

Operator:

Good afternoon. Welcome, everyone, to TOTVS's 1Q09 results conference call. Today with us we have Mr. José Rogério Luiz, EVP, CFO, and IRD, and Mr. Gilsomar Maia, Head of Planning.

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 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 call 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 1Q09 results conference call. We are again extremely 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 can just see the organic growth.

Please, move to slide three. In the last 12 months ended in March, TOTVS reached R\$984 million in gross sales, with an EBITDA margin of 22.5%, a consistent and constant growth. This growth has been based on a business and revenue model as well as in strong fundamentals. We have been growing and we have been growing in a very good path.

Therefore, as you can see in the slide four, the best business model of the Company allows TOTVS to grow without the dependence of only one line of revenues. In the left side you see the yellow part, there is the license revenues, and it happened due to the

fact that software is an utility, a basic necessity of the companies, just like the trustee, water and telephone; it is very difficult nowadays to run a company without software, specially an integrated one.

Therefore, this is helping us to sell software not only to new customers but also to existing customers. Additionally, we regulated our demands, like the digital booking also known as SPED, are helping to keep the sales of new licenses in a very good path.

In terms of services, not only the new customers but especially the existing customers are demanding new models and new implementations in order to support the new regulatory demands, as well as their internal necessities to have the software learning in all the areas of the Company. The value-added services like BPO, ASP and consulting are also facing an increase in demand.

Additionally, the maintenance levels remained with loath churn and growing as the cost benefit to the client remains very strong. What do I mean by that? Paying a low ticket and receiving the updates, upgrades, and having the support of our help desk. So, maintenance has been growing as well. So, all in the lines of revenues of TOTVS we have been able to apply our expertise and our designs and, again, go to underpenetrated market and go for additional sales.

These fundamentals, and the revenue model are allowing the Company to, again, reach positive results as we have in the previous quarters, in the last two or three quarters, especially these last quarters, in the middle of the crisis, but as well as in the beginning of 2009. And the highlights of this performance are in the slide of page five.

So, on page five, you can see that in terms of revenues TOTVS achieved an organic growth of 23.4% in relation to the very strong 1Q08. License revenues grew more than 15%. In maintenance we had a new historical record, with more than 20% growth. Services presented a 26.2% growth, and in terms of cost and expenses once more TOTVS showed a very good discipline.

With this, the EBITDA reached a new historical record, with nearly R\$60 million, which means 54% more than the 1Q08. Therefore, the margin jumped to 26.2%, another historical record.

Operationally speaking, the 1Q09 presented the largest number ever of clients buying new licenses from the Company. Nowadays, the number of clients per maintenance reached more than 23,300 active clients.

We can also see this very good performance as we move to slide six in these statistics and graphs that we have here. In the left side, we have the growth in net revenues, a consistent growth especially in the last quarter in relation to the 4Q08. In terms of license revenues, license revenues are growing, and are supporting also the growth of the next slide, of service revenues and maintenance revenues.

Maintenance nowadays represents a certain of 70% to 75% of all the cost and expenses of TOTVS. So, we have a very stable and a very consistent Company. With this, as you can see on page eight, we can see the meaningful EBITDA that was reached.

The left side, compared to previous first quarters, you can see this growth, which we had in terms of the margins. In the right side, you can see the comparison to previous quarters of 2008, consistent and constant growth. But again, this growth is bringing to us not only a new record in terms of EBITDA, almost R\$60 million, but a very strong margin.

But what is going to sustain this margin? In the next two slides we are going to explain at least part of this performance. On page nine, there is a breakdown of the revenues of TOTVS and Datasul in the quarter just before the merger. Although Datasul was 40% the size of TOTVS it had more maintenance and less services as a percentage of their revenues than TOTVS.

As you may remember, the margin maintenance is far higher than the services. Therefore, Datasul could or should have a higher margin than TOTVS, but as you can see both companies had the same EBITDA margin, around 21%.

This should suggest a difference in terms of efficiency between both companies as their target. What happened when we put the companies together? Moving to page ten, we can now have an idea of the combined entity at the end of the 1Q09. There was a dilution of costs by the growth of the revenues, as you may remember, while we are growing we are diluting the fixed costs.

And additionally, we have a stronger brand, TOTVS. This helped to increase not only the number of new clients but also the cross-sell of more value-added services. In terms of cost and expenses, more control with the optimization of the areas helped us to have a very good result. So, this is what people say is called 'synergies'.

Additionally, it is important to mention that the Mexican operation of TOTVS had a very positive improvement, as we added expectations in terms of the heavy work that was done in Mexico, helping TOTVS to achieve an important result in the quarter. So, all in all, we reached this 26.2% in terms of EBITDA margin.

On page 11, this chart has the revenues breakdown, and it shows that we remain having a 23% of our revenues coming from new licenses. And again, this is good, because it is going to trigger the new services, and again the maintenance in the future.

It is important to mention that during the 1Q, a lot of the work that was done in terms of enhancing the margins of services is giving results; again, this is also very positive. Combining the quarters in terms of selling more licenses, having a better structure in

terms of services and that is bringing to us more margins, and at the end of the day doing a better job with clients, so keeping the churn in terms of maintenance very low is helping TOTVS to get the results that we are showing today.

On page 12, let us talk about cost and expense. On the right, on top, we have the structure of cost and expense, and based in the financial discipline of TOTVS costs and expenses grew far less than the revenues. In G&A, as you can see on the left side, we are keeping a strong control, and in terms of R&D, we are making some investments in order to enhance our products.

But some of the costs of R&D in Datasul, in the accounting of Datasul were in terms of cost of services. So, at least during 2009, the best thing to analyze R&D and cost of service is to sum both lines and then you can see the variation in terms of what happened in one year and another year. In the case of the 1Q09, in relation to the 1Q08, R&D plus cost of services grew 20%, so less than we had in terms of growth of net revenues.

In terms of marketing expense, there was a reduction in terms of investments in the 1Q, and as you may know, a new campaign began on April 26th. So, we expect a growth in terms of the expenditures and investments in marketing to go already in the 2Q. But at the end of the year, it should represent, as we have the guidance, marketing expenses should represent 3% to 4% of net sales.

On page 13, we have the highlights of the financials of the Company. Very good growth, high margin and net income growing more than sales, but as you can see, we had a -2% of revenues in relation to the 4Q08.

If you move to slide 14, you can see that the reason was that at Datasul, as in the majority of the tech companies but TOTVS, there is seasonality. In terms of sales, the 1Q is weaker than the last quarter of the previous years. This is represented in the graph in front of you.

TOTVS is going to work as we did years ago within our own structure to kill or to reduce thoroughly this seasonality. So, what is the idea? The idea is to have in the next years the introduction of instruments, like the corporate model within Datasul in order to have gathered 1Q in the Datasul trademark.

Moving on to slide 15, in terms of the scenario and the impacts, we said in the beginning of the year that there were two sets of force in 2009. The negative ones led by the global economic slowdown, and some other aspects that could jeopardize these negative aspects. And among them we had underpenetrated market, we had the digital booking system, the SPED, we had the aspect of ERP which are basic things for companies.

And it is important to say that we had a good 1Q. And this 1Q, but also based because the SMB companies are buying software, are buying licenses. So, sometimes we have

some questions in terms of how strong is this SMB segment, and, again, this is an answer that given it is an underpenetrated market, we have several opportunities within this SMB segment. And more than this: larger companies are looking for a new software provider. And TOTVS, at this point in time, is clearly out there to these companies as well.

So, now moving to slide 16, we are investing in brand, we are investing in the name of TOTVS because software do not sell just because of the quality of the product, but also because of the brand. Having said this, we won the award of IR Global Rankings as the world top corporate governance Company in terms of technology; this is important for TOTVS. This is a strong signal in terms of longevity.

And as we said minutes ago, we launched a new marketing campaign. And the focus of this campaign is to enhance and strength the brand of TOTVS. The objective of this campaign is also very clear: it is to help TOTVS to sell more, especially new licenses to new customers.

Having this said, and turning to slide 17, we have some strong fundamentals. The market there, underpenetrated in terms of technology and products, we are working very hard in order to enhance our product to make it easier and closer to all the necessities of our clients and in terms of distribution we have the best structure of distribution. But we are working even to enhance the qualification of our internal team and also the franchisees.

When you added this to a very straightforward revenue model, license, service and maintenance, you remain with a main challenge that is execution.

I would like to say thank you very much for your support, and we are going to be open now to your questions. Thank you very much.

Marcelo Gonçalves, Credit Suisse:

Hi, Rogério. Congratulations on the results. I would just like to ask about the SPED, the initiative by the Brazilian fiscal authorities. Do you know how many licenses you are selling right now because of this initiative? And do you have any statistic of how many companies will be rolled out to the SPED during 2009 and 2010?

José Rogério Luiz:

Good morning. Thank you very much for your call. What we had in terms of agenda of the SPED, according to the authorities 20,000 companies should be ready for this SPED. It was previously scheduled to May 2009 but then it was postponed to September 2009. So, 20,000 companies by September 2009, and 200,000 companies by the end of 2010, and then by the end of 2012, almost other 3 million companies.

So, the most important date, 20,000 companies by September 2009, 200,000 companies by December 2010, and another 3 million companies by 2012.

What we understand, especially the digital booking system is a very complex one, including electronic invoice plus the fiscal books and the accounting books. Having this said, the companies are not arriving to the software providers just to buy one specific SPED, they are looking for, in fact, several deposits for the whole systems.

Some of the existing companies that already have the ERP are looking for an upgrade for at least an implementation of some specific things of SPED. So, we do not have a statistic in terms of the number of licenses that we are selling just because of the SPED.

One thing that we know is that, for instance, in our help desk we used to have before the entrance of this new label of the SPED, more or less 100 calls per day, and it jumped for 380 calls per day of clients asking us things and asking our support to answer questions and help them to implement aspects related to the SPED.

Marcelo Gonçalves:

OK. Perfect. Just one more question. Your EBITDA guidance for the long term is like 22% to 25%. Given the 1Q results, are you planning to change this guidance or there is a new guidance for the year?

José Rogério Luiz:

Marcelo, as we wrote in our earnings release, we understand that we are moving in terms of level of our EBITDA margin, but we are going to in the next quarters, especially in the end of the year, we can redefine an update in terms of our long-term guidance. We are going to be a little bit conservative in terms of the kind of guidance to the market.

So, at this point, we had a very good quarter, I just would like to mention that most important than the margin in our view was the growth in terms of sales. The quarter of sales that TOTVS presented by the type of revenues that TOTVS presented in this quarter in the view of the management is even more important than the margin, because, as you know, revenues are always depending on the market, and in terms of margins, several of the attitudes that we have to make in order to invest in margins internal.

Having this said, at this point we are keeping the guidance of 22% to 25%, of course with these attractive results that we had in the 3Q, the 4Q, where we do not include Mexico, we had in the 3Q, 22.6% of EBITDA margin, in the 4Q, 23.5%; so, we do understand that we are going to the proper range of 22% to 25%. But at this point in time we are not changing the long-term guidance. But yes, we understand that we are going to review it by the end of 2009.

Marcelo Gonçalves:

OK. Thank you very much for your answers.

Gustavo Oliveira, Citigroup:

Good morning, everyone. The first question is on the integration with Datasul. What do you think you have already accomplished, and what do you think you need to accomplish next on the integration of Datasul?

José Rogério Luiz:

I think that we already like 35% or 40% in terms of the integration of Datasul. We think that there is room in terms of investing our integration in relation to back office, also in terms of development, as well as the distribution; we think that we have room for distribute better things to our internal results. So, we think that we are like 35% to 40% in terms of the integration process.

Gustavo Oliveira:

OK. Do you think that with the remaining like especially with in the distribution side, do you believe that the benefit will be even more accentuated on the top line and therefore rather than the operating margin that you could improve at least in the distribution, even accelerate more?

José Rogério Luiz:

Gustavo, you know that TOTVS in terms of the top line, it is not much easier to us to do the job in terms of cost and expenses, just to give you an idea, we are having internally what we call CEO road show, when the CEO of the Company wants to visit all the units of TOTVS, not only in Brazil, and the idea was to create a new momentum throughout this first phase of integration with Datasul is creating a new momentum to create the new and stronger identity of TOTVS.

And as you all know, the marketing efforts is stronger in terms of our market efforts, is in order to, again, to invest in our brand, to invest a lot in one single entity.

Having this said, we understand that after this effort, we want to enter in the 2H09 and in the 1H10 in a new phase in terms of the speeding up the process with our franchisees and at the same time grow our sales. This, for sure, is going to create a new momentum for TOTVS in terms of top line.

How is going to be the market at this point of time, we do not know. Again, we are facing crisis, we understand that the worse part was in the 1Q09, but at the same time we are glad to be very cautious in terms of looking for our future. So, what we are

doing? We are working in order to have our channels in a better way. Having this said, we understand that there is room for improvement in terms of top line and for sure there is room for improvement in terms of cost and expenses.

Gustavo Oliveira:

OK. In terms of the top line, again, when you break down your business between the sales to the existing base and sales to your clients, you are seeing strong results from the sales to your existing base, even with an increase in your average licenses ticket and a substantial growth in your number of clients, sales to the existing base.

However, when you look at the new clients, obviously I understand that overall the results are extremely strong and I am not by any chance disagreeing with that, but there are always opportunities for improvements, and when you look at how you are tracking your new clients, you are seeing a declining in your average licenses ticket of almost 4%, and the number of new clients you brought in was down by 12% year over year. So what do you think is not working in bringing in new clients to TOTVS?

José Rogério Luiz:

Gustavo, let us go for a deeper analysis in terms of our new licenses. We had a strong volume of existing clients calling us in order to buy more licenses and we understand this was driven by two most important factors.

The first one is that after the transaction with Datasul, we are perceived by the market as a even stronger company, and as you may remember, software built is just part of the quarter of the product, but also in terms of the perception of the software provider. So we have a strong perception of this, so several clients from our base they are turning to us, especially some from Datasul, and buying more licenses, they invested, they have the confidence in terms of buying things from TOTVS. This is the number one thing.

The second thing for sure, in terms of the existing clients, they have already implemented the ERP, probably not the full ERP, and the intention of investing in TOTVS was the SPED system, the digital bookings, they are returning to us to buy more licenses and to ask TOTVS to implement new things. So, they are buying new licenses for us.

And you know that there is an underpenetrated market that we should go for new clients, but we had a strong volume of existing clients calling us in the last two quarters and we had to be ready for that. Additionally it is important to mention that we have a substantial number of new customers, 102 at least per month, and this was a good number especially in this environment, even taking into consideration that a substantial part of our sales guys were supporting our existing clients.

It is important to mention that special clients from the SMB environment got software in this 1Q, which means that there were some doubts in some of integrants of the market in terms of how strong was the small and medium companies, and what we have as a message is that they are growing, they are surviving, not only surviving, they are growing and they are buying software because they need a better components in terms of the company. And at the same time, some larger clients, they are seeing now at TOTVS as a real alternative to their business.

So the reasons that we make in terms of this 1Q is number one, we have existing clients buying more from us. Number two, SMB in which is an underpenetrated market is strong and they bought licenses from us, and having this said, as you know we do not make any change in our prices, even if we had the alternative and the possibility to put the prices up, we are having this existing clients trying to buy more software from us, but we try to keep and to have these clients buying more software because at the end of the day they go for more implementation and more maintenance.

Gustavo Oliveira:

Ok. Perfect. Thank you.

Andre Baggio, JPMorgan:

Hi, good morning to everyone. Rogério, I would like ask you about your bad debt expenses which seems to be in a relative low level, and let us say, this is unexpected in an recession year, what do you see? There are no financial difficulties with your clients? Or are there any changes in the criteria to account for that?

José Rogério Luiz:

Andre, good morning. What is important here is that during the last two quarters we had a necessity in our bad debt provisions in function of Mexico, so as we are seeing this in Mexico, we are returning to the levels that our business model directs us, and in terms of our business model, the two major lines of revenues, maintenance is very low churn, it is very low ticket per client, we are talking about R\$1,700 per client per month in order to receive the upgrades and having the support of our help desk, especially if this effort including SPED and etc.

So this very low ticket provides us a very low churn and it is very difficult to have a client to stop payment maintenance, even in a tough moment, even clients that are in Chapter 11 or something like that they remain paying maintenance.

Then you go to software license, usually the license is up to six installments and up to the paying of the last installment we have a password that if the client stops paying the license we cancel the password for the next month, but it is very difficult to have a client stopping paying licenses because if the client came here to buy the license, if he

got here in a hurry and he needs the software to be implemented, so the level of bad debt in terms of clients is very conceptual speaking very low.

And then you go for implementation, if a guy comes here to buy a license he needs to have the software implemented and if he stops paying us, we will not send the team for implementation in the next month, so the risk that he runs is a day-to-day risk. So, when you see our business model, it seems to be very consistent and it should not be a company to have a big volume of bad debt, even in a crisis as we are facing.

Andre Baggio:

That is fine. Can you make a comment how this health crisis in Mexico can affect the operations? Is it an issue or this could not be an issue?

José Rogério Luiz:

No, Andre, every day we are working in conference calls with our Mexican guys and there are two things. We can be hurt in terms of sales in Mexico, yes, we can. We have a very underpenetrated market there, even less penetrated than in Brazil, but there after seven days there has been a very difficult scenario in Mexico. But remember that Mexico represents like 1% or 2% maximum from our sales.

In terms of conference calls in respect to the aspect regarding the bad debt in Mexico, during in 2008 we made several provisions and more than this we restructured our Mexican operation. So, we can suffer but we do not expect to have the same level of problems in 2009 that we had in 2008 and 2007 in the Mexican operations. So we are better prepared now as for a downturn in Mexico than we were one year ago.

Andre Baggio:

OK. Thank you a lot.

Alexander Liuzzi, M Square:

Good morning, Rogério, I would like to understand what is happening with license costs this quarter, there was a very impressive deduction in licenses costs and I want to understand if it comes from mix of products sold and if there were more products sold by TOTVS than Datasul and if Datasul has royalties to products or if this is already signals of synergies coming from the acquisition.

José Rogério Luiz:

Alexander, what we see is that yes, we are taking some synergies and the strong idea is the money that we are spending in terms of the third parties, I would not like to talk about the trends, I mean, what we see is that the levels that we have nowadays should be around the levels that you should see as we go through 2009.

From the conversations that we have been having with the providers of technology and the third parties that are providing technologies in order to TOTVS, I do not expect to have the levels of 2008 and 2007, I think that we are in a new phase in terms of the relationship with them.

Alexander Liuzzi:

OK. And another question that I would like to develop is regarding the SPED, when you talk about the schedule there, I believe in 2011 more than 3 million companies would have to comply with the SPED, do you know the profile of these companies? I was talking about very small micro companies with one to ten employees or are we talking about medium companies? What I am trying to understand is how many users to TOTVS these companies can be, if it is 2.2 million companies with 15 to 25 employees we are talking about 88 potential users.

José Rogério Luiz:

What we understood from the news that we saw, after it is possible in time is that the Government is going through two directions, one is in term of size, so larger companies, and the second is more in the direction of sectors, so when we go to sectors, we are going to have not only the larger guys, but after the medium and small companies.

The answer to you is that even with this first wave of 20,000 companies as September, yes, we feel that several companies that are within our target market, and when you go to the 200,000 in 2010 for sure we do have companies with our target markets.

Alexander Liuzzi:

OK. Thank you.

José Rogério Luiz:

You made a very important question because we thought, the first model during the end of the 2H08, we thought that the Government was going to require just from the larger companies, but then they used two ways, one in terms of larger companies but also, as I told you previously, so they are getting some chains, some industries and this is going to include small and medium companies.

Alexander Liuzzi:

OK. Thank you

Marco Locascio, Equinox Partners:

Good morning. I have two questions here, the first on the accounting change on relation to amortization of goodwill, I was wondering if the effect on tax accounting is the same as the effect on the financial accounting.

José Rogério Luiz:

We made the same fiscal benefits that we have and we announced last year, so the changes on the accounting are not changes on the benefits that we got in terms of the fiscal books.

Marco Locascio:

OK. And so in the release you said the financial accounting change applies to goodwill that was recognize before 2008, but from the fiscal perspective it does not matter when the goodwill was recognized.

José Rogério Luiz:

Are you talking about the fiscal assets?

Marco Locascio:

I am talking in the release you said for the financial accounting the effects on goodwill that was recognized before 2008, but I understand you talking from the fiscal accounting perspective it does not matter when the goodwill was recognized you still get the tax benefits.

José Rogério Luiz:

That is correct.

Marco Locascio:

OK. The next question is on, I was wondering if you could comment on the strong growth for corporative model for relation sales in and if it is related to the uncertainty in the economic environment.

José Rogério Luiz:

The corporate model is released to several components, it is not only in terms of licenses, but we have several metrics for the corporate model. And the corporate model works very well in a year that we have growth like 2008 and specifically in terms of small and medium companies it can work well even in 2009, because it is not based only on revenues metrics, but also in number of students, checkouts and other metrics for several agencies.

Having this said, the corporate model is something that is not only positive for us and for the client and we are even analyzing for new clients to taken there the corporate and a few products as well.

Marco Locascio:

The growth that you saw in the 1Q is not just I guess adding new clients to that model but also the strong business performance of the existing clients under the corporate model.

José Rogério Luiz:

Yes, the corporate model that we presented in the 1Q is regarding the performance of these clients and the new customers that we added to the corporate model.

Marco Locascio:

I understand. Thank you.

Alex Baez, Neon:

Hi. I just have a question on the market share. Can you talk about the market share and what happened in the 1Q?

José Rogério Luiz:

Alex, we are expecting the agency that will release the new figures, again we gained market share, but I just would like to point that gained market share in a very underpenetrated market. So, we see that we have a lot of room for gain market share.

Alex Baez:

Thank you.

José Rogério Luiz:

And just adding to your question, we are trying to gain two things, we try to gain market share, but it is important to gain the share of the wallet within the client, so we are training more and more our team in order to sell more to existing clients, not only

the software but also the replicable value-added services, like ASP, BTO and consultancy, because at the end of the day this is going to help us to sell more software to these clients.

Alex Baez:

Thank you.

Operator:

There are no further questions, I would now like to turn the call back over to Mr. Luiz for any closing remarks.

José Rogério Luiz:

Again, thank you very much for your questions, thank you very much for your support, we understand at TOTVS that we had a very good 1Q, especially in terms of revenues, we are doing the job in terms of the synergies that we are getting from the transaction with Datasul and we are working very hard in order to deliver to the market, to this underpenetrated market, a product that we understand that is a basic necessity of the market that is software and try to help our clients to comply with their legal obligations, for instance the SPED.

Thank you very much for your support and we remain always to receive your visit here at TOTVS and if you have any questions, please, call myself or our team here that we are going to be more than pleased to help you. Thank you very much.

Operator:

Thank you. TOTVS 1Q09 results conference call is over. Have a nice day.

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