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.

The first question comes from Marcelo Santos of JP Morgan.

Marcelo Santos: good morning everyone, good morning Denis and Maia, thanks for taking the question. The first one is regarding the changes to TEF, which, if I understood correctly, was moved from the hardware team to the software team. I wish to understand your plans, what potential you see in this tool and what could be done with it, your visions more oriented to Fintech.

My second question is related to hardware's strategic role within Totvs, because back then when Bematech was acquired there was a deeper vision of synergy that could have been gained and the advantages from developing your hardware, but the latest decision regarding Bemacash, which was the product that combined hardware and software, was geared towards being agnostic.

So does it still make sense to maintain this hardware division? What alternatives are envisioned for it in the future? Those are the two questions.

Dennis Herszkowicz: Marcelo, good morning and thank you, this is Denis. Let's start with TEF. The first message that I believe is worth passing along on this subject in particular is that I had a very positive surprise. As an outsider, I had the impression that TEF had a greater penetration in TOTVS than what I actually found.

So we have a TEF base here that is not small, it's pretty significant. The only problem is that it was too fragmented. There effectively was no vision of TEF as a product that would require specific management and that this TEF could and should be used as a spearhead, as a platform that helps us create, for example, Fintech opportunities, specifically with regard to payments.

So as soon as we started to analyze it, it was clear that there was significant advantage in moving the main structure of TEF from hardware and combine it with other TEF initiatives we already had in hardware. Again, back then we already had separate initiatives, the bulk of them in hardware, but some things in what we call the retail segment, and then we combined this department and we will, without a doubt, first grow in TEF penetration, and second, use this

TEF platform as a platform for creating opportunities in the world of payments. That's the first answer.

Regarding hardware, I've been saying this since I came here, and this has turned into a consensus at the company, it's not simply my idea; no, it's something that was already being discussed. What we did in 4Q was speed up certain visions and decisions, such as in the case of TEF and the case of Bemacash becoming agnostic, and that the focus is undoubtedly software. Software is what generates more value within the client, software is what generates more margins, software is what has greater scalability. We have no doubt that the focus is on software.

What does this mean for hardware? It may be a little too early to give a precise answer. What I can say is that at this moment we do not understand hardware as something fundamental for the company, and it isn't essential even for Bemacash itself. Making Bemacash agnostic unchains it, opens up other potential growth avenues for this product than if we simply focused Bemacash on a single device.

So, at the end of the day, what does this mean for hardware? It's too early to say. The message is that the focus is on software, on undoing any shackles on Bemacash and make this product free to grow through whatever source of distribution we use.

Marcelo Santos: great, thank you for the answers.

Operator: our next question comes from Susana Salaru of Itaú.

Susana Salaru: Hi everyone, thanks for taking the question. If you could discuss the progress of the sales cycle a bit, that would be our first question.

And if you could update us on the potential payment product, how is this discussion coming along?

Gilsomar Maia: Good morning Susana, this is Maia. Regarding sales, I think we had our sales convention in the second week of January. I think it was the first opportunity for Denis to be able to see the entire sales force, and I witnessed tremendous excitement.

Last year we also started the year very well. In relative terms, I saw an even better start than last year in terms of excitement optimism in the sales team, also in terms of opportunities they are working on. So, I see a positive start to the year so far. It's what I have to say.

Dennis Herszkowicz: Just adding to it, Susana, my perception is exactly the same as Maia's. I was quite satisfied with what I saw at the convention. It was a pretty large event. We had 2000 people there, this is the size of the sales structure, to distribution within Totvs. It's an impressive machine, combining this own structure with franchises that offer an incredible coverage for segments and geographical regions.

So really, the company's great strength lies in this distribution structure, and my initial perception in these first 80 days is that the start of the year is aligned with what we would like. So I'd say that the message is cautiously optimistic, because it has been maybe two years we have been expecting the economy to get better, that things will fall into place and such, and at the end of the day, that's not what happens.

But once again, the initial message is that apparently we will indeed have a better year, and not just in terms of the economy. Obviously this has a significant impact on us, but from the standpoint of the company's energy, focus, and pipeline I was pretty satisfied with that I could see so far.

Moving on to the second question about payment, we already had initiatives that were underway here, so it's not like there was nothing going on. Yes, we already had things underway here, good things. What has been done over these 80 days is on one hand to understand how we can accelerate what was already being done, and of course discussing new opportunities that, for any reason whatsoever, were not being explored.

What I have always emphasized is that payment is only one piece of our opportunity. TOTVS, as it isn't focused exclusively on retail, payments indeed have become a significant opportunity, but it isn't the only one. When we look at the segment portfolio we have, namely education, health, manufacturing and others, the number of opportunities we have to develop Fintech – I used the HR example a lot – we have one-third of the total, almost a third of Brazil's total CLT employees running their paychecks within our payroll. We have an App called Meu RH that, without any effort, already has tens of thousands of downloads accessed daily by people to keep track of their wages, benefits and more.

So here we have many platforms that can and will be used for these Fintech opportunities that will not be limited to payments. There's no question that payments is maybe the first, as it is more consolidated already, the profit pool and is already being targeted so maybe the opportunity in payments is perhaps a shorter term opportunity, while others are for a longer term, though not by much. So I see there exists a very important avenue.

I still don't feel prepared to give you much more details than that. Certainly, as we get concrete news whether in organic developments or partnerships, we will start disclosing these as things are finalized.

Susana Salaru: Perfect Denis, thanks Maia, it's perfectly clear.

Operator: The next question is from Fred Mendes of Bradesco.

Fred Mendes: Good morning and thank you for the conference call. I too have two questions, the first one you already have touched upon about inorganic opportunities; but I think it'd be interesting to understand your thoughts in terms of strategy and if the focus will eventually be more geared towards new technologies or products, or if it is a straight-up acquisition of market share and how this relates to your legacy. So much more related to strategy, what is it that you're seeking at first in terms of M&A.

The second question relating to costs is intended for Denis. Is there already enough time to make a profitability analysis of each product since I figure there are products that are much more profitable than others, if is it worth it or not to discontinue a product and get more efficiency in costs, if there was already enough time to do it. I know 80 days is very little, but any information here would be great, thank you.

Dennis Herszkowicz: Thanks Fred for the questions. Let's start with the first. See, M&A is definitely back on the agenda. Actually I think it never left, and it was much more a question of the company to manage that it had already done and carry out some sort of housekeeping in terms of quality and other things, and this, from our management viewpoint, was already done.

Obviously quality is a permanent theme, but we believe that last year was an important year for recovering investments and improving our customers' satisfaction. This is also one of the reasons for which we start disclosing, starting this quarter, the client renewal rate to offer this information about the lock level that we have with this base.

But this also leaves us much better prepared to seek new opportunities, to build a pipeline and eventually start executing the pipeline. And what's behind this pipeline? What's our strategy?

It's basically four pillars. Any acquisition that may happen will have to fit one or more of these four pillars. The first is strengthening our core. You called it "acquisition of market share" and I translate that as strengthening our core.

A second pillar is the deepening of our verticals, our segments.

The third is a pillar of cross-sell offerings that could be sold within our client base – over 30,000 clients in different segments – and then offers that are horizontal, easily pluggable within our core systems and also our own distribution system and which has franchises, and would consequently increase our share of wallet within our client base.

The last pillar is innovation, it's the pillar of M&As that can instantaneously bring us a new market where we can operate.

So these are the four pillars we will seek. Of course it's possible that an acquisition may have more than one pillar, and if that's the case even better, but it needs to fit only one of these to fit our scope of analysis.

Regarding your question about the profitability of products, just as you said, 80 days is naturally not enough to have an in-depth knowledge. This subject of portfolio and focus on different segments is quite complex and important. Mistakes, for better or worse, are expensive, so we are taking care to analyze this very calmly, with enough maturity, in a balanced manner.

Of course we already had progress, there are many analyses ready. We are already seeking synergies and cost reductions, where it has already shown the obvious – now not everything is obvious. So where it isn't obvious as I said we're being very careful, taking it easy, we have no urgent need to resolve these things. We want to do things when we feel safe to.

So the message I can offer is that, indeed, there's undoubtedly a space for rationalization. We are already seeking this where it's obvious, what we say about high grass, and there some of it currently, indeed. Now after this high grass things start requiring a little more depth so that we don't make unintended mistakes.

Fred Mendes: Perfect Denis, thank you.

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

We have another question from Fred Mendes.

Fred Mendes: It's a follow-up on the first question asked, I think, by Marcelo. You removed the hardware and Bemacash part, at least they are no longer mandatory; but I'd like to understand if you think – again, I realize it's too soon – but if you think about making any changes to the distribution part.

As I understand it today, a major part of distribution is being done through Totvs Store, or if it's something you'll think a little further down the road. How do you see this distribution today, where do you want to eventually go? Thank you.

Dennis Herszkowicz: Thanks Fred once again. Yes, we are already discussing, and more than discussing we are indeed moving to expand distribution. Bemacash was also a very positive surprise, very welcome. It's a product that already has it, it's already consolidated. From the viewpoint of adherence to the need of these micro and small businesses, it's a product that fits very well. We already have a base of a few thousand clients using this solution for a reasonable amount of time.

So, from the quality standpoint it's a good product, it effectively works, which in turn leads us to believe that, if it's not growing as we'd like, it could possibly be highly related to limitations in distribution capacity. So today the greatest focus within Bemacash is indeed on distribution, and the decision to delink the Bemacash software from the Bematech smart device is exactly regarding expanding this distribution capacity, and so that we can have numerous partnerships with various elements in this market, and that we can go much beyond just the Totvs Store or even Bemacash-specific channels.

So, yes we are already discussing, and much more than discussing in many cases, we are already making moves to make this distribution capacity much stronger within Bemacash.

Fred Mendes: Great Denis, thanks again.

Operator: To pose a question, please press star one.

We now conclude today's question and answer session. I now invite Mr. Denis to proceed with his closing remarks.

Dennis Herszkowicz: Well everyone, I'd like to again thank you all for calling, for your trust in the company. I end this saying that I'm very, very glad with this opportunity. These first 80 days were really, really great.

I found a company with high energy, a desire to enter this important new growth cycle, and I found a very engaged, motivated, young and competent team.

So I don't have the slightest doubt that with much work, effort and balance, both from strategic and execution perspectives, we will indeed have a successful short-, medium- and long-term future. Thank you all, we will continue to be available for other questions you might have later. Thank you and good day.

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