

OPERATOR: Good morning and welcome to the TOTVS conference call to discuss the results of the first quarter of 2019. We have with us today Dennis Herszkowicz, the CEO and Gilsomar Maia, the 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 any assistance, please press *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. Dennis, who will begin the presentation. Mr. Dennis, please go ahead.

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

First I want to express my satisfaction with the results and to thank all Totvers for them.

We will start our presentation on slide 3, where we mention our positioning as a TECHFIN.

And why TECHFIN instead of Fintech?

Because we are a company that has and will continue to have technology and software in its DNA. We will not become a financial institution.

For us, the depth of the long-term relationships already established with our clients is a key differential that enables us to expand our current scope of operations, advancing in the value chain and adding financial services.

We are structuring ourselves to create innovative solutions that combine TOTVS' technology with that of partners in order to simplify and expand clients' access to credit and financial services in general, while making them more affordable.

As an example of this, we hired Eduardo Neubern as Head of the Fintech operation. Eduardo has vast experience in this market, having worked in companies such as Cielo, Mastercard and American Express.

The positioning as a Techfin reinforces our strategy of creating New Markets that will always be connected to the core business of software. That's the message we provide to the team. Technology first, always.

To successfully execute this strategy, focus is essential. That is why we decided to sell the hardware operations and, yesterday, we signed a binding Memorandum of Understanding with Elgin regarding the operations in Brazil.

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

Gilsomar Maia: Thanks Dennis. Good morning everyone.

This quarter was important to show the acceleration in the Company's revenue growth.

For the first time, we surpassed R\$400 million in recurring revenue in a quarter, reaching R\$416 million, which corresponded to 74% of total revenue.

As the chart on the right shows, the year-on-year growth in recurring revenue reached double digits. This was the key factor that led total software revenue to grow from 3.2% in 1Q18 to 8.6% this quarter.

Note that this growth is purely organic and reflects, among other factors, the competitiveness of the solutions offered by TOTVS, which is evident from the net addition of annualized recurring revenue, shown on the chart to the left on slide 5, which totaled R\$33 million this quarter.

Another factor that contributes to this recurring revenue performance is the loyalty of our customer base, as evidenced by the renewal rate, shown on the chart on the right, which closed this quarter at 98.1%.

And considering that software is by nature a scalable business, the acceleration in Software Revenue growth, combined with disciplined cost management, led to the 7.9% year-on-year growth in Adjusted EBITDA, shown on slide 6, which totaled R\$104.4 million in the quarter.

This EBITDA resulted in an adjusted margin of 18.5%, despite the provision for Bonus R\$13.5 million higher than in 1Q18.

Note that the EBITDA and margin amounts do not include the positive impact of R\$10.4 million from the adoption of IFRS 16. Including this impact, EBITDA totals R\$114.8 million and EBITDA margin comes to 20.4%.

Moving to slide 7, we see that adjusted Net Income grew 32% and 27%, respectively, quarter-on-quarter and year-on-year. This performance mainly reflects the growth in Adjusted EBITDA, in addition to the reduction in net debt, which I will comment on slide 8.

This quarter, net debt decreased 47% from 4Q18 and 90% from 1Q18, remaining at 0.1 times of last twelve months Adjusted EBITDA.

This reduction in debt, despite the 45% drop in free cash flow, resulted mainly: (i) from the increase in working capital on account of the increase in trade receivables since sales and quarterly closing fell on a weekend, in addition to the increase in prepaid expenses at the start of the year; and (ii) the increase in Income Tax and Social Contribution payments due to a tax rule that does not allow the offset of federal taxes before complying with some ancillary obligations that will occur in the second quarter of 2019;

Moreover, when considered the impact of IFRS 16, which increased net debt by R\$235 million, Net Debt corresponded to 0.7 times EBITDA in the last 12 months, which is lower than the 0.9 times level presented in the same period of last year that didn't have IFRS 16 in place.

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

Dennis Herszkowicz: My closing message is a snapshot of the first quarter. We started 2019 with:

- Acceleration of revenue growth, based on
- Double-digit growth in recurring revenue
- Total organic growth of over 8.5%
- Expanding the scalability of the business with
- EBITDA over R\$100 million
- Adjusted EBITDA margin of 18.5%, even with the provisioning for bonus being R\$13.5 million higher than in 1Q18 and
- Focus on software, with the sale of hardware operation

Finally, our positioning as Techfin, so that we don't forget that TOTVS has technology in its DNA and will maintain its 100% focus on the Software business.

We will now begin the questions and answers session.

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

Our first question comes from Mr. Fred Mendes, Bradesco.

Fred Mendes: hello good afternoon everyone. I have two questions here, the first one in terms of top line growth just trying to get a better understanding especially related to the recovery revenue growth that was way above what we have here. Is this more related to acceleration in subscription sales and then already starting to see an impact from the renegotiation or at least some higher pressure in the franchise that you are starting to do again in the beginning of the year? Or this is basically an improvement in church? I know that of course both help; but I am just trying to understand what was the main one, so that would be the first question.

Than the second one related to R&D expenses. Do you already have an idea about the profitability of each segment in order to analyze how you do the capital deployment on an individual basis of all of the 11 segments now to have... That you have? Thank you.

Denis Herszkowicz: hi Fred thank you for both questions, this is Denis. Look, in terms of the recurring revenues as you said it is a combination of everything that you mentioned and a few more; but the most important aspect is the performance of the sales team. It is not only the franchisees but our own team as well.

So the performance in terms of sales of subscriptions, which was started to charge immediately, this was strong throughout the board in terms of geography, in terms of segments, in terms of products. So this was the main factor. And of course churn is decrease in so it is another boost

that is immediate. So as long as we lose less it is something that impacts the results immediately.

Regarding the second question of R&D and the work that we are doing here in terms of understanding exactly what we have in terms of the segments, it is still work in progress. We have not yet concluded the analysis but we have advanced. So today we have more visibility of what is what and where we are spending the money; but more important than where we are spending the money used to understand how we are spending this money and the level of return that we are having on these investments.

And in this front it is still work in progress. Right now, yesterday for example, I was meeting with Marcelo Eduardo, who is the vice president responsible for the segments and Apendino, who is the vice president of sales, and we are preparing for example a map of all the segments and subsegments in which we operate and we are doing a work, we will do will work similar to the work that the portfolio manager the us in terms of deciding where we are going to focus more.

This is the beginning of the work for the budget of next year. Obviously it is early, we are still in may; but we are already starting to work on where we are going to put our money and what kind of returns we expect from this, and obviously this kind of work will help us as well in terms of the M&A strategy.

So you know that one of the pillars that we have is exactly to deepen our present into the segments and this map of where we are and the capabilities that we have in each and every one of the segments and subsegments, not only in terms of offerings of products but also in terms of the capabilities of the distribution platform, this will help us a lot in deciding not only the organic investments but the future M&A as well.

Fred Mendes: perfect Denis very clear thank you.

Denis Herszkowicz: thank you.

Operator: ladies and gentlemen as a reminder, if you would like to make a question please press star one.

The next question comes from Fred Mendes, Bradesco.

Fred Mendes: okay so if there is no more questions if you just allow me a follow-up here, just to more. I think the first one especially on the Sim Tech space it looks like you are hiring directors in order to explore new opportunities. So I am just wondering as you expand your team should we expect an increase in G&A, at least in this initial period, let us put it that way, in a more relevant way? This would be my first question.

And my second question related to the material fact that you published last week confirming the possibility of raising proceeds to complete the execution of your business plan, I am not sure how much you can talk about it and if you can talk about; but in case you do just any kind

of visibility related to where you are thinking to focus the most, at least in a scenario where that happens, where you see more opportunities to deploy this money? Of course anything you can say would be great thank you.

Gilsomar Maia: hi Fred this this Maia speaking. Regarding the first question related to Eduardo we do not see that move is something that will change our cost structure. So it is really part of our organization here to bring people that can give us more capabilities to develop new markets. So we understand that we have conditions to absorb that structure not changing the behavior of our costs here so far.

Denis Herszkowicz: Fred this this Denis again. Look, regarding the material fact there is not much that we can say in addition to what we put into the material fact. So as we have been saying from the beginning of my tenor here, M&A's back on the deck. So we have this design, the strategy based on four pillars, and we are working to execute this.

So the material fact simply states based on the news that got out in the Brasil journal, it simply states that yes, the company has intention to have funds for the execution of the business plan. So that is the maximum information that we can give as of now. Of course whenever we have more concrete facts we will make them available to all of you.

Fred Mendes: perfect thank you Denis, thank you Maia.

Denis Herszkowicz:: thank you.

Operator: Once again, to ask a question please press star one.

This concludes the Q&A session. I would like to invite Mr. Denis for his closing remarks.

Denis Herszkowicz: Well I just want to thank you all for participating in the call and to reinforce that we are working here very hard to keep the momentum and to try to accelerate even more the top line of the company. So again thank you very much and have a nice day.

Operator: This concludes Totvs's conference call for today. You may disconnect your lines, have a nice day and thank you for using Chorus Call.