



Operator:

Good morning. Welcome everyone to TOTVS's 4Q11 results conference call. Today with us we have Mr. Laercio Cosentino, CEO, Mr. Alexandre Dinkelmann, Vice-President of Strategy and Finance, and Mr. Gilsomar Maia, Planning 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 www.totvs.com/ir.

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's future results and could cause these results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Laercio Cosentino, who will begin the presentation. Mr. Cosentino, you may begin your conference.

Laercio Cosentino:

Good morning, everyone. Welcome to TOTVS's last quarter of 2011 release conference call. First of all, I would like to ask you to proceed to slide two. 2011 was another year of revenue growth for TOTVS in both EBITDA and net income, as well as a year of transition between the fourth phase of the Company's history, which focuses to reach unquestionable leadership with expansion in 2011. And the fifth phase, in which the Company seeks to become a global reference.

Being a global reference does not mean paying less attention to the countless opportunities in Brazil. It does not mean that we have to be in all five continents. It means being recognized through the world. It means being remembered by those who arrive or depart from Brazil and also as a solution selective conference on our special roadmap.

In order to accomplish this plan, TOTVS will focus its efforts on reinforcing segmentation, developing scalable business, disseminating TOTVS's technological platform, conducting phase two of the Company's internationalization, reinforcing the brand TOTVS, massive launch our corporate social network, and accelerating growth by acquisitions.



In this sense, TOTVS made changes in the management in 2011, such as the Vice-President of Strategy and Finance, who took over the operations in both international market and new business, allowing the other Vice-President to focus on software and related services in order to capture Brazil growth.

Now, I would like to invite Alexandre, Executive Vice-President of Strategy and Finance, to proceed the last quarter of 2011 TOTVS's earnings release.

Alexandre Dinkelmann:

Thanks, Laercio. Good morning, everyone. I would like to ask you to go to slide three. The Company's net revenues grew 13.3% in both 4Q and in 2011, keeping the unbroken revenue growth sequence.

On slide four we can see a history of the license revenue growth in the 4Q and year to date. The growth in 2011 was possible influenced by the performance of the corporate model in the 4Q, as well as by the performance of TOTVS's franchisees, especially in the 1H11. These franchises performance is due to the distribution system restructuring, consolidated in 2010, as well as the Brazilian economy growth outside major urban centers.

Despite the short-term economic alternations, we understand that the market presents propension to provide a higher growth for the Company then presented in 2011, especially in the S&P space. We are not happy with our license sales performance in 2011; we could have had better results. That is why we continued the segmentation of our vertical solutions and distribution channels, combining the vertical and horizontal approaches. That is, the structure called 'private' to serve large companies, TOTVS's franchises to attend S&B, TOTVS's points of sales to serve the micro-companies, and also TOTVS store, which aims to disseminate TOTVS's platform. Equally important is the regrouping and rearrangements of the sales force based on specialization to reach productivity gains.

On slide five we can see service revenue growth, up 13% in the 4Q and 11% in the year to date. The higher growth rate in service shows that the Company has been successful regarding the loyalty in its client base by expanding the service offering, such as consulting and infrastructure services.

On slide six, it is worth mentioning that the consistent maintenance revenue growth over the years reflects two important features in our business model: the resilience to various economic environments, and at the same time the ability to capture market growth. The year 2011 has presented these features, and maintenance revenue grew almost 16%, exceeding the inflation index of the year, due to the sale of licenses in previous periods and SLA contracts, which also contributed to client loyalty.

Let us move to slide seven. TOTVS ended 2011 establishing a new level of revenues, keeping the relevance of each revenue line within historical levels. I draw your attention to the stability of this historical percentage of maintenance in our revenue mix, which demonstrates the ability to retain existing clients and the resilience of the business model in times of economic uncertainty, as well as the Company's ability to grow in new license sales and services.



On slide eight, costs and expenses dashboard presents the three major groups of Company's expenditures. In the upper left corner, we have costs of license fees, cost of service and sales, and R&D expenses. This group is the most important in terms of absolute values and also concentrates the largest headcount, having had greatest reduction as a percentage of net revenue despite additional costs related to the new development centers located in São Paulo and Porto Alegre, and also wage pressure. We follow these three lines together, because investments in R&D tend to translate into long-term efficiency of implementation and decrease of licenses costs.

In the upper right corner, is the second most significant group of expenses, which contain sales, commissions, and advertisement expenses. This group grew as a percentage of net revenue of around 1.1% in the year, mainly due to the change in sales mix, which had greater participation of franchises, combined with the growth of sales expenses that surpassed the growth of direct sales, and due to the allowance for doubtful accounts of international market operations and the reduction of advertising expenses in the period.

We are not happy with the performance of this group of expenses, and the already mentioned efforts to deepen the segmentation aims also to provide greater efficiency here.

At the bottom left corner, G&A and management fees remained in line during the year due to the growth in the expenditure of the stock option plan, thanks to its fair value determination, which was compensated by the dilution of the G&A.

Finally, the line of other revenues and expenses, represented in the lower right chart, was positively influenced by 2010 results, due to sale of customer portfolio of the State of Paraná and Soft Team. In 2011, this line was negatively affected by the non-recurring provision of R\$1.8 million related to the restructuring of international market operations.

On slide nine, the traditional financial dashboard has, as its main highlight, net income growth of almost 43% in the quarter and 23% in the year.

On slide ten we have the evolution of EBITDA from two perspectives: the graph on the left, the seasonal view of quarters; and on the graph on the right, the long-term vision with annual figures, which better show the strength of the Company's business model.

On slide 11, we find that when analyzed only the Brazilian operations, that is without the results of international operations, TQTVD, and non-recurring items, EBITDA margin was 29.4% in the 4Q, 80 b.p. above the 4Q10, and 26.7% in 2011. The review of the strategic plan for international market operations, which started in the 4Q11 and is still ongoing, resulted in actions taken in order to reduce the distribution structure in Portugal and Mexico, where the Company will expand regional franchises with local entrepreneurs that may increase the distribution effectiveness based on existing investments in brand and software localization. These initiatives are aligned with the Company's objective to provide sustainable growth and profitability on long-term operations in the international market. Once this review is completed, we will present to the market the key initiatives for achieving this objective.

Going to slide 12, we present the Company's net debt. At the end of 2011, net debt represented 0.2x EBITDA. The evolution of net debt demonstrates the Company's



strong cash generation capacity, and the success integrating acquired operations. The numbers show TOTVS's significant ability to obtain competitive funding for its growth in the fifth phase of its history. We aim to diversify the Company's funding sources. The Company will manage its capital structure in order to keep it optimized, based on its medium and long-term growth plan, and also considering tax shields.

Now let us move to slide 13, where we have an update of market share in Brazil, considering companies of all sizes, and also the Brazilian SMB market.

According to IDC estimates, TOTVS achieved 15% of market share in the Brazilian ERM market, and almost 72% in the SMB market at the end of the 1H11. Our internal estimates indicate that total markets 5% larger than the one estimated by IDC, resulting about 47.6% of share in the Brazilian market and about 70.5% of share in SMB.

However, for TOTVS, more important than market share is the growth potential combined with increased market penetration. As shown at the bottom right side of the chart, the current penetration of the SMB markets is estimated at between 12% to 15%, against 7% two years ago. Estimates indicate that the penetration rate of similar segments in mature markets are around 40%.

Now, I would like to invite Laércio to proceed with his finale remarks.

Laercio Cosentino:

Thanks, Alexandre. Let us go to slide 14. TOTVS will take advantage of its range and its experience as a market leader providing industry oriented solutions, flexible and scalable used by the means of social interface in order to leverage the potential growth of software market which is still low penetrated in Brazil, especially among small and medium sizes companies.

To increase our effectiveness, we reinforced our segment approach by the means of our distribution channel focused on a different audience, TOTVS store to disseminate TOTVS platform. Privately, we strengthen relationships with larger companies, franchising to expand the geographic presence of TOTVS which focuses on several medium and small companies. TOTVS point of sales is to multiply points of sales, a mean to capture growth of micro enterprise.

Thus, TOTVS begins 2012 with its team committed of the close of the fifth phase and moved by the spirit of innovation and entrepreneurship presented in the entire history of the Company. I thank all who contribute to TOTVS success in 2012, especially our employees, customers, partners and shareholders.

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

Michel Morin, Morgan Stanley:

Good morning, everyone. Just two questions, if I may. The first is around your service revenue growth, which was quite solid and also that was reflected in the margins that you had on net service revenue, and I just wanted to see if you can talk to us about how sustainable that might be both in terms of the stronger revenue growth, which I guess has been three quarters in a row now, a very solid performance there, but in



particular the margin, I think you eluded to mix being more favorable and also the efficiency initiatives. So, that is question number one.

Number two would be around your license revenue growth. You said that you are not pleased with the performance in 2011 of 8% growth, and I am just wondering how much of that you think might be outside of your control, economy related, and how much might be execution. And if you can talk to us a little bit about what early trends you are seeing in early January, that would be fantastic. Thank you.

Alexandre Dinkelmann:

Hi, Michel. Thank you for your questions. So I can start here with the service part. In the service side of the business we have important initiatives in order to both gain efficiency and also add value to our mix, so we understand that the results that we had in 2011, you know, the natural consequence of the initiatives that we are putting efforts internally. So, we are confident about keeping at the same pace.

In terms of license, I would say that the economy, of course, it plays a role, but in our view a minor role. So the way that we saw the year of 2011, it was a non-typical year in the sense that the 2H was a little bit weaker than the 1H and it is not typical for our business. In general, what we see on a historical basis the 2H tends to be much stronger, but in this sense, in specific industries, we saw a slight deceleration in terms of activity, and of course it affected our performance in terms of license sales.

The good thing about that is that as we have a diverse portfolio in terms of verticals, so we can adjust the bet that we can make every year. So probably we will adapt our bets in terms of industries, some industries performed better than others, and now we are readjusting. That is why we are emphasizing the name of segmentation, because it is really important and we are deepening this segmentations strategy in our business.

Michel Morin:

Great. Thanks, Alex. That is very helpful, if I can just have a quick follow up on that answer-

Alexandre Dinkelmann:

And just to conclude, sorry to interrupt you, the main point in our view is in our hands, it is not about the economy, because we are seeing the pipeline of activities, prospects and negotiations being carried on, so we see good activity, so we are comfortable about 2012. The signals that we have so far are positive.

Michel Morin:

And is the weakness in the 2H relative to the 1H possibly related to the fact that your R&D spending actually declined slightly in the 2H? I mean, I do not know which is the cause and effect here, but how directly linked are those two things?

Alexandre Dinkelmann:



No, I do not see a direct co-relation of R&D and the moods of the market, because when we decide about allocating capital in R&D it is a mid to long term strategy. So we are not affected by this short term events.

I would emphasize the fact that for big clients we saw more influence about the global environment. So this risk aversion mode affected more big clients, so we saw that the sales process with these segments were taking longer, that is the sense that we had during 2011, but nothing related to R&D.

Michel Morin:

OK. Thank you very much, Alex.

Suzana Salaru, Banco Itaú:

Hi, good morning everyone. I just wanted to know if you guys could elaborate a little bit more on international expansion, first on terms of segmentation, because if I am not mistaken, in the past TOTVS was focusing in a segment of companies a little bit higher than the ones that TOTVS focused on in Brazil.

And then my second question, also international expansion, would be related to acquisition, if you guys see a necessity of having acquisition in Mexico or you have the same approach that you had in the past and go as it is now. Thank you.

Alexandre Dinkelmann:

As we told you, we are in the middle of this revision, this complete revision of the international expansion plan. So, your questions will be addressed when we are ready to present you the guidelines of this plan.

But I can help you with the following: first of all, we will be selective in terms of geography, so as Laércio told you in the beginning of the presentation, being a global reference does not mean that we will try to cover all continents or all countries, it is not the case, so we will be very selective in places that we believe we can create competitive advantage, so this is the first point.

And segmentation, or segment, is really important, as you asked; we are also analyzing, depending on the geography, where we can be better positioned. So, we are revising also our positioning in the countries where we are already.

In terms of M&A, of course, it is part of the plan, but I would say that we are prepared to evolve in the international arena in an organic way. So I would not say that M&A is a pre-condition. It can accelerate some evolvments, but it is not a pre-condition to our success outside Brazil.

But I ask you for, in the future, I hope to talk with you investors in a very structured way and then we can talk better about segments and geography.

Suzana Salaru:

OK. Very clear. Thank you, Alex. And just, if I may, one more question regarding the R&D tax benefit. Do you have any kind of estimate of how much your effective tax rate would increase considering how restricted the R&D tax benefit will become, so it is



going to be much more restricted, so we would assume a higher effective tax rate; do you have a rough number on that?

Alexandre Dinkelman:

Yes, we have. We analyzed that during the 2H. As you know, there was a new regulation about the law that created this tax benefit on R&D in 2006, and now the government established some conditions. Based on these new conditions, we evaluated that approximately 30% of the tax benefit that we have enjoyed before would be lost. So, this is the reference that we can give you.

Suzana Salaru:

OK. Thank you.

Operator:

At this time I am showing no further questions, so now I would like to turn it back to Mr. Cosentino for any closing remarks.

Laercio Cosentino:

I would like to say thank you for everybody that have been in TOTVS, in our history. OK, thanks everybody.

Operator:

Thank you. TOTVS' 4Q results conference call is over. Have a nice day.

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