Luiz:

I can tell you, although it is important to mention that we are within the due diligence process, and we are very careful in this process of due diligence, so as soon as we end the diligence, as soon as we see all the possibilities to integrate these things, the important thing is that they are going to help us to

reduce costs. They are going to help us generate more value, but this is clearly to reduce costs. And the cost reduction is going to be seen within the R&D investments, or R&D expenses.

Alexandre Liuzzi:

Alright. Thank you very much.

Marco Locascio, Equinox Partners:

Good morning. I wanted to ask about the development of franchises, but that has been addressed. So, the other question would be regarding the investment in interactive TV. Can you talk about sort of what you guys are trying to do there, and how far along in terms of that being a contribution to the business you are?

José Rogério Luiz:

Thank you very much for the question. In terms of the additional TV, or the interactive TV, we are putting this clearly within the R&D efforts. And why? Because several of the tools that we will develop for the interactive TV are related to Java and some other technologies that we use within our daily activities.

So, the digital TV or interactive TV in fact is another way to have even the management software being distributed or being accessed. So, this is why we had interest in the last three years and we started to invest time in the last three years.

What is happening now, the point that we have is we have the software of interactive TV, very near to the point of being ready. And now we are starting to have some revenues coming from this segment.

It is a very small revenue at this point in time. But the knowledge about this interactivity is helping us in the development of our management software products. We are talking about the technology that is linked to several hardware, not only the hardware TV, but also creating some kind of interactivity that is going to be extremely useful to our management software structure.

So what have we been doing? We have been trying to make it clear to the market that this is part of our R&D efforts. We can go for disclosing some additional aspects about the interactive TV, but this is part of our R&D efforts.

What do we expect? We expect during the year 2010 that the market is going to be informed with some very good developments in terms of this specific line of business, and more than this, the positive impact of this in our technology.

So, this is the main reason that we are investing in this, because at the end of the day it is something that is helping us in developing a better technology within our core business.

Marco Locascio:

OK. Thank you.

Operator:

There appear to be no further questions, so we will turn to the closing section of the conference. Mr. José Rogério Luiz, if you have any closing remarks, you may make them now, sir.

José Rogério Luiz:

Again, I would like to say thank you very much everybody, thank you for your support. My team and I remain here to answer any of your questions and to get your feedback regarding TOTVS. Thank you very much for your support, and we will really appreciate all the points you have raised.

Operator:

Thank you. This concludes TOTVS's 1Q results conference call. You may disconnect your lines at this time, and have a great day.

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