
Sergio Sérgio:

Good morning. Welcome to the TOTVS First Quarter 2025 Earnings Videoconference. I'm Sergio Serio, Head of IR, and I'm pleased to be here today with Dennis, our CEO; and Maia, our CFO. So, as always, we'll present the main highlights of the quarter, and then we'll have our Q&A session. (Operator Instructions)

Before moving on, we would like to clarify that any forecasts and expectations regarding TOTVS' future performance are based on current beliefs and assumptions, as well as information available at the time. They involve uncertainties and risks, and several factors may impact the company's earnings, leading to significant changes in the expectations presented here.

I will now hand over to Dennis, who will start presenting with **Slide 3**.

Dennis Herszkowicz:

Thank you, Sergio, and have a -- I would like to wish you a great day today. The CEO's message in the earnings release suggested a consideration of the methodology used by the market to project TOTVS' earnings. It is an important consideration because, over the last years, a large gap has been created between the market's expectations of growth and the results actually achieved by the management BU.

Over the past few days, we carried out an exercise of going back in time and trying to replicate the revenue projections that analysts and investors made as of 2019, when TOTVS entered a period of accelerated growth. It was a complex exercise. In the best simulation we could build, we would have reached something like BRL960 million in revenue in the first quarter of '25. However, reality shows management revenue of BRL1.3 billion, which represents an incredible CAGR of 21.6% in the period. In other words, expectations corresponded to less than three quarters of what was realized.

In terms of EBITDA, the gap would have been even greater. In many of the interactions during this period, the market expressed the expectation that the end of the accelerated growth was near. In fact, this vision, this will -- is still present in part of the market.

To repeat the poetic license we used in the message, we could say that we have a case of management growth debt hopes. Why has this been the case for such a long period of time? We see two main reasons, and we have tried to address both in the last two quarters.

First, there is often a habit in the market of revising projections every quarter, altering short-term projections too much, usually upwards, with little or no impact on the long-term curve. In a company that combines a very high level of recurrence with an even higher level of customer renewal, the knock-on effect, as we call it, of growth, tends to have a greater impact on the long-term curve rather than the short one.

And the second reason was explained in the last quarter, when we addressed the confusion in understanding the dynamics of the management software market. We showed that the perimeter covered by it has been constantly expanding for many years, as well as the fundamentals for this to have happened, which are still strongly present, with no indication of change for the coming years. We gave concrete examples, such as the cloud example. And, more recently, AI is on the same path. We think that this explains the gap, proven by the historical performance of the software market and TOTVS' revenue itself, with a five- and ten-year CAGR of the management software market growing 2x more than the nominal GDP, and TOTVS' growth at least grew 1.2x more than the market itself.

The first quarter of the year, as shown on **Slide 4**, is yet another example of our ability to maintain, and eventually even accelerate, the company's already impressive revenue performance. Its main driver was the acceleration of year-on-year growth in recurring revenue, which went from 21% in the first quarter of '24 to 23% this quarter.

Two factors contributed to the acceleration in recurring revenue. First was the solid pace of growth in SaaS management and RD Station revenue, up more than 30% year-on-year, mainly linked to strong sales volume. The second reason was pricing power in the management business unit, which made it possible to pass on the full impact of the payroll remonetization, along with inflationary adjustments in automatic contract renewals. Both factors led to net adds reaching a record of BRL287 million, an increase of more than 51% year-on-year.

Looking at operational efficiency, we also made important progress. Adjusted EBITDA grew 25% -- 24% year-on-year and 11% quarter-on-quarter, with the addition of 90 basis points year-on-year and 110 basis points quarter-on-quarter in EBITDA margin. In addition, the company achieved a significant 44% increase in net income compared to the first quarter of '24, with the addition of 270 basis points to the net margin.

The reduction in free cash flow over the same period is mainly connected to the variation in working capital. And here, we should provide a more detailed explanation. Most of our recurring sales take place in the first few days of each month, with due dates towards the end of the month. With Carnival at the beginning of March, invoicing took place later, increasing the concentration of due dates on March 31st, given that 29th and 30th of March were Saturday and Sunday, respectively. Receipts settled on that date had their bank credits made on D+1. And therefore, the benefit in the working capital variation was left until April, that means in the second quarter. In addition, the higher volume of equipment acquisition and replacement also increased CapEx in the quarter.

Now, I'll hand over the presentation to Maia, who will comment on the results of the business units from **Slide 5** onwards. Maia, the floor is yours.

Gilsomar Maia:

Good morning. Management BU maintained this strong sales momentum, which, combined with the pricing power mentioned by Dennis, brought net ARR additions to reach over BRL227 million. These results, plus the additions of the corporate model and the variation line, took ARR to over BRL5.2 billion in the quarter, a growth of 19% year-on-year. These led the recurring management revenue to grow 24% year-on-year, and consequently, the BU net revenue moved to 19%. It is worth highlighting the continued high levels of new SaaS sales, whose revenue ended the quarter with growth superior to 35% year-on-year, reaching BRL584 million.

EBITDA growth, which was higher than revenue growth, is the result of important structural factors, combined with click-cyclical factors and historically seasonal factors. Among these structural factors, it is worth highlighting the solid performance of recurring revenue and the increase in operational efficiency due to the progress made in integrating recent acquisitions. Among the structural factors, I would like to highlight the convergence of IGP-M to the IPCA.

And finally, among the seasonal factors, I would like to highlight the increase in the corporate model, which was more relevant in the quarterly comparison. The business unit's performance is even more significant when we consider that costs and expenses were impacted by salary adjustments under the collective bargaining agreement in Sao Paulo, a region that accounts for half of the company's payroll, in addition to the payroll remonetization itself.

Moving on to **Slide 6**, in the RD Station BU, AR exceeded BRL612 million, driven by net additions of BRL31 million, a similar level to the same period last year, and 34% up on the fourth quarter of 2024. Although seasonally weaker in terms of sales volume, the first quarter of 2025 was favored by the growing performance of sales of multiproduct solutions, especially the launch of the advanced CRM plan. EBITDA reached BRL18 million in the quarter, almost doubling year-on-year, with EBITDA margin 430 basis points up on the same period last year.

These results reflect yet another significant improvement in operational efficiency, with gains in scale due to the increase in BU revenue, as well as progress in the process of integrating the acquired

operations. The performance in the quarterly comparison, on the other hand, is essentially related to the impact on costs and expenses of the payroll tax reform. It is worth emphasizing that it is natural and expected that there will be some fluctuation in the evolution of margins, especially in quarterly comparisons, since this BU is undergoing an important process of transition and evolution towards the multiproduct model.

Moving on to **Slide 7**, in TECHFIN, the 26% growth in net funding revenue is mainly a reflection of the growth in credit production, even in a scenario that continues to be challenging for the Brazilian credit market, with high funding costs and a rising Selic rate cycle. This performance demonstrates, once again, the solidity of TECHFIN's business model and the gains in scale and efficiency that the JV provides. In the quarterly comparison, the 17% drop in revenue is due to the well-known seasonal reduction in the average term of production, which occurred as a result of the reduced concentration of agribusiness credit contracts in production in the first half of the year.

Adjusted net income was 5.6x higher than in the first quarter of '24, which shows that this BU continues to increase its profitability, reflecting operational progress and efficiency gains, as well as launching new solutions for clients.

I will now hand over the presentation to Sergio, who will lead the Q&A session. Over to you.

Questions And Answers Session

Sergio Serio:

Thanks, Maia. I'd just like to remind you of the guidelines given at the beginning of the video conference. (Operator Instructions) First question is by Leo Olmos, UBS.

So, you can ask your question, Leo.

Leo Olmos (UBS):

Thank you, Sergio, and good morning, everyone. It was a great result. We really liked it. So, I think it's important to say -- talk about your letter, Dennis. I like that. And looking to 2025, because you talk about the latest years, but we should focus on this year and the next years to project growth. What about payroll remuneration? How should we think about that? It is great that coaches can transfer inflation costs and higher tax costs to clients, but wouldn't that put too much pressure on clients? Can companies afford that? Or will that be a time when clients are going to start looking for other options? So, how are you dealing with this pricing strategy versus the pressure on your clients?

Dennis Herszkowicz:

Thank you, Leo, and good morning to you and everyone again. As usual, we are concerned with any type of changes that we might have in our business, especially in the client relationship. We're constantly concerned with that. In several opportunities in the past, analysts like yourself, our investors, ask us about why don't we use our pricing power at a higher pace than the one that we use. Because usually under standard conditions, we just automatically transfer the inflation cost of the past 12 months to clients.

And the answer to that question, the question we always give to our analysts and investors, is that yes, theoretically, we could transfer prices to our customers, price increases, as many international companies do, but we see our relationship with our clients as a marriage relationship. It's a full-fledged partnership, and our position is of a positive trusted advisor, and this is acknowledged by our clients as well. This is why we are so careful with any good changes that we can implement.

Having said that, of course, the payroll case is a potentially dramatic change in the cost structure, because companies for almost 15 years operated under a model where a change in the payroll remonetization, fortunately or unfortunately, will make you review the contracts that you had until this point and maybe transfer those costs to our clients.

Otherwise, we would need to make adjustments to our investments, and in our understanding, it wouldn't be appropriate, even in the client's perspective, if we were to make these adjustments by cutting investments to keep our results. In our understanding, not only that will be hurtful, not just in the middle and long term, but also in the short term, considering tax reform and other challenges that we face. So, we are sure that it will be in the best interest of clients themselves for us to keep this good investment pace.

And looking into the future, I see a similar situation, because we see that by preserving our investment ability, our innovation capacity, by keeping -- being able to bring the best in terms of solutions to improve efficiency and productivity and sales of our clients, that's -- again, that's in the best interest of our clients. And this is why we will keep on this same path as we have been in the beginning of '25.

Leo Olmos (UBS):

Cool, that's a nice pitch. Thank you, Dennis. Congratulations.

Sergio Serio:

Thank you. The next question comes from Vitor Tomita, from Goldman Sachs. Vitor, you can go ahead, please.

Vitor Tomita (Goldman Sachs):

Good morning, everyone. Thank you for answering our questions. I have two questions more focused on business performance. First of all, connecting also with the first question, we would like to understand if you know how relevant the ARR, business performance tradition, was in payroll remuneration were more partial, not done immediately because in this management BU. Do you have more room for VP remuneration? And how do you see that? And the second question was on a more general cross-selling in the management. Could you talk more about how this is progressing in this advanced CRM plan is going?

Dennis Herszkowicz:

Thank you, Vitor. Thank you for your question. Let me start, and then Maia will help me, obviously. Regarding the impact, the remuneration with the addition of RD, as we explained, this impact is being made in installments. We have been placing it in the due date. The behavior should be a little bit different. However, the impact is not a major one in this first quarter. The majority of AR addition in RD, RD BU was the addition in sales in the first quarter and the occasional adjustment of prices that take place. So, there is an impact, but it's a proportionally small impact. And unlike management, it's going to extend. It's going to happen throughout the year.

Regarding RD cross-selling into management, it follows a growing pace. More and more, we see -- I'm sorry, we see our build sales trust in offering RD products. We've had our franchise annual event, which took place around a month ago in the city of Florianopolis. I was there, and basically the whole management was there with all the franchisees. And the RD topic was one of the main ones, and the enthusiasm of the sales team, both their own units as well as franchises. This is -- they are truly excited. Last year I could meet around 150, 180 clients in different situations, and it's impressive to see there was no meeting, Vitor, let me tell you, no meeting where the RD topic and the presentation of the capabilities of what the RD portfolio can provide didn't react an interest from our management clients.

So, once again, things are moving well, volume has grown, and especially the proficiency of this field sales team, the portfolio, and everything this product can add in terms of value. It keeps on growing.

Just to wrap this up, we have always talked about cross-selling topic and integration from the commercial standpoint. However, we have just embarked in an important journey concerning the integration of products themselves. We do not see, in Brazil or abroad, in international companies, for instance, we see no approach on CRM or digital marketing or in other tools. We do not see an industry angle, sectorial angle, and know that TOTVS has developed an industry knowledge and a segment knowledge regarding business management that is truly deep, and we understand that putting together these RD solutions with this industry knowledge from the standpoint of TOTVS can bring us a competitive leverage, a competitive advantage that we cannot find in other companies nowadays. So, once again, we can tell you that we are truly hopeful, we truly think we will keep on building something special in RD.

Vitor Tomita (Goldman Sachs):

That was pretty clear. Thank you very much.

Sergio Serio:

Thanks, Tomita. The next question comes from Silvio Doria from Safra. Silvio, you can go ahead, please.

Silvio Dória (Safra):

Good morning, everyone. Thank you for accepting my question. Can you provide us with an update on how Shopify partnership is moving along, and do you think we could acquire a player in the segment to reinforce in this, in this digital area, the digital sales for small and medium-sized companies?

Dennis Herszkowicz:

Good morning, Silvio. Thank you for your question. We're doing great in that. In terms of sales, we are the largest Shopify seller in Brazil, and we have a big focus on Shopify Plus, the most robust and sophisticated solution in terms of Shopify. This partnership is doing great. We have always said that there are some adjustments that need to be made in terms of the Shopify operation here. So, topics as far as collection go and the integration of the Shopify platform with a series of partners to provide higher capabilities to the solution. And we've been working together with Shopify so this can evolve as fast as we can. But I can tell you that we're pretty satisfied with this partnership so far. We think Shopify is as happy as we are, too.

In e-commerce, the e-commerce topic is a strategic one for us. Obviously, we keep an eye on the market at all times. We see this as an opportunity. But it does not mean we are not operating super well with Shopify, and I can tell you that we are satisfied with them, and so are our clients. So, we will hardly say something is impossible. Maybe it's not the short-term priority now, but I will not say that this will not happen. That will never happen. We won't say no to possibilities. Thank you.

Sérgio Sérgio:

Thank you, Silvio. Moving on, next question comes from Livea Mizobata from J.P. Morgan. Livea, you can go ahead.

Livea Mizobata (JP Morgan):

Hello, guys. Good morning. Thank you for this opportunity. My first question is, I would like to understand how the RD market evolution has been moving on. The churn is in high levels. Could you provide us with more details on the, how to change the strategic positioning for multiproducts, and what about macro items? ARR is very good. The best is the 3Q of '23. So, we would like to understand the moving parts and integration of this strategy according to the results presented or within the results presented.

Thank you.

Gilsomar Maia:

Thank you, Livea. Well, regarding the evolution of the RD market, this is a relatively new market in Brazil, especially if compared to the management market. So, it's -- it keeps up with a strong development, especially in the past decades, along with e-commerce in Brazil. And right after the pandemic, this was more evident. I mean, the need of companies to work with this digitalized environment. So, this market is under development. And since we decided to open this business front, we have always emphasized, I myself have done this in our institutional presentation. I've always thought it was important to call the attention to the different features of these markets. So, this is a market that is evolving quickly. The digitalization of companies is very important in every segment that is highlighted. It has a strong connection with our front here, this verticalized front of management, good connection with management. And this is a market that has different characteristics in the management market. And as you mentioned, it's a consistent one, resilient market. But obviously, a chunk of company's budget is much more connected to the management, administrative expenses, IT. I mean, it has an angle on costs and utilization and operating efficiency of these companies. However, in the R&D performance, you occupy or you take a place or a space in the budget of companies that is much more connected to marketing, sales, investments, which are more elastic. Consequently, they are a little bit more discretionary. It's natural, this market. I mean, when you consider the stage of this development of this market, it will be more volatile. It can develop quickly in the short term. Themes like conversation have developed some opportunities, and companies are interested in that. And we keep an eye on these new waves of development and considering the processes of the market development and R&D performance in Brazil.

Consequently, it also brings some churn issues, maybe because of this profile is more concentrated of R&D. There are some issues there that lead to a higher churning. However, the multiproduct approach that we have worked with, worked with, we are sure it will help for a decrease of this churn related to this market. As we activate more products, the retention rate of this clients with us tends to be improved. We have tried this in management. This is a solid belief we have. And along with this multi-product approach, there is also a work that is being done with the RD team, so we can have a more integrated, more fluid approach, more a suite approach.

So, this is an evolving market. It has more volatility attached to it, more churning, but we've been working on this front, so this churn can be reduced as time goes by, especially with this multi-product approach.

Dennis Herszkowicz:

Well, just to pick back on what you said, I think that, being very pragmatic, we see this market as a healthy one. We don't see any issues in the market. As you said, fluctuations are rather common in this market. Of course, we are comparing the less volatile market to compare with. There's not a problem with that. And internal issues are connected to this change in operation, that until not long ago was a single unit, that was all it did, and now it's moving towards a multi-approach. It's a deep change, and it brings

some level of additional volatility to the results. But again, we are very pleased with the performance of the market and with the performance of our RD. It was very clear.

Livea Mizobata (JP Morgan):

Can I ask a follow-up question related to that? But now, focusing on management, could you share with us how you see the appetite of the market for growth in Brazil? Do you think that there is a specific segment that is more special, and what are you delivering to this competitive market?

Dennis Herszkowicz:

Let me answer that, Livea, considering the following. We have seen good diversification of segments. In the past quarters, I mentioned that retail, for example, had a result that, of course, this is public market information, that the retail market was facing more difficulties. But honestly, the retail market in the past years recovered in our business at TOTVS. So, I don't see any segment, any industry at this point today where we see difficulties. But naturally, we see some evolution, even a stronger revolution in services and the services industry as a whole. We have seen great improvement there, and the level of management solutions in services is lower than in manufacturing. Brazil is not so strong in that as an American market, but in Brazil, the service industry has even lower penetration. They use even fewer management solutions than other industries, but we've seen these type of difficulties there.

Sérgio Sério:

Thank you, Livea. Now, moving to our last question, Maria Clara from Itau. Go ahead, Maria Clara.

Maria Clara (Itaú):

Good morning, Dennis, Maia, and Sergio. Thank you for taking my question, and congratulations on your results. I would like to talk more about Dennis' talk in the beginning about the expectations for the year. Could you give us more details about the drivers that can contribute to an acceleration to this very solid level of growth? I understand you've already briefly talked about some of the perspectives, but I would like you to give us more practical examples of your expectations for the evolution of the system. Thank you.

Dennis Herszkowicz:

Thank you, Maria Clara, and good morning. In addition to all the examples you're familiar with, I can give you very concrete examples. Cloud is one of them, so definitely cloud has opened an additional addressable market that did not exist for an application, a company like ours, and this is a huge market. This is more than half of the total customer base is not yet a cloud customer, and the part that is a cloud customer, the level of use of cloud solutions is way below what it could be. So, definitely the cloud business is expanding our addressable market at huge levels, and the possibility of cross-selling to those who already use our applications is, again, huge.

I do not have exact numbers, but we have more than 80% of our customers that use our cloud applications, that use our cloud, so we can capture this opportunity. We have great opportunity for that. And also, there's AI. We are getting close to the TOTVS Universe meeting that will be held next month. And I can tell you that a large part of that meeting will focus on AI. For us, AI means an expansion that is even greater than the expansion that we got with the cloud. We are still taking the very first steps in that in the market. So, I see very promising perspectives, a large number of opportunities. We have NTS at the highest level ever, our portfolio grows, also expanding our commercial network. This is unbeatable. This is a brand that was renewed and a great level of relationship with our customers. We also have an area of new businesses that work in synergy with our business. And in addition to all of that, I see an additional

expansion of these addressable market. So, we have this opportunity of capturing that addressable market at TOTVS. So, again, it's just a matter of execution on our side. And I'm sure that up to now, we've been very successful in our execution efforts. So, I do not see any reasons for us not to continue being very successful in the execution of our initiatives in the upcoming years.

Maria Clara (Itaú):

That was very clear. Thank you. And I would like to ask a follow-up question. Indeed, AI has been a major topic of discussion, and we know that it requires additional investments so that this growth can be accelerated. Could you tell us about the potential investments of TOTVS moving forward related to AI? Thank you.

Dennis Herszkowicz:

Thank you again for this question. We've been making investments like this. So, when you look at the figures from last year and also from this first quarter, we have made significant investments in AI. A lot is going on. We have an AI area that focuses on governance, on tools, being able to keep up with everything that is happening right now and to generate benchmarking and best practices, literacy. So, this is already in place. It's consolidated in our company.

But in the edges, so to speak, we have widespread solutions in applications for AI. And AI, I'm talking about AI applied internally in our own processes, whether you're talking about customer support processes, implementation, deployment, service, back-office services, all of them are using AI solutions in different levels of sophistication or implementation.

And there is also applying AI as part of our products, building a platform of AI agents, developing AI agents focused on different industries. This is very important to create industry-specific AI agents that can actually address opportunities and meet customers' needs of specific industries. So, you can see our numbers. We already have AI applied to our day-to-day business. And we have made significant investments. Of course, we will need to make more investments. But we are not in the business of a AWS or Azure. It's not that business that we are part of, like OmniAI. So, the level of investments we need to make in our company, and even the pace of implementation and of AI solution adoption is, how can I say it is lower. It's more careful. It will probably take a longer period of time. So, I don't think that we are going to have major surprises or variations in terms of this pace of investments in AI, even though we are making a huge change in the company, making TOTVS an AI-based company.

Sérgio Sérgio:

Thank you, Maria Clara. Now, wrapping up our Q&A session, I would like to turn over to Dennis for his final remarks.

Dennis Herszkowicz:

Thank you, Sergio. Thank you, Maia. Well, the results we deliver reflect not only the consistency of our execution, but also the strength of our strategic positioning in markets that continue to grow above GDP. So, to repeat what we said at the end of the message in the earnings release, when new reports of the debt of our growth appear, we will take the liberty of drawing inspiration from Mark Twain and reply that reports of our early debt were greatly exaggerated.

Well, I can't close our call without making a special invitation to everyone who's watching us. We'll be holding, as I mentioned, our TOTVS Investor Day 2025 on June 18th as part of TOTVS Universe, the largest technology and business event of the country. You can participate online or in person. For those who are with us in person, we will give you full access to the two-day TOTVS Universe program. We are

sure that this is a unique opportunity for you to get to know and interact with the company's entire ecosystem. You will have access to TOTVS kitchen operating at full speed and serving its clients. So, for more information, check out the TOTVS Investor Relations website, or contact Sergio or our IR team directly.

Thanks again, and I hope to see you all again in the next quarter.

Thank you.