

Operator:

Good morning. Welcome everyone to TOTVS's 4Q09 results conference call. Today with us we have Laércio José de Lucena Cosentino, Chairman of the Board of Directors and Chief Executive Officer, Mr. José Rogério Luiz, EVP, CFO, and IRO, and 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's 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's 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's business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS's 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's 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's 4Q09 results conference call. It is our great pleasure to be here with you once again presenting very positive results. I would like to remind you that for governance reasons and respect to the market, the figures presented today take into account only TOTVS's organic growth, since we have presented data for acquired companies back to 2005. This way, we are presenting organic results in order to give you a better comparison between TOTVS's numbers in various periods.

I would like to invite you all to slide number two. And I had over to TOTVS's CEO, Laércio Consentino, who will make his initial considerations.

Laércio Consentino:

Thank you, Rogério. Good morning, good afternoon, everyone. And welcome to our earnings presentation. 2009 was a very positive year for TOTVS, strengthening every Company's aspect.

On this traditional chart, on page two, we once again present increase in sales and margins, which have occurred continuously over a track record of strong organic growth and acquisitions. 2009 was a year of accomplishments, market share increase, brand strengthening, improvement in both internal process and services rendered to specific segments, higher investments in personnel, totaling more than 1,000 new employees, and also higher investments in technology. The market responded, and as opposed to what happened to other companies of the segment, 2009 was a year of growth despite the economic turmoil and negative forecasts.

I would like to invite you to slide three. In 2009, we increased our presence in certain segments, which, combined with strong sector fundamentals, brought positive results. Among the challenges faced in 2009, three were particularly complex, and, had they not been addressed properly, they could have harmed our results. These three challenges were: brand consolidation, integration with Datasul, and the restructuring of distribution channels. What was already good, had to become even better.

Regarding brand, we strived to strengthen a single brand: TOTVS, through an aggressive and successful marketing campaign that emphasized the Company's quality and size. As for the integration with Datasul, we have converged personnel, processes, and policies. We re-implemented ERP at TOTVS in 9 months, to over 2,500 concurrent users, and finished the year with a single company, under a single control, with single processes and a single channel. There is still much to do, but we have already advanced. The channel integration challenge was not small, and went through a process of unifying structures.

On slide four, we can clearly see the size of our challenge. We started 2007 with three brands, Microsiga, Logocenter, and Datasul. In the middle of 2008 we already had a TOTVS franchising structure, and in August 2008 we carried out the operation with Datasul, having once again more than one channel. Our initial decision was to unify the TOTVS and Datasul channels in mid-2010, but during 2009 we saw many benefits arising from an earlier unification. Therefore, we put significant effort during the last four months of 2009, including the lower revenues and put some pressure on costs, but closed the year accomplishing that mission and with 62 Full-TOTVS channel.

All this effort has been rewarded by solid results, and I would like to invite Rogério now to present them to you.

José Rogério Luiz:

Thank you, Laércio. I would like to invite all of you to slide number five. TOTVS's recent history is based on strong fundamentals. Just to remind you, the Company sells software solutions that are currently a basic need for companies. This basic need is sold to a market that still shows low penetration, in an environment of growing fiscal and operational demand, and during a positive moment for the region – in the coming years, Brazil will receive a lot of investments in areas such as oil & gas, clean energy, agribusiness, the soccer World Cup and Olympic games, which will generate additional demand for software, and as a consequence new opportunities for TOTVS.

These fundamentals remained strong during 2009, and the figures are a result of a consistent execution process. Therefore, as you can see on slide six, TOTVS closed the year with record levels of revenue, in all lines, as well as of EBITDA margin and net income.

Net revenue in 2009 was R\$989 million, up 17% on 2008. Revenues from license fees reached record levels in the 4Q09, totaling R\$250 million in the year. Speaking of recorded levels, the same happened to revenue of Services and Maintenance.

Cost discipline was enhanced by the wider implementation of the shared service center concept, and with greater revenues and lower expenses, EBITDA grew to R\$250 million in 2009. Margin went up 400 b.p. and reached 25.2% in 2009. As for operational items: in the 4Q09 we added 740 new software clients and the active client base is now close to 25,000 clients.

According to Gartner, TOTVS now ranks 7th in the global ranking. This position reflects the Company's growth at rates higher than any comparison in the global applications software industry. This growth is very evident in the following slides, so I would like to invite you to slide number seven.

On the left-hand side you can see growth for the 4Qs since 2005, and on the right-hand side the annual growth. Revenue performance is driven mainly by the addition of new software sales, and on slide number eight, you can clearly see TOTVS's evolution.

On the left-hand side of the slide you can see a chart with the number of new clients. In 2009, TOTVS added nearly 2,600 new software clients, a new record, and the number of base clients that made additional purchases was even more impressive, up nearly 90% when compared to 2007. Just to remind you, in the 4Q09, between new and base clients, we served 4,823 companies, also a new record.

This increasing number of clients is the primary reason for license fee revenue growth, as shows on the right-hand side of this slide. If license fee revenue grows, so does the service and maintenance revenues, as shown on slide number nine. On the left-hand side, the green bars represent service. On the right-hand side, the revenue with the greatest margin for TOTVS: maintenance. TOTVS's business model presented itself, once again, as resilient on periods of crisis, besides being a scalable model and margin generator.

Speaking of margin, I would like to invite you to slide ten. On the left-hand side, the bars correspond to historical EBITDA figures, reaching a new record at R\$249 million. The compound growth for the past years was around 30% p.a. As for margin, TOTVS business model is based on scale. Growing helps diluting costs, as well as cutting costs through greater discipline, as you can see on the right-hand side chart, and our margin has been reflecting that. In 2009, margin stood at 25.2%, therefore above our long-term guidance, presenting the opportunity for a new long-term guidance, which is EBITDA margin from 27% to 30%, between 2013 and 2016.

On slide 11, we present the chart that shows TOTVS's revenue quality, since more than 23% of sales come from new licenses, which will later provide service revenues and, after that, maintenance. Maintenance currently covers 70% of all the Company's costs and expenses.

On slide 12, costs and expenses. We can see at the top and on the right-hand side that costs and expenses have increased at a lower rate than revenues, despite the increased investments in R&D, which TOTVS records as expenses. In 2009 alone, the Company invested US\$60 million, or R\$118 million in R&D. Cost discipline is obvious for G&A expenses, as shown at the bottom and left-hand side of the slide. I would like to remind you that this year we recorded as expenses the re-implementation of TOTVS ERP. The re-implementation was successful, involved 70 employees and did not cause any negative effect to TOTVS's sales or operations. As for marketing investments, despite the increase in the 4Q09, these expenses closed the year at the level of 3.1% in relation to our net sales.

Moving now to slide 13, we have our financial dashboard, with a very pretty snapshot of 2009. Strong growth, sales up 17%, nearly 40% up in EBITDA, margin over 25%, and record net income.

Now on slide 14, we present a brief overview of the Company's cash and debt situation. In summary: the R\$427 million of debt with BNDES and debentures are covered by R\$208 million in cash and by R\$231 million in short-term accounts receivable.

Having said this, I would like to turn the floor now to Laércio, who will make his final remarks.

Laércio Consentino:

Rogério, thank you. On slide 15, we have, on the left-hand side, a chart we presented in the 4Q08 with a few risks and their offsetting factors in 2009. There was an overall concern regarding general economic risks and their effects on our sector and on our target market. However, we believed that the right execution combined with the quality of our products and employees could lead us to victory. And today, we have shown the market significant results, which were generated by a resilient business model and focused work.

For 2010, our opinion is that fundamentals remain solid and that the Company is even more prepared. Channels have been restructured, the Company is better organized, the brand is more recognized and the team is motivated. Fundamentals combined with execution will help reaching a new level. We keep on working.

I would like to thank you all for your attendance, and we are ready for the questions and answers session.

Valder Nogueira, Itaú Securities:

Good morning, guys. Congratulations on the top line, very good results. Two quick questions; first, we saw some cost volatility this quarter due to the anticipated consolidation of distribution channels. There was something that you needed to do, you chose to anticipate it, but it brought this volatility. Should we expect additional volatility in 2010 or not? That is the first question.

The second question is: there was no mention in the report about the operations in Mexico. Do you have the current status? Are we already EBITDA-positive in Mexico? Thank you.

José Rogério Luiz:

Good morning. Starting from Mexico and international markets, we are going to put this in our site, but full year 2009 Mexico was R\$-4.6 million in terms of EBITDA, in the last quarter, R\$-1.2 million; so in the direction of the breakeven.

But I should announce to you at this point in time that we had at least one month, December 2009, with breakeven in Mexico. So, it is in the direction of breakeven, and you have the figures now; full year, R\$-4.6 million; last quarter, R\$-1.2 million, and it was in the direction of having at least one month in the last quarter with breakeven.

When you see the total international market for TOTVS, including Mexico, full year R\$-6.2 million; last quarter, R\$-2.3 million. So, we are working very hard in this in order to get the first steps of the breakeven, and then provoke the new positive change, to have positive figures, not only in Mexico but in the remaining international market.

One last aspect regarding Mexico, it is implementing this year the electronic invoice. Every transaction over circa US\$300 you should have an electronic invoice. So, we expect that this is going to create a new momentum in that underpenetrated market.

Going to your first question, about cost volatility; yes, we decided to anticipate. We are “paying the price”, and what we expect is to have a minimum aspect about this cost volatility in this 1H10, especially in the 1Q. So, we do not expect to have a lot of cost volatility at this point in time. If it happens, it is going to be marginal in comparison to the last quarter of the year.

Valder Nogueira:

Excellent news. Thank you.

Marcelo Gonçalves, Credit Suisse:

Hi. Thanks. My question is about the sales going forward; after the restructuring of the distribution channels do you believe your growth rate for sales should improve in relation to the growth rate of 15% you had in the 4Q?

José Rogério Luiz:

Everything that we did was in order to have a better and more structured channel. If this is a fact, yes, we do expect in good market conditions to have an improvement, not only in the volume but also in the quality of our sales.

Laércio Cosentino:

I think we will not lose time trying to join channels. The channel has more time to make the sales.

Marcelo Gonçalves:

Perfect. Thanks. And just a last question, on the other expenses you have a R\$4 million gain. Could you, please, give more details about those gains?

José Rogério Luiz:

This is more linked to an accounting aspect than to some other aspects. When we were dealing with the restructuring of the channels, we were selling some areas and sometimes buying some areas. When you have this additional expense, as we had, it is in several lines of our P&L. But when you have some positive impacts, you have this in other revenues.

So, all in all, you are going to have a set-off. But the set-off is the revenues that we got against the expenses that are in not only one line, but in other lines. Is it clear?

Marcelo Gonçalves:

Yes, it is clear. So, I believe the 34% EBITDA margin level could be expected going forward, right?

José Rogério Luiz:

We just provided the market with a new long-term guidance. In order to reach the long term, I have to start doing the job in the short term. So, you know us, you know that we do not believe in a high jump in terms of margins, although we had this very significant jump in 2009, so it is a step-by-step process.

Having said this, in order to at least meet our long-term guidance, we have to have these step-by-step results happening from today until 2013 to 2016.

Marcelo Gonçalves:

Perfect. Thank you very much.

Tatiana Feldman, Morgan Stanley:

Good morning. Congratulations on the quarter. Just a couple of questions from me; the first one would be: you have highlighted a couple of times that the alignment has been done so far to 95% of the channel in Brazil. I was just wondering if we can expect the remaining 5% to occur in the 1H10, or if there is any timing for that? And then I have a follow-up.

José Rogério Luiz:

This specific aspect, we would like to have this 100% done by the middle of 2010.

Tatiana Feldman:

OK. And then just on the margin guidance that you provided. Is there any M&A activity contemplated in that range, or if we do have some activity in the next few years could there be further synergy gains that sort of in some way disrupt or improve the margin outlook?

José Rogério Luiz:

When we established the long-term guidance in the beginning of 2006, in fact by the end of 2005 we established the long-term guidance, which by 2009 to 2010 we should be at the range between 20% and 25%.

The way that we see is that the M&A transaction helped us to achieve this target in the beginning of our target in terms of dates. So, we think that in order to be within this range between 2013 and 2016, we do not need to have additional M&A activity.

Although, as M&A is within our G&A, we are going to remain looking for assets that can help us to sell more software, and of course, while doing this, having our capacity of track record in terms of gaining synergies; of course this can help us to go easily to the range, and eventually this can help create some room for even getting a higher margin.

Tatiana Feldman:

Great. Thank you so much.

Luis Azevedo, Bradesco:

Good morning. I would like to have more color on M&A. Could you give us more detail, if you are looking at some acquisitions; is it geographic or more in competence to add capability to your software?

José Rogério Luiz:

Thank you for your question. I would like to point out that only in Brazil we have nowadays, according to the Brazilian Software Association, 6,400 software companies. Of course they have several sizes, but we have 6,400 software companies.

So, this creates for us the possibility, and of course for all other players as well, to get some other assets that can help us to grow. So, in this aspect we have been working in some transactions within Brazil and within Latin America.

If you ask us about our priority, our priority has a certain scale: Brazil, Latin America, Portuguese-speaking countries, and emerging markets. So, those are the targets of our M&A activity.

Luis Azevedo:

Thank you.

André Rezende, Goldman Sachs:

Good morning, everyone. Thanks for taking the question. Actually, I just want to know if you could provide some insight as to the level of business activity already in the month of January, since you sell software to small companies all over the country in Brazil. Any color you could provide would be much appreciated. Thanks.

José Rogério Luiz:

Thanks for the question. One year ago we saw the market in the perception of everybody melting, and everybody was extremely pessimist, or having a very bad vision regarding 2009. At that point in time, given our fundamentals, we were not sharing the same feeling. So, at that time, we had the feeling that 2009 could provide to us, or at least to our market, a double-digit growth, as it happened.

When we see 2010, we see a lot of very positive aspects, and the market sometime is, in our perception, really exaggerating, or having a very blue-sky view about the year, without taking into consideration the volatility that things like, for instance, the elections in Brazil, could eventually create.

So, in our view, we think that 2010, and even the next two or three years at least, have all the fundamentals to bring to our market this strong double-digit growth. So, we see this as a very positive aspect.

And we think that TOTVS is structuring itself in order to be prepared to grab the market, or the majority of the market, so having the positive aspect of growing eventually even faster than the market.

What we saw in the last two or three months: the activity remains being focused on small and medium companies. We are noticing a larger demand from what I could call mid, large, and bottom-large companies.

We see the pipeline, the pipeline is growing, it is consistent, but in terms of number of deals, they remain very focused in what we call small and medium companies.

André Rezende:

OK. Thank you very much.

Valder Nogueira, Itaú Securities:

Thanks for the follow-up. Actually, following up on André's question, that is an interesting point because you had a very good year in the lower strata of your market. Meaning smaller and medium companies, or medium to smaller, had a very positive year amidst that high volatility in the beginning of the year. And the larger or the higher strata of the market, as you just said, are yet to recover.

From a business point of view what is the rationale behind such a behavior? Because one could have expected that small and medium companies may have been under more pressure than the larger companies, not necessarily corporations, because you do not go there, but the higher end of your market. That is the first question, following up on André's.

And second, the market keeps on asking, "OK, these guys are doing a great job, but what is next?". On a strategic point of view, where can you go next? Which kinds of products? Which kinds of service that you could put on the table could be another breakthrough for the Company? Thank you.

José Rogério Luiz:

Let us have in consideration two aspects, the first one is that having the underpenetrated market it is clear that some small and medium companies can suffer, but you still have a lot of companies that are not suffering, that are growing and they have this increasing need in terms of technology, especially software. So, we provide this basic-need solution to this underpenetrated market. So yes, the market suffered, but we were able to surpass this phase selling to those companies that had the will and the necessity to buy software.

So, the first thing, the point that TOTVS grew 17% last year in terms of sales and more than, this sold to almost 2,600 new customers and over 15,000 existing customers, we sold more software to them basically because we have this aspect of the underpenetrated market. Another thing is that small and medium companies were less leveraged than high-end companies, so they suffered less as a portfolio than the high-end companies.

Remember that the level of indebtedness of small and medium companies is somehow low, not only in Brazil but in emerging market as whole. So, the first thing is that we think that part of our success was because of this.

If you think in the market for higher companies and higher clients, you see even some international players that, despite the things that they say in the newspapers, they fired almost 20% to 30% of their local guys last year and the reason was very simple: because the high-end companies stopped buying new licenses and the activity remains in a very low level, at least up to the beginning of this year. We expect to show the market some market share indicators by the beginning of next week, showing what happened. We have just received the data and as soon as we have this compiled, we are going to inform you.

Then you asked, "What is next?"; we think we have a very rare and unique situation, this thing about providing basic-need solution to an underpenetrated market. So, if we have this and at the same time we have the other macro aspects in terms of investments in the region, oil & gas, Olympic Games, World Cup, everything related to the hydroelectric plants, everything related to the necessities that Brazil and the region have, this provides to us all the raw material to say, "We have to be even more focused in delivering to this underpenetrated market".

So, organic growth is the top priority, and of course, in order to enhance this organic growth and to grab the market we have to go for and to get other expertise that we do not have. So, that is why we have this, our M&A activity.

I expect that I put some color in your question, so I do not know if addressed all your points.

Valder Nogueira:

Yes.

Michael Holmes, Ultima Partners:

Good morning. I have got a question regarding the license sales in the 4Q09, I do not know if I am reading the information correctly or interpreting it correctly, but would it be correct to say that average price that you received on the license sales was lower than in the past, is that correct? Do you expect that trend possibly to change? Given that you now have the distribution parts almost fully integrated. Thank you.

José Rogério Luiz:

Thanks for the question. In fact what we have is that the average ticket per client declined during 2009 in relation to 2008. So, we are selling to more clients, but clients that are smaller. I always say that we sell to those that want to buy; we do not try to sell to those that do not want to buy.

Regarding to Valder's questions, minutes ago, what happened is that we saw very low activity with the larger companies, so what happened is that the smaller companies are taking advantage of the price of the hardware, they are taking advantage of the opportunities in terms of growth, and at the same time they are receiving from the authorities new demands in terms of legal aspects, you know the electronic book-keeping system, etc.

So, this is creating a situation that we have a market in this. Of course that as soon as we have some activity in the larger clients, we think that we are going to be prepared to go there. Important to mention is that we remain breaking records in terms of sales and we are returning to the fundamentals of TOTVS of having in its hands the (37:24) part of the parameter and at the same time being prepared as a clear alternative to the higher-end clients.

You remember that our business model, we have a very strong alignment between ourselves and our franchisees. Every time that we sell a license, and then we go over the source implementation and the maintenance, either us or our franchisees share the revenues in terms of maintenance, so the faster we implement the software, the less expense to the client and the better for the franchisees and for us, because of the maintenance revenues.

When you see the other companies in the world, as they rely on third-party guys, you have an unalignment of interests, and the client is going to suffer, because who is going to implement is going to be third party; the longer the implementation, the more the third parties are going to make money.

So, what we trying to do is that with our business model, the way we address the smaller companies, it is in a very positive way. And what we see is that larger companies see us nowadays as a clear alternative. So again, once the smaller ticket was a distinction of a clear demand of the market but now we are prepared to when we see the new wave of growth, especially the demand of larger clients, we think that we are going to be more prepared to be a clear alternative, not only in terms of quality and technology but also in terms of price and business model.

Michael Holmes:

OK. Thank you.

Tatiana Feldman, Morgan Stanley:

Hi. Yes, it is just a follow-up on a question from before, you guys mentioned market share data that you should be able to share and all of that, and just the fact that the strong part of the market has been the smaller companies, so I am just wondering if you guys are growing quickly in that part of the market, are you starting to see an impact in the 7,600 software houses there are in Brazil? I mean, I am assuming this means companies are moving away from the homegrown, or the local solutions to your integrated ERP. So, what is happening to the landscape in terms of the smaller software companies in Brazil?

José Rogério Luiz:

They remain to have a very big market, because nowadays the volume of IT necessities within the companies is growing. So, in fact these guys are not losing market; what is happening is that the cake is getting bigger and bigger.

Tatiana Feldman:

So, do you think this is something structural that we could sort of see for the next five years, them growing along with you and not necessarily losing ground?

José Rogério Luiz:

I think that more mature markets are showing this to us. When you go to the United States and even some countries in Europe, you still see that having an IT business is really great business. If you have to be an entrepreneur, you can start in retail or in other areas. But clearly remaining to have an IT business is a very good job, because everything nowadays is running with things related to software.

So, what we see from these 6,400 companies – and the number is even growing – is that they are finding some niches that were very difficult to think about some years ago. Things related to all the iPhone-related things, the iPads, the tablets, etc. The convergence in terms of technology about television, in terms of every gadget that you have in terms of technology, is demanding more and more software.

Sometimes the guy is linked to what we call these integrated applications, but it is a group of 40 or 50 guys that can decide to jump for another thing. One activity that is really calling our attention is in terms of the agribusiness and things related to agribusiness. You have guys that are getting more and more specialized in some very specific fields of agribusiness, and they are making money. There are companies with the size of R\$15 million, R\$20 million, R\$25 million per year, group of 30, 40 guys with circa 25 to 30 clients, and they are really doing the job.

So, I think that there is room for companies like TOTVS, companies that are very focused on specific sectors and some smaller companies. We do not see a dramatic change in this chart in the next three to five years.

Tatiana Feldman:

OK, great. Thank you.

Operator:

We show no further questions at this time. So, we will turn the floor back over to Mr. Laércio for any final remarks.

Laércio Consentino:

OK. I would like to say thank you, everybody. I think this was a very special year for us, and 2010 will be the first year that our channel distribution team will be complete and ready to work in a single brand, in a single strategy called TOTVS. We keep on working, and I would like to say thank you.

Operator:

Thank you. TOTVS's 4Q09 results conference call is over. Please, disconnect your lines at this time, and have a nice day.

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