

Operator:

Good afternoon, welcome everyone to TOTVS' 1Q07 results conference call. Today with us we have José Rogério Luiz, Vice-President, CFO and IRO, Weber George Canova, TOTVS' Chief Technology Officer and Rodrigo Nasser, IR Manager.

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. José Rogério Luiz, Vice-President, CFO and IRO, who will begin the presentation. Mr. José Rogério, you may begin your conference.

José Rogério Luiz:

Good afternoon. We would like to thank everyone for participating in this 1Q earnings' call of TOTVS.

We are very happy and satisfied to report the figures of another very good quarter. For comparison purpose, the figures we will show today include RM Sistemas' and Logocenter's data, in the groups results since January 2005, allowing us to better identify organic growth.

Moving now to page three, in this 1Q, we had several historical records. The first one was in terms of net revenues, which reached a historical record of over R\$ 101 million. In terms of EBITDA, almost R\$ 21 million, 19.6% higher than the 1Q06. And in terms of EBITDA margin, we reached 20.7%, or 100 basis-points over the 1Q06.

In terms of license fees, we also reached a record, with sales over R\$ 27.7 millions. With these very good results and these consistent results, we decided to update our EBITDA margin guidance. As you may remember, during our IPO, we said that in three to five years after the IPO, our intention was to reach

an EBITDA margin between 20% and 25%. At this point in time, today, we are updating it seeing that between 2009 and 2011, we expect to have our EBITDA margin going between 22% and 25%.

These results were based on, of course, acquisition of new clients, 310 new software clients in the 1Q07, with the average ticket of sales growing over 23%, in relation to the 1Q06.

In terms of recent events in the 1Q, we had the incorporation of RM Sistemas. We paid the final amounts for RM Sistemas according to the goals that they had to reach to receive the money. We launched the new versions of our products, Proteus 10, Logics 10 and Corporate RM 10. This is according to our policy that around every 18 months, deliver to the market new versions, and it was the new version, in terms of Logics and Corporate RM under the umbrella of TOTVS. We also went forward with a very important thing, that was a new sales structure during the 1Q, in which we divided our sales team in terms of base clients and new clients, and we are going to discuss a little bit about it further.

We also hired three new Directors, three new Officer Directors, to help us in this new phase of growth and, as you may know, nowadays Mr. Weber Canova, that several of you may have already had contact with, became our Technology Vice-President.

Going to the next slide, page six, you know that the major change of TOTVS is execution. You remember that we have the markets there, we have a Greenfield market. In terms of technology and products, we think that we have the right product to add to the SMB market, but as you could see, we are even improving these things. And in terms of distribution we are always trying to, not only to have the best distribution, but always to make it better. Execution is key.

Going to page seven, our beliefs that execution has been in a very consistent way. As you can see, quarter after quarter we had the growth in terms of sales and, on page eight, you can see that in terms of EBITDA margin, we have been able to have improvements.

You remember that in the 4Q06 we had a record of 19.8% in terms of margin and just one quarter later, we are reaching almost 21%. I would like to remind you and emphasize that the 1Q, in the case of 70% of our employees that are in the Microsiga trademark, they received the annual wage update through the unions in Brazil, so we have a very important impact in our cost in the 1Q, and even with that we were able to have a very good EBITDA, as well as margin.

On slide nine, we have several aspects of our financial index. One of the things that we have in terms of net revenues growing 14%, EBITDA growing 19.6% and we have our net income reaching almost R\$ 16 million, or up 25.8% in relation to 2006, at the 1Q06.

In terms of sales, on page ten, we see that the licenses, that is a key point in our revenues, because licenses are the kind of revenue that is going to bring

the future for us, we had our historical record in terms of licensing in the 1Q07, and this is not only due to the number of the clients but, as you can see on the right side of the chart, it was in terms of the average ticket, growing from, in relation to the 1Q06, 23.2%. What we mean by that is that we are not only growing in terms of the number of clients, but we are not facing, at this point in time, any kind of pressure in terms of pricing.

Not only talking about the top line, but also in terms of expenses and cost expenses and investments. On slide 11, you see that we had an increase in terms of investments in R&D that is expense, in our case but it is R&D, but at the same time, we continue to do our job in terms of G&A. As you can see on the last side of the chart, the G&A went down not only in terms of percentage of the net sales, but also in absolute figures.

When you see, up on the right side of this slide, you see that cost and expenses, again, they are not only reducing in terms of percentage, but also in absolute figures. What we mean by that: synergies. We understand that we have been working very hard on it, that we are in phase three in the case of Logocenter and that we are ending the phase one of the case of RM Sistemas.

Marketing expenses – we are always paying attention to this in order to make the right expense in terms of marketing, but we had a very good quarter, and even with this good quarter we were able to control the investments/expenses in terms of marketing.

Looking forward, when you move to the next page, nowadays, having 15,400 active customers, we decided, at the end of 2006 and we executed this in February 2007, we split our sales team in base clients and hunters for the new clients. The idea is that having the hunters, the guys for the new clients, they are going to continue to expand our trademark and our sales in this very under penetrated in Greenfield market. On the other hand, we have the guys for the base clients, and these guys have a very, very strong mission, that is not only to sell more to our base, but at the same time, to increase the level of cross sells, products as BMI, that is the consulting company, infrastructure and BPO. We have been growing this expanded business model, but we do know that there is a lot of room for growth.

In the same line of building up the future we have, on page 13, we decided to integrate the sales in distribution structure of Logocenter and Microsig. This came in a very important moment in which we were launching the Logics 10 and the Proteus 10. So, we are providing the safe team and the distribution team, new products, with new features, that are going to be, for sure, very well accepted by the market.

At the same time, launching the Logics 10 was important because it is the first generation of products of Logocenter under TOTVS' technology. And at the same time, we were launching the Corporate RM 10, so it is the first version of the product of RM under TOTVS umbrella, but with the .Net technology. So, this is to show how versatile TOTVS is. So, we are able to deal not only with one technology, but also we are able to go, for instance, to the point of the .Net,

then my colleague Weber Canova is going to be more than opened to discuss with you.

Last, but not least, we are not only working in the top line, but we are also working in terms of cost and expense. So, we are leaving the traditional financial and administrative area and we are moving to the shared service segment. So, what we created, we created the shared service center within TOTVS, and the idea is not only to continue the process of reduction and getting synergy between the markets, but, at the same time, to create a new momentum, so we can grow not only organically, but also through acquisitions without having the back office as a bottom neck.

So, having this said, I would like to invite my colleague Weber Canova to say some words about technology. Weber, please.

Weber Canova:

Thank you, Rogério, and good afternoon everyone. I had contact with many of you in the last year, and it is with great pleasure that I take the position of Chief Technology Officer at TOTVS.

I would like to invite you to go to slide 14 and describe the works done by the group's Technology and Innovation Department and also tell you some news. The main challenge of the technology area is to make TOTVS technology platform to provide all the best practices and tools known in the market, always respecting basic assumptions such as: independence of platform, operational systems, database and interfaces.

One example is that we are ready for SOA – Service Oriented Architecture – and ready to make software as a service at the SAF. The largest example is the conclusion, in 2006, of TOTVS Tec 4GL works, which have integrated TOTVS middleware with Logics, the Logocenter brand product. The result is: the launch of Logics 10, which has arrived in the market with all TOTVS Tec technology and functionalities and a new user interface.

Logics 10 comes along with new versions of Microsiga brand, Proteus 10, and RM brand, Corporate 10. These products already incorporated the developments achieved in 2006 by the technology department, such as the TOTVS index server, that allows users to search ERP in the same way as they search a website.

RM Corpore 10 solutions maintain Microsoft developing platforms and besides working as a way to diversify technology used by TOTVS, it is also useful to follow the best new market trend in order to provide technological evolution to TOTVS and it is widely defused among these brands' customers.

For 2007, the main highlights is the creation of the Innovation Center, that has a main goal to facilitate the creation of new ideas at TOTVS group, which will be formed by leaders that will discuss new ideas and innovations related to technology, models, process, customers service, human relations and

business. The Innovation Center was structured in Web20 concept, using tools such as blogs, forums, in which the participants are encouraged and awarded by their ideas that, if chosen, will turn into an internal project for TOTVS.

I will be available to answer any of your questions, now I give the floor back to Rogério. Thank you.

José Rogério Luiz:

Thank you very much, Weber. Well, just before going to the Q&A session, I would like to say thank you very much for the support that the market has been giving to us, and we have the perception that we had a very positive and consistent quarter, not only in terms of sales, but also in terms of EBITDA and net profit. But we do know that we have several points and aspects to improve. We continue working very hard in order to improve those aspects and in order to reach new standards of excellence and in terms of profitability.

So, I would like to say thank you very much. We are open to the Q&A and we invite you, by the end of June, to be here at TOTVS' Day.

Stephen Graham, Goldman Sachs:

Hi, gentlemen. On page seven of the presentation, which shows the revenue growth of the last three years, or the last two years, net revenue grew every single quarter in the past, [unaudible]. And some of these stopped growing in the 1Q07, or it was flat up from the 4Q. Or looked at a different way, you have been growing 22% or 23% per year, year-on-year, net revenue, and now, suddenly, you are growing 14% this quarter. What happened, why is it slowing down, is that the expected with the RM acquisition? What is inside that mass?

José Rogério Luiz:

Stephen, good afternoon. First of all, congratulations on your new position. Look, we have a very different perception. We are growing in terms of new licenses, we are growing in terms of maintenance and what we had in the 1Q was a larger number of people on vacation, especially in the area of implementation. So, if you pay attention you are going to see that the implementation, we know that we had a lot of frontal growth and, at the same time, we think that these values are not going to disappear because we know that the clients are going to demand these values in the future.

Therefore, we saw the 1Q as a heavy improvement because, again, license growing, not only growing, but also growing in terms of the average ticket. The maintenance growing, which means we are doing a better job with our clients and keeping them within our Company. And in terms of services, we know that we had a larger amount of people on vacation this 1Q, as you know, we were in the summer in Brazil in the 1Q. But, at the same time, it is important to pay attention that we were able to have an improvement in terms of our margin, in the case of our implementation segment.

Stephen Graham:

OK. But Rogério, still, if you look at a year-on-year, the 1Q07 versus the 1Q06 was also the summer, people were also on vacation, overall, your net revenue grew 14%, more or less. And last quarter, it was 23%, the one before that was 22%. There must be some reason why it is growing slower now, year-on-year. Another way of putting it, last year, in the 1Q, you had R\$ 89 million revenue, and in the 4Q you had R\$ 82 million, so you did have nice growth, even in the 4Q. But, this year, no growth in the 1Q, what differs about these two quarters.

José Rogério Luiz:

Stephen, you have a deep knowledge about our market, so you ought to know that I am always trying to tell the market, you should see as in a full year figure instead of quarters, but we know we have to present to you in terms of quarters. And you know that if we have, as we had, some important accounts instead of closing, in a certain quarter, and flowing to the next quarter, you know that thing about... If you have something from February to March, there is no impact. If it happens from March to April, this can impact. So, I am adding to the point that additional number of vacation, we are having this aspect of some accounts flowing from one quarter to the other quarter. But, again, remember that, even with the seasonality, we were able to sell to 310 new clients. So, this does not mean diminishing our speed in terms of growth.

Additionally, we had this quarter a very important change in our structure, and this happened after a huge study that we had in the 2H06, and we implemented at the end of February the split within our sales team with the guys with the base clients and the other guys to the new clients, and it was natural that this could kind of reduce our speed. But even with that, we were able to sell to 310 new software clients.

Stephen Graham:

OK, that is fine. Let me – sorry it takes so much time, but then the last question following on from that is: we are now in the middle of May, it is when you have already signed all contracts in April or May that will make the 2Q back into a 20% plus growth pace year-on-year.

José Rogério Luiz:

Look, remember that 80% of our sales are in the last four days of the month, so you are asking me about delivery of May – in fact, we had just April at this point in time, we have a few months in front of us. But at this point in time, seeing the year as a hole, we see no major points that can impact in terms of our historical growth.

One thing is that we are not only growing in terms of sales, and remember, when you see... You tell me about this roll-down in terms of sales that we do not see and we do not release, for a single a reason: the growth is given by sales of new licenses, and we had the record of new licenses in the 1Q07,

higher than the historical record. At the same time, we saw that in terms of new licenses the clients bought 23.2% more, which means that they are going to implement this license as they are buying. Our perception is that we have a certain buffer of ours that is going to appear through the next quarters.

I do not know if it was clear this reason, because if we had not had a growth in terms of selling more licenses, probably you are going to have a point; but we are very happy with this, we have 310 new clients with the average price, reaching a very high point and growing this area. Is it clear?

Stephen Graham:

Yes, thanks.

Gustavo Oliveira, Citigroup:

Hi, Rogério, how are you? Two questions. First on the corporate model: could you please confirm to us what was the percentage of the existing corporate customers that actually you are able to sell licenses in the 1Q; and to the ones that you did not sell, what was the main reason?

José Rogério Luiz:

Gustavo, could you please repeat your question?

Gustavo Oliveira:

Yes. For the customers in the corporate model, you had license sales of R\$ 5.2 million, and that contributed substantially to your revenues this quarter. Could you please confirm to us what was the percentage of your corporate customers that actually you are able to sell new licenses to; and to the ones that you did not sell licenses to, what was the main reason for it?

José Rogério Luiz:

So, the first answer is 70%, and the second is: some of these clients are not growing, and they are not requiring new licenses. Remember that when we have this corporate model, we are working with what we call a portfolio. Clients are going to grow, and these clients are going to require more licenses.

Gustavo Oliveira:

And have you seen some of those customers actually migrating from the corporate model to distributional model, or vice-versa?

José Rogério Luiz:

Not at this point in time, Gustavo, not at this point in time. At this point in time it is very rare having someone jumping from corporate to distributional. It is far easier to see the other way around.

Gustavo Oliveira:

OK. The second question I have is on your acquisition strategy: do you continue to generate above R\$ 20 million per quarter in cash, maybe a little bit more than that, actually. You were able to pay dividends in this quarter, but right now you are going to continue to generate that amount of cash, if not more, because your margins are improving. Is there anything in your pipeline that you are looking at now, and what would be the size of the new acquisitions that you might be doing?

And the third question: would you actually be willing to acquire a portfolio of clients?

José Rogério Luiz:

Look, our past is probably going to explain part of our future. Remember that at the end of 2003, or during 2004, we had the acquisition of the company in Mexico, it was an important one, it is 2004, then 2005 we had Logocenter, then in 2006 we had RM; of course 2005 we had also the partnership with TOTVS BMI. So, year after year we have been able to have something with a reasonable size within our structure. We have a pipeline, we are working on it; do not expect from us very small acquisitions, because we understand that it is very difficult to have this as very accretive acquisitions.

So, we are working on these transactions, and we expect to have something in the future.

Gustavo Oliveira:

OK, thank you.

Tony Tang, Lusight Research:

Hi. I have two questions here: I know we have seen last time about the licenses fees for each new corporate clients and new traditional clients. I found my analysis kind of weird here, for licence fee for new clients, for corporate clients licence came down substantially from the 1Q06 to this quarter, If you could give us more color on things are working here.

José Rogério Luiz:

Well, first, let me see if I understood your question. The first thing is that in terms of base clients we had an additional effort during this 1Q, in order to have that volume of sales through our base clients, and why? Because in the 4Q we had that our job with the base clients was not that good; and this was something that really helped us, or indicated to us that we should go for this move that we had in terms of splitting in terms of base clients, and, at the same time, moving to base clients and to new clients, this split that we had in our structure.

The second aspect is related to corporate model. The main idea of the corporate model is to have smaller companies going for this corporate model, because these companies that we have the highest potential to grow, they are going to provide, throughout this time, additional revenue for us, because they are going to buy more licenses, buy through the corporate model. The idea is if in a certain quarter you have larger Companies buying corporate models it is going to bring us a higher average income but when we return to the target client that we have for the corporate model it is going to mean reduction in the average tickets but we are not that concerned with the reduction of average ticket. Why? Because our intention with the corporate model is to target these smaller Companies. And why? Because they have the largest potential to grow. Am I answering your question?

Tony Tang:

Sort of, but it does not mean like, you know, do we have a solid match all the way to look at. Is average license fee per corporate model or purchase of traditional model too? Like, we can expect over quarter and quarter like both targets?

José Rogério Luiz:

Look. One of the things that we do not control is serving a larger client buying the corporate model. When we have a larger client buying the corporate model, they change the average ticket that we have. The corporate model should have an average ticket, I want to tell you in terms of flat, in terms of size that we should increase not as much from one quarter to other quarter but again when you have a larger client buying this, what do you do? Mix this model in terms of size, not working in terms of helping us with projections.

Tony Tang:

My next question is: two days ago Datasul had its conference and they said they had just to penetrate in the small and medium business, which is your major focus right now. Could you comment on what is your deal on it and do you see the competition changing?

José Rogério Luiz:

Look, generally speaking, in any kind of industry you should have a target market in the higher part of the pyramid and trying to go down is very tough. It is almost like a culture change, and it takes time, so all of the competitors that TOTVS has, all of them they are saying things about try to reach the small and medium Companies. We are in a very low penetrated market so I really agree with you.

Do we think that there is space for the other Companies? Yes, there is space for the other Companies. Do we believe that they are going to have success going down in the pyramid? They have to have the right product, they have to

have the right distribution and they have to have the flexibility of the technology in order to reach any kind of operation system or data base.

Therefore we think there is very natural barrier entrance to anyone trying to go to the SMB market and the barrier is in terms of distribution and in terms of product and technology. As it has been said I expect to have in a few days from now shown a new data from IDC and other institutes that can support us in terms of our view of growth in this market.

So, in a nutshell, I think that we have a comfortable position in terms of our position in the pyramid and an uncomfortable position because there is a lot of greenfields and we have to speed up the process to get these new clients.

Tony Tang:

OK. Do you have any, you know, figure of what is the penetration right now in medium business for this segment?

José Rogério Luiz:

The data that we had from last year is that the SMB market, not the micro-companies neither the high companies, but small and medium Companies something like 7% to 8% of penetration. So it is a very low penetrated market.

Tony Tang:

OK. Thank you.

Francisco Sersalhe, T Rowe Price:

Hi, gentlemen. Just one question. A follow-up on Gustavo's question on acquisition. I understand there are not many affordable Companies left in Brazil. First of all, am I right in that assumption? And second of all, does that mean that you are looking outside of Brazil? And also will you increase debt to make an acquisition?

José Rogério Luiz:

Francisco, good afternoon. The first thing in terms of target market, the target of our acquisitions. Look when we say affordable Companies, in our market, if you put together two or three smaller Companies you are going to have a Company with sales of R\$ 100 million, around R\$ 30 million or R\$ 35 million each Company, so we probably can have a combo that can provide a Company this size. Not only in Brazil but in other countries in Latin America and this is not going to be pure ERP but can be ERP plus vertical plus Companies that are going to help us in the end of the day to sell more software.

So we are not only looking to Companies in Brazil but outside, but our focus remains to be in Latin America. We do not relieve at this point in time going outside of Latin America and being well succeed in an acquisition.

Although as you may remember we are going to start in the 2Q a Company in Portugal, at this point in time we have a distribution system in Portugal with our RM Sistemas, and Portugal, given the advantage of the language, we are going to be there.

The second thing, in terms of debt, we see that we are in a certain size now that we can go for the right thing in terms of debt and equity on the transaction. So, probably two or three years ago we would be more radical in not going for any kind of debt but this point in time we see that we can analyze a balance between debt and equity if we have the right project in our hands.

Francisco Sersalhe:

Thank you.

Operator:

Thank you at this time I would like to turn the floor back over to management for any closing remarks.

José Rogério Luiz:

Again, thank you very much for the opportunity to be with you this afternoon. Myself and my colleagues, we have been very happy, again we do understand that we had a very solid 1Q with a solid growth in terms of revenues and in terms of license. Maintenance has grown in a very good speed which means that we have been able to retain and to be attractive to our clients and at the same time we had this consistent growth in our margin with EBITDA reaching almost R\$ 21 million and our margin of 20.7%.

That is why we are scanning the market now, that we are changing our long term guidance that between 2009 and 2011 we should have our EBITDA margin between 22% and 25%. This is important, this is consistent, and we hope to talk to you in the near future with news. Thank you very much.

Operator:

Thank you. This thus concludes today's conference call. You may disconnect your lines at this time and have a wonderful day.