Operator: Good morning. Welcome to the TOTVS conference call to discuss the results of the first quarter of 2017. Today we have with us Mr. Gilsomar Maia, CFO and IRO, and Mr. Douglas Furlan, IR Manager.

Note that all participants will be on listen-only mode during the presentation. After that, we will start the question and answer session for investors and analysts when further instructions will be given. If anyone needs assistance during the call, please press *0 to reach the operator.

The audio is being simultaneously webcast at ir.totvs.com.

Before proceeding, we wish to clarify that any forward-looking statements that may be made during the conference call, related to the business outlook, operational and financial projections and targets of TOTVS are based on beliefs and assumptions of the Company's management as well as information currently available. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and, hence, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors could affect the future performance of TOTVS and could lead results to differ materially from those mentioned in such forward-looking statements.

I will now turn the call over to Mr. Maia, who will begin the presentation. Mr. Maia, please go ahead.

Gilsomar Maia: Good morning everyone. Thank you for participating in our conference call to discuss the results of the first quarter of 2017. Starting on slide 3, where we have the recent events related to the general meeting and TOTVS new campus in São Paulo.

The Shareholders' Meeting held on April 20 was attended by shareholders representing 75.7% of total shares, with 35.2% of total shares being represented via remote voting form. All matters in the agenda of the meeting were approved, of which we highlight:

(i) the unanimous approval of the dividends distribution proposal in the amount of R$7.4 million for the year of 2016, to be paid to the shareholders on May 10, 2017. This dividend amount, together with the interest on equity announced in 2016, totaled R$91.6 million and corresponds to 60% of the net income from the fiscal year of 2016;

(ii) the unanimous approval of the proposed management annual global compensation for the fiscal year of 2017;

(iii) the election of Gilberto Mifano, Maria Letícia de Freitas Costa and Henrique Andrade Trinckquel Filho as new independent members of the Board of Directors, with 70.7% approval of total shares.

Another recent event that deserves to be highlighted is the moving of TOTVS to the new head office in March. In this new campus , TOTVS houses in a single location almost 3,000 employees, who were earlier spread across 7 locations in São Paulo city and the metropolitan region.

The new head office is a technology center specially designed for TOTVS with more than 21,000 square meters, inspired by leading technology companies in the Silicon Valley in California.

Apart from the benefit of concentrating in a single location the Company's development, sales and administrative operations in Greater São Paulo, the new head office has an exclusive area for customer service in an environment designed to provide innovative experience on major technological trends, such as mobility and cloud computing, which are key components in the Company's strategy to promote digital transformation among its clients.

Now, I begin my comments on the results of the quarter on slide 4. It is important to remember that, in order to maintain comparability, the proforma consolidated figures for the 12 months ended in Q116 also include Bematech's results.

In this quarter, net revenue increased by 1.6% year-on-year, as a result of the 8.0% growth in recurring revenue, which corresponded to 64.4% of net revenue in the quarter, 3.8 percentage points higher than in Q116, and of the decrease of 8.3% in non-recurring revenue. In the last 12 months, recurring revenue increased its share of total net revenue by 5.7 percentage points.

When analyzed by business, slide 5 shows that the 5.3% growth in software revenue and 2.8% in hardware revenue positively impacted the net revenue growth year on year. Services revenue reduced its share of total net revenue by 2.5 percentage points year-on-year and totaled R$128.6 million in Q117, the same level of 4Q16.

In hardware, the year-on-year growth is mainly driven by sales of automation solutions in the period, especially Bemacash. It is worth mentioning that the automation solutions growth is a consequence of the Company's strategy of offering solutions that contribute to the more efficient management of our clients' businesses, making them increasingly competitive in their business segments.

In comparison with the previous quarter, the reduction in revenue is mainly a consequence of the seasonality of sales in the period.

In services, the year-on-year decrease is a result of a 1.0% decline in software implementation services, chiefly due to the lower pace of sales observed in recent quarters, and a 20.5% decrease in services not related to software implementation services, mainly reflecting the lower sales of consulting services since 2H16 and the HR BPO operation sold in 2016.

Software revenue in Q117 grew 5.3% year-on-year, 4 percentage points higher than growth in the last 12 months, mainly due to the growth in subscription revenue and the increase in the corporate licensing model, which I will comment on slide 6.

Revenue from the software licensing model, which combines license and maintenance revenues, grew 5.7% quarter-over-quarter, was sazonaly driven by the incremental license from the corporate model, which totaled R$13.9 million in this quarter, 29.5% higher than the incremental license from Q116.

In the corporate model, clients have unrestricted access to TOTVS management solutions, for which they pay an incremental license fee at the beginning of each year based on their real growth in the prior period, which also results in an adjustment in the monthly recurring maintenance fee of these clients.

Thus, this growth in the incremental amount reflects the quicker pace of growth among clients under this model in 2016, especially in the Agribusiness, Manufacturing and Healthcare industries, despite the worsening economic scenario in Brazil and the fewer clients added in licensing model during the period.

Subscription revenue grew 31.3% year on year and 6.7% quarter on quarter, boosting software revenue growth, which grew quarter on quarter for the third consecutive quarter.

This growth in subscription revenue was due to the higher share of sales to new small and medium clients in the last 12 months, especially under the TOTVS Intera model.

It is important to mention that Intera's sales of March did not affect the quarter subscription revenue, since the first billing occurs in the month following the sale.

However, the ARR or Annual Recurring Revenue, shown in the chart to the right of the slide, has captured sales of March, since this very common metric in the SaaS world measures the evolution of recurring revenue over the next 12 months, based on contracts signed up to the end of the period.

In Q1, the ARR of subscription totaled R$280.7 million, 36.2% above the Q116, representing a net addition of R$20.7 million in the quarter.

ARR's year-on-year growth over the last 5 quarters shows that we are evolving in the transition from the licensing to the subscription model, a key element to reach our goal of turning TOTVS into a "Single Subscription Company" and promoting digital transformation in our clients.
In addition to the growth of Intera and Fly01, the ARR growth reflects the migration of 69 customers from maintenance to subscription on Q1 and the acceleration of Bemacash sales in the last quarters, which I will comment now on slide 7.

Bemacash is another initiative from TOTVS to explore Brazil's microenterprise market and is also an entry point to our business solutions, contributing to generate new software sales opportunities in the medium-term for micro-enterprises that become small and medium in the future.

In the quarter, we have sold 1,073 new Bemacash units, despite the negative sazonal effect of sales in this quarter. It is worth remember that most of Bemacash's sales made in recent periods did not affect the subscription revenue yet, since new Bemacash clients become software customers between the 8th and 11th month after contracting the solution, when they start paying for the software subscription.

Now, I invite Douglas, which will comment on software result on slide 8.

Douglas Furlan: Thank you, Maia. Good morning everyone.

Before starting my comments on software results, I would like to remind you that TOTVS' costs and expenses in Q117 were fully impacted by the 6.29% wage increase established by the collective bargaining agreement to São Paulo employees, who represent about the half of TOTVS' total payroll.

In addition to the salary adjustment, the collective bargaining agreement also established the payment, in August 2017, of a bonus equivalent to 10% of one salary with reference date of December 2016. This bonus, in the amount of R$1.8 million, was fully provisioned in Q1.

The software contribution margin for the quarter dropped 210 basis points in comparison to Q116, reflecting the increase in software costs and the higher growth of R&D investments than the growth of software revenue during the period.

The year-on-year increase in software costs reflects basically the share of complementary solutions provided by partners in the period, whereas the increase of R&D investments mainly reflects the wage increases in the last 12 months.

Compared to Q416, the increase in the software contribution margin was mainly due to the combination of the software revenue growth, already commented by Maia, with the reduction in R&D investments, mainly due to the conclusion of innovation projects specifically for the Healthcare segment and Cloud, besides the additional expenses with the restructuring carried out by TOTVS in Q416.

On slide 9, the Q117 service contribution margin increased by 80 basis points quarter on quarter, despite the wage adjustment in São Paulo, mainly due to the organizational restructuring carried out by the Company, which resulted in additional costs with employee termination in Q416 but in reduced recurring personnel expenses in Q117.

In the year over year comparison for Q1 and for the last 12 months, the reduction in service contribution margin mainly reflects the lower allocation of service professionals due to the slower pace of projects sales, as well as the collective wage adjustments made, which were not fully transferred to service projects prices in the period.

Moving to slide 10, hardware result in the quarter grew 24.9% year-on-year, with a contribution margin of 37.5%, 660 basis points higher than in Q116. This growth is largely due to the convergence of price adjustments made by the Company and the FX rate variation in 2016.

In the last 12 months, results from hardware dropped 10.8%, mainly due to the decline in net revenue from hardware, decrease in economic subsidies and the capitalization of R$5.7 million of Bematech's hardware research and development expenses in 2015.

Now to talk about selling and administrative expenses, please move to slide 11.

In Q1, selling expenses and commissions jointly increased their proportion of net revenue by 160 basis points when compared to Q116, and by 70 basis points in the last 12 months.

This increase is due to the change in the sales mix between franchises and own branches, the higher volume of software sales in the subscription model and the adjustments to the compensation model of the sales team in 1H16.

In comparison with the previous quarter, the increase is primarily due to the growth in net revenue from software in the period and the wage increase in São Paulo.

In Q117, general and administrative expenses together with management fees and other expenses reduced its relevance of net revenue by 230 bps quarter over quarter, mainly due to the amount of R$19.7 million added to the provision for contingencies in Q416 and the reduction of the Company's management structure in Q1.

It is important to mention that this block of expenses was negatively affected by the non-recurring write-off of fixed assets in the previous facilities left behind during the migration to the new campus, in the amount of R$1.9 million.

The allowance for doubtful accounts corresponded to 1.6% of net revenue in Q117, the same level of Q416, reflecting the delinquency level seen in the operation during the period.

Advertising and marketing expenses corresponded to 1.7% of net revenue in 1Q17, as against 1.5% in 1Q16, chiefly because the growth in net revenue was lower than the wage increases and adjustments in contracts with suppliers made during the last 12 months.

On slide 12, EBITDA in Q117, adjusted by non-recurring write-off of fixed assets of the previous facilities in São Paulo, amounted R$90.1 million, 48.4% higher than Adjusted EBITDA in Q416, and the Adjusted EBITDA margin was 16.1%, up 510 basis points from the Adjusted EBITDA margin in Q416.

Adjusted quarter-over-quarter EBITDA growth was primarily a consequence of the growth in software revenue, mainly driven by revenues from incremental licensing fees in the corporate model and by subscription revenue, as commented earlier by Maia, and the reduction in G&A expenses.

Year-on-year, even with the software and hardware revenues increase, Adjusted EBITDA declined 21.4%. This drop is mainly due to the reduction in contribution margin from services and the increase in commercial and administrative expenses.

On slide 13, the year on year adjusted net income drop was higher than the drop of Adjusted EBITDA, specially because of the higher financial expenses mostly affected by the increase in the long-term interest rate that is used to update the main financing lines and debentures, and the decline in the financial revenues due to the reduction of the gross cash and debt.

In comparison with Q416, net income growth was lower than the EBITDA growth because of the lower tax rate of Q416 as a consequence of the fiscal benefit related to interest on equity approved in December 2016.

Now I'd like to turn the call back to Maia, to comment on cash flow and debt on slide 14.

Gilsomar Maia: Net debt dropped 7% year on year and 8% quarter on quarter, and represented 1.3x adjusted EBITDA in the last 12 months, same level of Q416.

Free cash flow in Q117 was 31.7% higher than in Q416, mainly due to the 59% decline in the working capital needs and the lower volume of investments in fixed assets. On the other hand, the financing activities used 26% more funds due to the partial amortization of the principal of debentures issued by Bematech in 2014, the payment of withholding income tax on Interest on Capital, as commented by Douglas, and the payments of financial leasing installments contracted in previous quarters, especially related to the investments in the new head office.

In comparison with Q116, free cash flown increased by 690%, mainly due to the 88% drop in working capital needs in the period.

In the last 12 months, free cash flow was positive at R$214 million, compared to a negative free cash flow of R$315 in the previous period, mainly a consequence of the reduction in working capital investments by 64% and the payment of R$474 million in the corporate reorganization with Bematech in 4Q15.

Despite the higher free cash flow, gross cash declined 39% in the last 12 months, mainly due to the start of the amortization in Q415 of the principal amount of the financing line taken by TOTVS from BNDES in 2013 and the amortization of R$48 million referring to the remaining principal of the debentures.

I now turn to slide 15 for my final remarks.

In this quarter, total software revenue accelerated year-on-year growth to 5.3% versus 1.0% in 4Q16. This was the third consecutive quarter of quarter-on-quarter growth, which shows that the transition to the subscription model has already passed the inflection point and established a growth trend in software revenue.

Subscription revenue grew 31% year-on-year and reached R$280 million in ARR, a 36% year-on-year increase, which also contributed to a 7% growth in recurring software revenue in the period.

We are determined to establish a turning point as well as a sustainable growth trend for the Company's profitability, just as we have done with revenue. Thus, the 48% growth in Adjusted EBITDA over 4Q16 should be understood as a sign of our determination.

Now, we are available for the Q&A section.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the star followed by the one key on your phone now. If at any time you would like to remove your question from the questioning queue, press star two.

Our first question comes from Mr. Fred Mendes with Bradesco.

Fred Mendes: Good morning everyone and thank you for the conference call. I have two questions, first regarding the highlight of the results, revenue from the corporate model. I was wondering if you could give a little more color on this impact and also on the manufacturing segment, which you said performed very well. If you could add some color, that would be great, that'd be my first question.

My second question is: how is the competitive environment in terms of SMB, do you see any international player becoming more aggressive or is it more or less the same as what we've been seeing in recent quarters? Thank you.

Gilsomar Maia: Good morning Fred, this is Maia speaking. First, addressing revenue from the corporate model, specifically regarding manufacturing, I think it's interesting to note the healthy performance by both manufacturing and agribusiness, substantially due to foreign trade. Brazil's foreign trade figures for the last few periods have been one of the few good news in our economy and that really impacted these two segments.

Other than that, another corporate segment that also performed well is healthcare, which has been very resilient in these last few periods. It's important to remember that the corporate model has been in force in the company for some time now, for approximately 15 years, and historically it has always fulfilled its role of attracting companies with higher growth rates, which see a major advantage in the corporate model's unrestricted use of our systems and payment of increments over the actual growth of the company's businesses. That's what we saw in relation to the corporate model in 1Q.

Regarding the impacts from this model, I think the most obvious is license revenue itself, but also maintenance, because when we charge the increase from the client, the monthly maintenance fee is also adjusted to the client's new license level.

In the past few years, especially due to all that happened in the economy, we saw clients reducing their size, and when that happens maintenance is also adjusted to the client's new size, and as this client recovers you have an increase in maintenance to capture the recovery made by the client. In some situations, you could even have an increase in maintenance even without charging the increase in license, when clients fail to recover the size they had already paid for in terms of licensing. So, a significant portion of this growth in maintenance in the quarter was also due to this dynamic of the corporate model.

Now, to answer your second question regarding the competitive environment, this has been asked quite frequently in our quarterly conference calls. We don't see any major change in relation to previous quarters. International players have been active outside Brazil, we recently saw the approval of Oracle's acquisition of NetSuite, we've heard comments in the market of their intention to bring the solution to Brazil. From what we know, the solution was originally conceived as an ERP for the cloud. I think their challenge – if this really is Oracle's intention – will be to develop distribution channels, because this SMB market requires a distribution system that is very well aligned with the characteristics of this market. Other than that, I think the competitive environment is pretty similar to in previous periods.

Fred Mendes: Perfect Maia, thank you. If I could just make a follow-up question regarding maintenance. Like you said, and based on what we had here too, how do you see the trend for this line going forward, considering lower inflation, but a churn that, to me, may have already peaked and could start to decline – although it's hard to forecast. But since this is kind of a yo-yo effect, companies shrink then they grow again, could this theoretically have an impact on this line? Do you think we could be more optimistic in relation to this line or do you think the results in 1Q can't be, theoretically, projected for the coming quarters? Thank you.

Gilsomar Maia: What I can tell on this aspect, Fred, is that this increase of approximately 6 million from 4Q to 1Q is very closely related to the dynamic of the corporate model in 1Q. So, it shouldn't be used as the basis for expectations of the pace of increase in maintenance over the coming quarters.

And what you said about the IGP-M, which is the main index for adjustment of maintenance fees, it has been decreasing and that has caught our attention as well, I think it's something we have to monitor throughout the year. I know it's a bit repetitive, but it's important to remember, in a simple manner, that maintenance is affected by three variables: one is churn, where we saw a very slight increase in 1Q, nothing significant, the levels are still very similar to those of last year. Delinquency is another factor that also leads to churn and it's still high. We are already seeing some initial movement by companies to reduce their delinquency levels, but the fact is that delinquency levels are still very high.

The second variable in the equation is inflation, which I just commented, and you're right, this is something we have to monitor throughout the year and see its trend.

And thirdly are new maintenance contracts arising from license sales. I think the beginning of the year still showed a significant year-on-year decline in license sales. We are talking about a decrease of around 12%. But we see slight improvement in the general market sentiment compared to last year, especially the beginning of last year.

We even mentioned that during our 4Q conference call, we get the impression that companies are slightly more optimistic now than in the beginning of the year. So, I'll say once again that license may not fall as much this year as we saw in previous years. There's a chance of a slightly better performance in terms of license, which could contribute to this equation, so we can have a slightly better flow of new maintenance contracts.

That's what I see for maintenance. Maintenance growing at a slower pace compared to this quarter, but we see an improvement in the churn, supported by lower delinquency levels throughout the year, and if we see a slightly more favorable flow of new contracts, this could indeed contribute to the maintenance equation in the year.

Fred Mendes: Perfect Maia, thank you.

Operator: Our next question comes from Valder Nogueira from Santander.

Valder Nogueira: Good morning everyone. In terms of contribution margin from services and hardware, we saw some improvement or stability. Considering all seasonal effects, of course, what do you see, going forward, in terms of trend for these contribution margins? Why has hardware margin been surprisingly good? It has improved a lot faster than the market was expecting, right?

Gilsomar Maia: Good morning Valder, this is Maia. The hardware and services businesses have slightly different characteristics compared to software. Software is, by nature, a very recurring – and consequently resilient – business. Hardware and services are not as recurring compared to software. I think there's a more immediate answer too, that serves as a market thermometer.

In terms of services, we indeed faced some difficulties in past periods, the allocation of our professionals is still at historically low levels, we made adjustments to the structure and, like I said last quarter, this demands a lot of caution to not exaggerate because, first, we need a team of technicians that can deliver the solutions to our clients and serve our client base.

And, second, in case of a recovery in activity, we also need this team to deliver, because building up a service team takes time, it usually takes at least six months, so we have to be very careful with this. The work to be done in services is more closely related to the sale of service projects, especially smaller projects, and that's been the focus of our sales team lately. In my opinion, smaller projects are very aligned with the subscription front, because you have a dilution of the client's expenses.

Another positive aspect for services is that smaller projects help us a get a slightly faster response in terms of results of the services, as larger projects usually require preparation time by the client after the sale of the project, so during this preparation time sometimes you may have recovered the service sales level, but that takes time to reflect on the result. On the other hand, for smaller projects, in addition to fractioning the client's investment level, you deliver faster and consequently improve your team allocation faster and obtain results faster.

Valder Nogueira: Also on this question, Maia, how much was this due to the environment and how much was it due to your operating discipline?

Gilsomar Maia: At this point, I believe operating discipline still contributes the most for us. I think it was a lot more due to the adjustment we made in 4Q, the services we sold in 1Q still fail to reflect in the result of services, we'd have to monitor these results from services throughout the year to see the result of these initiatives, both in terms of sales and of operating adjustments on the day-to-day of operations, reflecting on the result.

Valder Nogueira: In your speech, Maia, you mention twice about tailwind coming from Bemacash, i.e. sales you've made but are yet to generate revenue, and you mentioned an inflection point in the migration to SaaS. What has been pent up here that we can't see? What could be the differential for the various revenue lines going forward? Assuming the economy remaining constant, what is pent up?

Gilsomar Maia: Bemacash, because it combines hardware and software, it suffers an undeniable seasonal impact in 1Q, so what we can see throughout the year is perhaps a stronger improvement of Bemacash over the months, over the quarters, compared to the 1Q performance. So I don't think that maybe this is a very good proxy in terms of sales, what Bemacash sold in 1Q, for instance.

Of course this Bemacash market is very sensitive to delinquency, to unemployment in general. I believe that if we see an improvement in the economic scenario, this too will contribute a lot to this market.

In terms of our SMB, which is our core market, trying to link with the second portion of your previous question, we've had in this last year, especially because of this integration with the Bematech teams, we are starting to see a little of the benefits from working together, i.e. to serve the client with a more comprehensive offering in terms of automation, with both software and hardware. So clients are starting to understand a little better the rationale behind it.

This week, for example, Expo Center Norte is hosting the event of APAS, which is the association of supermarket businesses, the largest supermarket trade fair in the world. We even have a booth there where we are presenting all our solutions for this specific segment, combining solutions from EMS, Bematech, PC Sistemas and all of this integrated, with mobility, self-check-out. I see we have a certain pent-up potential caused by an unfavorable environment in the last couple of years that we can explore, but believe the combination of the solutions of Bematech and TOTVS teams still has some results to show.

Finally, the hardware business, and to answer your previous question more directly now, it changed a lot during the last two years. I'd like to reinforce, once again, the discontinuation of the fiscal printer in markets such as São Paulo, for instance, which changed a lot Bematech's hardware profile, and after the combination with TOTVS, we've been focusing a lot on the development of business solutions.

The hardware business today, even after all this change in terms of the fiscal printer, which was by far the most profitable product in Bematech's portfolio, we see a very consistent recovery, of margins too, an increase in sales. But that is in terms of the hardware product mix being much less dependent on "fiscal issues" and a lot more related to actual business solution of clients.

Valder Nogueira: OK, and how about the SaaS inflection point?

Gilsomar Maia: In terms of inflection point, our perception here is that the change in the model has clearly "added more than it has deducted" from software revenue. We've already seen it, the first sign was in 1Q, when we had quarter-over-quarter software revenue growth. This happened again in 4Q and confirmed now in 1Q.

So, this provides us with the elements to show we've already crossed the inflection point of revenue, which has not yet materialized, but it has consolidated as an inflection of the behavior of bottom line, and that's what we pursue.

So I think this is another aspect that is pent-up and even a connection with our guidance for EBITDA, it has an evolution to be captured over the year of EBITDA margin, in nominal terms. So, this inflection is another aspect we have to stay alert for throughout the year.

Valder Nogueira: Thanks Maia.

Operator: Our next question comes from André Baggio from JP Morgan.

André Baggio: Good morning Maia, good morning everyone. Maia, as a follow-up to Valder's question, when you say that SaaS has helped, I think it's helping revenue, how would SaaS help margins?

Because SaaS, from what I understand, does not affect costs, so SaaS mainly affects revenue and if it's already helping revenue, shy hasn't margins passed this inflection point yet? Or are there other leverages other than SaaS that will help you in terms of margins?

Gilsomar Maia: Good morning, Baggio. Look, the explanation for SaaS is basically related to the trend of revenues and expenses. Historically, we've always had some important growth in terms of costs, but software revenue has always increased well and usually outpaced the growth in costs.

As we entered this change in model, it started to significantly compromise revenue growth, but like you said, costs continued "to evolve normally". So, there was a great mismatch between the trends of costs and expenses with top line.

As we switched the model, as the transition to SaaS starts to add revenue back to us, we can aspire to a condition of resuming the company's traditional behavior, where we'll see revenue growth more in line with the increase in costs. So that's how SaaS will contribute.

In the quarter, I admit it's hard to see that, Baggio, because it's impossible for SaaS in a quarter to offset wage increases of 6.3, 6.29, like we had. So, if in a given quarter half of my payroll increased by over 6%, it's impossible for SaaS to offset all this variation in a single quarter.

We also had the wage increase that was provisioned for entirely this quarter. So, I think it'd be unfair to say that subscription didn't at least start to contribute to this recovery, because there's clearly a pace, a different behavior. The adjustment of costs is more concentrated in 1Q than in 4Q, while revenue, especially recurring revenue, is more evenly distributed. So there has always been this mismatch and when we switched the model, it became more intense.

André Baggio: Just one more question about hardware. The average USD FX rate was lower than last year, has this been contributing to hardware margins?

Gilsomar Maia: Look, Baggio, what we did last year was to guide ourselves by costs, obviously impacted mainly by the USD, to adjust the sales price. Today, the price we are asking is adequate for this level of the USD we have now. If we have any significant fluctuation in the USD from the current level, prices would inevitably have to be revised.

But today, the price we are asking is adequate for the current level of the USD. So if the USD hadn't weakened, what would have we done? Made further adjustments to the sales price, that's basically what happened.

I'm not sure I adequately addressed your question.

André Baggio: Yes, it helped a lot, thanks, Maia.

Gilsomar Maia: Have a good one.

Operator: Our next question comes from Susana Salaru from Itaú.

Susana Salaru: Hi, good morning everyone. Our question is regarding the progress made in the integration with Bematech. How was the conversion of retailers in 1Q, and is it in line with the expectation for the year, to convert around 2,000 retailers? That is my first question.

My second question is the same regarding guidance. We have the guidance of EBITDA for the year, we believe EBITDA was good in 1Q, so we have an initial expectation that the guidance for the year could be exceeded. Thanks, guys.

Gilsomar Maia: Good morning, Susana. Speaking of the progress of retailers, yes, it's in line with our plan. At the end of last year, we had more than 300 retailers of Bemacash, our target is to close this year with close to 1,000 retailers, not 2,000, but 1,000 retailers.

In 1Q, we already expected the number not to grow so much compared to the previous quarter, because this isn't typically a very demanding market in the beginning of the year. We are very aligned with our plan so far, actually up on it, but not very significantly from 4Q until now, but our plan now for 2Q and 3Q, especially, is to accelerate the growth in retailers. So, for now, I believe this is very much in line with our plan.

Your second question, regarding guidance, today I have to be careful to talk about exceeding it, because we provide an EBITDA range, with an EBITDA very close to what we delivered last year, from 359 to 395, which would represent a 10% growth on last year's EBITDA.

Internally, we believe it was a very good start of the year relatively, we are starting the year on a better foot, and I think it's still too early to talk about change. There's an aspect that I think everyone is following closely, which is related to the increased tax burden on payroll as of the second half of the year, which is a component that is affecting the cost structure of more than 50 sectors. Our segment especially still has some level of interaction with the government to explain a little about the rationale that was developed back then, because, in fact, there was an increase in tax revenue, an increase in labor in the technology sector.

And there's the whole rationale that makes a lot of sense for this segment, both from the perspective of tax authorities and of the sector itself, when we think about global competition. In our heads, it doesn't make sense to tax production of technology, but to tax consumption instead, because technology is in fact a global market and you have the consumption of technologies developed aboard and consumed domestically, and if you tax development, you'll be encouraging development abroad, and creating an encumbrance for domestic players.

So, this is an ongoing discussion. Maybe it will lead to a change down the road, but if it doesn't occur, I predict a movement, not only by TOTVS, but by the market as a whole, to adjust prices. I think that's what we have to stay alert to and what makes us more cautious as to how our result will evolve over the year to meet this guidance range. I wouldn't talk about changing or exceeding that.

Susana Salaru: Perfect, very clear, thank you Maia.

Gilsomar Maia: You're welcome.

Operator: As a reminder, if you would like to pose a question, please press star one. Once again, to pose a question, please press star one.

Our next question comes from Valder Nogueira from Santander.

Valder Nogueira: Since no one is asking, I will. What is the status of discussions regarding the tax burden on payroll? What is the status? What angles could make the market a little more optimistic regarding this upturn in payment and if could not be as high as everyone is predicting?

Gilsomar Maia: Valder, the discussion is quite complex. You've probably read about it, three weeks ago - if I'm not mistaken – there was a press conference with Abrascom and some companies in the industry. Laércio was there, together with Stefanini, BRQ and other important companies in the industry.

It was a kind of a manifesto of the industry as a whole against this measure, because like I just told Susana, it's a measure that doesn't make sense even from the tax revenue perspective, much less from a business rationale perspective.

Like I said, taxing technology development instead of taxing technology consumption is counter intuitive. If we consider that technology is moving more and more towards automation, the internet of things, human intervention tends to play a less relevant role in the composition and cost structure of companies with the technologies of the future.

So, even from the viewpoint of the tax authority, taxing payroll will go in the opposite way of this technology trend. We are seeing more and more robots, checkbox doing customer service work. So, software, technology becoming an increasingly important part of all businesses, and with a decreasing level of human interference, it doesn't make sense.

Of course, because of all the budget complexity the government is facing the complexity of the debate on how to conduct the fiscal adjustment among congressmen, it's not a simple agenda. But it's being conducted very technically, grounded on data, providing the executive and legislative branches with concrete data on tax revenue and job creation in recent years.

And what we've been trying as an industry is actually to raise awareness to show that the measure is wrong for both Brazilian companies and tax authorities. Contribution to social security is based on the revenue of the companies and from our viewpoint that doesn't make much sense because that's where most of the growth is.

Now, I personally believe this is a tough agenda. We could have the definition of this perhaps in one month, maybe a little but not a lot more than that. Because the decree is effective as of July 1, so there's not much time to discuss, because once the measure is place, companies will adopt their measures to adjust prices, to adjust contracts, otherwise a lot of the companies have already expressed their concern that they'll have to downsize, because they can't offset this cost in their structures.

So, once these measures are adopted through the decree, as of July 1, it will be difficult to turn back later. So, we should see a definition of the scenario soon.

Valder Nogueira: Thanks Maia.

Gilsomar Maia: You're welcome.

Operator: Once again, if you would like to ask a question, please press star one.

We now conclude today's question and answer session. I'd like to invite Mr. Gilsomar Maia to proceed with his closing remarks. Mr. Maia, please go ahead.

Gilsomar Maia: Like I said in my final comments before the Q&A, I'd like to thank everyone for listening to our conference call and to say that we've very focused and determined to create an inflection point in the bottom line. We admit this is not an easy task, more than requiring internal measures from the company, we are sharply focused on this objective. Thank you once again for participating and have a good day.

Operator: That concludes today's TOTVS conference call. Thank you for listening. Have a good day and thank you for using Chorus Call.ou for using Chorus Call.