Operator: Good morning. Welcome to the TOTVS conference call to discuss the results of the second quarter of 2017. Today we have with us Gilsomar Maia, CFO, and Douglas Furlan, Investor Relations Executive Manager.

Note that all participants will be on listen-only mode during the presentation. After the presentation, 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. I´d like to start the call on slide 3, where I will talk about the artificial intelligence platform ***Carol***, another step taken to promote digital transformation among our clients.

Launched in June, ***Carol*** is designed to improve ownership of client data and expand the analytical capacity and speed of decision-making process in the face of a growing volume of information. Carol will also serve as a virtual assistant, answering questions and offering business insights.

Using deep learning techniques, neural networks and machine learning solutions, ***Carol*** already offers applications for the Retail and the Education sectors.

For Retail, the first application was developed together with the Bemacash team, using sales data captured through this IoT device and providing clients with information that help them in sales forecasting and product pricing.

In **Education**, algorithms that use internal and external information, such as social networks, were developed in Carol to measure the risk and financial impact of school dropouts, while also recommending actions to mitigate this risk.

Carol is now part of our portfolio as a platform already integrated with our industry management applications, as well as with the ERP, HR and productivity and collaboration platforms. Over the past year, the teams working in the development of these applications and platforms hired data scientists who are developing algorithms in Carol, which are being embedded into the industry vertical applications, many with the participation of clients.

Moving to the second recent event of the quarter, on July 31st, the Board of Directors approved the distribution of interest on equity related to the first half of 2017, in the amount of R$32.9 million, equivalent to about R$0.20 per share. Said interest will be paid on October 6 to shareholders of the Company as of August 3.

Now, I'll start my comments on Q2 results on **slide 4**. In order to maintain comparability, the proforma consolidated figures for the 12 months ended in Q216 also include Bematech's results.

Net revenue this quarter grew 1% year on year, resulting from the 8% growth in recurring revenue and the 10% drop in non-recurring revenue, with recurring revenue accounting for two thirds of total net revenue in the quarter, 4.3 percentage points higher than in Q216. **In the last 12 months, recurring revenue increased its share of total net revenue by 5.4 percentage points.**

When analyzed by business on slide 5, we see that the growth in software and hardware positively impacted the year-on-year growth in revenues.

In hardware, the year-on-year growth of 3.5% was driven by a 9% growth in sales of non-fiscal solutions, which accounted for 75% of hardware revenue in the quarter and more than offset the 7.6% decline in sales of the fiscal hardware.

The growth of non-fiscal solutions is a consequence of the Company's strategy to offer solutions that combine software and hardware and collaborate towards a more efficient management of its clients' businesses, making them increasingly competitive in their business segments.

The transition of fiscal solutions, before exclusively non-recurring, also creates opportunities for the growth of recurring software revenues.

In Services, the quarter-on-quarter variation reflects the decline in software implementation services at large clients, mainly due to the drop in license sales in previous quarters.

In the year-on-year comparison, the variation was also due to the 21.4% decline in services not related to software implementation, reflecting the lower sales of consulting services since the 2H16 and the sale of the subsidiary TOTVS RO in August 2016.

Software revenue in Q2 grew 6.6% year-on-year, 3.7 percentage points higher than the growth in the last 12 months, resulting from the combination of 1% growth in the licensing model, which includes licenses and maintenance revenues, and the 36% growth in subscription, that I will now comment on slide 6.

The licensing model moved from 84%-share of software revenue in Q216, to 80% this quarter. This drop is a consequence of lower license sales and factors that also negatively affected maintenance revenue, such as delinquency, contract reductions and the decline in inflation, especially in this quarter, measured by IGP-M accumulated in the last 12 months.

Subscription revenue accelerated the year-on-year growth for the sixth consecutive quarter and accounted for 20% of software revenue, up 4.4 percentage points from Q216. In the last 12 months, subscription revenue grew 30%.

This growth in subscription was essentially due to the growth in the number of small and medium clients under TOTVS Intera model in the last 12 months. Note that Intera sales in June did not affect subscription revenue in the quarter, since in this model the first billing is made in the month following the sale, but have already affected the ARR from subscription, as I'll explain on **slide 7**.

ARR, or Annual Recurring Revenue, grew 42% in Q2, reaching R$304 million, a net addition of R$23.3 million from Q1. ARR measures the evolution of recurring revenue for the next 12 months based on contracts signed until the end of the period.

Apart from Intera sales, ARR in the quarter reflected the migration of 27 maintenance clients to subscription, Fly01 and Bemacash sales in recent quarters. In Q2, we sold 1,093 new Bemacash units, which will become software clients as of the 11th month of contracting the solution, when they will start paying for software subscription.

I'll now hand over the presentation to Douglas, who will comment on software results on **slide 8**.

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

Software contribution margin dropped 100 basis points quarter on quarter. This variation was chiefly due to: (i) the increase in software costs, which reflected the share of complementary solutions provided by partners in the sales; and (ii) the stability of R&D expenses, which were already impacted by the provisioning curve of profit sharing in the period.

On **Slide 9**, in the year-on-year comparison and in the last 12 months, service contribution margin declined, essentially reflecting: (i) the lower allocation of service professionals due to the lower sales of projects; and (ii) the wage increases in the last 12 months, which were not fully transferred to service prices.

On **slide 10**, hardware gross margin grew 430 basis points year on year and 250 basis points in the last 12 months. The growth year- on-year and in the last 12 months is mainly due to the combination of price adjustments and the effect of exchange rate on costs.

The year-on-year growth in hardware contribution margin was lower than the gross margin growth, essentially reflecting the reduction of government subsidies in the quarter.

This reduction in subsidies was due to: (i) the change in the sales mix; and (ii) the reduction in presumed ICMS credit calculated in the quarter due to the higher increase of hardware components acquired, when compared the sales growth.

For comments on the main selling and administrative expenses, please move to **slide 11.**

In Q2, selling expenses and commissions jointly increased their share of net revenue year on year, mainly reflecting: (i) the change in sales mix between franchises and own units; and (ii) the higher volume of software sales in the subscription model. Compared to the previous quarter, the decline in the share is mainly due to the drop in licenses.

G&A plus management fees and other expenses reduced their share of net revenue quarter over quarter.

This decrease is mainly because of the reversal, in the amount of R$4.3 million, of the provision for contingencies related to the payment of PIS and COFINS made through judicial deposits by Bematech due to the inclusion of ICMS in the calculation base of these contributions.

This reversal follows the recent Federal Supreme Court (STF) decision determining the exclusion of ICMS from the calculation base of PIS and COFINS.

Advertising and marketing expenses corresponded to 2.4% of net revenue in Q2, as against 2.2% in Q216, because the growth in net revenue was lower than the wage increases and adjustments in contracts with suppliers.

Compared to Q1, the share increase in is mainly due to the seasonality observed in marketing investments.

On **slide 12**, adjusted EBITDA in Q2 totaled R$82.0 million and adjusted EBITDA margin was 14.9%. The quarter-on-quarter decline in adjusted EBITDA and adjusted EBITDA margin was due to lower software result in the period, mainly caused by the reduction in license revenue because of the incremental revenue from corporate model charged in Q1.

Year-on-year, the decline in adjusted EBITDA was essentially due to the reduction in services result and the increase in selling and administrative expenses.

On **slide 13**, the steeper year-on-year decline in adjusted net income than in adjusted EBITDA chiefly resulted from: (i) the increase in depreciation and amortization expenses, especially due to the start of assets depreciation of the Company's new headquarters in São Paulo; and (ii) the higher share of negative financial result over EBITDA in the period.

I now return the presentation to Maia to comment on cash flow and debt on **slide 14**.

Gilsomar Maia: Net debt corresponded to 1.3x adjusted EBITDA in the last 12 months, remaining unchanged from Q1. Free cash flow was 9.7% higher than in the previous quarter, especially due to the increase in operating cash generation.

Despite the increase in free cash flow, gross cash decreased quarter on quarter, mainly due to the payment of interest on equity and dividends in the second quarter.

Year-on-year, free cash flow grew 34%, as a consequence of higher operational cash generation and less cash used in investing activities.

I will now move to **slide 15** for the closing remarks.

In this quarter, software revenue accelerated its year-on-year growth to 6.6%, 3.7 percentage points higher than the growth in the last 12 months, boosted by the acceletarion in subscription for the 6th consecutive quarter.

Subscription revenue grew 36% year-on-year and already accounts for 20% of total software revenue. Annualized recurring subscription revenue grew 42% in Q2 and exceeded R$300 million, which already corresponds to 30% of the maintenance revenue of the last 12 months.

Non-fiscal hardware solutions grew 9%, contributing to one more quarter of year-on-year growth in total hardware revenue.

Moreover, some of these non-fiscal hardware solutions, such as Bemacash, play the role of IoT devices capturing data used int the development of artificial intelligence algotithms and applications.

Despite the instabilities of the Brazilian environment, companies have been looking for smarter solutions that help them to become more competitive and to make faster and more assertive decisions.

That's why we remain committed to promoting digital transformation among our clients through specialized business solutions and platforms for productivity, collaboration, Internet of Things and now artificial intelligence with Carol.

We are also committed to achieve our goals for the year, both in subscription growth and EBITDA.

We are now available for the questions and answers session

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. Susana Salaru, Itaú.

Susana Salaru: Good morning everyone. My first question is whether you could add some color to the dynamics of the sales cycle on margins. Has there been any change from 1Q or even from 2Q.

My second question is related to software contribution margin. We saw a compression due to the increase in complementary scholarships of partners, which we know happens sometimes. Could you explain whether this was a one-off impact or whether we should expect an increased share of partner solutions? Thank you.

Gilsomar Maia: Good morning Susana, Maia speaking. Starting with your first question regarding the sales cycle, perhaps what was clearest to us in term of changes in relation to 2Q was Bemacash.

Sales volume of Bemacash was negatively impacted especially during April. It was a very turbulent month in Brazil - a lot of holidays, the general strike on the last day of the month, and what we saw was that the performance in April was much below average and below the trend of recent months.

So, when we look at the dynamics for this quarter, we notice it improved a lot compared to the second quarter as a whole.

As for the rest of it, we continue to see very strong consistency for subscription and, indeed, the toughest behavior to predict is license sales. As the subscription model has advanced, it somehow removes sales volumes to smaller clients.

You consume these smaller accounts and what remains, among license sales, are profiles with a bigger average, which have longer sales cycles because they involve more complex decision-making processes, and are consequently more difficult to predict when the sale will be closed in the sales cycle.

So, I think this is a little bit harder for us to comment upon because the dynamic varies a lot from one account to the other. But, generally speaking, even in terms of license, we did not see major changes compared to 2Q, at least not so far.

To link this comment with your second question, about software contribution margin, indeed software contribution margin is connected to these dynamics I mentioned regarding the subscription and license lines.

In my opinion, the recovery and future effective gain from software contribution margin will happen through growth of recurring revenue. Between the quarters, we could see some margin volatility depending on the behavior of these larger license sales, and also because of the maintenance of the IGP-M inflation index, and a slight improvement in the scenario, which could favor the behavior of churn and net additions.

Susana Salaru: Perfect, thank you.

Operator: The next question comes from Tales Freire, Bradesco.

Tales Freire: Good morning everyone. I have two questions. First is regarding subscription. I'd like to know if there's any particular reason for any new initiative by the company to explain the strong revenue growth this quarter.

And also since subscription growth was well above the guidance for the year, could we say that the guidance for the year is on the conservative side or could subscription revenue growth slow down in the second half?

My second question is related to G&A expenses. Even after making the adjustments according to the new provisioning methodology, this expense has increased significantly. Do you have any idea when these expenses will stabilize and when we can expect to see synergy gains from Bematech? These are my two questions, thank you.

Gilsomar Maia: Good morning Tales. Starting with your first question, regarding subscription revenue, we didn't do anything different from what we have been telling you in recent quarters.

For us here, this is really a relation of cause and effect with regard to all that we did in the past two years. In fact, in the second quarter, we completed 2 years of Intera, so it's about reaping the fruit of the work we've done in these two years with the channels, jointly with clients, and the internal training of teams and familiarity.

So, as this whole universe of people becomes increasingly familiar with the solution and the market itself starts to understand better the software subscription model, it's only natural to see it reflect on sales in the format, including with the participation of franchises.

So, there was nothing special that caught our attention here in terms of subscription growth.
Looking at the rest of the year, and in light of what I told you today, we don't see anything that could indicate a significant slowdown in subscription. There's a natural mathematical effect, which is

obviously not related to the short term, which is, as you grow and form an "installed" subscription base, you create a baseline and naturally, over time, the trend is to become harder to sustain the growth rates we've been seeing.

If the subscription business, the subscription model were a company, we see the growth rates of startups in the sector at the global level, and like these startups, after some time they can hardly maintain the same growth pace.

So the trend in the medium and long term is that it will be difficult to maintain these rates of subscription growth, much more due to a mathematical effect than to anything else.

Regarding the subscription guidance for the year, which mentioned growth of at least 30%, we've already achieved that in the second quarter considering the last 12 months. We've achieved the bottom of the range, of 30%. So, linking with my previous comments, we don't have anything today to indicate that we could slow down and cruise until the end of the year, to reach the end of the year with revenue growth in the fiscal year below 30%.

In this context, you could even find the guidance conservative, but note that we established a minimum and not a ceiling for the range. So, I don't see any element that can put at risk this guidance of 30%.

Lastly, to answer your second question regarding G&A, indeed we had in the first half, especially compared to the same period last year, a higher provisioning for contingencies.

If you remember the comment we made late last year, we already said that it could happen, since the adjustment we made to the provision at the end of last year became a recurrent practice over the year, not the adjustment, but the method of calculation itself, so the impact that was only in the last quarter tends to be more evenly distributed this year.

But as you mentioned, even if we exclude this impact of the provision for contingencies, we still see an increase in G&A, which is closely related to the investments we are making in the integration process to capture G&A synergy gains later on.

I've been commenting for some quarters that we're working diligently on the administrative integration of Bematech's operations, which means, among other things, the systems integration of all Bematech operations.

So today we've even had additional IT expenses related to these projects and the natural trend going forward is not to have these additional IT expenses, and to also have the capacity to leverage this administrative structure so it doesn't grow at these current rates, in some cases even outgrowing net revenue.

Tales Freire: Perfect Maia, thank you.

Gilsomar Maia: Thank you.

Operator: The next question comes from Leonardo Olmos, Santander

Leonardo Olmos: Good morning everyone. I wish to know more about the improvement in the working capital, which considerably increased your cash flow.

It's probably still too early, but I'd also like to know about Carol. What are its applications, in which sectors it is being used the most, and how you see it performing in the medium term? Thank you.

Gilsomar Maia: Good morning Leonardo. As for the first question on working capital, I wouldn't perhaps restrict my response only to working capital. You're right, there was in fact an improvement in the management of working capital last year and it's been a day-to-day task.

As I mentioned in previous quarters, the market in general has been witnessing a higher level of defaults compared to our historical levels and this adversely affected our working capital a year, a year and half ago, increasing our accounts receivable and also lengthening the average term of receipts. We have been working intensively on collections.

As we started working incisively on this issue, we have managed to achieve a certain level of recovery. In fact, this quarter specifically, we even had a slightly lower level of PDA and of defaults, because we managed to reverse a few cases.

I still prefer to be cautious on this point, because the overall default scenario in Brazil is not still too positive. And of course, we have the day-to-day management as well. In this quarter specifically, inventory levels at Bematech increased slightly. There's the cyclical aspect to this hardware business, with the operational cycle starting from the purchase, receipt and sale, and though our inventory levels are slightly because the Bemacash sales at this time of the year, it's still better than it was a year ago.

But generally speaking, we can see a substantial improvement in the cash generated from operations, and it's very much a question of discipline in the financial management of cash in the day-to-day operations, and so it's difficult to highlight one specific point. There are several points, which include the level of utilization of tax credits, which we have been focusing on and which ends up as capital allocated to an asset. We have also focused on return on invested capital.

Moving to the second question, on Carol, it is in fact one of the major industry trends globally. This is closely interlinked with a cloud, because as the data is being worked in the cloud, the possibility for this type of technology simplifying a lot.

So, I see artificial intelligence as something favorable for this transition of companies to the cloud because it's in the cloud that you can obtain gains by using this type of technology.

As mentioned in the release, last year we created three teams of data scientists. Today the software, Supply Chain, Professional Services and Consumer towers have data scientists who report to our artificial intelligence center in the US, functionally and hierarchically. They are part of the teams of software towers who are developing algorithms and applications, enriching the existing solutions in our portfolio with artificial intelligence resources.

So the trend is that these data scientists work together with clients on all our verticals, mainly on these two fronts: developing algorithms that do the intelligence work on the behavior of the operation based on data, and this opens up possibilities even for predictive insights.

The example we gave in the call was the educational segment, where you have a business niche, namely school dropouts. Here, technology like this starts to study and identify the standards of behavior, informs the client the level of dropouts they may have and, using artificial intelligence and based on the standards of behavior, suggest actions the company must take to reduce dropouts. It also quantifies financially and provides a series of insights using this technology.

But returning to your question, it has been a difficulty faced by our industry in general. In fact, companies have been saying for some time now about the difficulty in quantifying the financial potential of this type of solution.

Today I think it is still quite premature to talk about it, to say what its boundaries are, because it talks a lot with robotization, the bots. The range of possibilities for using artificial intelligence is, in fact, broad for the entire sector. Hence, I don't have financial data or projections to share with you today.

Leonardo Olmos: OK, thank you.

Operator: Next question from Valder Nogueira, Santander.

Valder Nogueira: Actually Leo already posed the questions, thank you.

Operator: The next question comes from André Baggio, JP Morgan.

André Baggio: Good morning everyone. I wish to know about the behavior of subscription revenue. You reported that you have an increase in revenue per month of around 2 million now, but it was around 1.2, 1.3 in previous quarters.

What is the reason for this impressive growth in subscription revenue per month?

Gilsomar Maia: Good morning Baggio. This point you raised is very important and even converges to that metric of annualized recurrent revenue, which shows what we really have.
It's a point that we have been addressed a few quarters now: By definition in our subscription model, when we make a sale, the billing is done from the following month.

So, in practice, all that we sold in June was not included in the subscription revenue of 2Q. This will be included fully in 3Q, when we have the billings for July, August and September. So, there's this lag of sales in past quarters.

So, as the metric that you mentioned, namely, monthly recurring revenue that we report in the release or the annualized recurring revenue, is higher than our reported revenue, it increases our metrics in the subsequent quarters.

As such, the increase in subscription in 2Q was largely the result of what we sold in the previous quarters. Then there's also the question of Bemacash. The Bemacash that we sell today will contribute to subscription revenue after ten months, so there's a lag also regarding the sale of Bemacash in the previous quarters.

André Baggio: Thanks Maia. The second question is a continuation of what we talked about yesterday. For you to reach the low end of EBITDA guidance for the year, you'll have to considerably improve your margin in relation to the margin in the 1st half.
What drivers are you looking at in the 2nd half that could improve your margin compared to the 1st half?

Gilsomar Maia: Baggio, we have a few here. I'd say the main one, considering the current scenario, we have positive forces in our favor, such as subscription itself. On the other hand, the negative point is the behavior of IGPM, which is well below what we would imagine at this time of the year, especially when we look back a year ago.
I understand your question within this context. On the positive side, now we already know the behavior of IGPM, so we work on containing costs.

If you compare the evolution of software costs between the first and second quarters, we can see our intensive efforts in this regard. Even in a services business, which is still short of what we could, or should, obtain, we can notice that cost management has already brought some results.

So I think in the overall cost management of the company, there's a scenario of IGPM at lower levels, and on the other hand, the full capture in successive quarters of the subscription we sold in previous periods.

It is a combination of these two things: an acceleration in the top line mainly due to subscription sales, and intense cost management.

Other than that, what is related to the question of EBITDA is the hardware operation itself, which has consistently been strong in EBITDA generation. In general, what we see is that even after a very intense change in the hardware product mix, the company has managed to maintain consistency in the top line and also in the contribution margin of this business.

André Baggio: Thank you very much,

Gilsomar Maia: Thank you Baggio.

Operator: The next question is from Maria Teresa Azevedo, Banco UBS.

Maria Teresa Azevedo: Good morning. My questions have already been answered, but I'd like you to shed some light on the competitive environment and how you are positioned in terms of artificial intelligence initiatives compared to your main competitors. Thank you.

Gilsomar Maia: Good morning Maria Teresa. I'll try to guess your question, because the audio quality was not so good. From what I understood, you are asking us about the competitive landscape and how we are positioned in the field of artificial intelligence.

Well, like I just told Leonardo, this is all new for the entire industry. All technology companies that have this strong innovation vein are developing initiatives in this respect. So our main global competitors have all - one way or another – developed artificial intelligence initiatives.

Perhaps the most famous and one of the most traditional would be IBM, with Watson, and more recently SAP made comments - if I'm not mistaken - regarding Leonard, the name of their technology. Microsoft itself has Azure in its cloud, and had already made its assistant and artificial intelligence technology available.

Anyway, I think all major players in this field, even Amazon, which is not a corporate solutions company, but they have Alexa, have numerous initiatives in this field, and also Apple. I think TOTVS is addressing this somehow adapted to its field of operation. We try to see ways of using this technology within the scope of TOTVS' operations and to benefit our clients.

Perhaps I'd highlight a competitive advantage of TOTVS compared to these companies, and we even mentioned in the presentation and in the earnings release, is closely related to data ownership. Data continue to be owned by the client.

A principle that we respect a lot is to work with metadata, which is the technical term we use for consolidated data, we never make available individualized data, whether of a client, a consumer, whoever they may be, so data is always analyzed as a group, large volumes of data, that's one of our premises.

And the development of algorithms using another advantage we have in relation to these players which is our know-how of the segments, the verticals. So, the example we gave in the presentation about education and how we benefit from it, because by having management solutions dedicated exclusively to the end-business of education, we know the unique characteristics of the business than a more generic player, like a global ERP player, for instance, who would probably not have the knowledge of a segment like this that we have of.

So, we think we benefit from this type of knowledge and from the close relationship we have with clients when developing the algorithm that is closely related to the client's business reality and offers rich insights for the client in improving the business.

So, at the end of the day, I think this type of technology shows that, today, the technology in use itself is less important than what it can do for its user, OK?

Maria Teresa: Perfect, thank you.

Gilsomar Maia: Thank you.

Operator: The next question comes from Vinicius Ribeiro of Brasil Plural.

Vinicius Ribeiro: Good morning everyone and thanks for taking my question. I'd like to understand the services line better. I understand the dynamics of the top line, but in terms of cost, I remember you mentioned at some point that the cost structure was very close to what you consider the leanest possible structure, so there isn't much room to reduce so you can maintain the service quality you consider necessary.

Assuming that top line does not recover much, is there any chance that you may reconsider this vision and start outsourcing some services or have an accredited third party doing these services, or does this line depend much more on top line growth?

Gilsomar Maia: Good morning Vinicius. Your question is very opportune, I think, in light of the results from services in recent quarters. Services have several aspects that I think we could analyze.

I think there's a conjunctural side linked to a scenario where it's worth reminding that our revenue - and consequently our costs – are related to our own distribution operations and are based in major cities, such as São Paulo, Belo Horizonte, Rio de Janeiro, where most of the large companies, which are the biggest buyers of licenses, of the traditional license model, are situated.

So, at the end of the day, the behavior we saw in recent quarters, and even in recent years, in relation to license performance, is closely related to our service results, because these larger clients are more complex, the wider use of the solution, which consequently requires higher service levels.

As this larger account profile saw a decline, as we say a decline in licenses in recent years, this has a direct impact on the sales volume of projects. So, this is the more conjunctural side and it caused us to rethink our cost of services and carry out job terminations, as you've been seeing recently.

From a structural viewpoint, when we look at technology trends, we see that in the medium and long term, I think this revenue line tends to lose its share of total revenue because the natural trend as we move towards cloud-based implementation, it becomes easier as I get acquainted with the infrastructure where the application is running, as well as to develop apps and other resources that will enrich the application according to the client's demand, and that tends to reduce the volume of customization of solutions.

Meanwhile, and to answer your question more specifically, the company's capacity to outsource this activity, it is a possibility. Today, we already work with a large number of implementation partners and it's true that, especially in major cities, even because TOTVS' relevance in this market, it's natural to imagine that, over time, several implementation agents, IT service companies gained expertise in implementing TOTVS' solutions.

So we often see these companies providing services to the TOTVS customer base, since I can't make my client hire the service when he acquires my solution.

We could expand the base of outsourced partners implementing our solutions compared to current levels, this already exists, but could increase, especially within the company's strategy to work increasingly more as an open platform, attracting developers of complementary applications to our portfolio, which in turn can perform this role implementing the solutions with our franchises.

Vinicius Ribeiro: Perfect, thank you Maia. If I may ask a second question, I'd like to understand, within the hardware line, apart from Bemacash, do you have any other product you'd like to mention, any other example of convergence between hardware and software that you have and which have obviously been one of the reasons for the good hardware results?

Gilsomar Maia: Vinicius, I think it's hard to highlight any particular product, because the hardware line is pretty obvious, we're talking about – in the case of Bemacash – a tablet computer, a barcode reader, the thermal printer, there's bundle the client may choose, to add or remove any component of Bemacash, so they can customize it a little.

Regarding other items in the hardware portfolio that are not contained in Bemacash, I have that more traditional commercial automation hardware, based on a computer itself: a compact CPU, monitors, keyboards and also barcode readers, printers, etc.

Then you could say “there’s no differentiated mix in this aspect, how do you explain this space that this hardware, these non-fiscal solutions occupied, which was previously occupied by the fiscal printer?”

There I think is already a clear demonstration of cross-selling between TOTVS and Bematech. As I am a software provider, I have also been provider of commercial automation hardware and vice versa in numerous situations.

So the client sees himself as a TOTVS/Bematech client. He has had the opportunity to consume the complete solution from one provider.

Now, in terms of what we’re doing with Bemacash, as you can imagine, we are developing new products to add to the Bematech line, but always aligned with the strategy to see hardware and service as a means, not an end.

The end is software, so we use also hardware as an instrument to sell more software, and therefore our development of new devices will follow this rationale of contributing to software sales in the end, OK?

Vinicius Ribeiro: Great, that was exactly my question, thank you for the answer, Maia.

Operator: As a reminder, 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: I thank everyone once again for listening to our conference call. Just something I'd like to highlight is that we've seen the reports issued between last night and this morning.
We saw some special mention about market consensus and we’ve noticed that the information available with news agencies such as Bloomberg, Reuters, regarding analysts’ projections are quite outdated.

So, I’d like to ask analysts to update this information in these news agencies so we can have a consensus that is closer to what we actually registered. The deviations you might encounter by comparing reported results and this consensus you get from these agencies do not reflect the median of the actual reports from analysts.

That caught our attention, because if you compare this outdated information, it indicates a major deviation between our reported results and these projections, and what we actually saw is that the projections by analysts that cover our company registered a minor deviation, of around 2-3%, so much lower than in comparison with the information made available by these agencies.
Anyway, thank you very much for listening and have a good day. Bye.

Operator: That concludes today's TOTVS conference call. Thank you for participating and have a nice day.