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 Susana Salaru of Itaú.

Susana Salaru: Good morning all, good morning Denis, good morning Maia. I have two questions. First, could you provide more details about the TECHFIN initiatives? And when will we be able to have a clearer vision about it and how do you intend to obtain results from it? That is our first question.

The second question is about sales cycle and churn rate. We have already seen an interesting improvement in the churn rate, your sales cycle is improving. What is your opinion about margin? Thank you.

Denis Herszkowicz: Thank you Susana. Good morning, this is Denis. I will start with TECHFIN. You see, we are still in the beginning. We now have a team ready, Eduardo is already here, and we have already hired people to fill the main positions that will report to him. We have already signed an agreement with Rede. Work already began in April.

Thus, I believe that we will start to have practical results during this year. Now, in a company the size of Totvs, it is evident that the impact in terms of materiality, especially this year, will probably still be minimal – I say 'probably' because we do not know if these results will come earlier.

We are working on it, but we are not counting on it. But I do believe that during next year we will have a good chance to see an impact not only on top line results but also on profitability. And profitability is always worth emphasizing, because adopting this TECHFIN positioning give a clear message that all the work we are doing of entering new markets is directly related to all that we already have, the entire client and distribution platform and relationships we already have. Normally, these additional revenues, these new markets will produce margin significantly higher than our regular/core operations do simply because they are developed based on them and take advantage of our platform. So I would say that from our side we are confident that we will build something important – but it takes time for it to produce results.

Regarding sales cycle and churn rate – if Maia wants to make additional comments, that would be great –, we have seen a good start of the year. I believe that the discipline among own and franchisee teams is at a very satisfactory level at the start of this year. I am fully satisfied. My thank-you message to the teams in the beginning is genuine, because this was an important result for us.

Returning to double-digit growth in recurring revenue based on what we already have, with our size – almost R$2 billion in recurring revenue – is not simple, is not easy. The Brazilian economy is still not performing as we would like it to. So I wish to reinforce that the bulk of this result is precisely due to team work, and this cycle is becoming shorter. In this regard, subscription and cloud help tremendously to accelerate the sales cycle.

Having a much clearer vision of what each product does and to which client type and profile it is directed has also provided this sales cycle with efficiency and increased pipeline conversion. From the viewpoint of churn rate, I believe that this improvement reflects the work we have been doing, maybe in a very discreet manner compared to the market, but not at all discreet in relation to our client base, with an actual recovery of quality of our products.

In the last two years, we had some problems with the new versions of products that were launched. eSocial created some headache among clients. However, as we have been working calmly during 2017, mainly in 2018, to put the house in order, all the quality indicators of the company improved: NPS, the number of support services, rapid conclusion of open tickets – and all this at the end of the day sooner or later translates into better churn rate, and churn rate in the end boosts top line result and profitability. Maia, would you like to make any comments?

Gilsomar Maia: Denis, it is worth mentioning that we have had a very consistent uptrend in churn rate. Of course, as you said, this is a detailed, minute work to be done little by little.

On the other hand, we also see room for improvements on several fronts, because we know that the market has still some points that merit attention. Delinquency is improving a little but it is not at a level considered normal for our market. Recently, some important companies have been facing difficulties, some requesting court-supervised reorganization.

Despite all this, I believe we have been able to overcome these difficulties and earn recurring revenue and, consequently, margin.

Suzana Salaru: Thank you.

Operator: Our next question comes from Valder Nogueira of Santander.

Valder Nogueira: Good morning everyone, Denis and Maia. Let me recap what you're saying, which is clear in the call: I am able to gain more efficiency, extract more value from the sales network of our channels. This is leading to cost dilution mainly driven by revenue.

This also leads to the ability of having an even more efficient Capex planning from now on, and your M&A processes will be more efficient too. Is this rationale correct?

And the other doubt is: which verticals are being more efficient for you? That is the first question.

Denis Herszkowicz: Good morning Valder, thank you. This rationale is perfect, it is exactly what I said, this is what I affirm to the team, and I believe that everyone has been responding very well to it. Our focus is on accelerating top line result. Totvs' business is extremely scalable. Each additional R$1 in revenue does not mean R$1 more in cost, especially in the short term.

Obviously, in the medium and long term, as you change your client base, your revenue, you will always have to make adjustments in your cost structure to support this new level, but this adjustment never follows the same proportion of revenue increase.

So, the focus is on growth, on accelerating our recurring revenue, on accelerating our top line result. Margin gains will result from the dilution of the structure we already have through revenue generation, as you commented well. Of course we have, and will maintain, cost discipline; of course we are analyzing everything we can do to improve T&D investment.

Is there inefficiency? Of course there is. Are we analyzing the performance of the entire distribution structure and seeking ways to improve productivity? We surely are. Our initiatives are broad, general and unrestrictive – but we will not be able to improve margin significantly simply by changing cost. Cost will be a result of this acceleration in our top line result.

Valder Nogueira: And what about verticals and sub-verticals? You think they're stronger or weaker? This is also part of the first question.

Denis Herszkowicz: You're right, I forgot this one. We included this in the release. One of the things that left us satisfied is that this movement was general. Even in manufacturing and construction, for example, sectors that are not performing very well from the economic standpoint – in fact, no sector is doing very well, but these two particularly are still not doing very well –, we have seen a recovery in basically all verticals.

Of course, education, for example, continues to report excellent performance; retail and distribution was also a vertical with very positive surprises. Products such as PC, which is focused on wholesale, cash and carry, Virtual Age that is highly focused on fashion and clothing, have been performing very well; with a significant improvement in cross-sell.

So regarding additional offerings, we are devoting considerable efforts inside our CRM. It's a huge opportunity we have in our base. We built a very specific team in the commercial area to address CRM. We established a partnership, and our partner is very competent and is 100% dedicated to it. Thus, I would say that luckily it was a general movement.

Valder Nogueira: Ok, now the second question is about what you said of your focus on TECHFIN. This focus on TECHFIN is basically for Totvs' current clients... is it different from regular acquisition? I mean, you will not go indiscriminately after clients, will you?

Denis Herszkowicz: Yes, you're right. Our focus is entirely on Totvs' client base. As I said, we will not become a financial institution. I want to advance in the value chain using what I already offer my clients. So if my clients need – and they certainly do – more and cheaper access to credit, to financial services in general, such as collections, this is the type of offering we want to give them.

And in most cases, this will be done through partnerships. Naturally, we are mapping all that we want to do and how we want to do. Much of it will come from M&A operations, others will be built organically from scratch – all I can say for now is that our current intention is to make the most mainly of partnerships.

Valder Nogueira: Thanks Denis.

Denis Herszkowicz: Thank you Valder.

Operator: Our next question comes from Guilherme Haguiara of Banco Bradesco

Guilherme Haguiara: Good morning everyone and thanks for taking my questions. The first one refers to this healthy performance in recurring revenue. We would like to know your opinion about the start of the second quarter - will you maintain the growth pace we saw during the first quarter? And is it possible to think of a double-digit growth for Totvs' recurring revenue in 2019. This is my first question.

Denis Herszkowicz: Thank you Guilherme. I will pass it on to Maia to complement it. But first, our second quarter started well and I believe that the dynamics is similar to that seen in the first quarter. However, in terms of numbers, we cannot be so sure for now. What we want, as we have been saying, is to keep this growth acceleration. If it is one or two-digit expansion, it is still early to say. We live one day after the other. In the first quarter we made it, we are very satisfied, the team is celebrating a lot.

For a long time, the company was not able to record a full provision for profit sharing and bonus, so we are very, very happy, very satisfied with this and we are sharing it with the entire team. However, we cannot say it will continue until the end of the year, but we will strive a lot for it.

Guilherme Haguiara: Thank you. Could you talk about non-recurring revenue? We remember that you have a highly complicated comparison basis for Totvs' corporate model, which ends up affecting the full figure. Thus, we would like to know what you saw of performance in license sales, what opportunities you see outside the corporate model, maybe in the market, and what we can expect from it during the year.

Denis Herszkowicz: Good point. As you said, the first quarter of last year is a pure, hard comparison base. So we already had a reasonable vision of a non-recurring revenue growth significantly lower than the recurring revenue, chiefly regarding licenses.

Yet, it is in accordance with what we expected, what we proposed. Note that most of the new sales currently are for the client base. Sales to new clients are already under the subscription model, so it no longer captures the license opportunity, which in our opinion is great, very healthy. The recurring revenue proportional to the subscription model is higher than the recurring revenue model, than the licensing model.

So we have been seeking a balance in it, where we find an opportunity, where the licensing model is well applied based on the size of the client, by either the geographic region or the product we are selling, the offer we will have and where subscription will certainly be stronger.

So looking ahead, this is also a bit of what I answered about recurring revenue. It is hard to give you a vision for the rest of the year. What I can say is that at least for now the licensing result is within what we have proposed.

Guilherme Haguiara: Perfect, thank you Denis.

Denis Herszkowicz: Thank you.

Operator: Remember: to ask any questions just press asterisk and one. Our next question comes from Matheus Nascimento of Goldman Sachs.

Mateus Nascimento: Good morning everyone, this is Mateus, thank you for taking my question. I believe that for now you have certain restrictions to talk about MoU, but our question is much more about potential implications brought by the hardware business to your distribution channel. So what should we expect about it? Thank you.

Denis Herszkowicz: Mateus, thank you for the question. We expect no impact, since there is no integration between hardware distribution and software distribution, because in our vision we never saw any value to be extracted from it. So we have no impact from it.

Yet, from a general, strategic standpoint, it was a very important move for us. We as a company learned a lot from this entire process. We have a very long history of M&A operations, most of them extremely successful, we created much value over the years.

But clearly not 100% of the cases were right decisions. Take the example of the acquisition of Bematech: the software portion worked very well and we extracted and have been extracting much value of it; but the hardware part unfortunately did not work well, and the merit of the company was in perceiving this – maybe later than expected – and managing to resolve the situation.

So the company has the merit in recognizing when things do not necessarily go well, and when this happens, we have to face them and resolve them, and that's what we are doing now.

Mateus Nascimento: Perfect, Denis. Maybe the main rationale supporting the acquisition of Bematech has been exactly this distribution network, seeking a potential integration with the software business. But it was very clear, thank you.

Denis Herszkowicz: Thank you.

Operator: Once again, to pose a question, please, dial asterisk and one.

Oure next question comes from Daniel Federle of Credit Suisse.

Daniel Federle: Good morning everyone. I have two very specific questions. The first refers to the sale of the hardware business. I know that the company already reports separately software and hardware results, but what I would like to understand is: once this operation is sold, is there some hardware cost or revenue that would remain after sale under software results? And would there be any impact on revenue, on software result, after the actual sale of the hardware operation? This is my first question.

And the second question refers to bonus payment. Provision for bonus used to be concentrated in the first quarter. Is this a level we must expect for the second, third and fourth quarters? Thank you.

Gilsomar Maia: Daniel, this is Maia speaking. I will start with your last question. Bonuses are exactly related to quarterly performance. As Denis said, we met all the targets for the first quarter and, consequently, the provision followed these results. So this is not a matter of linear standard, the provision follows the results.

Regarding separation between software and hardware revenue, we prepared ourselves for this previously. The entire, hardware operation, by the way, went through the carve-out process in 2017. We completely segregated the results and balances of operations, and I don't see any impacts from the sale of the operation in terms of hardware revenue.

Daniel Federle: Great Maia, thank you.

Operator: The next question comes from Guilherme Haguiara of Banco Bradesco

Guilherme Haguiara: Thank you for taking my follow-up. You mentioned Bematech's software part, and we missed an update about Bemacash's performance in terms of sales and acceptance among clients, after the separation from hardware, after it became an independent segment.

Moreover, I would like to know if you have any update on the M&A pipeline. We remember the four main pillars you mentioned, and if you have anything to share with us, what we can expect from the near future, I believe this would help us a lot.

Denis Herszkowicz: Great Guilherme. It's Denis again. Regarding Bemacash, we made it agnostic, as we call it, very recently. There was the need to develop it from a technological standpoint, so this is very recent and it has not had a significant impact on sales results.

Now in general, on a pro forma basis, Bemacash is performing below our expectations. Maybe this is an offering that demands more work from our side. So it is not working as we want, the way we planned.

But we are working hard within that concept of being agnostic about it and, therefore, we have no strings attached. Furthermore, we are mainly trying to resolve the distribution issue. Since Bemacash is focused on small and highly fragmented clients, resolving the distribution issue mainly through partnerships will be key and we have been conducting negotiations about it – but for now we do not have any concrete information to give you. I believe we will have something to tell you in the coming weeks, then we will inform you for sure.

To conclude, regarding M&A, as always, we are not able to provide any precise information about it. What I can say is that we are doing our job. We're back to the game, we have been working on a view flow, in negotiations at different stages, and when we manage to get things together, we will certainly inform you – but I cannot speak much about it now.

Guilherme Haguiara: Perfect, thank you Denis.

Denis Herszkowicz: Thank you.

Operator: Remember: to ask any questions just press asterisk and one.

The question and answer session is now finished. I'd like to invite Denis Herszkowicz to proceed with his closing remarks.

Denis Herszkowicz: Well, thank you everyone again for your participation. I would like to reinforce that we are striving every day to ensure that business acceleration and recovery perpetuate for a long time. So have a good day, thank you.

Operator: That concludes TOTVS' conference call. Thank you all for listening and have a good day.