



**1Q15 Results Conference Call**  
**(Translation of the Portuguese Conference Call)**  
**TOTVS (TOTS3 BZ)**  
**May 7th, 2015**

**Operator:**

Good morning. Welcome to TOTVS's 1Q15 results conference call. Today we have Mr. Alexandre Mafra, CFO, and Mr. Gilsomar Maia, IRO and Corporate Finance Officer.

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 [ir.totvs.com](http://ir.totvs.com).

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's 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 make these results differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Alexandre Mafra, who will begin the presentation. Mr. Mafra, you may begin the conference.

**Alexandre Mafra:**

Good morning everyone. Thank you for participating in the 1Q15 conference call.

Starting from slide 2, I would like to talk about the main events that took place since the disclosure of the fourth quarter results.

The first one is the acquisition of Neolog, a company focused on developing software solutions in the SaaS model for the Logistics and Supply Chain Management markets. Its solution aims to reduce costs and better match resources for clients throughout the whole supply chain.

This acquisition is also part of our specialization strategy and reinforces our position in the Logistics sector, adding Neolog's solutions and business know-how which allow us to explore opportunities to optimize costs and increase efficiency in key sectors of the Brazilian market.

The second event is the launch of Fly01 platform with Redecard which aims to expand the penetration of management solutions in the micro enterprise market.

Fly01 is a complete cloud-based management solution available through monthly subscriptions, which has no need for investments in infrastructure, as it is sold in the form of apps available at the platform store.

The platform is present in the market initially through three complementary offerings:

- (i) The e-commerce solution from Ciashop, which enables entrepreneurs to set up a virtual store in few minutes, already adapted to use Rede's means of payment;
- (ii) TOTVS Series 1 management system, with automatic reconciliation of receivables originating from Rede's system;
- (iii) mobile POS, that will allow entrepreneurs to get a consolidated view of their business in both the virtual and physical stores.

The third event is the dividends payment, approved at the Ordinary and Extraordinary Shareholders' Meeting held on March 30th, 2015, of R\$124.368 million, corresponding to R\$0.77 per share.

And the fourth and last event is the new share buyback program approved at the Board of Directors' meeting held on February 27, 2015, in the amount of 1.6 million shares, equivalent to 1.0% of the Company's total stock. The program's main purpose is to meet the stock options plan.

Now I invite Maia to comment on the quarter results, starting from slide 3.

**Gilsomar Maia:**

Thank you Mafra, good morning everyone.

Before entering in the financial comments, I would like to remind you that, as mentioned throughout 2014, from this quarter on, we will be providing some new breakdowns of revenues and costs.

In revenues, the subscription line was added, which comprises commercial models in which there is no ownership transferring of license fees.

The amounts presented in this line were reclassified mainly from license fees and, to a lesser extent, from maintenance and service lines.

In costs, we added a new line for the software technical support conducted by telephone and/or Internet, which was previously part of the cost of services.

With these new breakdowns, we could also provide the contribution margins of software and services businesses.

On slide 3, we see that total revenue grew 6.3% year on year and 0.7% quarter-on-quarter.

This chart presents the revenue breakdown between recurring and non-recurring and shows that the growth of total revenue came primarily from recurring revenues, which grew 11% year-on-year and 3% quarter-on-quarter.

It's worth noting that, this growth of 11% is higher than the 4-year CAGR of total revenue and the recurring revenue represented 60.7% of total revenue, the higher recurring level ever achieved by TOTVS in a quarter.

In addition, from the R\$278.4 million of 1Q15 recurring revenues, over 90% are software revenue.

On slide 4, total revenue is broken between software and services businesses.

Service revenues grew 8.3% year-on-year. When analyzed by working day, service revenue grew 11.4%.

Software revenues accounted for 70% of total revenue and grew 5.5% year on year, below the 11% growth in total recurring revenue mentioned in the previous slide.

On slide 5, we note that recurring revenue from software, which is the sum of maintenance and subscription, grew 11% year-on-year.

Maintenance revenue increased by 3.5% quarter-on-quarter. Year-on-year, this line increased by 7.4%, exceeding by almost 2 percentage points the average 12-month IGP-M from April 2014 to March 2015.

This maintenance performance is even more relevant when taken into account the 10% decrease in license revenue.

Approximately 2/3 of license sales on the 1Q15 were due to existing customers. These sales fell by 4.6% year on year, mainly due to the 12% reduction of the incremental license fee of the corporate model in 1Q15, reflecting the slower pace of economic growth in 2014.

Slide 6 illustrates the transition that the Company's revenue model is undergoing, especially when compared to the growth of license fees and subscription.

While subscription increased 47% year-on-year, license revenue decreased 10%.

The customer addition of both models helps to understand the decrease in license and the increase in subscription. Year-on-year, License sales had less 189 customers than 1Q14. On the other hand, subscription sales had more 262 customers than in 1Q14.

Since the subscription revenue is still lower than license revenue, the positive effect of subscription is still not enough to offset the negative effect of the license decrease in the composition of total revenue growth, especially the revenue deferral effect that the subscription model has.

On slide 7, we can see the impact of this revenue model transition on the software contribution margin to the extent that the reduction of short-term revenue growth reduces cost dilution, especially in cost of support and in research and development.

Even with this transition in course, we see the software business sustaining a relevant contribution margin. In the medium to long-term, the higher level of recurring revenue tends to positively impact revenue and contribution margin of software.

Moving to slide 8, we have the service margin contribution. Quarter-on-quarter, the service margin has strongly recovered, mainly because of the additional costs of lay-offs that occurred in 4Q14. In the last 12-month period, service margin remained stable, but the year-on-year comparison shows that we are able to be more efficient in this business.

Now I return the presentation to Mafra, who will continue from slide 9.

**Alexandre Mafra:**

Thank you, Maia.

In this slide, we present the selling and administrative expenses of the period.

The first group, related to sales and commissions expenses, decreased by 30 bps in 1Q15 compared to 1Q14, as a percentage of net revenues. Compared to 4Q14, these expenses increased 130 bps, mainly due to: (i) the investments in training of the sales team to sell subscription to small and medium companies; and (ii) the change in the sales mix, both among franchises and own branches, as well as among client size, which impacted the commissions expenses.

Next, the group of administrative expenses and management fees, which reduced its participation on net revenues 20bps quarter on quarter, mainly due to the lower provisioning for bonuses related to financial and individual targets of our executives, and to the provisioning for stock option plan. In the last 12 months, this group remained stable, mainly due to the merger of the administrative teams of the acquired companies.

Then, advertising and marketing expenses grew 50 bps year on year and decreased 50 bps quarter on quarter, as a percentage of net revenues. This variation in the growth pace of expenses is mainly explained by the atypical distribution of these expenses in 2014, due to the soccer World Cup in Brazil.

Lastly, allowance for doubtful accounts reached 1.8% of total net revenues, the same level as in 1Q14. In the last year, the Company adjusted its credit policy and maintained its efforts to recover provisioned credit losses, driving this line down to 1.5% in the last 12 months. The Company will continue these efforts over the course of 2015.

On the next slide, we present the EBITDA margin, which ended the 1Q15 in 25%, down 150 bps year on year and up 160 bps quarter on quarter. The EBITDA margin increase quarter on quarter was mainly due to the higher contribution margins from the Software and Services businesses and the lower administrative expenses as a percentage of net revenues.

The EBITDA margin management in this quarter was also impacted by some challenges, such as: (i) the 12-month average inflation measured by IGPM, of 3.8%, when compared to the 12-month average inflation measured by IPC-A of 7.5%; (ii) the wage increase of 7.0% resulted from the collective bargaining agreement in São Paulo; and (iii) the 12.4% drop in the incremental licenses from the corporate model.

On slide 11, we present the net income, which totaled R\$70.9 million in the quarter, a 15.1% growth year on year with net margin of 15.4%, that is 110 bps higher than in 1Q14. In the last 12 months, net income grew 16.9% and the net margin was of 15.1%, expanding 120 bps on the 12 months ended in 1Q14.

Net income outgrew EBITDA due to the net financial income of R\$14.657 million in 1Q15, compared to a net financial loss of R\$2.078 million in 1Q14, reflecting mainly (i) the higher financial results, driven by an increased balance of financial investments; (ii) the lower financial expenses in the year on year comparison, resulting mainly from the non-recurring adjustment of the debenture interest provision in the amount of R\$2.807 of the 1Q14; and (iii) the result from the sale of a minority interest in ZeroPaper in January, 2015.

The net income was also impacted by the increase in the effective tax rate due to (i) an adjustment to the 2014 income tax provision related to TOTVS' subsidiaries; and (ii) the smaller share of R&D projects eligible to "Lei do Bem", in relation to Earnings Before Taxes.

On slide 12, we present the cash growth of the period, which amounted to R\$733.6 million, with net cash of R\$90.5 million.

The cash growth of R\$35.7 million was mainly driven by:

- (i) the operating cash flow of R\$84.7 million, corresponding to 119.5% of net income;
- (ii) the investments of R\$10.2 million in fixed assets, mainly related to the acquisition of machinery and equipment;
- (iii) the payment of R\$23.2 million for acquisitions, including the acquisition of Neolog and the payment of previous acquisitions installments; and
- (iv) the payment of R\$19.4 million of interest on equity related to the second half of 2014.

The financial health of the Company is evident here, as well as the ability for organic and inorganic investments in order to strengthen our industry sector approach and technology platform.

Now, I invite you to move to slide 13.

In this slide, we note that the Company's efforts to expand its recurring revenues, especially through the expansion of sales in the subscription model, are already generating results. In this quarter, we expanded the recurring revenues by 11% and subscription revenues by 47%.

TOTVS expanded its EBITDA margin by 160 bps in the quarter on quarter comparison even with (i) the expansion of the subscription model, which tends to negatively impact EBITDA in the short term due to the deferral of the revenue recognition, (ii) the fall in the incremental licenses from the corporate model, (iii) the 7% wage increase in São Paulo, and (iv) the lower number of working days in the quarter.

This result shows that the Company will not lose sight of its cost and expenses discipline, especially in this initial period of greater emphasis on software sales in the subscription model.

It's important to keep in mind that TOTVS will maintain its investments in innovation, specialization by industry sector and quality, because raising the productivity and competitiveness of our clients is also essential to our sustainable growth.

From now on, we are available for the Q&A session.

**Operator:**

Ladies and gentlemen, we will now begin the question and answer session. To ask a question, press asterisk and 1, and to withdraw your question, press asterisk and 2.

Our first question comes from Mr. Daniel Federle of Credit Suisse.

**Daniel Federle:**

Good morning everyone. My first question is about the demand for SaaS. I understand that you are now approaching midsized and large clients and would like to know about the reception for it. I also wish to know if the pricing is more or less similar to what you mentioned in the presentation last year, that R\$ 1 in license would become R\$ 0.55 a year in subscription, whether this was more or less the conversion you estimated and whether you are offering both options or you never place both options on the negotiating table.

And my second question is regarding R&D: do you believe there will be higher demand in the future for it or have things stabilized? Thank you.

**Gilsomar Maia:**

Good morning Daniel. This is Maia speaking. Responding to your first question about SaaS, we do have ongoing demand today and it is stronger in Série 1, especially we have been working on it for sometime now. Perhaps you remember, we started taking about SaaS in Série 1 in late 2011, early 2012, so the process is already in an advanced stage and today we are reaping the fruits of it by taking the subscription model to the rest of the SME market, which is our core market.

This process started recently - end of last year – and we are still conducting training and taking other actions on this initiative at the start of this year. The subscription pipeline for our core market is still in the development and maturation stage and, during the course of the year, we should see further developments in this regard. A few accounts were even signed up involving more traditional clients who earlier used to sign up for licensing.

As for the ratio of R\$0.55 you asked, in general terms, yes, it has approximately been the ratio.

And could you repeat your final question on R&D, because I didn't get the final part of it?

**Daniel Federle:**

Has your R&D spending stabilized or will it increase in the coming quarters because of your vertical integration initiatives in recent years or because of this migration to SaaS?

I'd like to include this follow-up to the first question: can you give us an idea of the growth in new subscription revenue during the year? If we multiply the number of new subscription clients and average daily ticket, you have roughly generated additional subscription revenue of R\$408,000 this quarter.

Will the fourth quarter be stronger than this because there will be large clients or will this growth be slower?

**Gilsomar Maia:**

Daniel, it is difficult to make any inference regarding the fourth quarter or quarter-on-quarter. We expect the efforts being made now to drive the pace of subscriptions and result in new clients with a different profile. This should even reflect in the average ticket from subscriptions.

**Alexandre Mafra:**

Daniel, this is Mafra complementing the answer: I believe that in the current economic scenario, if you have a business proposal that eliminates the need for high initial investment, it should be very well accepted in the future. But we are still unable to forecast how this will play out in the coming months.

And regarding your question as to whether both business offerings are placed before the client, the answer is yes and the decision rests with the client.

**Daniel Federle:**

Perfect. Thanks.

**Gilsomar Maia:**

As for your question on R&D, I don't see any extraordinary factor that could drive up R&D. There could be some volatility in the line between two quarters, which is often due to day-to-day factors such as employee vacation.

Beyond this, due to issues related to M&A. If we acquire any company, it could have an impact on R&D due to the level of R&D spending of the company acquired. But other than this, I don't see any reason for major changes in the R&D spending.

If the subscription model grows at a brisk pace, R&D spending should decline in percentage terms over time because of the process of capturing the monthly subscription fee, for which the same R&D cost is booked, while revenue is deferred over time.

Hence, when there is a convergence of these, we could even have lower R&D in relation to revenue.

**Daniel Federle:**

Excellent. Thank you.

**Gilsomar Maia:**

You're welcome.

**Operator:**

The next question comes from Leonardo Olmos of Santander.

**Leonardo Olmos:**

Good morning everyone. I have two questions. The first is: you commented now while replying to Daniel that R&D would probably decline as a percentage of net revenue, and this quarter it had a slight effect on the income tax rate. I wish to know what rate we can expect in the coming quarters and whether the rate in this first quarter is a good benchmark.

And the second question is about another topic, relating to the corporate segment. Does it have any prospects of recovery in the second quarter? Did you notice anything in April? And do you think the macro scenario will continue to significantly affect this segment during the remainder of the year? Thank you.

**Gilsomar Maia:**

Good morning. Can you repeat just the second question, as I could not hear it?

**Leonardo Olmos:**

Sure. I asked if you noticed any recovery in the corporate segment in April, given that it was weaker in the first quarter, and what are the prospects for it for the rest of the year.

**Gilsomar Maia:**

OK. The increase in licensing in the corporate model is an event specific to the first quarter. The characteristic of the corporate segment is that clients who choose this model have unrestricted use of our system for which they pay annually a sum to cover the incremental license based on their growth the previous year above inflation, usually measured by the IGPM. Now in the second quarter, we would not have the impact of the corporate model on our numbers.

The percentage of R&D in relation to revenue that I mentioned sometime back to Daniel is a more of a medium to long-term outlook. So, bearing in mind that we are in the process of transition from licensing to subscription, which I believe should be gradual, what I mentioned to Daniel now should not happen quickly as it is a question that is related more to scale.

And of course, the effect of booking the revenue has an impact on it to the extent that we expense R&D entirely but subscription revenue comes in over the years. Thus, there is the deferral effect of revenue whose sale has already been booked but not the revenue itself. So, it's basically in this direction.

**Leonardo Olmos:**

I asked mainly because of the effect on the income tax rate.

**Gilsomar Maia:**

I understand. I understand your question regarding income tax rate and about its relation with the share of R&D. The point regarding effective rate probably makes more sense if we analyze R&D in relation to pre-tax profits, and so as it declines as a percentage of revenue over the years, it could possibly have a lower significance on pre-tax profit.

On a quarter-on-quarter basis, there are aspects more closely related to the profile of ongoing projects. Now whether a project qualifies under the "Lei do Bem" depends more on individual analysis of the projects.

There could be some variation between one quarter and another in the year, because if the project qualifies under the Lei do Bem for any benefit, that's one thing; if not, it's a

different story. Therefore, over time if there is a higher concentration of eligible projects that could slightly influence the utilization of tax benefits.

**Leonardo Olmos:**

OK. Thank you for the response and congrats on a more indepth disclosure in your release. We liked it a lot. Thank you.

**Gilsomar Maia:**

Thank you.

**Operator:**

Next question is from Luis Fernando Azevedo from Bradesco.

**Luiz Fernando Azevedo:**

Good morning everyone. My question is about Totvs Ventures. Sometime ago, I remember you made several acquisitions through this vehicle and recently I heard you made a few divestments, one of them, ZeroPaper, was pretty good.

I wish to know your plans for Totvs Ventures going forward. Are you in a phase of divestments or of more acquisitions and where does GoodData fit in this process. Thank you.

**Gilsomar Maia:**

Good morning Luis. Totvs Ventures is the venture capital arm of **TOTVS**. It was created about two years ago. Its focus is truly venture capital. We are minority shareholders. Totvs Ventures is different from any venture capital firm in the market, but if we plan to act as a venture capital firm, then we have to act like one.

Thus, the sale of ZeroPaper, for example, happened naturally as would any investment made by a venture capital firm. What can happen during the year, or rather years, is you make an initial minority capital investment that is focused more on creating an ecosystem of entrepreneurship around **TOTVS** and attract startups to work together

with us but which in the future can become an M&A, an actual acquisition, an acquisition of control or even an absorption of the operation.

ZeroPaper did not reach this second stage and there was an opportunity to sell the ZeroPaper operation by the founders that arose before ZeroPaper transitioned from this stage of being just a venture capital investment to working in our ecosystem to reach a more advanced stage that would justify an M&A by us.

So, since it didn't reach this stage, **TOTVS**, as a minority venture capital investor participated in the sale process and sold its stake.

As for GoodData, it is a very similar situation to the one I described: we are a minority investor, holding interest as venture capital. There are other investors too. Based on what we have been observing, it is a company that has been growing briskly in the U.S., and has the potential to be listed there in the medium term. I don't see any possibility of **TOTVS** considering GoodData as M&A, for example.

Of course, we can never discard any possibility, but today I don't see this happening. So, right now GoodData is a financial investment and sometime in the future **TOTVS** would have the option to realize its investment through an IPO, for example.

**Alexandre Mafra:**

Luis, one more point: our venture capital arm remains active and we continue to seek good investment opportunities and, if necessary, divestment opportunities as well.

**Gilsomar Maia:**

The role of venture capital is exactly what I mentioned in the beginning: we want to develop an ecosystem of entrepreneurs working in the IT industry, who can work jointly with us.

Of course, being an investor, we reap the benefits of these efforts, which is not just a business partnership and the GoodData case illustrates this pretty well: we entered into a business partnership with GoodData that covers the whole of Latin America as we do with any other business partner of ours. At the same time, the venture capital team at **TOTVS** made an investment in the capital of GoodData and so we are reaping the benefits of the business partnership with GoodData and also the benefits as an investor partner of the company in the U.S.

**Luiz Fernando Azevedo:**

Is this symbiosis with GoodData functioning? Are you able to leverage anything here for the local operation in Latin America?

**Gilsomar Maia:**

Yes. GoodData's BI and BA analysis tool is the default Fluig solution for data analysis. It is a cloud solution and is available both as part of Fluig and as a standalone solution. Its appeal, however, has been greater when operated jointly with Fluig. It has served very well during these two years that we have had the business partnership with GoodData. We have indeed received a very positive response.

**Luiz Fernando Azevedo:**

Great. Thank you.

**Gilsomar Maia:**

You're welcome.

**Operator:**

Just reminding that to ask questions, just press asterisk and 1.

Next question from Daniel Federle, Credit Suisse.

**Daniel Federle:**

Thanks for the chance to ask one more question in line with my first question about the acceptance of SaaS, I'd like to know if people to whom you are offering prefer SaaS or if they say "I actually prefer to contract the earlier licensing model"? What are most responses like? Are they about accepting SaaS and find it very good or is there still any resistance? Thank you.

**Gilsomar Maia:**

Daniel, I'll tell you based on our pipeline that we have built so far, because, as I mentioned, the number of accounts we have signed up so far isn't very high, so I don't know if we rely only on them, it will be a representative sample of all that is being done.

But our perception so far has been that subscription has greater appeal, as Mafra mentioned, among smaller companies, which are concerned about better matching their operating cash flows from the daily operations and their payments, and which do not want to make a heavy initial investment.

Of course, the flipside is the software ownership. This is software only as a service and so you pay a monthly fee and use the software without owning it, in contrast to the classic licensing model where you own a licensed copy of the software.

So, there are clients, especially midsized and above, who still prefer owning a licensed copy of the software. I think there's also a cultural aspect that we have to overcome, but which is not that simple.

**Alexandre Mafra:**

That's big news.

**Gilsomar Maia:**

Exactly, but as Mafra mentioned, in an economic scenario such as this, subscription also seems to be a good option for you to prevent some clients from postponing the decision to invest in IT by facilitating their access to the solution at a lower initial investment.

So, in some cases, if we didn't have the subscription option, they would have chosen licensing only, but in others there would either have been a postponement of investment or negotiations would not be progressing the way they are with subscriptions.

So, considering the subscription option, our perception is that some accounts are now open to negotiations and this creates a better outlook in terms of number deals during the year.

**Alexandre Mafra:**

I think, Daniel, that if on the other hand we did not have subscription, we probably would not have signed some accounts. So I see it as an opportunity, a business offering that has its market and this market will expand with every passing day.

**Daniel Federle:**

Great. Thank you.

**Operator:**

Next question from Eduardo Cancian, Banco Votorantim.

**Eduardo Cancian:**

Good morning and thank you for the opportunity. I wish to know your opinion about the market's behavior in the first quarter and at the start of the second quarter. You are present in diverse sectors of the economy. I didn't see the breakdown this quarter though you provided last year.

I wish to know which sectors of the economy have a better share of your revenues, whether you noticed any change in relation to last year and whether the second quarter has been better.

I also feel that the currency exchange scenario is another factor that raises a few questions as to whether any industrial segment can resume growth, given that you have strong presence on the exports side.

**Gilsomar Maia:**

Good morning Eduardo, it's Maia speaking. As for the market, the start of the year was quite difficult and we even commented about it during the call at the end of January to comment on last year's closing.

We have a sales pipeline, but the details seem to make a greater difference and that's giving us more work to close the deals. I believe that when we take a consolidated view of subscription plus licensing, we can see a growing number of clients being added but

this does not mean that the market has improved from one year to the other. I think it's relatively a bit more difficult than in the beginning of last year.

The very corporate model reflects this. Companies in the small and midsize market grew slower last year. Several sectors in particular have suffered more. Currency exchange fluctuation has not affected yet, has not changed the behavior of companies or clients. I think there has been a lot of change in the market; there are frequent announcements of fiscal changes and all this has scared a few companies as well.

That's why when we refer to companies that focus on IT investments and not capex, I think some of them have taken a more conservative approach and have postponed their purchase decisions. We notice that a few sales transactions that would have normally been closed were not. Signing up accounts is being more difficult and that's why subscription, as I mentioned to Daniel now, is being important in some situations to continue negotiations and advance in the account so that we could have a conversion later in the future.

Our practice is to give a breakdown of segments on an annual basis and not on a quarterly basis because it won't be helpful in understanding the performance of segments.

We could have lower conversion in a segment in a particular quarter but this doesn't necessarily mean that the segment is suffering more. At times it could be our very own sales process or it could be the client evaluating the decision to be taken, which could imply in a lower or higher volume between quarters. So, we don't see much use in providing this information and we never wanted to provide it on a quarterly basis.

But looking at what we disclosed in the fourth quarter, we didn't see any major change. What could possibly happen is that currency exchange fluctuation could, over time, help our exporter clients, and on the contrary, I think it could create additional problems for a few foreign competitors of ours in terms of their pricing and cost structure.

**Alexandre Mafra:**

Eduardo, we still strongly believe that software is one of the key levers available to companies to improve control, visibility of results and other things and all this results in improved operating results for them.

So, what TOTVS has been doing through heavy efforts in subscription is that it has effectively rearranged the contracting options so that companies can make this

investment in a better way and, as Maia said, this can better match their cash flows so they can quickly see its benefits. This is a trend that we continue to strongly believe in.

**Eduardo Cancian:**

OK. One more point: the bill to amend the Brasil Maior plan is in the Congress. Is there any possibility that after debate in the Congress, the technology sector - more specifically software which has already increased tax payments – will not suffer from this amendment?

**Gilsomar Maia:**

Eduardo, I see that BRASSCOM as the association that represents the IT sector and companies has joined hands with other associations in a joint effort that also includes employees union because all of them are aware of the important role played by Brasil Maior in the sector in recent years towards improving the business environment and to bring a highly specialized workforce into the formal economy.

As we mentioned and even provided the link to the study conducted by BRASSCOM, the IT sector was not a sector that created a deficit for the government; much to the contrary, and this perhaps makes it difficult for whoever is proposing an adjustment to address individually, but in Congress this issue should be analyzed in-depth.

So, we'll have to wait and see if there will actually be any change. But at least for other bills that the Executive branch sent to the Legislature, the latter has made a few adjustments or even improvements to the bills submitted, from escalation to change of route or changes in certain specific matters.

Thus, the possibility does exist but it's difficult for us to make any prediction.

**Eduardo Cancian:**

Fine. Thank you.

**Operator:**

I would like to turn the floor to Mr. Alexander Mafra for his closing remarks.



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**Alexandre Mafra:**

I would like to thank you all for participating in this conference call and to tell you that we will continue our efforts to increase our recurring revenue while always maintaining our control over costs and expenses, and to increase the efficiency of our operations. Thank you very much.

**Operator:**

That concludes TOTVS' conference call. We thank you all for your participation.