Operator: Good morning. Welcome to TOTVS' conference call to discuss the results for the fourth quarter and full year 2018. With us today we have Dennis Herszkowicz, CEO, and Gilsomar Maia, CFO.

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 assistance, please dial *0.

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

Before proceeding, we wish to clarify that any forward-looking statements 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 on 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. Dennis, who will begin the presentation. Mr. Dennis, please go ahead.

Dennis Herszkowicz: Good morning everyone. Thank you for participating in our conference call.

As highlighted on **slide 3**, on November 26, the Company announced to the market my election as the new CEO and the election of Laércio as the new Chairman.

I'm very pleased with this opportunity to lead the largest software company in Latin America and I am also confident that we are starting a new and very successful journey for TOTVS.

Today is my 80th day at the company and I'm having the pleasure of sharing with you the performance in the fourth quarter and the full year of 2018.

First of all, the Company approved the payment of Interest on Equity of R$13.1 million, corresponding to R$0.08 per share, to be paid on May 9, 2019. With this resolution, the payout in 2018 was 77%.

I now hand over the presentation to Maia for his comments on the quarterly results, starting from **slide 4**.

Gilsomar Maia: Thank you Dennis. Good morning everyone.

Software revenue grew 8.2% year-on-year in the fourth quarter and 5.9% in 2018, accelerating strongly compared to the year-on-year growth of 2.7% in 2017. As a result of this acceleration, software revenue surpassed the mark of R$2.1 billion in the year. This performance of Software Revenue is largely due to Recurring Revenues, which came to R$1.5 billion in 2018, growing 5.6% year-on-year in the quarter and 5.4% in the year, mainly due to the sale of subscriptions and licenses, which generated new maintenance revenues, and inflation pass-through during the period.

In addition to license sales, the pace of service sales and increased efficiency in project deliveries also contributed to the year-on-year growth in Non-Recurring Revenues of 16% in the 4th quarter and 7% in 2018.

Now on **slide 5**, we have Annual Recurring Revenue, which came to R$1.7 billion in 4Q18, up 3.3% from the 3rd Quarter and 8.3% from 4Q17. This amount represents a net addition of R$55.8 million in the quarter and shows the Company's sales capacity to expand its solid base of Recurring Revenues, which reflected in the client renewal rate of 97.9% this quarter.

Recurring Revenue is the Company's premium revenue stream and is directly related to the scalability of the software business model. As you can see on **slide 6**, Recurring Revenue growth accounted for two-thirds of the absolute growth in Software Revenue in 2018.

The acceleration in Software Revenue growth, associated with greater operating efficiency, led to Adjusted EBITDA growth of 17.9%, with Adjusted EBITDA Margin of 16.4%, increasing 160 basis points from 2017, which reflects the recovery of our Software margin.

Software Cost increased 3.3% in 2018, lagging the growth in Software Revenue of 5.9%, resulting in the increase of 90 basis points in Gross Margin in the year. The increase in Gross Margin resulted from the greater efficiency in service project deliveries, despite the additional costs incurred over the year in support activities to meet the increased demands arising from new regulations implemented during 2018.

Total Software Expenses also increased at a slower pace compared to Software Revenue, reflecting the gains in operating efficiency in Selling and Administrative Expenses, despite the negative effects of the increase in: (i) Research and Development Expenses related to investments made in innovation during the period, development efforts related to new regulations and the FX rate impacts on the structure of TOTVS Labs in California; and (ii) Provisions for Contingencies.

Compared to the previous quarter, the 13.3% decline in Adjusted EBITDA mainly reflects seasonal effects, such as salary adjustments stemming from collective bargaining agreements and expenses with advertising and marketing campaigns, in addition to the lower level of non-recurring revenues and higher concentration of provisions for contingencies.

Moving to Adjusted Net Income, on **slide 7**, you can see that the year-on-year growth is mainly due to the increase in Adjusted EBITDA and the decline in amortization expenses.

Compared to the previous quarter, the decrease of 18.4% in Adjusted Net Income reflects the seasonality inherent to the period, as evident from the decrease in EBITDA, which was partially offset by the improved Net Financial Result and the reduction in the effective income tax rate.

On **slide 8**, cash flow and debt, you can see that free cash flow grew 13.5% year-on-year in 2018, primarily due to the 29% increase in operating cash generation, in addition to higher investments in the acquisition of equity interest and fixed assets in the period.

The decrease of 23% in free cash flow compared to the previous quarter is mainly related to seasonal effects, as already mentioned for EBITDA in 4Q, in addition to the seasonal increase in working capital investments, due to the payment of 13th salary, vacations and taxes.

Finally, Net debt decreased 84% year on year and 51% quarter on quarter. This decrease resulted in a ratio of 0.1x Net Debt to last 12 months Adjusted EBITDA, despite the payment of dividends and interest on equity, which is reflected on net cash from financing activities in 4Q, which attests to the Company's solid financial position and readiness for new growth cycles.

I now turn the presentation back to Dennis for his closing remarks, on **slide 9**.

Dennis Herszkowicz: In 2018, TOTVS resumed the acceleration of Software Revenue organic growth, which came to 8% in 4Q18 and 6% in the year, despite an economic scenario of slow and gradual recovery.

The acceleration of revenue, associated with greater operating efficiency, led to an increase of 18% in Adjusted EBITDA from Software in the year and an increase of 160 basis points in EBTIDA Margin from Software.

The software operation is the priority for TOTVS and we will continue to invest in it. That's why we have started to report Software and Hardware results separately, down to the EBITDA Margin.

The results show that TOTVS has already built its subscription model that, combined with its monthly maintenance model, represents a solid base of Recurring Revenues, which have already surpassed R$1.5 billion in 2018 and accounted for 73% of Software Revenue, combined with high client renewal rates.

Accordingly, we have prepared ourselves for a new growth cycle, sustained by a better and broader portfolio of management solutions, besides seeking opportunities in new markets, which will enable us to advance in the value chain of our clients.

Finally, the significant progress in our financial position in 2018, with a 14% increase in free cash flow and the ratio of net debt to EBITDA of 0.1, has left us prepared to take advantage of new inorganic opportunities.

We started 2019 focused on the satisfaction and success of our clients, maintaining the entrepreneurial spirit and believing in a Brazil that MAKES IT HAPPEN, innovates and produces.

This energy of making it happen, delivering on our promises and even redoing, if necessary, always in a smart and balanced manner, will be put into each move, customer interaction, sale and project we work on.

We are now available for the questions and answers 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 Guilherme Haguiara with Bradesco.

Guilherme Haguiara: hi good morning and thanks for taking my questions. My first question is regarding the recurring service revenue, which we know there is some part... just under service revenues that is now part of the recurring and we would just like to have some more visibility on what type of revenue this comes from and what would be the margin differential between the recurring service revenues and the pure software margins?

Gilsomar Maia: hi this is Maia speaking. Actually that is recurring revenue was already disclosed in the previous quarter and the difference between total recurring revenue we have putting together maintenance and subscription and the total software recurring revenue is related to some recurring software revenues, service revenues that we some up together there.

Those revenues are related to services like cloud services; IMS, so application management software services; and also services related to managing customizations, so things that when a client subscribes software and services those services are already part of our subscription fee. So in terms of nature we are talking about revenues with the same characteristics.

So in the end we are putting together things that have a similar profile and isolated they have a much higher margin comparing to our traditional implementation service. So overall it does not change that much the visibility we have in terms of profitability of our recurring margin.

And also the remaining services that you see is nonrecurring there more specifically related to implementation services. I do know if I am clear.

Guilherme Haguiara: yes that is very clear thank you and if I may just have a follow-up question: as we are kicking off 2019 we were wondering if you have already seen some improvement in the day-to-day negotiations with clients and if you have seen a better sentiment in Brazil turning into actual contracts; and also and when we look at the renewal rates you are showing for 2018 how much of that was related to client mortality and how can that improve with a better macro scenario?

Gilsomar Maia: so first of all it is important to call your attention to be delinquency rate we had in this quarter that was much lower than we had in the previous quarter and in the previous quarter specifically we had some relevant accounts that individually affected negatively that result; but excluding those exceptional cases we were already seen the decline of the delinquency rate. Those delinquencies are positive in terms of result for this quarter specifically.

And connecting that with our renewal, renewal rate, we see that that volatility on a quarterly basis is not so relevant in our view, because we have a very high retention rate close to 98%, 98.5% and so it is really high that retention rate. A portion of it is, as you mentioned, related to mortality, you are right. So if we are located 100% of that gap of renewal rates to mortality that might be even below; but of course it is not totally related to the mortality rate - but the relevant portion of that is related to mortality yes.

Dennis Herszkowicz: just to complement what Maia said the reason, the main reason for us to put the renewal rate starting in this quarter, and we will do it in the coming quarters, is because we want the market to know that we have a very high level of lock-in with our clients that the main reason for us to lose the client is to lose because the client is closing its doors.

So if you consider 98%, 98.5%, which is the average that we had in the last four quarters that we provided the information, it is a very high level considering that there is a natural rate of mortality among the more than 30,000 clients that we have. So regardless of what we do there will be a minimum amount of mortality among the clients.

So when you put these into perspective again the main message here from us is that the level of lock-in that we have with our clients - obviously this translates into the level of recurring revenues that we have - it is very, very high and very, very healthy.

Guilherme Haguiara: okay that is very clear thank you.

Operator: as a reminder to ask a question please press star one.

Our next question comes from Eric Wolff with Totvs.

Eric Wolff: hello thank you for taking us in. A few quick questions on something on your disclosure, which was helpful on... margins. I think last year looks like you had some improvement, 16% 16% from 14. I think... previously... deal you were at some mid-20s. How do you see the margins trending in software for the next couple of years? And do you think it is feasible to get back to the historical profitability level?

Dennis Herszkowicz: thanks Eric this is Dennis. Look it is maybe a bit early to give the visibility for two years; but I can say to you that I feel that the trend is positive. I mean would have been increasing the software margins. It was very important for us as we said to start to report the Ebitda margins down to the separation between software and hardware because obviously right now the hardware is a drag on the consolidated Ebitda margin.

So yes I think that the trend is positive. It is very difficult to say is that they want we envision for these two years; but the message is positive that we see room for improvement.

Gilsomar Maia: Eric if I could complement - this is Maia speaking - Dennis said so of course it is hard to give you exactly the course of our margin; but if you take a look on the full-year figures there is some message in that. My view especially related in terms of cost control it was one year that we could show more clearly that the efforts made here in order to have a much stronger control of cost, of course taking advantages on actions we took in 2017 in terms of integration of our operations.

But you should take a look on our software revenue growth that was about 6% in 2018 and our total expenses grew about half of that. So even though our provision for delinquency and contingencies came in a very high pace. So even considering those provisions in a high level the total expense came about half of the growth of the top line.

So structurally we see no reasons to say that the margin will not grow. So the natural process of the software is a very scalable business, is to see margin improvement throughout time.

Dennis Herszkowicz: and then just to add to what Maia said, Eric, of course we do have, continue to have room for improvement in cost control, synergies and so one. So yes there is room for this and it will come during the coming quarters as it has come in the previous quarters as well; but the main focus will be, and this message is very important to be clear, the main focus of the company will be on growth.

I mean as Maia said software is a very scalable business. If we accelerate the growth, if we find the new streams to generate additional recurring revenue for the company this by itself, without any cost control, but obviously it has cost control and synergies, it will be even better. I mean just the acceleration in terms of top line growth this will result in better margins if it is based on recurrent revenues.

Eric Wolff: that is very helpful and one quick follow-up to that can you give any commentary. I know it is very early in the year, but it seems like a lot of the macro indicators in Brazil have gotten surely more positive in the last few quarters… I am sorry, over the last two or three months in particular and… this past quarter. I am just curious, any comments you have looking out into this year, any thoughts on potential acceleration in license revenue or recurring revenue?

Dennis Herszkowicz: okay Eric this is Dennis again. Look, to be honest with you I think that the performance in terms of revenues and sales in 4Q was not probably great; but it was a very decent performance in terms of software. I mean the acceleration of the growth to more than 8% organically when you compare it to 4Q 17, again considering the low level of inflation, still low level. The low level of the economic activity during the whole year, and even in 4Q with the election and so on, very honestly I think it was a decent performance in terms of revenues and of sales for software. Obviously if we take into consideration hardware it is what it is.

Looking into this year as we said in the Portuguese call I think the first outlook is good. We had our sales convention and the second week of January. The energy there was very, very positive. I was very impressed with what I saw, more than 2000 people that represent the full distribution platform of Totvs, both our own offices and others, the franchisees as well, the channels.

So I think that we will have a better year in 2019. It is still maybe too early to say how better it will be because unfortunately in the last two years we thought, we all thought that the economy would really improve and we did not, at least not as much as we thought. So we hope that this year is better for the economy and in any case I think this year will be better for TOTVS. It is simply difficult to say precisely how much it will be this year.

Gilsomar Maia: and if I could complement, again even with this macro scenario and 2018 mentioned by Dennis we grew 6% organically in software. Of course it is not the growth rate of our dreams and it does not translate the potential of our company market, but it is more than the double that we grew and 2017. So even with that economy scenario, economic scenario, we were able to accelerate the growth of the company.

And when you look at the annual recurring revenues you see also that we had a good performance in 4Q, a very strong one, and that is coming especially from the new sales we closed in that quarter, especially after the election process ended and also coming from new clients and new accounts we closed in that period.

So we are optimistic about the future. Of course we have to see more that general optimism in the market being translated into more transactions, into more deals; but in general our sales people and clients are more optimistic about the year.

Eric Wolff: okay thank you and if I can just a quick final one. The…can you talk about all the opportunities you see within service to potentially rollout additional products… at some point, perhaps… potential payroll opportunities… there is a lot of untapped opportunity. I was just curious on how are you thinking about attacking these opportunities so that we might get a clearer picture of what you have in mind there?

Dennis Herszkowicz: sure Eric thank you again. Look yes, there are lots of opportunities. You mentioned payroll and obviously it is one of the main opportunities that we have considering that we cater to around one third of all the registered payrolls in the entire country, I mean we are talking about 10 million employees have their payrolls processed in our softwares. So yes this is one of the opportunities, but it is not the only one. What we have here is the opportunity to on one hand continue to protect and to improve the core that we have with back office and payroll also to synergize and to deepen our knowledge and our solutions in terms of the segments in which we operate.

And on the other hand obviously look for additional cross-selling opportunities that we have inside this huge base of clients, I mean we are talking about more than 30,000 clients, which had revenues, combined revenues of more than 1.6 trillion BRL LTM. I mean this is one fourth of the GDP of the country that are being processed in our solutions. But the opportunity goes beyond this core, goes beyond these segments, goes beyond this cross-selling opportunities and it means that we have new markets in which we can operate.

So this is one of the things that we will start to focus from now on, never forgetting about this platform that we have. All the new opportunities, all the new markets in which we will operate – and Fintech obviously is one of them - they have to be connected and they have two leverage on this platform of core and segments that we already have. This is the main stronghold that we have, the 30,000 clients; the 1.5 billion BRL nonrecurring revenues; the level of relationships that we have with our clients; and obviously the distribution platform that we have with our own offices and dozens of different channels that we have all over the country.

Eric Wolff: excellent keep with the good work.

Dennis Herszkowicz: thank you.

Operator: our next question comes from Guilherme Haguiara with Bradesco.

Guilherme Haguiara: hi and thanks for taking my follow-up. Just touching upon the importance of growth you mentioned and also in the Portuguese call, in the release you mentioned that education and agribusiness group quite considerably and we were wondering how much of these relatively smaller segments within your portfolio can add to overall growth with an accelerated performance, what is the strategy in these niches? And on a more brother aspect how can we see a pickup in the corporate market in license sales already in 1Q?

Dennis Herszkowicz: thanks Guilherme, this is Dennis again. Look, in terms of the segments obviously this is a stronghold, this is a trend that Totvs has. I mean to operate in all these segments is very, very important. It gives us a lot of opportunities. It helps us whether the different economic scenario that we have. So we are not focusing just one and if this one segment does not perform we will suffer as much as the segment. So this is a strength.

But on the other hand is the other side of the coin. Obviously when you have maybe 10, 11 segments you do not necessarily have focus and the resources to be the leader and to be the best guy in all of these segments. So right now we are obviously analyzing and discussing at which segments we are good enough, which segments deserve our attention and our focus and our investments. I think it might be all of them do. It might be that a portion of them do, it might be that we want to be in all of them but we accept that we will be leaders in some, and not necessarily leaders and we will adjust the level of investments in some of them.

We still do not have the final answers on this regard and I think it is too early at least since my arrival here. It is not that we were not analyzing this before; obviously we were but since I arrived I wanted to take a deep dive in all of this analysis and so maybe in the short to medium term we will come to the conclusions in this regard, and I am very confident that we will find the right answers and that we will leverage in the segments that we feel we have the best portfolio and that we have the best expertise and opportunities for this leverage.

Specifically in terms of education, just as an example, we have a very, very good market share in terms of higher education in education. So this means that we have for example more than 3.5 million students using our solutions, schools and universities using our solutions. This is a huge opportunity for example in terms of Sim tech. The level of penetration for credit cards in these payments, in this TPV, is close to zero and so it is a huge opportunity.

So in addition to all the opportunities that we have been selling the core solutions and selling the software-focused solutions that we have, in addition to all this we also have opportunities for new pockets, for new money inside the budgets of our clients to advance in the value chain that we provide for them and to capture a higher level of take rate among the expenditures of these clients. With regards to license sales I do know if Maia wants to add to this?

Gilsomar Maia: okay. So the last two years we had a very, very strong performance of corporate model in 1Q. If I am not wrong it was like 30% over 30% sequentially in the last two years I see it much less probable to see a growth in that pace. It is always important to remind you that the corporate model has an incremental license fee just went clients grow.

So if even I am not having growth that way in terms of incremental license revenue in 1Q it does not mean that clients did not grow. For sure we will have an incremental licensing being charged. I do not believe we will have that pace of growth we had in previous years; but I believe we will have a reasonable level of incremental license fees in the corporate model in 1Q.

Guilherme Haguiara: okay that is clear. Thank you for taking my call and best of luck.

Gilsomar Maia: thank you.

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. Denis for his closing remarks.

Dennis Herszkowicz: Well I want to end the call on a positive note to give an optimistic message to all of you, obviously to thank you all for participating and for the confidence in the company.

And this positive note comes from the fact that I have found here a great company, company with lots of strengths represented, as I said, by the more than 30,000 clients that it has; the more than 1.5 billion BRL in recurring revenues that it has and it has been accelerating these recurring revenues; and also about the team I have fun here. I mean the team is a very, very competent team; it is a team that is motivated, that is looking for a new growth cycle and I hope that I will be able to help this company and this team, this magnific team to enter into this new growth cycle.

So again thank you very much, we will be available for the questions, thank you and good day.

Operator: This concludes Totvs' conference call for today. Take you very much for your participation and thank you very much for using Chorus Call.