

**OPERATOR:** Good morning and welcome to the TOTVS conference call to discuss the results of the fourth quarter and full year 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 [ir.totvs.com.br](http://ir.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 everyone. Thank you for joining us in our earnings conference call.

I am pleased to announce the results of TOTVS for the fourth quarter and full year 2019. A year in which we started a new chapter in the story of success and leadership of TOTVS. That's why I want to begin by thanking all TOTVERS, clients and partners. You are the true protagonists of this journey, filled with lessons learned and challenges overcome. My sincere gratitude for the efforts, trust, dedication and for believing in what we are building together.

We ended 2019 with further progress in the financial and operational performance and launched a new cycle of investments in both new growth avenues, with the acquisition of Supplier, and the core business of management software, with the acquisition of Consinco at the end of the year.

As highlighted on slide 3, Consinco is the leading provider of management software for the supermarket and self-service wholesaler (cash-and-carry) vertical in Brazil. Besides taking an important step towards strengthening our position in the Retail segment, with this acquisition we can generate synergies with our Techfin division.

Another milestone in the period, the inclusion in Ibovespa, makes TOTVS the first technology company to figure in Brazil's most important stock market index. This important achievement is the result of the efforts of each TOTVER throughout last year and reflects TOTVS' leadership position in the software market and the recognition of the positive moment that we are going through.

Finally, the launch of the new marketing campaign has enabled us to recover our media presence and reposition ourselves vis-à-vis all our stakeholders. “TOTVS believes in a Brazil that MAKES IT HAPPEN” highlights TOTVS’ trajectory as one of the Brazilian companies that believe and invest in the country, underscoring the commitment of local companies that have worked hard to achieve business success and, thus, contribute to the country’s development.

We are Brazil’s largest technology company and we believe in the country's potential. We believe now is the right moment to launch this campaign, a time when the belief in the Brazilian market is driving us to expand our operations.

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.

With double-digit growth in all the quarters, Recurring Revenue ended the year at more than R\$ 1.7 billion, which represents more than 75% of Total Net Revenue and organic growth of 11.8% over 2018. This growth drove, in both the quarterly and annual comparisons, the acceleration in Total Net Revenue, which grew 7.5% and 8.1% in 4Q19 versus 4Q18 and 2019 versus 2018, respectively. Note that despite the decline in Non-Recurring Revenues, both in relation to 4Q18 and 2018, License Revenues grew 37.2% compared to 4Q18 and 20.4% compared to 2018, stemming from the higher sales volume throughout the year, especially to existing customers.

As seen on **slide 5**, Annualized Recurring Revenue reached R\$1.9 billion, 10.8% more than the same period in 2018, which resulted in a net addition of approximately R\$60 million in the quarter, reflecting the Customer Renewal Rate above 98% over the quarters of the year and the pace of sales to existing and new customers. This performance and the increase in Customer Satisfaction are the pillars that sustain our business model.

Moving to **slide 6**, we have an EBITDA margin expansion of 590 basis points in the quarter and 420 basis points in the year when compared to the same periods in 2018, reaching a level of 20.4% in the quarter and 20.6% in the year.

This margin expansion in summary reflects the scalability of the software business, provided by the expansion of Revenue and combined with discipline in the management of costs and expenses. It is also worth noting that this margin evolution occurred even with the provisioning of Bonuses and the Long-Term Incentive Program based on shares at a level significantly higher than that of 2018, given the advances in the Company's results, as well as in the price of the shares granted.

Moving on to **slide 7**, we can see that EBITDA was the main element for the increase in Adjusted Net Income, since the improvement in Financial Result was offset by the increase in depreciation and amortization, due to the application of IFRS 16, and the absolute increase in Income Tax and Social Contribution as a consequence of taxable income growth.

Moving now to **slide 8**, I’ll comment on cash flow and debt.

Free cash flow grew 33.2% in the quarter and 10.2% in the year, when compared to the same periods in 2018, mainly due to the performance of Taxable Income, which grew 90.9% in the quarter and 75.5% in the year.

In addition to the higher volume of interest paid, especially due to the non-conversion premium of the Debentures issued in 2008, this increase in profit at a level higher than that of free cash flow was due to the increase in the need for working capital, given: (i) the revenue growth, especially for licenses that have a longer average collection period; (ii) the use of accumulated tax credits in 2018; and (iii) the payment of labor obligations and extraordinary layoff costs in 4Q.

Thus, the Company ended 2019 with a net cash position of R\$1.072 billion, corresponding to 2.3x Adjusted EBITDA 2019, demonstrating its financial strength and investment capacity to support especially the execution of its M&A strategy.

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

**Dennis Herszkowicz:** Thanks Maia. I wish to end the presentation with the following message about 2019 and what we expect for 2020:

- **Operational and financial performance,**

1. We divested our hardware operations to once again focus exclusively on software; we gave priority to products that generate recurring revenue and we are keeping an eye on new markets

2. We implemented changes in the sales structure, such as improving relations with franchises and making adjustments to sales incentives for recurring and non-recurring solutions.

- **Start of new cycle of M&As,**

With the acquisition of Supplier and Consinco, we have already invested about 60% of the proceeds from the follow-on

2. These acquisitions, combined with the organic creation of our Techfin team and the joint venture with VTEX, were the initial steps in building an ecosystem aimed at expanding our portfolio and advancing further in the value chain of our clients

- **New markets and advances in the value chain of our new clients,**

1. Ecosystem consists of 3 dimensions: (i) Management – with our portfolio of open, connected and customizable ERP, HR and Verticals solutions and platforms; (ii) Techfin - expanding, simplifying and cheapening access to credit and other financial services; and (iii) Business Performance – building a portfolio that helps our clients to sell more and better.

- **TOTVS Employer Brand,**

1. We know that attracting and retaining talent are the key ingredients to build a solid company and we have been working constantly to strengthen our employer brand

2. The findings of our annual survey revealed that 89% of TOTVERS feel very proud to work at TOTVS and 92% believe in the Company's potential for success.

3. this is the justification for the Tag created by TOTVERS after Universo TOTVS: #thegiantisback.

- **“TOTVS believes in a Brazil that gets things done” campaign**

This campaign is much more than a motto. We want to show our genuine commitment and power in democratizing access to cutting-edge technology to companies of all sizes and segments, helping them to succeed and overcome their challenges and to drive the nation’s sustainable growth.

TOTVS is driven by the transforming power of technology and the simplicity to generate results. We will continue to help our clients to be increasingly efficient and competitive in their businesses, allowing them to access innovative solutions in a unique ecosystem.

We are now available for the questions and answers session.

**Operator:** Thank you. The floor is now open for questions. If you have a question please press star one.

Our first question comes from Tito Ferraz, Itaú.

**Tito Ferraz:** Hi. Following up on the structure of your sales channels could you tell me a little bit more what percent of sales comes from direct or indirect sales?

**Gilsomar Maia:** Hi Tito this is Maia speaking. Actually the relevance of our sales through our own salesforce and our channels is really well-balanced. In average they represent a kind of 50% each one. More recently, last year the franchises recovered its participation in this breakdown; but today it is running about 50%.

**Tito Ferraz:** Okay thanks.

**Operator:** Once again if you have a question please press star one. Our next question comes from Cesar Medina, Morgan Stanley.

**Caesar Medina:** Hi congratulations on the results. I wanted to follow-up on Tito regarding your acquisitions. Can you please comment on timing of closing, timing for integration and perhaps a little bit of margins for Consinco and Suppliers? Thank you.

**Gilsomar Maia:** Hi Caesar. In terms of Consinco we just closed the deal at the end of January and so the integration has already started and is going to take part of this year. Of course it is really more familiar with us this kind of business and it is more natural for us to lead this kind of integration.

In relation to Supplier we still need to have the closing of the deal. The main aspect pushing a little bit this closing is related to the raising capital of the Fdic in order to increase the size of the fund and accommodate the whole portfolio of credits

that we have in the balance sheet of Supplier. So the idea is to move all those credits to the Fdic and then have the shape of the company we intend to have.

That process is running extremely well, in line with the plans originally designed. Our feeling is this process is probably being concluded by the end of this quarter, eventually in the maximum, in a more conservative view, in the beginning of April or beginning of 2Q. So once we have the closing deal occurred we can start the plan of integration we have already designed together with the Supplier team.

**Dennis Herszkowicz:** In terms of - Caesar this is Dennis - in terms of the margin profile of the businesses I would say we do not get into the numbers themselves; but Consinco has margins that are similar to ours because the business model is very similar as well, and for Supplier the margin is higher than is ours.

**Cesar Medina:** Great thank you so much.

**Denis Herszkowicz:** Thank you.

**Operator:** Ladies and gentlemen as a reminder, if you have a question please press star one. Once again if you have a question please press star one.

This concludes the question-and-answer session. At this time I would like to turn the floor back to the company for any closing remarks.

**Denis Herszkowicz:** Well thank you all. I think most of the questions were answered in the Portuguese call, so if you have any additional questions please let us know. I would like once again to thank all the Totlers for great performance during 2018 and I hope we can continue to rally the troops for 2020 as good as 2019.

And finally the guys here are remembering me that we will hold our investor day on Monday, February 17 here at TOTVS in the afternoon and so everyone is welcome here to hear what we have to say. Thank you very much again, have all of you a good day.

**Operator:** Thank you. This concludes today's TOTVS' conference call, have a nice day.