Operator: Good morning and welcome to the TOTVS conference call to discuss the results of the 3rd quarter of 2018 (3Q18). With us today we have Gilsomar Maia, CFO, Juliano Tubino, Vice President of Business and Digital Strategy, and Sérgio Sério, Investor Relations Manager.

Note that all participants will be on listen-only mode during the Company's presentation. After the presentation, we will start the question and answer session for investors and analysts, when further instructions will be given. If you need any assistance, please dial star zero (*0).

The audio is being simultaneously webcast at ri.totvs.com.br.

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. Tubino, who will begin the presentation. Mr. Tubino, please go ahead.

Juliano Tubino: Good morning everyone. Thank you for participating in our earnings conference call. I will begin the presentation by commenting on the main recent events, starting on **slide 3**.

Taking one more step forward in the Bemacash strategy, that we started last year with the project that involved smart device desing, software innovation and integration with means of payment, in October we launched the Bemacash Smart POS.

Using the same software platform already available in the Bemacash tablet, the Bemacash Smart POS is a complete solution for points of sale, that contains: (i) cloud-based financial management software with sales inventory and accounts receivable control, (ii) artificial intelligence solution, that help the bunisness owner in princing, sales forecast and other business insights, (iii) as well as receipt printing, and (iv) integration with means of payment.

Developed with the micro and small businesses in mind, the combination of management technology and means of payment enable control of sales and management of the business from end to end, from anywhere and any device, including smartphones.

Following the same distribution model of other Bemacash solutions, the entire Bemacash Smart POS sale process will be supported by TOTVS Store, whether the customer buys directly or through the Bemacash channel, we will be providing a one hundred percent digital purchase experience for them.

With that, we want to provide to Small Business, besides a solution that integrates smart devices, POS software and means of payment; we also want to offer business management and artificial intelligence solutions, therefore broadening the access to technologies that until were only available to large enterprises.

Moving to **slide 4**, we are also celebrating iDEXO 1 year of operations.

With an operating model focused on connecting startups, entrepreneurs and developers to costumers in the pursuit of inovative business solutions, iDEXO already has 30 startups actively engaged with us in business development, integrating to our portfolio solutions from fintechs (such as payments, receivables collection and digital currencies), and also Industry 4.0, Retailtechs, and Back-Office, we will be increasing out ability to take innovatives solutions to our base customers.By the year-end, the community will have 45 high-growth startups under a revenue share model.

Also note that all the startups in the iDEXO community will have their solutions sold directly by TOTVS Store. Therefore increasing our portfolio of solutions that will be contracted digitally.

The evolution of iDEXO's operation will enable the Institute to increasingly become a major incubator of the new corporate venture model in Brazil, especially for TOTVS, expanding the company's capacity in its future initiatives that focus on innovation, business and product development.

Now, I will hand over the presentation to Sergio Serio, who will comment on revenue performance in the quarter, starting from **slide 5**. Sergio, please go ahead.

Sergio Serio: Thanks Tubino. Good morning everyone.

Software Revenue was the key driver of growth in Total Net Revenue, both for the 2.6% quarter-on-quarter growth and the 4.8% year-on-year growth.

As we can see on **slide 6**, the quarter-on-quarter growth in Software Revenue was mainly driven by the 21.8% growth in License Revenue. This growth is essentially associated with the higher share of sales to larger clients in the period. Positively impacted by the increase in the IGP-M inflation index in the last 12 months, the growth in Maintenance Revenue was one more factor that contributed to the growth of Software Revenue in the period.

In the year-on-year comparison, it is worth highlighting the 26.7% growth in Subscription Revenue that, combined with Licensing and Maintenance Revenues growth drove the 4.8% growth in Software Revenue during the period.

Note that this quarter, for the first time, Subscription Revenue surpassed the barrier of R$ 100 million. This is an important milestone for the Company in the transition to the Subscription model.

As shown in the graph on the left in **slide 7**, despite the growth in Licensing and Maintenance Revenue, represented by the blue bars in the graph, Subscription Revenue has consistently increased its share of Software Revenue over the quarters and has already reached 25% of this revenue line.

In 3Q18, thanks to the higher number of client additions, especially in the TOTVS Intera model, Subscription Revenue grew 2.9%, surpassing the R$ 97.2 million in the previous quarter, reaching the R$100 million already mentioned.

Annualized Recurring Revenue from Subscription, shown on the right chart of the slide, totaled R$444.9 million, up 4.5% quarter-on-quarter, and 33.2% year-on-year, essentially due to: (i) the higher volume of sales of products with lower average ticket related to the strategy of management and business open platforms, such as Fluig and Gooddata; (ii) and the cancellations of Bemacash due to defaults on the units sold before 2Q18, when the sales model was changed.

Moving to **slide 8,** the year-on-year reduction in Adjusted Contribution Margin from Software is due to: (i) ramp up in Research and Development, reflecting the new investments in innovation, and the FX rate impact on TOTVS Lab structure; (ii) the additional Support costs to meet higher demand from new clients added in the period and new regulations that took effect in 2018, such as e-Social, whose compliance deadline was extended; and (iii) the increase in Software Costs due to the increase in sales of partner solutions.

The quarter-on-quarter reduction in Adjusted Contribution Margin from Software is mainly due to the increase in R&D, which, apart from the reason mentioned above, also reflects the salary adjustments resulting from collective bargaining agreements in several regions where TOTVS operates, which represents around 20% of the total R&D payroll.

Regarding Services, on **slide 9**, Adjusted Contribution Margin from Services grew 110 basis points compared to 3Q17. As mentioned in previous quarters, the growth in Service Revenue continues to reflect the higher pace of sales of service registered in recent quarters.

If we take the last 12 months as the basis for comparison, the 1.8% decline in costs of services is due to the restructuring carried out during the second half of 2017. This reduction, coupled with sales, led to margin of 5.8% in the last 12 months of 2018, which is 320 basis points higher than in the same period last year.

Moving now to hardware on **slide 10**, Adjusted Contribution Margin from Hardware decreased by 300 basis points in 3Q18 from 3Q17 and by 470 basis points quarter on quarter. As already reported in previous quarters, this reduction reflects the lower pace of fiscal printers sales, whose margin are higher, due to the change in the tax laws in several Brazilian states, replacing the fiscal printer with other solutions, such as S@T in São Paulo and the electronic invoice in other states.

Comparing the last 12 months, apart from the aforementioned reduction in Hardware Revenue caused by the decline in sales of fiscal solutions, the decrease of 580 basis points in Adjusted Hardware Margin was due to the increase in R&D expenses in the period. This increase is related to: (i) the effect of FX rate in relation to the R&D teams based outside Brazil; and (ii) investments in the development of the new BemaGo platform designed for smart devices for the Internet of Things (IoT).

Moreover, in 3Q18, Bemacash sales totaled 672 units, compared to 691 units in 2Q18. The maintenance of Bemacash sales volume is due to the changes made in the sales model in 2Q18 to simplify the purchase process and reduce defaults inherent to this market segment. Also worth noting that since April 2018, purchases using the Brazilian Taxpayers ID number (CPF) are made exclusively with credit card through the TOTVS Store.

I now hand over the presentation to Maia who will comment on selling and administrative expenses on **slide 10**.

Gilsomar Maia: Thank you Sérgio. Good morning everyone.

The 0.2 percentage point variation in selling and commissions expenses in the quarter is mainly associated with the performance of license sales in the period.

Year-on-year, these expenses went from 17.3% to 16.2%. mainly due to the reduction of recurring personnel costs in 4Q17 and the dilution by the growth of software revenue; and also by the deferral of variable compensation as a result of IFRS-15. It is important to note that the level of these expenses in this quarter is lower than that observed in the last 12 months, which also dropped compared to the same previous period.

Regarding General and Administrative Expenses, Management Fees and Other Expenses, the reduction of 0.8 percentage point from 2Q18 is related to: (i) the integration of Bematech's administrative operations concluded in 4Q17; and (ii) the lower Provision for Contingencies this quarter due to the progress of the lawsuits in the period. Here, it is also worth mentioning that, in the last 12 month, this line of expenses fell 1.0 percentage point, illustrating the focus on cost control.

And concluding with the allowance for doubtful accounts, which remained at 2.0% of Net Revenue, the same level as in 2Q and in the last 12 months. This quarter, the still high level of defaults was worsened by a large account that entered in judicial reorganization.

Now to talk about EBITDA, please go to **slide 11**.

As can be seen in the charts, the quarter-on-quarter growth in EBITDA was due to the increase in Software Result, net of selling expenses, combined with a decrease in Hardware Results and in the Administrative Expenses.

In the year-on-year comparison, adjusted EBITDA grew 43.7%, passing from R$62.3 million to R$89.5 million, due to the increase in Software Result and the decrease in Selling and Administrative Expenses in the period.

In the last 12 months, apart from the factors just mentioned, it is worth noting the growth in Services Result. In this period, Adjusted EBITDA totaled R$341 million, 15.6% growth, and margin was 14.9%, representing an increase of 160 basis points from the same privous period.

Moving now to **slide 13**, the performance of EBITDA combined with the reduction in Depreciation and Amortization Expenses and a lower effective tax rate, led to 39% growth quarter-on-quarter in net income.

In the year-on-year comparison, the 83.5% growth in Net Income was driven by EBITDA growth, since the reduction in Amortization Expenses, related to intangible assets arising from M&As was more than offset by the effective tax rate.

I'll now move to **slide 14** for comments on cash flow and debt.

Free cash flow generation grew 52% year on year, mainly due to: (i) the 215% increase in EBIT; and (ii) the reduction in working capital.

Quarter-on-quarter Free Cash Flow grew 27.3%, due to: (i) the reduction in working capital in accounts receivable and tax recoverable; and (ii) the lower income tax and social contribution paid.

Moreover, despite the payment of dividends and interest on equity this quarter, reflected in the financing activities, net debt declined more than 70% year on year and 51% quarter on quarter. This decrease led to a net debt to adjusted EBITDA ratio of 0.3 times in the last 12 months, the lowest since the merger of Bematech in 4Q15.

Moving now to **slide 15** for the closing remarks.

During today's presentation, we saw that:

Three years after we started the migration process to the subscription model, in spite of an economic scenario still in a recovery stage, the results show that the company has reached a turning point, with growth accelaration in Revenue and EBITDA Margin increase.

The last 12 months view makes this trend even clearer. The adjustments made to the cost structure, combined with the growth in software revenue, specially by a 32.5% growth in Subscription, led to a 15.6% growth in adjusted EBITDA.

In addition, the financial position has also presented significant improvement, with free cash flow generation 52% higher, led to a net debt declining by half year-on-year, reaching 0.3 times EBITDA, the lowest level since the the transition process started.

To sum up, TOTVS is increasingly better prepared for a new growth cycle.

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

Operator: Ladies and gentlemen we will now begin the question-and-answer session. To ask a question please press star one and to remove your question from the queue press star two.

Our first question comes from Eric Wolff with Hawk Ridge.

Mr. Eric Wolff: Gello congrats on the solid performance in the tough operating environment. A quick question. I think there might be a problem at the line because I cannot hear any response; but I was curious if you could talk a little bit, if you could clarify the effective tax rate going forward?

Mr. Maia: Okay this is Maia speaking Eric thanks for the question. Actually in this quarter the effective tax rate was really affected by the interest on equity we paid. On an annualized basis our effective tax rate is running about 26% if I am not wrong. Comparing to our historical rates we see that this ratio of 26% is a little bit slightly above our recent results in previous years.

We still have the 2H results that could be part of this interest on equity calculation and as a consequence you could complement our dividend payout for the full-year figures, and as a consequence it can provoke some incremental reduction in our effective tax rate for the year. In the long run we do not have guidance of effective tax rate and is probably you know the statutory rate in Brazil is about 34%. So we see the company still by far from that level, especially taking into consideration the benefit from this interest on equity and also the benefit we have as a kind of the tax shield from our research and development investments. Am I clear in my explanation?

Mr. Wolff: yes. So to be clear the 26% is the YTD effective tax rate and there is a possibility it drops lower based on the various factors affecting 4Q or 26 was what you thought it would be for the full year?

Mr. Maia: Yes that is right.

Mr. Wolff: Got it. Recent years I know these are some things you discussed before; but especially given your outlook for the business for past the elections you are almost in a cash position at this point any thoughts given the valuation, which as we discussed is well below a kind of anything in just about any other geography that exists in software, any thoughts on potentially deploying capital for share buybacks?

Mr. Maia: Eric in terms of market you are right. This pre-election period that came up to the end of October was a very intense moment in the whole country and it made business people in general to hold most of their actions in terms of investment plans. So, so far we have not seen a significant change compared to the figures we are presenting this 3Q.

Personally we have some positive expectations for the end of this year and more especially for the beginning of next year. So it seems to have a positive expectation about the next government. Of course it has to be converted into reality based on the practical measures of this new government; but it seems that the business environment is a little bit more optimistic for the near future. It could be favorable for our performance in general.

And being more objective into your question about buyback shares. It is always a possibility. Considering the tax legislation Brazil I confess you that it is never the first one because we understand based on the tax shield provoked by the interest on equity and secondly dividends that are not taxable in Brazil, we have as a higher priority the payment of interest on equity and dividends and then we can see share buyback as a clear alternative.

Mr. Wolff: Got it and I know you discussed this as well; but ADR given just the continuing drumbeat of valuation of Brazilian companies would see in the US it seems like, I know there are different levels of ADR and to do a kind of level III the one that is more complicated may be difficult; but any further thoughts on that as a way to make it easier for foreign investors to purchase shares?

Mr. Maia: Yes. It is a subject we have assessed some years ago, of course in another context here regionally. So Brazil was in a much better shape at the time and we are assessing that possibility. You are right. When we compare companies involved in a very similar process we are passing through here they have a relevant spread in terms of multiple comparing to our current multiples of valuation.

It is a clear alternative we have here, especially when we take into consideration our free float. Almost 19 % of our free float is formed by foreigners, institutional investors based out of Brazil and personally I see as a very good possibility to work in this direction of an ADR in a certain moment.

Mr. Wolff: Excellent. Congrats again on the good performance and thank you for your time.

Mr. Maia: Thank you very much Eric have a good day.

Operator: Ladies and gentlemen as a reminder if you want to ask a question please press star one.

I would like to turn the call back over to Mr. Gilsomar Maia for his closing remarks.

Mr. Maia: I would like to thank you everyone again for participating in our conference call today and reminding everyone that we are here available, our IR is always available to help you in any question you have additionally to those made here and I really wish to everyone a very good day, thank you very much, bye-bye.

Operator: That this concludes the Totvs conference call for today. Thank you very much for your participation, have a nice day and thank you for using Chorus Call.