

Operator:

Good Afternoon. Welcome everyone to TOTVS' 2Q09 results conference call. Today with us we have Mr. José Rogério Luiz, EVP, CFO and IRD, 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, good afternoon, welcome to TOTVS 2Q09 results conference call. We are again very pleased to bring you very solid results. It is important to mention that all the information that we are going to present today take into consideration all the figures from all the companies that TOTVS incorporated as if they were together with TOTVS since 2005. So you are going to be able to see just the organic growth.

Please, if you could move to slide two, this is our traditional slide and you can see that in the last 12 months and then in June, TOTVS reached over R\$1 billion in gross sales for the first time, with an EBITDA margin over 23%, and this means consistent and significant growth.

We are ending now the 1S09 and this was a very important semester for TOTVS, because it was the first semester that we operated fully integrated with Datasul. And

then you can see and make all the comparisons between the 1S09 in relation to the 1S08, in which the companies operated separately.

Just to give you an idea, we have got more than 19% of growth in terms of sales in relation to the 1S08, over 42% in terms of EBITDA and more than 420 b.p. in terms of growth in terms of EBITDA margin.

If you could move to slide three, I would like to remember that in the end of 2008, we presented to the market a chart, as you can see on the slide on left side, which was pointing out several of the changes that we are going to have for 2009, including the global economic slowdown, the credit shortage, the GDP projection to reduce in relation to previous years.

On the other hand, we said that there are some things that can help us in terms of the underpenetrated market, in terms of software that we were better structured than before, and things like the digital booking system that could help us to jeopardize all the risks.

Additionally, we had some changes like the Datasul integration, how to deal with this integration and the risks of, for instance, losing clients. At the same time, the environment that we were in 2009 could put in doubt the capacity of adding new clients to our portfolio and eventually even raising the churn in terms of maintenance.

But we knew that, as you can see on page four, we were based on strong fundamentals, we had a very clear target marketing, we invested consistently in terms of technology and product, and we were working in terms of getting and having a better distribution system.

Software, we understand that it is a basic need, of course, we are in front of an underpenetrated market, and more than this basic need, we are also prepared to provide to the market what we can call value-added services like consulting and ASP structure.

We knew that it was going to be a very tough environment, but we knew that other aspects like the electronic booking system could help us. And we were very confident in terms of our business model, selling licenses, providing services not only of implementation, but also other services like consulting, and that we are going to be able in order to provide good services and good products to our clients not only to keep the maintenance, but even to have some growth in the rates of maintenance.

If you could now move to page five, you can see that we had very strong results in the 2Q09. Again, we had a new historical record in terms of net revenues and I would like to point out that in terms of maintenance, we had also a new historical record and a very significant increase in terms of service revenues.

In terms of new clients, we added, in terms of software, 557 new clients in the 2Q, 130 clients more than in the 1Q09. And as you may remember, our clients will buy more software from us throughout the time than in the first wave of implementation. So it is fundamental to have this increase in terms of new clients.

We remain to have a strong discipline in terms of cost and expense, and the result of this was that even having the additional investments in marketing as we have already awarded the market, we said that we are going to invest more in marketing, especially in the 2Q, and even with the aspects that happened in the international market, especially in Mexico, the H1N1 flu, we were able to reach an EBITDA of almost R\$59 million and a margin of 24.4%. So this was 310 b.p. higher than in the 2Q08.

Again, we understand that it was a very positive result within the scenario that we were under. And we also had the TOTVS Day with more than 70 people taking part, Brazilian and foreigners, and we discussed several issues during this TOTVS Day.

Moving to page six now, to slide six, you can see that we had again a very consistent growth in terms of revenues. On the left side, when you make the comparison between the 2Q09 and the previous second quarters, we have a CAGR of over 20% in terms of growth. And when you see in terms of the recent quarters, you can see here that we grew over 5% in relation to the 1Q09. We grew in terms of revenues at the same time that we put additional over 560 new clients.

If we move now to the next slide, you can see that of course we have a very important aspect related to new licenses. New licenses, as I told you, we grew the number of clients and even in this tough scenario, even having this problem in Mexico regarding the flue, we were able to grow in relation to the 1Q09.

The comparison with the 2Q08 is a tough one because the 2Q08 was the second best ever that we had in terms of new licenses, but the important thing that we had in this quarter is the number of new clients, this is going to help us in the near future.

And as we had this very consistent growth in terms of new license, you can see on page eight that this is helping us to have this increase in terms of services, and most important, it is not only that we are growing in terms of our revenues in terms of services, but we are growing in terms of our margins with the services, we are better structured with the services, our teams of implementation are better prepared at this point in time, and also, we are providing these other services to our clients with better margins, for instance, consulting.

Well, one of the concerns of the market was in terms of maintenance, and as you can see on the right side of the chart, is that the churn is not growing and the maintenance revenue is breaking records every quarter.

If we are having this thing in terms of the revenues, you can see on slide nine that the results are also coming in terms of EBITDA. On the left side, you see that in relation to the second quarters of previous years a very clear trend in terms of growth of margin.

When you see on the right side of this chart, you see that we are having a consistent growth in terms of margins and we have some very specific aspects that are making some *côte à côte* volatility within the previous quarters.

And as you can see on page 10, now, slide 10, on the left side, what we tried to do, two aspects provided an additional volatility to our EBITDA margin. The first one is the aspect of Mexico, as you know, we have been working in terms of reorganizing Mexico and while this reorganization we were practically reaching the breakeven in the semester, but given the flu, we had a negative impact in our EBITDA.

At the same time, the additional expenses that we had in terms of marketing, we invested just 1.5% in the 1Q09 in terms of our net revenues in marketing and in this quarter we invested 3.8% of our net revenues in marketing. If we put a line in terms of 3% that is the number that we should end this year in terms of investment in marketing, 3% of our net revenues, you see in this gray dotted line that we have been having a consistent growth in terms of our operational EBITDA margin.

One of the fundamental things that we have and it is supporting us, and as you can see on the right side, is a very tough and consistent control of costs and expenses. The most important costs and expenses are growing less and even reducing in relation to the growth that we have been having in terms of our net revenues.

On page 11, you see our growth in terms of sales and we are keeping at least 22% of our revenues in terms of new license. This is helping us to provide future for the Company, and at the same time we are increasing the amount of services, but services with a better margin, this is helping us to have a much better structure in terms of revenues.

On slide 12, you can see that we have a very tough control in terms of costs and expenses, so in the right area of this slide you can see the costs and expenses they are growing less than we have been growing our revenues. In terms of SG&A, we have this very consistent work in order to enhance the capability of our service-shared center. And in terms of R&D, we are investing more than in the past because we are adapting Datasul's products in order to have these products working with our technology. This is going to help us reduce other costs and at the end of the day, in the next years or two, we will have a reduction in terms of this R&D in relation to our net revenue.

On page 13, you can see our traditional financial chart, and I would like to point out not only in terms of the 2Q, but the 1H of this year in relation to the previous year, the significant improvements that we had within TOTVS, not only in terms of sales but also in terms of margins and net income.

On page 14, we understand that we remain at a very tough scenario, but we see that our target market remains to be underpenetrated, we are better than before in order to deliver what our clients expect, and we are even stronger nowadays to attack this underpenetrated market.

Having said that, I would like to say thank you for all the support and feel free to ask me things in the Q&A session now. Thank you very much.

Andrew Campbell, Credit Suisse:

Hi, Rogério. My question is on the top line growth, in particular as a percentage of licenses. I know that you guys have had I think nine consecutive quarters of revenue growth above 20% and then it was below at 20% in the 2Q, and you mentioned some reasons for that, which were quite particular to the circumstances of the 2Q, but is there anything more structural going on? You think whether it is on the competitive side, or market saturation, anything in the distribution network that would cause the growth rates going forward to be more depressed to what they have been in the past?

José Rogério Luiz:

Andrew, thank you very much for the question. Basically what we have, you asked me about competition, and in terms of competition we see no change in relation to the previous quarters. In terms of market saturation, the same thing, we remain with this underpenetrated market. At this point in time, you guys saw that even the Gardner Institute, they just issued a new study confirming this aspect of underpenetrated market, not only within Brazil but also within Latin America.

Having this said, one of the points that we suffered during these quarters was the aspect of the flu in Mexico that helped us to have a higher amount in terms of license sales, and the other thing is that we are making the comparison with a very strong quarter that was the 2Q08.

One important aspect that I would like to mention is that the number of new clients, new software clients that we added to our portfolio. We jumped from about 450 in the 1Q to a number of over 560 in the 2Q. Just to give you an idea, this is a higher number, higher than the 1Q08, a time that we had GDP growing at a very fast speed.

All in all, we ended almost the tenth quarter growing over two digits, we have been growing over 20% at this point in time, we had a quarterly 15%, and given the environment, we see this, again, as positive.

Just wrapping up the points, no aspects about competition, no aspects about market saturation, we are still confident in terms of what we can have as a sector within the future, especially if we see this recovery in the economy that everybody is having the perception for the 2H09.

Andrew Campbell:

Thank you very much.

Gustavo Oliveira, Citigroup:

Rogério, good afternoon, how are you? My question is also a follow up on the top-line growth, and more specifically on the licenses in revenues. We see that on slide seven you showed some yellow bars here that essentially are showing a flat revenue for the license. Do you think you can actually grow and re-accelerate that line over the next few quarters, and what would be necessary to do that?

And also, within that same question, we saw that you are charging less for your licenses, there is a decline in the average ticket price for the license, could you also elaborate on what is happening there?

José Rogério Luiz:

OK. The first thing, Gustavo, you saw several things we have been doing in the last quarters, especially in the last two quarters. The first one is that it seems to be a long time ago, but we had this integration with Datasul, so we are still restructuring all the aspects of our franchisees, in terms of having the franchisees of TOTVS, franchisees of Datasul, and you see that we are having already some movements in order to put these franchisees together.

Having this said, I do believe that in the next quarters we are going to have even a better structure of distribution than we have today.

The second aspect is that one thing that was a fact during the crisis is that the tenor in order to close the transaction with our clients jumped from an average of 90 days to almost 140 to 150 days, so this is the average time that we have the client from a suspect to a prospect and into a final contract.

Having this said, you know that some of the best months that we have historically in terms of sales are September, October and November and we put our advertisement campaign that went to the air in the middle to the end of April, it was also one of our objectives to have this maturing by the middle of the 2H.

Again, this is something else, one thing is enhance our distribution system and the second thing is to enhance our brand and go for this aspect of more marketing in order to help us to keep this good path.

And again, I just would like to point out that one important thing for TOTVS is the number of new clients that we are adding to our structure and these 567 new clients in the 2Q was a very good sign, it was a very good and positive flag in terms of growth.

In terms of the average ticket, what we saw even if you see the results of other software companies worldwide is that the market of the very large corporations, they suffered, I mean, the reduction in the consumption of the very wide corporations in terms of software was a fact.

What we saw in our portfolio is that smaller companies are buying more software, so when you see the average ticket, it is the average ticket per client, it means that instead of having 10 clients buying each one 30 licenses or 50 licenses, we are having more clients buying less licenses per client. The total amount of licenses at the end of the day is going to be a very similar one, what we sees is that smaller clients are buying licenses nowadays, instead of the larger ones.

If this trend of the economy in terms of going to the right track again becomes reality, what we are going to see is that not only the smaller clients are going to remain buying, but we are going to see again larger corporations that several of them are our potential clients returning to buy licenses, and this can also help. This average ticket going down in the last quarters was basically because we were having smaller clients buying more software.

Just to add something to this answer, one of the fears of the market in the two last quarters of 2008 was in terms of the ability of having smaller clients buying new licenses under a tough environment, and at that point in time we said that from our experience, smaller clients they buy software even in tough times, within the emerging markets, because they are less leveraged than larger companies or small and medium companies in Europe or in the United States. And it seems that our experience again is showing that we were right in terms of our reading of the market.

Gustavo, I do not know if I addressed your question.

Gustavo Oliveira:

You helped a lot, yes, for sure. I just have a follow up on when you are trying to understand the change in sales, kind of sales to smaller clients versus larger clients, and the other point that you mentioned that it is taking longer to close a new deal, it went up from 90 to 140 or 150 days, do you think that the reason it went up is because it is more difficult to sell to smaller clients or is it essentially the macroeconomic that became much more difficult to sell software?

José Rogério Luiz:

No, I think the macroeconomic aspect is not making it more difficult, but it is making the clients more diligent in terms of spending their money. So the time that they are going to in terms of negotiate and etc. is taking more time. It is less impulsive than it was in the past.

And again, the important thing is that even with this behavior, we have been able to sell more in terms of number of clients. This is the positive aspects.

Gustavo Oliveira:

OK, thank you.

Marco Locascio, Equinox Partners:

Hi, good afternoon. I wanted to ask a few questions on the service side of the business, you guys have referred in the last couple of quarters to the increasing of the importance of the value-added consulting, can you give an indication of sort of how the margins in the value-added services compared to the more traditional implementation business that you do?

José Rogério Luiz:

Marco, good afternoon. You know that we do not open these margins, it is not our policy, but just to give you an idea, companies that are just linked to implementation worldwide have margins between 3% to 5%, EBITDA margin, and when you go to consultancy, these margins goes between 15% and 20%, when you go to BPO and ASP support, then you go to margins that can reach 30% to 40% EBITDA.

So what we have been seeing within our structure, this other services that are not implementation, we had a jump up and they represent nowadays, they jumped from 14% to 17.5%, their weight within our revenue structure, so it was a growth, a significant one, but they remain just being 17.5%.

Other thing that happened within our service structure is that we have been developing in the last years a program to enhance our performance of our teams of

implementation, and the productivity of our group of implementation had a very important improvement in the last two years, so we are also getting better margins even in the core business of implementation.

Marco Locascio:

What kind of utilization are you seeing in the implementation side of the service business?

José Rogério Luiz:

Could you repeat the question is?

Marco Locascio:

I am wondering what the utilization rate is?

José Rogério Luiz:

The utilization, we have been having over 95% of our team on the road. And 95% is a very high number, for one single reason, the remaining 5% are guys that are on vacation or guys that are under training. So that is why we have been hiring new people for implementation in the last months. Since January, we added a very significant group of people and we have been training other guys for the 2H.

Marco Locascio:

I see.

José Rogério Luiz:

We are fully booked in terms of implementation.

Marco Locascio:

OK. On a different topic, you guys have talked about trying to improve the third-party license costs associated with I think particularly with the Datasul products, could you comment on where you guys are in that process and the sort of what time or period you would aim to replace those third-party licenses that you are packaging?

José Rogério Luiz:

At this point in time we are running with two costs at the same time, we have the costs of this third-party in this specific line of costs which is cost of license fees, and we are

also running with an additional expenditure or investments in our R&D, and that is why we jumped to this 12% in relation to the net sales in terms of investments in R&D.

We expect by up to the end of 2010, although we have been working to have these results before that, we are going to have one of the two things happening, the first one that we are going to be able to have all the products running over a single tax structure, so this can provide us or a reduction or at least a non-increasing in terms of license fees. And as we are going to have this success, we are going to return our R&D costs and expenditure to the level of more or less 10%, so it is going to have a reduction.

If for any reason, we are unable to put all the products under one single tax structure, what is going to happen is that we are going to remain with the costs of license fees but we are going to provide a reduction in terms of the this additional expenditure in terms of R&D, is it clear?

Marco Locascio:

Yes. That makes sense. One last question here, in terms of your balance sheet, you guys took out some extra debt in the quarter and you also have a pretty healthy cash balance, any comments on any opportunities to put that cash to work? Or what do you envision the balance sheet development to be over the next few quarters?

José Rogério Luiz:

Look, when we entered in the agreements with BNDES last year, the Brazilian Development Bank, it was under the agreement that they were providing us R\$200 million in Prosoftware, the line which is TJLP + 1.5%. At that point in time, within the agreement, they said "we are going to release now R\$160 million and the other R\$44 million we are going to give you by the middle of 2009". This was already within the agreement.

What is our idea? Our idea in order to use this cash is that we have other investments to make within our structure as well as we have other opportunities in terms of adding new expertise to our group. What do I mean by that? It is not impossible to have other acquisitions within the next 12 to 18 months, they are going to help us to enhance our capabilities to continue growing with a very good path and margins.

Marco Locascio:

And those acquisitions, will those be specifically verticals or are you thinking in other countries, outside Brazil?

José Rogério Luiz:

Both things, we have in the pipeline opportunities in the two fields, and again, everything that we do at the end of the day is in order to help us to serve our clients in a better way. In the last years, we came from a company that was a product driven company in order to be a client driven company.

What do I mean by? Our clients that used to buy just software from us, they would like to buy other things that can help them to use more software from us, and this is exactly what we are working and trying to do, to support them in order to have them to use our software in a better way and at the end of the day to buy more license from us.

Marco Locascio:

OK. Thank you.

Alexander Luizzi, M Square:

Good afternoon, Rogério. I would like to ask a question about EBITDA margin going forward, at this point you did a good job reducing costs and expenses, with the potential reduction of license costs plus R&D reduction could margins go up to 28%, let us say, in 2010? And let me do the question again, when are you planning to revise the margin guidance going forward? Thank you.

José Rogério Luiz:

We expect to review our guidance during the 2H of this year. The point is that we have a very scalable company, of course we have to consistently invest more in our supporting teams, especially the guys of finance, the guys of marketing, the guys of H.R. in order to support our growth, but we have a very scalable company.

Having this said, of course, throughout the time, if we keep this very consistent discipline that we have in terms of cost and expense, the trend of increasing margins seems to be natural.

Again, one thing that we are very committed to is to have this discipline in terms of costs and expenses because we know this is fundamental to support the long term, the margins and the cash generation.

Alexander Luizzi:

OK. Thank you.

Operator:

Ladies and gentlemen, this concludes the question-and-answer session for today. We would like to turn the floor back over to Mr. Luiz for any final closing remarks.

José Rogério Luiz:

Again, I would like to say thank you very much for everybody that has been supporting and helping us to build this Company. It is important to mention again that we are ending this very important 1H09, everybody was very concerned about what was going to happen during this semester, not only because of the economic environment, but also in order to see how it was going to be our performance in the integration with Datasul. And I think that the results that we are showing to the market seems to be very solid, a growth of 19% in terms of sales and margins and net income growing.

Again, thank you very much and I would like to reinforce that we are going to remain with this discipline in order to attack this market, this underpenetrated market, and also in order to have this close expense discipline. Thank you very much.

Operator:

Thank you, TOTVS' 2Q results conference call is over. Have a nice day.

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