

**Operator:**

Good Morning. Welcome everyone to TOTVS' 3Q09 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](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's 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 also 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, welcome to TOTVS's 3Q09 earnings release call. We are pleased to be able to announce once again historical and significant results. I would like to remind you that due to our corporate governance and respect for the market, the announced numbers represent just TOTVS organic growth, since we added to our 2009 figures the number of the acquired companies, in order to allow you a better way to compare results throughout the several quarters.

Therefore, I would like to invite you to proceed to page two, in this specific and traditional chart we announce once again sales and margin growth despite the turbulent last 12-month scenario. You should remember that this result was obtained when we were incorporating Datasul within TOTVS.

The 3Q09 results represent in a particular manner, not only revenue growth in all the three lines, but also an outstanding number of new software clients which for the first time in TOTVS' history has been registered higher than 800 in a single quarter. The figures of the revenue results associated to the efficiency gains in cost and expenses ended to an EBITDA margin and net profit records.

EBITDA grew approximately 50% compared to the 3Q08 and the margin soared considerably 600 b.p. The result reinforced the Company's management ability not only during the crisis period but also notably in the Company's continuous integration consolidating them all in one single entity: TOTVS.

The results are based on fundamentals, I would like to invite you to proceed to slide number three. The name of the game for TOTVS is fundamentals, fundamentals and fundamentals. One year ago when the world was hit by the crisis and we were in the process of incorporating Datasul, we told the market about TOTVS fundamentals and the fundamentals in which the Company is in. It is time to reinforce these aspects.

So, in this slide, what do you have to see? TOTVS provides the market a basic need product. How to run a Company nowadays without water, electricity, telephone and software? We do provide this basic need. It is better than utility as this is not under regulatory aspects. We add to this fundamental aspect the fact that the market penetration for integrated software is very low, especially in the small and medium business, not only in Brazil, not only in Latin America but also in all emerging markets.

According to Gartner Group, less than 8% of this market is penetrated in Brazil, therefore with a huge potential. We add to these first two aspects, basic need and underpenetrated market, a third aspect related to fragmentation of the software market in terms of competition and the scale, the quality of the products in our business, offered by TOTVS. The brand and the distribution system are another key strong fundamentals in terms of environment and this is also helping TOTVS.

So, basic need products, an underpenetrated market, a very good environment in terms of competition for TOTVS and, last but not least, we have some events, fiscal demands in Latin America that are here to support opportunities to the IT sector and especially the software subsegment. After almost two years explaining to the market about SPED – The electronic computing system, I understand that you all are convinced of the importance of this thing for our sales.

You should also remember that this year 20,000 companies were obliged to be part of the system, of the SPED system and certainly 200,000 companies are going to be obliged to enter in the system by 2010 and 3.5 million are going to be obliged to enter in the system between 2013 and 2014. Additionally we are going to have in the Brazilian economy the impact of the Soccer World Cup of 2014, the investments in oil and gas according to the Government and Petrobras over US\$50 billion in the next five years. Ethanol, the three new hydroelectric plants: Madeira, Belo Monte and Madeirinha, with over US\$20 billion investments, railroads, ports and the 2016 Olympic Games.

All of this is going to enhance the demand of IT products and, for sure, with a significant impact within the software subsegment. So, strong fundamentals are basic and we add to this what we call the segment approach, what has to me the meaning of focus.

So, if you could move to slide page four, you can see that our Company is not only supplying solutions for the back office like finance, accounting, production, HR, for example, but we provide expertise in some segments too. We choose eleven factors to have this full approach and we developed for these segments some verticals.

Just to give an idea about the presence of TOTVS in this segment, we have this slide, in terms of the financial services, 202,000 portfolios and 4,000 funds are controlled by TOTVS Solutions, over R\$1.5 trillion of assets are processed daily with our solutions. We are the number one provider for the capital market in Latin America, five of the 12 largest pension funds use TOTVS Solutions in Brazil, seven of the 10 largest asset managers in Brazil use our software, eight of the 10 largest custodians or incorporate agents use our software. Over 1,200 credit analysis per day under our system.

In terms of construction and projects, 50 of the 100 biggest and largest Brazilian construction or home builders companies are using our software. In terms of education, our software supports over 700 educational institutions in Brazil with more than 1.5 million students. In terms of manufacturing we have more than 360 clients in the pulp and paper segment, over 1,400 in capital goods, over 1,000 in metal and plastic. In the agribusiness, over 200 clients that we have are responsible of 50% of the sugarcane production in Brazil, and as well as four of the five largest sugarcane processor mills use our software.

We should move to page five, you are going to see that in the legal sector, seven of the ten top law firms in Brazil use our dedicated solution. In health, we help to control over 12 million lives and more than 9,700 hospital beds are using our software. In terms of retail, more than 900 chains and over 140 supermarket chains use our software.

Well, if we have these fundamentals, if we have this focus on sectors and also the quality of our software and products, this very extensive and strong distribution system that we have and, of course, the people, our team, our employees, all of this together, they are bringing to the market results, so if you move to page six, you see the strong fundamentals per segment approach bring this consistent results.

So, again in the 3Q09 we had historical records in terms of our revenue lines. We sped up the growth in terms of license revenues. Service maintenance remained to be very strong and with our control in terms of cost and expense we reached an EBITDA growth of 50% in relation to the same period in 2008 and, well with this margin reached 26.3%, 600 b.p. over the 3Q08.

In terms of operational results, we told the market that we will make additional investments in order to get new clients. So, again we reached a very significant amount in terms of clients especially new clients, 827 new software clients in the 3Q09. This is by far the historical records of TOTVS.

In terms of recent events you know that our results in this quarter were affect by changes that we are making in our franchising model in order to incorporate Datasul franchisees within TOTVS franchisees. We were expecting to do this by the end of 2010, but given all the fundamentals in terms of aspects of the Brazilian economy and Latin American economy and perspectives of the economy, we took the decision to anticipate this process.

We also acquired Total Banco, YMF and TOOLS in order to create what we call TOTVS Financial Services in order to grab a very interesting potential market in terms of the financial segment, and of course, you know about the data in terms of market share in 2008, they were released in the beginning of the last quarter in which TOTVS is really number one in the software business within Brazil, in the management software business within Brazil.

In the 10 largest economies in the world, Brazil is number 9, and it is the only economy in which the leadership in terms of management software is a local company and not a company from abroad.

Well, if you move to slide seven, you can see that in terms of sales new records, on the left side you see the growth and it is bringing to us a compounded growth of over 20% in the last years. On the right side you can see we are speeding our growth in

terms of reaching again a significant amount in terms of new sales and, again, establishing new records for the Company.

On page eight you see that this growth was based in the number of new clients and based clients, so we are adding new software clients and this is going to bring to us future. As you can see on the right side of this slide eight, you see that we grew almost over 11% related to a very good moment which was the 3Q08.

Well, moving to page nine, if we are growing in terms of license this is also bringing to us the opportunity to grow at this point in time in terms of services and in terms of maintenance. Although you know that all the effect that we had bringing new clients in this quarter is going to support our growth in the future in terms of service and maintenance.

Moving to page 10, having this growth and we are again in the very right track in terms of margins. So we established in this 3Q09 a new record in terms of EBITDA and EBITDA margin with over 26%. This margin was based, as you can see on page 11, in a very basic thing. In the last nine months, we grew 18% in terms of our revenues in relation to the same period in 2008, basic organic growth, and keeping our cost and expense growing less than this net revenue brings to us margin.

In terms of G&A, our very consistent work in terms of G&A, and the capacity that TOTVS has to gain, not only scale, but to capture synergies with the Companies that are under our umbrella at this point in time creating one single entity.

On page 12, it is the very traditional chart that we have showing that we have been keeping over 23% of our revenues coming from new licenses, as you can see on the right side 3Q09. This is going to bring us future because this is going to create additional service and this is going to bring to us more maintenance.

On page 13, in terms of cost and expenses, we remain investing heavily in terms of R&D, as you can see, and we have been able to control other lines like G&A and total cost and expenses.

One of the concerns of the market was in terms of that we sped up our expenses in terms of marketing in the 2Q, and we told the market that this was an important investment, not only to enforce the TOTVS brand but also to go for additional sales and by the end of 2009 we should have like 3% of our sales as investments in marketing and we are showing to you at this point in time that this has been consistent according to what we told the market.

On page 14 you have the financial dash board of TOTVS and you can see very strong things, not only the organic revenue growth but especially the gain of margin, a consistent and a very interesting process of gaining margin, growing in terms of sales and having this big jump of 20.3% to 26.3% in terms of EBITDA margin.

Then, on page 15, this is the chart that we presented to the market one year ago in the middle of the crisis and we said that our perspective is that based on the strong fundamentals of TOTVS we should have a double digit growth in 2009 and, of course, selling risk in terms of the global economic slowdown, the credit shortens, so everything was taken into account but we knew that the fundamentals in terms of our market, in terms of our Company could provide to us this double digit growth. So after nine months, with 18% of organic growth, I think that this is solid and the scenario remains to be a very challenging scenario in a positive way.

So thank you very much for your support and we are going to be more than happy to answer your questions in the Q&A session. Thank you.

**Andrew Campbell, Credit Suisse:**

Hi, Rogério, I have two questions. My first question is to clarify just one point from your comments because you had very strong sales to new customers in the quarter, but if I understand correctly the sales you believe are still being negatively impacted by the consolidation of the distribution channels, so I want to understand correctly that once the consolidation is completed that we may see even a better performance in terms of sales to new customers.

**José Rogério Luiz:**

Andrew, good morning. In fact it is true that during this quarter we had some franchisees that were losing their focus because they were in that old process of starting to go to the negotiations between them. You know that this happened in the beginning of 2008, in fact by the end of 2007, beginning of 2008. We saw this during this quarter and we should see some of this lost of focus of the franchisees even in the last quarter of 2009.

Of course, we believe that just after finalizing this process these guys can return to be more focused on their daily activities, and of course, we do believe that having more focus this should create a new momentum in terms of new sales.

We took the decision to anticipate this movement of merging Datasul franchisees into TOTVS franchisees this semester because of our perception about the economy in the next two years. So, instead of having this process in 2010, we decided to anticipate and run the risk of having some more sales being jeopardized by this.

**Andrew Campbell:**

OK, thank you. And my second question just has to do with the delivery model for your software. We have heard some indications that some competitors will be migrating more of software as service model and Internet based model. Is that something that TOTVS as well is contemplating, that you believe will be an important trend in the sector?

**José Rogério Luiz:**

Let us go for the first thing, which is about the competition. Andrew, you have been talking to us in the last five years, so you know that we are in October now, and every October and every April you are going to see in the newspaper the same guys saying the same things about: "well, now we are going to pay attention to small and medium companies."

So, it is the same movement that we have been seeing in the last five years. And feel free if you do not have the newspaper from the last five years, we can provide you with the same news.

What we think is that there is a kind of confusion in terms of tech aspects and commercial aspects. TOTVS nowadays is able to provide if the client would like to have and pay a kind of rental instead of buying the license, we have this business

model in TOTVS. If they would like to have the software not in their server, but in our server or any other data place, we can help them with this.

So, there is a kind of confusion between business model and tech aspect. Having this said, TOTVS is not only prepared, but nowadays we are already providing to our clients several modalities in terms of ASP, and things that should be like “software as a service”.

Software as a service has a concept of selling the software, a standard one to all the companies. And this is not the thing that is the winning thing for small and medium companies. In small and medium companies do not want to have a very light software. And why do they not have a light software? Because they are complex companies. They are just smaller. So, when you go for a light software, this is not going to match the desires of the small and medium companies.

Andrew, at the end of the day TOTVS is able to support clients nowadays with web-based software, software that can run in remote data centers and in several ways in which the client can buy the software, renting the software, buying the license or then we have what we call our corporate model as you may know.

The aspect about the competition, again; we do not think that they really understand the behavior of small and medium companies. But again, the history has been telling us in the last years if we are right or not.

**Andrew Campbell:**

Great. Thank you very much.

**André Baggio, JPMorgan:**

Hi, Rogério. I am interested in the acquisition front. I have been seeing that you added more companies and also you bought the stakes that you did not have from some companies. Can you tell us a little bit about the landscape of future acquisitions, if there are still good and interesting companies available in the market?

And the second question, I would like to know: are you developing new software for some specific industries, or are you going to pretty much rely on the existing software that you have?

**José Rogério Luiz:**

Number one: if you ask me if there is any interesting companies in the future, yes; especially verticals in Brazil and some other companies that can be complementary to us outside Brazil. So, the right answer to your question is “yes”. We have a pipeline of transactions that we used to have. But you should remember that we date before getting married. So, some of our transactions take one year at least before they are close, or are celebrated. So, yes, there are opportunities.

The second aspect in terms of new software, we are going in two directions. The first one is that not only in terms of enhancing the capabilities of our ERP and management software in order to be prepared to any kind of demands that our clients have, and the needs that they have. This is somehow linked to Andrew’s question. So, we are investing this.

But we are also investing not only to enhance the verticals that we have nowadays, but even creating new solutions to new segments. Although these 11 segments that we choose to be the most important ones are the segments that we are investing more.

So, we are investing not only in terms of enhancing, for instance, the software that we have nowadays in the financial service area, but we are also trying to be prepared to be a full supplier to small and medium banks.

So, in order to have this additional software, we are adding some new “features” and investing time and money in order to have this specific thing. The same thing, for instance, for agribusiness and manufacturing.

**André Baggio:**

OK. Thanks a lot.

**Stephen Graham, Goldman Sachs:**

Good morning. Can you give us a little bit of color on sales activity now in the 4Q? I think traditionally that is your peek quarter seasonally?

**José Rogério Luiz:**

Stephen, good morning. In fact, the pipeline has been somehow the same in the last months, although within the 3Q we saw something that was very traditional. September was far stronger than July. So, what we see at this point in time is that the pipeline remains consistent.

One thing that we saw no change up to this moment is in terms of the larger accounts and the larger clients. We do not see significant movements in terms of larger accounts, as we used to see for instance in the 1H08.

**Stephen Graham:**

Thanks. And let me ask a follow up on a different topic. Are you seeing a turnover of people at Datasul, in terms of either sales channels or other stuff?

**José Rogério Luiz:**

No.

**Stephen Graham:**

Excellent. Thank you.

**Luis Azevedo, Bradesco:**

Good morning, everyone. My question is regarding operations outside Brazil. Rogério, could you give us more color about how these operations are, how much it represents for TOTVS total revenues, and what do you expect these margins to ramp-up in the next quarters or years?

**José Rogério Luiz:**

Good morning, Luis. Let us divide this in three major areas. The first one is the area that represents the higher potential, which is Mexico. In Mexico we are working in order to have the breakeven by the beginning of the next year.

Previously we were in the right direction in the beginning of this year. As you may remember, we were hit not only by the crisis, but especially by the flu in Mexico, and well, this postponed our breakeven to the beginning of next year.

Mexico in this quarter provided us again with negative EBITDA of R\$1.5 million, something like that, which could represent additional 0.5% to 0.7% EBITDA margin if we had the breakeven in this operation. But we remain very confident in terms of the Mexican market, although we see the volatility of the economy in Mexico, but Mexico is implementing – just to give you an idea at this point in time – the electronic invoice, the “Faturación Electrónica”. This is creating in the small and medium businesses the beginning of the new revolution in terms of demand for software and IT services. So, we remain committed to our Mexican operations and we do expect to have the breakeven in the beginning of the year.

In terms of Argentina and Portugal, we have been growing in these two markets. In Argentina we put together all the operations we had from Datasul and TOTVS together, by the end of the 1H, and again the Argentinean market nowadays is based in small and medium companies, and TOTVS has positioned itself to be in the short term the number one company in Argentina, with positive results.

And at this point in time, with the changes that we made in Argentina, we had a positive operation there and we have a very small negative EBITDA in Argentina, but it is just a question of time, and this breakeven is going to be even faster than in Mexico.

Portugal and Angola are doing well, we have positive EBITDA with growth, but when you have all of these international markets together, we are going to have something like 3.5% to 4% of our total sales in the external market. But, again, we have been having a very good feedback from customers from this market and from prospect in the international market. So, TOTVS is reorganizing its international department in order to be even more effective, not only in terms of results but also in terms of growth outside Brazil.

**Luis Azevedo:**

Thank you.

**Marco Locascio, Equinox Partners:**

Good morning. Going back to the topic of the specific verticals that you guys have been talking about in the releases and presentations, I was wondering if you could help me understand sort of what the opportunity is in terms of selling licenses or increasing the intensity of usage of TOTVS's products for companies where you can offer them more of the front-end solutions in those specific verticals.

**José Rogério Luiz:**

Marco, good morning. In fact, throughout the time as you may remember we are dealing with a very underpenetrated market. So, the basic needs and the plain vanilla “ERP and management software”, there is a huge potential that we can go in this direction. But at the same time, when we start to pay attention more and more to our

existing clients, we start to realize that there were a lot of demands of these clients that were not supported either by ourselves or by third parties.

So, many of these clients had their internal departments developing solutions for them. Having the expertise in the sector, it is helping us not only to sell more to the existing clients; but at the same time, these existing clients are putting some kind of referrals about TOTVS to all their clients that are in their sector, and they are part of an underpenetrated market.

So, we see these industry aspects or clusters that we are creating in a way to support more sales to our existing clients and at the same time a way to reach part of this underpenetrated market, and we are going to leverage our capacity in our existing clients to reach these other companies in these specific segments.

These 11 segments that we chose are the segments with the largest number of companies within our region. So, this is one of the key points why we are going for this aspect to attack this market.

And last but not least, with this potential of expansion outside Brazil we chose also some areas like financial services that, while putting our product outside Brazil, it is far easier to put these products outside Brazil than the plain ERP in some countries because of the localization aspect.

**Marco Locascio:**

I see. One more question, and this is more about the cost structure, you know, the margin performance has been quite good this year. I am wondering what you are seeing in terms of further opportunities to improve the G&A as a percentage of sales, which has been coming down this year. And also when you expect to see the R&D come more in range with your targets? Is that something for next year or will it take a bit longer?

**José Rogério Luiz:**

We are always trying to invite the market not to see the short term, so just one quarter, but to see a longer term, like one year. Having this said, there are quarters when we know that we are going to have to invest some additional money in some areas of our Company. So this can put some additional pressure in terms of cost.

But on the other hand, we are far from being a very efficient company. So, we spent in the last eight months over R\$1.2 million in reimplementing the ERP within TOTVS. So, we started in February and we ended in October. And it is not only these R\$1.2 million that we invested, but I am very optimistic of the enhancement in terms of process that we are going to have during 2010 and 2011, with this new software implemented.

We used to have an ERP here while we were adding companies. We have some kind of fragmented ERP and now we reimplemented one single ERP within TOTVS. And this is going to help us to enhance our capability to remain very effective in terms of costs and expenses. At the same time, we are entering in a new phase of our shared-service center. So, it is a very impressive tool to enhance our leverage in terms of capturing synergies and efficiency.

In terms of R&D, I expect we will have by the end of 2010 this new phase of the software that can support the old Datasul technology. So, it is going to be step by step and we expect to see some reduction in terms of R&D by the 3Q10 on.

In terms of costs and expenses, we try to be very disciplined in this aspect, and I believe that there are several areas within TOTVS, in fact in all the areas, that we are far away from the most efficient point. We are very disciplined in terms of trying to gain all the efficiency and synergy that we can.

**Operator:**

Thank you. For time constraints, we have to conclude the question and answer session for today. So, we will turn the floor back over to Mr. José Rogério Luiz, for any final remarks.

Since there are no closing remarks from the floor, thank you for joining TOTVS's 3Q results conference call. You may disconnect your lines, and have a nice day.

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