

Operator:

Good morning, welcome everyone to TOTVS' 4Q07 results conference call. Today with us we have Mr. Laércio Cosentino, Chairman of the Board of Directors and Chief Executive Officer of TOTVS, and Mr. José Rogério Luiz, Vice-President, CFO and IRO.

We would like to inform you that this event is recorded and 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.br/ir.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of TOTVS management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of TOTVS and could cause results to differ materially from those expressed in such forward looking statements.

Now, I will turn the conference over to Mr. Laércio Cosentino, who will begin the presentation. Mr. Laércio Cosentino, you may begin your conference.

Laércio Cosentino:

Good morning and good afternoon. It is with great satisfaction that I present today our results for the 4Q07. Note that our gross revenue has grown by 4x over the past four years while our EBITDA has grown by 7x over the same period. This achievement began with the Company's international expansion, with the opening of a branch office in Mexico, the acquisitions of Logocenter, RM and other assets, and the synergies obtained in operations at TOTVS, which enabled margin expansion from 12.4% to the current 21.9%.

I will now hand the presentation over to Rogério, who will provide you with more details on our results.

José Rogério Luiz:

Thank you very much, Laércio. Good morning and good afternoon. I would like to invite you to go to page four now, and we are going to present some of the highlights in terms of financial and operating results that TOTVS reached in the year 2007.

It was a very positive year and the last quarter was very positive as well, we reached several records, not only in terms of EBITDA, EBITDA margin, but also in terms of revenues. All the lines of our revenues were very positive.

The first thing that I would like to point out is EBITDA. We reached in the year R\$96.4 million, 36.5% over 2006, and in the last quarter almost R\$26 million, with almost 30% of growth in comparison with the last quarter of 2006.

In terms of margins, we reached in the year 21.9%; this was far higher than the 18.8% that we reached in 2006; and in terms of the last quarter, we reached 22% of EBITDA margin.

In terms of net revenues as a whole, we reached R\$118 million of net revenues in the last quarter of 2007, it was a record in terms of quarters, and in the full year we reached almost R\$440 million, so it was 16.8% higher than the full year of 2006.

It was positive, but even more positive was the quality of our revenues. The first one it was license fees; just in the last quarter we grew 20.6% in relation to the last quarter of 2006. It was based in a significant growth of the number of new software customers, we had 373 in the last quarter of the year, and also the sales that we made to our base customers, over 1,090 software sales to base customers in the last quarter.

When we see the service revenues, in terms of service revenues we also had a very significant increase in relation to the year 2006; we grew over 20% and within the service, I would like to point out the growth of TOTVS BMI, now TOTVS Consulting, with sales growing almost 50% when you compare with the previous year.

In terms of maintenance revenue, we also had a record in the quarter and also within the year. In 2007, we reached over R\$200 million just in maintenance revenues.

In terms of operational highlights, the growth of number of software customers, the growth of the number of customers in terms of the corporate model, and also we had a significant growth in terms of the average ticket – and one example we have here is in terms of new software to additional customer, just in the last quarter the average ticket grew 50%. So it was a very strong not only quarter but also a very strong year. And we understand that several of these aspects were based in several of the actions we made during the year.

So, if you please go to slide five, we have here the highlights of several of the actions that we took during the year 2007. In the 1Q07, we had a very aggressive approach in terms of sales structure, as you may remember we split our sales team in terms of the “hunters” for new customers and the relationship to base customers and it worked, as we saw in our figures.

During 2007, we also went for investments in technology and products; you may remember that we launched new versions of our products, we launched even new products like RM First, and in the last quarter we announced some acquisitions.

These acquisitions, that are not at this point in time accounted in the numbers that we are showing you for 2007, these numbers are only going to enter in the year 2008, but we would like to point out the strategies that we have in terms of our acquisitions.

So, if you would go to page six, I know that you know this picture, this graphic of the pyramid of our market, but you can see that TOTVS, through our products RM, Microsiga, and Logocenter, we are within what we call small and medium companies. Small and medium companies is an European and American concept of SMB, I mean that we sell to companies with sales between US\$5 million and US\$1 billion. So, within this range is where we have our base customers.

And in order to speed up our process of growth, in order to fulfill all the areas of this pyramid, that is why we launched the RM First, that is why we bought Midbyte that brings to us an expertise for this bottom area of the small clients, and we bought BCS, that is a company with the leadership in terms of the legal software area of this pyramid, the legal software product within Brazil. So, we bought these companies in order to put them together and, at the end of the day, what do we want? We want to sell more software, we want to sell more license.

So, this is our strategy. And with this strategy and all the actions we took during 2007, we could see the results, and these results are based on – at the end of the day they are going to mean growth.

So, if you slide to page seven, to slide seven now, you can see that quarter after quarter we have been able to grow in terms of our revenues as a whole, so quarter after quarter, you see that not only the gross revenues, but the net revenues, they are growing.

In the next page, you can see, on page eight, that this growth is not only in terms of sales but also we can, at the end of day, get some gains of margin and EBITDA. You can see on page eight, on the left-hand side, that the absolute number of EBITDA is growing, and it is growing in a very significant rate. At the same time, we have been able to grow in terms of margins.

So on the right-hand side of this chart, you can see that we have also been able - between the quarters, and in comparison in quarters - to have a very significant growth, not only in terms of margins but also in terms of absolute figures. But this growth was based in operational gains and these operational gains – as you can see, for instance, on the page nine - started in the top-line, and we had a very solid growth in terms of sales for license fees.

On the left-hand side of this slide nine, you see that we have been able to grow within the quarters, and on the right-hand side, in comparison from one year to the other year, we have also been able to grow. We not only grew the revenue as a whole, but we also grew the quality of this revenue.

If you go to page ten, you can see that, quarter after quarter, we have been growing the number of customers of the Company. So, not only in terms of new customers, but we could also change directions that we had in terms of sales to base customers.

With a new direction in this curve, in a positive way, not only selling to more customers, but also with a better quality, as you could see in the average ticket for new customers that we have been growing quarter after quarter. Well, growing in terms of license fees are helping us to grow in other lines.

If you go to page 11, you see we are growing in maintenance revenue, as well as in services revenue. As whole, our taxes of revenues are growing and are becoming very solid.

If you go to page 12, you can see that, again, year after year, we have been able to grow, and have been able to keep a minimum amount in terms of license revenues. And this minimum is a minimum over 20%. If you see in the last quarter of 2007, we had 25% of our sales in terms of license revenues.

And, as you may remember, this is going to bring us future and why? Because this is the trigger for the revenues of services and then maintenance. Well, a very positive and good job in terms of top-line and we also have, as you can see on slide 13, a very solid operation in terms of costs and expenses.

We have been able to reduce the G&A not only in terms of percentage of net revenues, but also in terms of absolute figures. In terms of cost and expenses as a whole, it is growing in a lower speed in relation to what happened with sales. And in items that we had speed up in terms of growth expense, like R&D is because we are basically investing in our future when we had this. When you see marketing expenses, we had a small growth in the last quarter, but this helped us in terms of growing the license revenues.

Having said this, going to page 14, you see that we have here, as a whole, a very positive year in terms of net revenues, gross profits, EBITDA, EBITDA margin, and, at the end of the day, our net income grew in a very significant way. So having said this, I would like to say thank you very much for the support that you have been able to provide to us and I would like to invite Laércio to go for his final remarks. Thank you very much.

Laércio Cosentino:

Slide 15. It is important to note that the biggest challenge for TOTVS continues to be our execution capacity. Given that our strategy depends on three main factors: marketing, product and distribution. I invite you to the next slide. Our marketing strategy in 2007 proved to be a winning one as demonstrated by our record breaking leaders of net revenue, EBITDA and EBITDA margin in this period.

I invite you to the next slide. In 2007, we further enhanced our technology and products, launched Family 10 simultaneously with the 10 Versions of Protheus, Corpore and Logix. We also acquired the complementary products, such as Sisjuri, from BCS and the vertical application that automates law offices. Vitrine from MidByte, which targets on small retailers and we also formed a partnership with Quality for TQTV, which represents the growing trend of digital convergence.

I invite you to the next slide. In 2007, we strengthened our distribution model and, from 2008 on, we intend to consolidate and strengthen even more our franchise and channels with the creation of TOTVS Franchise, which seeks to expand and operate margins of franchise owners, improved product offering to the customers, in turn making it possible to implement business management solutions for the TOTVS customers.

Gustavo Oliveira, Citigroup:

My first question, I have a couple of questions. My first one is regarding to your license. We finally saw some positive trends in the sales to the existing base and we also saw growth in average ticket. Could you please provide us an outlook for 2008, if you believe that you can keep this positive trend in the sales to the existing base, and if you could also explain what is driving the growth in average ticket?

Is there any change in mix, that this time you are selling more Microsiga products versus RM and that is driving or is it something more positive than that? That's my first question.

José Rogério Luiz:

Good morning. In your two questions, the first one, the first answer is regarding - beginning from the end - you asked us about the average ticket and the growth of the license. We do understand that we had some structural changes in the last years within the industry. The first one is in terms that our clients, they are receiving more credit from the market. So, with this credit they are able to go for their CAPEX and they are using their money and in short term financing to go for buying IT.

In terms of IT, the price of the servers, the price of the computers and even the communication, they are going down, so this is enabling our clients to invest more in IT with less money, and if they invest more in terms of hardware, they are going to invest more in terms of software. So, this is also being very positive and we do not see, at this point in time, any change in this aspect, in these fundamentals.

In terms of the mix of our sales, during 2007 we saw several of these movements in terms of price down of the hardware and etc happening and also the access of credits. So, this is helping our clients buy more. What we realize was that in the first [...] of acquisition, our clients have been buying more licenses than they were used to do in the past.

We understand that there was a change in behavior of the typical SMB company – this is the first thing. And the second thing, we had some aspects in the environment that are helping them have money to invest in technology.

Gustavo Oliveira:

Does it mean that it makes more sense for you to push for more sales on the Microsiga products versus the lower-end products? Or not necessarily that is the case? And, in the same lines, are you seeing any growth in the number of new clients that are actually subscribing to the RM First?

José Rogério Luiz:

What we see are several movements. The first one, we understand that part of our success, especially in the last quarter, was given the strategy that we had in the beginning of the year, to have the hunters and the guys of relationship. So, in the case of the hunters, they know that they are going to remain in the company, with the client, for 18 months. This provides them additional energy in order to go in a deeper way within the client, in the first way of selling to this client. So, we understand that, first, the internal we made during the year of 2007 is providing some good results, this is number one.

The second thing is: we are still in the early beginning in the aspect of RM First. Yes, they are in a good rate of conversion of new clients, but we are still talking about very low figures, it is a small number. We understand, of course, that for the year of 2008 we are going to have RM First plus Midbyte as some assets that are going to bring us more clients. And you know that the intention is that these two structures are, at the end of the day, to sell more from the RM trademark and lots from the Microsiga.

As for the current time, we see no change in the mix between Microsiga and RM Sistemas. What we see is that both of the structures, of RM Sistemas and Microsiga, we are more aggressive in terms of accessing the market.

So, we understand that, in 2008, several of these attitudes we took in the year 2007 are going to have a good potential to bring us additional results.

Gustavo Oliveira:

OK. Thank you. And in the sales to the base, is it a positive trend still, then?

José Rogério Luiz:

If you take into consideration that nowadays we have over 16,000 clients, it means that last year we sold to 26% of our base clients, new licenses. There is no reason not to believe that we are going to have a positive trend in the year 2008 and 2009. The structure is there, the customer relationship is there, and there is a better structure this year than there was in 2007.

Gustavo Oliveira:

Thank you.

Tony Tang, Lusight Research:

Good morning. My question is: looking at your last 12 quarters, I [...] here, it seems to me your license fee for new clients on the corporate model is much more volatile than the license fee on the traditional model. Can you say a little bit on that and then talk a little bit more about your private strategies first?

José Rogério Luiz:

Good morning. When you say volatile, you saw that in the last quarters we had a speed-up in the process of having new clients, right?

Tony Tang:

Yes; talking about the license fee, the way you are charging the new clients, in the corporate model, it is much more volatile.

José Rogério Luiz:

What you have in the volatility is that, in the specific aspect of the corporate model, the number of clients that we closed the corporate model is lower than we closed in the traditional way. Sometimes, in the corporate model, there are larger clients moving from the traditional way to corporate model, or start buying from us straight from the corporate model.

So, the corporate model was accessed in this first way, as we understand we are still in the beginning of the current model selling process, although we have had this in four years in our structure, but we still believe we are in a very early beginning of this product. We have larger clients buying this corporate model than the smaller clients.

If you have larger clients, and if they are in a certain quarter, they are going to make this average ticket being larger in a certain quarter in relation to other quarters.

On the other hand, when you go for the traditional model, you see a more linear process, you do not see huge ups-and-downs in terms of the average ticket, comparing to the traditional way.

Tony Tang:

Does that mean the visibility for the new additions, the new clients in corporate model will also be very low in the future too?

José Rogério Luiz:

I understand that in terms of looking forward, the average ticket of the corporate model should not go necessarily up, because we are going to sell the corporate model to smaller clients. So, we see a huge change between 2006 and 2007. Looking forward, I do not think we are going to increase the size of the average ticket of the corporate model.

On the other hand, going to smaller clients, we are going to have a smaller size in the average ticket, although we can have a larger number of clients, and this could set up the process and lead us to have a higher total amount in terms of license revenues.

Tony Tang:

OK. Can you give us a breakdown of the license fees by the corporate model and the traditional one? How much is coming from the corporate model and how much is coming from the traditional?

José Rogério Luiz:

In terms of number of clients, it is 50/50.

Tony Tang:

Were those in new licenses?

José Rogério Luiz:

In new licenses.

Tony Tang:

What about that in terms of revenues, the breakdown?

José Rogério Luiz:

We do not provide this breakdown to the market.

Tony Tang:

OK. Just one last question, about the acquisition. What company you go out and look for to acquire? Like, when you approach those companies, what is your criteria?

José Rogério Luiz:

We have a very clear criteria. Our criteria is that at the end of the day, what we would like to do is to sell more licenses, basically more in our base, as you know, we are in a very under-penetrated market. So, if we are going for acquisition, they are going to help us, at the end of the day, to cross-sell more and to sell more licenses to this under-penetrated market.

For instance, going for BCS; BCS is a [...] of a legal company, of the legal department, and this is going to help us, at the end of the day, to sell more ERP, because we are going to put together the back office and the front office. When you go to Midbyte, we understand that Midbyte is bringing us a huge base of clients that we are going to start in 2008 on.

We understand the clients of Midbyte are growing, and while growing they are going to have a migration on the process. The kind of [...] we have we are talking about RM Sistemas or Microsiga.

So, the idea and structure of our acquisition process is to have companies and products that in both can sell more at the end of the day to sell more licenses.

Tony Tang:

So, are you going to widen the penetration in different sectors, you are trying to deepen the penetration in certain sectors, like as many as sectors you can or you are just going to focus on few sectors?

José Rogério Luiz:

Of course we are always trying to focus on sectors that would bring to us growth. We understand that there is the normal and almost traditional sectors, like agroindustry, health and education, but there are other sectors in which we think we should report, and we understand that it was a kind of surprise to the market going to this structure of BCS that is for legal companies, legal departments and law firms. Then, people realize that this segment is growing very fast not only within Brazil, but also in Latin America.

Additionally, we understand that the products of BCS, as a [...] has a kind of localization far easier than an ERP. So, we understand not in a long term, but in a kind of short term, we can have this product in countries other than Brazil. And again, these are segments that are growing very fast not only in Brazil, but also in Latin America, the law service.

So, we are analyzing not only the transitional potential sectors, but also some niches that can help us, as I told you, at the end of the day to sell more ERP.

Tony Tang:

Do you see any company outside of Brazil? A company that would be in your acquisition plan?

José Rogério Luiz:

Outside Brazil, we are going to [...] acquisition. We understand that we spent the year of 2007 enhancing our structure within Brazil, and we think that in an year from now, probably not during the quarters, but in an year from now, in our annual conference call I could answer your question about the International segment with other data that will show you the kind of improvements that we will be able to make.

Again, a year ago we said that we would grow in order to somehow speed up the number of clients that we could get in our structure. We made some internal changes and we just announced to the market that we are going to focus on some changes in our processes of franchises. So, we said that and we did it.

At this point in time we understand that the international market is the next step for TOTVS; we are going to go in a very direct way, but also paying attention to this next step, in order not to create a problem to our growth.

Tony Tang:

OK. Thank you very much.

Gustavo Oliveira, Citigroup:

Thanks. My second question is: can you provide some updates on the third party restructuring? How many TOTVS franchisees you already have? When do you expect to conclude this restructuring?

José Rogério Luiz:

By the end of 2008, you are going to see the changes with TOTVS franchisees. At this point in time, we have 49 franchisees plus our internal channels. But we have 49 franchisees and we understand that in 12 months we are going to have the structure with several TOTVS franchisees, and they are going to be covering not only Brazil, but we understand that, by the end of the year, we are going to start to consolidate this movement even outside Brazil.

We are working very hard in the next two quarters in order to have several cross franchisees into an agreement and becoming TOTVS franchisees instead of just one of our trademarks.

Gustavo Oliveira:

And how many do you already have?

José Rogério Luiz:

In terms of what? Of TOTVS franchisees?

Gustavo Oliveira:

Yes.

José Rogério Luiz:

We have three.

Gustavo Oliveira:

For which market?

José Rogério Luiz:

At this point, I am going to do the following: I am going to make a statement for the whole market in order to have everybody have the same information at the same time. So, please, if you could wait; in one week we are going to provide to the market the name of the areas. It is not because I do not want to give you now, but just because our disclaimer is going to have important information for others, in one week, I promise you that the next time we are going to have information from TOTVS telling the names of the areas.

We are going to do a few things: one thing is the areas within TOTVS that by itself have already three trademarks, and we are going to put these areas together. And we have other things: we have franchisees from third parties and they are already making themselves into one single entity.

Gustavo Oliveira:

OK. So we will wait for the next seven days for an announcement from you, then.

My last question is on the R&D expenses. We have seen an increase over the cost of 2007. Should we continue to see that in 2008, or it is mostly ended now and now you have done most of the integrations you need, or the new developments? Should we expect it to go up to 10% of your revenues, or should it stabilize on that percentage?

José Rogério Luiz:

In terms of G&A?

Gustavo Oliveira:

R&D, expenses and percentage of revenues.

José Rogério Luiz:

It is going to be around 9%. And, again, we are still investing in some aspects, again, we are going to announce to the market this new evolution in our products. In a conservative way, I would suggest you to go for 9%. Higher than 9%, I do not think so. It could be lower, but in a conservative way, keep it as 9%.

Gustavo Oliveira:

OK. Thank you.

Operator:

There appear to be no questions. This concludes the Q&A session for investors and analysts. At this time, I would like to turn the floor back over to Mr. Laércio Cosentino and Mr. José Rogério Luiz for any closing remarks.

José Rogério Luiz:

Again, we are very happy to bring the market good results; we even tried, at this point time, to bring results earlier than the previous years. Of course, this is given the fact that we have very good softwares here that are helping us to bring the results earlier. It is a kind of advertisement for these times.

In the name of the management of TOTVS, we would like to thank you very much; not only the market, but also our investors and the analysts. We are still working very hard in order to grab this potential market that is in front of us, not only in Brazil, but also in Latin America.

Thank you very much, and we are always open to any kind of questions you have. Thank you very much, and have a nice 2008.

Operator:

This concludes today's TOTVS' 4Q and 2007 results conference call. You may now disconnect.

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