

Operator:

Welcome, everyone to TOTVS' 1Q06 results conference call. Today with us we have Jose Rogerio Luis, Vice-President and IRO, 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'll turn the conference over to vice-president and IRO, Mr. José Rogério Luiz, who will begin the presentation. Mr. José, you may begin your conference.

José Rogério Luiz:

Thank you, Vanessa.

Good morning! First of all I'd like to welcome you to TOTVS 1Q06 results conference call.

As it is our second conference call with the market, it's important to make clear that the company's intent is to always keep an open communication channel with investors and analysts.

So, again, good morning. We'd like to thank you all for attending TOTVS first result conference call. This is a moment of great satisfaction for the company and we are very excited about bringing another positive quarter results to the market.

I would like to point out that an interesting point is that all information of this first quarter of 2005, mentioned in this edition, is pro forma information that includes Logocenter's January 2005 data. None of the information in this presentation contains RM Sistemas data.

So, I'd like to invite you to go to slide number 2 with some quarter highlights, talking about the financial performance. We had a very positive quarter. We had a net revenue growth of 21.6% in the quarter, with net sales reaching more than R\$ 62 million, while gross revenues almost reached R\$ 70 million in the quarter.

Even more impressive was the EBITDA growth reaching R\$ 11.1 million, or almost 37% superior to the 1Q05. This, not taking in consideration the IPO costs of about R\$ 24.8 million.

It's very important to remember that, as we discussed in our Road Show in the IPO the small and middle market in Brazil has a strong seasonality and this is a fact in IT, this is a fact in the RPs business and this a fact specially in the small and medium companies. So, I would just like to state the fact that by multiplying the 1Q06 results by four can mislead you to a wrong conclusion, due to the seasonality.

In terms of EBITDA, this is important to mention that we reached a margin of 17.8% compared to 15.9% in the 1Q05, or this is almost a 12% growth in the period.

Other things that are important to mention is that the expansion of our TOTVS installed base in 15.3% in comparison to the 1Q05. Or, we had 204 new customers in terms of software in the period. A set of 177 new customers in the 1Q05. That means that, an average of almost 70 new clients every month in the 1Q and this leads us to a certain running rate of more than 700 new clients per year.

Also, another important thing to say is about the corporate model sales kept a high level of acceptance, representing more than 28% of the new customer sales or more than 10% p.p. more than the 1Q05.

In terms of capital market we know we had IPO in March and yesterday we closed...we saw the price of our shares in R\$ 41.79.

So, moving to page three now. This is basically offering summary of our IPO and with this offering summary the IPO we were able to raise R\$ 460 million and the net amount within the company was around R\$ 267 million.

Nowadays, TOTVS has a free float of almost 57%, and the shareholders are still in the lock-up period.

Moving to page four.

During the quarter our board of directors received two new members. Nowadays, we have Mr. Laercio Consentino as the chairman of the board and CEO of the company. We have Marilia Rosa, the vice-president of the board. We have Patricia Tulan and then we have Mr.:

- Helio Villarim, an executive from BNDES, the Brazilian development bank, which is one of our top shareholders. Mr Helio has a long experience within BNDES and it's a part member of other boards, as you can see. And we also have Mr:
- Pedro Passos one of the founders and the conductors of Natura group as you may know, and Mr Passos is leading our board as well.

So, some important things to say is that, nowadays, we have four board members that are external in a total of five. And this is the way that we do things here in TOTVS. In the next five years, more than 70% of our board is compound by external members and two of these members, nowadays, they are considered independent in accord to the rules of Bovespa Novo Mercado, Mr Pedro Passos and Marilia Roca.

Helio Vilarim is part of the BNDES, so it's has a minority state within TOTVS and Mr. Patrice Philippe it's an executive of Advent international, a project fund that up to the beginning of 2005 as it was one of our shareholders.

Important here to say that we are constantly concerned with all the corporate models.

Moving to page five. Say something about the market. We are going to start from the next month on to receive more information about 2005 and 2006, but what we have, nowadays, the global IT market, should increase by around 5.5% in 2006 and in terms of application software, 5.9%.

The Brazilian market, according to the preliminary figures, increased by approximately 10% in 2005, and should grow by something around 13% to 14% in 2006. And, again, by preliminary data, TOTVS not only positioned as the largest Brazilian software group in terms of ERP, but also has the leadership in Latin America.

So, moving to page six now and talking about financial performance.

What I would like to really point out here and to highlight is the not only the expansion of the revenues, over 20% in this quarter, as well as the increase of the margin. So, not only the EBITDA growth, but also the market growth. The EBITDA reached almost 37% of growth, from R\$ 8.1 million to R\$ 11.1 million, always excluding the number non-recurring expenses from the IPO and one additional thing that is important, it was the growth in terms of margin from 15.9% to 17.8%. So, it was a 12% growth when you see quarter against quarter.

Moving to page seven. As you can see in the left side of this chart, the EBITDA margin has presented a consistent growth in the last years, as well as, in the comparison quarter against quarter.

I'd like to remember two things. The first is that during our Road Show we presented 2005 excluding the one shot that we had in 2005 and with this exclusion we reached 15.7% of EBITDA margin in 2005.

So, as you can see we have been having a consistent growth in our margins. I'd also like to remember to the listeners, that during our Road Show we told you that our goal was to achieve an annual EBITDA margin between 20% and 25% and this goal should be reached and achieved between three to five years from the date of our IPO.

So, we understand that the currently results and the continuity of several actions that are going under... They tend to lead us in the direction of reaching these goals.

In the right side of the chart, you can see that in the same period the net revenue increased 71.6%, reaching R\$ 62.4 million and, again, this remain as very consistent base of our growth.

Moving to page 8. In the left side of the chart we see the growth revenue breakdown and in this breakdown we can see the yellow part of this breakdown between the 1Q06 and 1Q05 that in terms of license revenue we increased by 13.3%, from R\$ 15.7 million to R\$ 17.8 million. And we understand this growth and this increase. That is explained by some factors. The main factors are:

- Natural Increase in the number of new clients.
- General Increase in the average value of user license sales and one example here is prices among the clients that arrived in our base of clients, the average value of user license sales increased by 28.5% and also,
- Increase of corporate model license sales. The acceptance of the corporative model helped in the sales growth we are extending how we are reaching this market, going for smaller clients with this corporate model.

In terms of services, that we have here in green, services here, in green, we have something that is wrong, in terms of color in the presentation. Green is service, yellow is license and blue is maintenance. So, in terms of the green, services, we see services revenue, grew almost 26% from 26.1 million to almost 12... 26% y-o-y and this was also pushed by, of course, device and sales and the expansion of the corporate model, which naturally led to more implementations and growth on the customers sales, which will require more services.

So, selling more licenses we have the clients asking for more implementation. Selling more corporate model the client, they require additional implementation and even our clients in our base, as they are growing, becoming more complex they require us to implement new models, so they require more implementation.

Service revenue also includes revenue from management consulting, services provided by TOTVS-BMI with posted period gross revenue of almost R\$ 1.4 million. No y-o-y comparison is possible in terms of TOTVS-BMI, as the company was not operating in 2005.

So, one important thing to reinforce here is the revenue increase in terms of maintenance. In terms of maintenance we had a significant growth of 23.1% and this, of course, was not all in terms of the increased sales, but also we improved our clients retention and, of course, the adjustment that we had in the corporate contract. So, every year we update the contracts and this also has affected here.

On the right frame what we have, we have our revenues breakdown percentage in which we verify that the balance presented during the Road Show maintains.

And now, moving to page 9, we can see the left side of the chart, the R&D expenses and we see that they accounted for R\$ 2 million in the 1Q06, so it was more than 18% up than an year ago and this is within our parameters.

In terms of SGA, general administrative expenses that we in the chart in the left in the both sides of this slide, we see that general administrative expenses totaled R\$ 9.3 million, 2.8% down from the 1Q05. This, we understand, is a result of the companies organizational throughout 2005 and the 1Q06 to adjust the administrative cost and to take maximum advantage from the acquisition of Logocenter.

I should tell you that we are also having TOTVS-BMI as they work in our clients, they are also working within TOTVS, in order to upgrade our process and, therefore we understand that we are already getting some benefits from this consulting profits.

In the right side of the chart we have the sum of our costs and expenses and this is, of course, without the IPO road show expenses and we see the 22.5 increase in costs and expenses that can be explained by the increase in the amortization due to the good will of the Logocenter acquisition.

Without this amortization and the depreciation the increase would 18.7%, so lower than we had, in terms of the net revenues.

So, moving to page ten now. As we said in the beginning, it was important during this quarter the number of clients that we had in terms of software, so a grow of 15.3%. As you can see we have lower volumes than we have in the 4Q, and this is explained by the seasonality as we are always trying to point out too.

When you see in terms of the corporate model added 58 new clients in the quarter and jumping from 32 to 58. In terms of the recurrent revenue from corporate model we also had a very significant increase of more than 100%.

Moving to page 11, now, what we have is that in general way the quality of the new sales has been more structured than it was in the past. So, we have been able to sell more to the clients in the first ways of their... that they're buying to us.

This is also represented, if you see the right side in the up of the slide, you see the license fee in terms of the new corporate model client. The observed drop of 16.2% in average license sale value from the corporate client was due to the extension of the corporate model to the smaller client.

Let me explain that. During this quarter, the corporate sales, model was R\$ 1.8 million, almost 52% higher than 1Q05 that was something like R\$ 1.2 million. So, if the volume increased by the average license sales value decrease, the mean is that we've been able to have the corporate model well accepted by the market and even the smaller companies are going to this model. In our case, we see this model as a positive thing, because this is bringing to TOTVS a recurring revenue in terms of license fees.

Moving to page twelve, we have here a picture about what is going on since we got public in terms of our shares. As you can see, we've been having a very solid growth in relation to the whole market. And you can see here in this presentation, also, that we've been having a good amount of daily trade volume.

Moving now to page 13, I'd like to go back to one of the main slides that we used during our IPO road show. This is a way to tell to you 'look, we'd like to visit you, we show something that we have in our plans' and this is like telling to you now what we've been doing.

So, you remember that we put as our strategic goal to be the natural choice for software management support for companies in Latin America and we had four main aspects like to strengthen our dominance in the small and medium business; to get even, in terms of specific models, in the high end, and in terms of the people in management consulting; and expansion in Latin America that we should go even stronger in this point.

And we have all actions in process, ongoing, and, of course, we have a very significant point that we already announced that is the acquisition of RM Sistemas, and also within RM we have an outsourcing company. So, this is also helping us in terms of developing our complementary business.

As we are talking about RM, on page 14, what you see is that RM transaction occurred in the first days of April, but RM was the 3rd largest Brazilian software house in a complementary way to our business, and it was basically the only sizeable company that we had in the Brazilian market in order to fit and to match to our strategy, under the umbrella of TOTVS.

You could see the numbers of RM already in our site, and there you can see that we understand that RM is going to bring – in fact it is already bringing – new positive points to TOTVS.

And, going to the last slide, number 15, this is another slide that I showed to you during our road show; and, especially the right side of this slide, you have the penetration rates of ERP Software per segment. And one question that analysts keep asking to me is "Look, I know that this is the data that you have in terms of penetration, in this market in Brazil, but do you have any idea what is going on in Europe, Asia, or in the US? In other parts of the world?". And we have been trying very hard in order to get some data and, on page 16, we brought from a company called AMI-Partners, from New York, they issued a study in which they showed that in terms of ERP, the penetrated area in the US, in 2004, was around 8% in the low market and 27% in the middle market.

So, having this said, and in comparison with our market, we understand that there is a lot of green field, specially in the small and medium business; this is not the same in the high end and in the highest quartile of the medium market. The board between middle and high end; and in the high end we see a far higher penetration than we have in the small and medium companies. So, therefore, it was a mission that some of you sent to us in order to guess and to get new information in the market. And we are here just showing something that we just got.

So, now I would like to, having concluded this presentation, I would like to thank you again for your attention and turn the floor over for the Q&A. And, again, I just would like to tell you that we are very happy with this 1Q, we are very happy with the IPO per se, and we are very positive in terms of this process with RM Sistemas.

Ricardo Silva, Itaú:

Hello, guys, I have two questions. The first relates to the service margin. If you see quarter over quarter your service revenues have grown kind of 10% quarter over quarter, but your service cost has not grown almost at all. So you have gained some margin in the service. Do you think that you can still gain some more as you optimize the use of your installations workforce, so this is the first question. And if this is valid throughout the year, if you can gain more margin in this business throughout the year.

And the second one is related to your acquisition strategy, obviously RM Sistemas has demanded a lot of energy and I just want to know if you have anything more in the pipeline, if you are working at this point in further acquisitions. Thank you.

José Rogério Luiz:

Ricardo, regarding the second question, in terms of acquisition strategy, during our road show and every conversation that we have with analysts and/or investors, we have been telling everybody, we told everybody that we had a pipeline for acquisitions. Of course, RM was the deal of the problem so it was a very important one. But, of course, we still have the pipeline, but, again, what we understand is that we have to be very mature in the conduction of this process in order to do everything in the right way. So, the answer to you in terms of acquisition strategy, yes, we do have a pipeline, and this is linked to our business model, and enhanced by our complete business model.

In terms of services, of course we are always working in terms of services to increase the margins, certainly there are some aspects that when you have an excessive growth in terms of services you have to hire and train people before getting all the revenues from the services.

But, I would like to ask you to do two exercises. The first one, if you see and you have the columns in our release, if you have the 1Q06 and if you make a comparison with the 4Q05, you can see that we had an increase in sales of around 12%. And then, when you go to costs, you are going to see that we have an increase in costs in 2.4%. So, we already worked on it.

And, then, you can ask to me: But, Rogério, you have revenues from TOTVS BMI, as services in the 1Q06.

And I am going to do another exercise. Let's take around R\$ 1.1 million as revenues of services of TOTVS BMI in the 1Q06, and I am not going to take out any of the costs. Just doing this exercise you will see that even taking out the

revenues from TOTVS BMI we are going to grow at least the double of the costs in the 1Q of this year in relation to the 1Q05.

So, we are working very hard in order to enhance our margins in terms of services.

Ricardo Silva:

OK, thank you very much.

Tony Pang, Lusight Research:

Hi, good morning. My question is really your acquisition issue. So, according to the news, you said, you are going to keep your two quarters operations separate. So, what is the energy, or synergies coming from the competition landscape in Brazil and in Latin America? Thank you.

José Rogério Luiz:

The first question I got, about the synergy; the second question, could you repeat please it?

Tony Pang:

Comment about the competition landscape in the market.

José Rogério Luiz:

The first thin, about the synergies, as we did with Logocenter, once we have TOTVS as an umbrella and it is responsible for strategy, coordination, back-office, and technology. And then, the synergy that we are going to get from getting separate is exactly the synergy in terms of technology, in terms of back-office, in terms of havin gone single structure that can hold the main strategy to everything. As you can see, this has already provided some results, and good results in the case of Logocenter, we are already working very hard in terms of getting the right synergies in the case of RM.

This is exactly what we said during our conference call where we announced RM. RM brings to us some complementary things, even in the administrative area. So, we understand, as we can get the synergies in terms of contracts in relation to service providers, including advertisements, including marketing expenses, and other providers like auditors, because then we are going to have one simple guy providing services for the whole structure. And this is going to bring additional synergies.

In terms of competition, again, we see a tough competition in the high end, in the borderline between the middle market and the high end that is really not the case from the international in the case of the small and medium businesses. In the small and middle businesses we face the competition of local companies; we have a very fragmented market here in Brazil, as well as in Latin America, and we see regional guys instead of companies covering the whoel country.

And, so, as this point in time, we see this picture in terms of competition and we understand, what we are providing to our clients, to our potential clients is a group that is composed by good trademarks and companies, and they are under a stronger umbrella. So, we think that we are well-positioned in relation to competition.

Tony Pang:

OK, sorry, just go back to the first question. So, it sounds to me like you are integrating two companies' operations, right? Because according to that Bloomberg and yourself say that you will keep two companies separate and brands separate. So, that is not true?

José Rogério Luiz:

Here, of course we keep brands, we keep developers, we keep sales distribution and implementation in separate. So, each brand and/or company has one single structure, their own structure. What we have as synergy, as a TOTVS structure, back-office, we have a technology, and all the coordination of the projects. We know that this used to be not usual in our industry, but we, in the last 8 months, or starting in 2005, we have been thinking that even the world's largest corporations like Oracle instead of putting everything into a single trademark is keeping the trademarks and the structures, in some cases, separate. So, this is the way we are doing here. Is it clear?

Tony Pang:

Just one more thing, when do you see this integration process finished, this acquisition completed?

José Rogério Luiz:

Look, we always put here in our (40:34 xx) acquisition integration platform, as process that we have here, we put up to 12 month sin order to put the most difficult thing that is technology; but the other synergies we are working to get in a timeframe lower than 12 months. But, again, I would just like to reinforce to you that the client of RM Sistemas, as well as the clients of Logocenter and Microsiga, they are going to remain having the products of RM, Logocenter and Microsiga.

Tony Pang:

All right, thanks.

Operator:

Thank you, I would like to turn the floor back over to Mr. José Rogério Luiz for any closing remarks.

José Rogério Luiz:

OK, again, I would like to thank you again for your presence here. Thank you very much for your interest in TOTVS; we are very, again, happy with this quarter; we have been working very hard in order to achieve all of our goals, and please, if you have any additional questions feel free to contact our IR department and we are going to be more than happy to answer all the questions, as well as having the opportunity in Brazil or other areas of Latin America where we have out units, please, feel free to visit our company. Thank you very much.

Operator:

Thank you, this thus concludes today's TOTVS conference call.