
Sérgio Sérgio:

Good morning everyone. Welcome to our second quarter 2023 earnings conference call. I am Sergio - IR head, in our meeting today are the CEO - Dennis, CFO - Maia and Eduardo Neubern - Techfin CEO. This quarter, taking advantage of the recently announced closing of TOTVS Techfin JV, in this first session, in addition to sharing the most important highlights about the quarter, we also make a brief presentation of the operations of TOTVS Techfin and at the end we will have a Q&A session.

If you want to pose a question alive, please raise your hand by pressing the button on Zoom's toolbar. If you prefer to submit your question in writing, please use the "Q&A" button. We will try to answer the questions here alive or later via our IR team.

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this call regarding the company's business prospects, projections, and operational and financial targets, are based on beliefs and assumptions of the company's management and on information currently available. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors may affect the future performance of TOTVS and may lead to results that differ materially from those expressed in such forward-looking statements. Now I'll turn the floor over to Dennis who'll get started on slide 3 and I'll be back for the Q&A session.

Dennis Herszkowicz:

Thank you. Sergio. Good morning, everyone. Thank you for joining us for our earnings conference call. I would like to start by thanking all TOTVERs, partners and our customers spread across Brazil and Latin America, who participated in the TOTVS Universe event at the end of June, which had over 12000 attendees in two days. I would also like to thank the analysts and investors who participated in our Investor Day held for the second consecutive year as part of the TOTVS Universe.

With regard to the results of the quarter, again, we had important advances and have set some records, always focusing on growth with profitability. I would like to highlight the two-third increase of our consolidated revenue growth boosted by SaaS Management and Business Performance and also in a faster year-on-year growth of our Recurring Revenue. On the other hand, the lower credit and revenue production in Techfin led to a decrease in the EBITDA Margin.

As you can see on slide 5 consolidated Net Revenue grew by more than 17% year-over-year. A positive highlight was the 31% growth of SaaS Management and 34% growth of the Business Performance revenue which exceeded the R\$100 million mark for the first time. It's also worth highlighting the result of the consolidated ARR, on the right-hand side, which closed the quarter with a consolidated organic net add of R\$178 million and then new increase in the representativeness of the volume in Management component and valid -- and the organic net addition and Business Performance.

On slide 6 about profitability. We continued to deliver consistent margins. Here you can see a highlight of our Management Contribution Margin, up 20% year-over-year and Business Performance up 37% year-over-year. As for Adjusted EBITDA, after two years, we've returned to our historical seasonal behavior in the consolidated numbers. So EBITDA Margins in Q2 was lower than in Q1, given the strong contribution of the increase in license revenue from the Corporate Model, which more than offset the collective bargaining agreements that we had at the beginning of the year, leading to a higher consolidated EBITDA Margins in Q1.

Finally, in addition to this seasonal EBITDA behavior, the slight negative variation of cash profit against Q1 is linked to the higher volume of depreciation and amortization of cloud software licenses and operation that has been consistently growing above 30% and had another new zone that has been made available recently. On the last chart on the right-hand side, the advance of cash profit against the second quarter of

'22 shows the growth of our Adjusted EBITDA. These are results that put TOTVS in a unique position and allow us to continue to invest in building competitive advantages, always seeking the best balance between growth and profitability. Now I'd like to turn the floor over to Maia who is going to give you details about our Management results. Over to you, Maia.

Gilsomar Maia:

Thank you, Dennis. The Management dimension continues on its solid and consistent trajectory with Net Revenue advancing 18% compared to the second quarter of '22, both due to the 19% growth in Recurring Revenue and 11% growth in Non Recurring Revenue. The Non Recurring Revenue growth came mainly from SaaS revenue which advanced 31% in the period, as you can see on the chart on the left.

Here we have two main highlights. First, the 32% increasing new signings and the 38% increase in additional cloud revenue which surpassed the R\$100 million mark in Q2.

In the center of the slide, you can see the addition of R\$148 million and the renewal rate of 98.3% which led the Management ARR to exceed the R\$3.9 billion mark this quarter. And as you can see on the chart on the right-hand side of the slide, this addition represented organic growth over the R\$130 million added in Q1. Such organic growth was due to the increasing volume of new signings and renewal rate even with a decrease of approximately 40% in the price component, which translates in the application of inflation adjustments to contracts that were automatically renewed in the quarter. As a result, the volume component went from 82% the previous quarter to 85% of the growth ARR addition for the last 12 months.

On our Investor Day this year, we emphasized the importance of portfolio expansion, TCO reduction and NPS increase in new signings. Some examples were given of how the commercial productivity has been increased with the use of our Empodera platform, which uses data intelligence and our Management Maturity Index - IMG, to provide our distribution in cross-sell but just with whitespace and attach rate insights and an upsell via telemetry of solution usage and take rate in customers.

Moving on to slide number 9. The Management Adjusted Contribution Margin exceeded by 20% the amount of the second quarter of 2022, reaching 54.8% of this dimension's revenue, the highest level since the beginning of the SaaS model implementation, surpassing by 120 basis points in the second quarter of '22 and 10 basis points in the first quarter of this year, which demonstrates that the performance of Recurring Revenue more than offset the positive seasonal impact. We had less order due to the increase in licenses of the Corporate Model as we mentioned earlier.

Now moving on to slide 10 to talk about Business Performance results, which saw further acceleration this quarter. The Business Performance ARR registered a new quarterly record of R\$30 million of organic addition, mainly driven by the sales performance of RD Station and Tallos, in addition to maintaining the renewal rate above 97%. This organic addition added to the inorganic addition of R\$31 million from the acquisitions of Lexos and Exact Sales, led ARR to reach R\$435 million this quarter and surpassed Q1 by 16%. This ARR performance resulted in a Net Revenue growth of 10% over Q1 and 34% over Q2, 2022 which consequently had an impact on the Contribution Margin, which achieved 49.5% as you can see on slide 11, representing 40 basis points above Q1 and 110 basis points above Q2 2022.

Although this dimension is relatively new and focused on accelerating Recurring Revenue growth, it's already a profitable operation with operational leverage of the SaaS model. This underscores the high-value creation potential of this dimension, given the profile of its robust portfolio which offer solutions that require fewer implementation services, making this business model various scalable.

Now Eduardo Neubern will comment on the results of the Techfin dimension, starting on slide 12. Over to you, Edu.

Eduardo Neubern:

Thank you, Maia. Starting with the two charts at the top of the slide, you can see that the dimension's Net Revenue fell 8.5% year-on-year due to the 6.2% reduction in Supplier's credit production, compared to Q1. In addition to the lower volume, the reduction of almost five days in the average credit production term resulted in a 13% drop in Net Revenue. This reduction in production compared to Q1 reflects the off-season in the agribusiness segment, which can be observed in the shorter average production period.

In comparison with Q2 2022, the reduction in volume is associated with the economic slowdown in some segments such as the steel chain which has recorded a drop in both volume and price and the challenging moment of the credit markets throughout the first half of the year, which is represented by the red line on the chart on the right-hand side of the slide, showing an increase in general average default of financial systems with micro, small and medium-sized companies.

The increase in delinquency percentage of the Supplier's portfolio above 90 days, represented by the blue line in the chart is mainly associated with the seasonal reduction of the credit portfolio. So the denominator effect of the carryover of overdue amounts from previous periods as the difference between the market average as Suppliers went from 190 basis points in Q1 and 200 basis points this quarter.

Additionally, the provision for expected loss represented 0.37% of the gross portfolio which is 4 basis points lower than in Q2 '22 and first Q '23. This reduction reflects an improvement in delinquencies in the most recent ranges, especially in the 31 to 90 days in arrears. In fact, it is important to reiterate that it has been - in more challenging times, we do not give up the quality of credit originated, even if this translates into a reduction in production and portfolio.

To close the slide, it is worth highlighting cross-sell of the Mais Negocios product in the TOTVS customer base, which is already accounts for 70% of the new affiliates and prospecting 67% of affiliates implementation, highlighting the potential of this solution with customers.

On slide 13, we see the reduction in production and therefore Net Revenue combined with a primarily fixed OPEX structure driving dimension's EBITDA into the negative this quarter. At this point, it is important to mention that the Supplier individually is a very profitable operation and even in the market scenario that I just described, it ended the quarter with a positive EBITDA Margin of 17.4%. Thus, the consolidated negative result of the dimension came entirely from the organic operations which accounted approximately R\$13.5 million of OPEX in the second quarter, which will increase due to the investments for the development of a complete portfolio after closing the JV that I will comment later.

I'll now turn to slide 15, precisely to talk about this new moment of the Techfin dimension post closing. I'll start by recapping the objective of creating TOTVS Techfin, which is to build a digital financial services platform for SMEs by integrating a full range of financial services. The closing of the transaction between TOTVS and Itau marks the beginning of a unique and autonomous operation, focus on the development and distribution of these financial services with transformational potential TOTVS Techfin will have access to TOTVS expertise in management and data systems and Itau's financial expertise, combining data science, integration with ERPs and distribution with access to efficient, abundant and competitive funding to create a light and intelligent business model with a lower level of regulation compared to banks, optimization of returns embedded risk management.

With a large addressable market, it will be focused on the SMB B2B market. That is a focus in exploring TOTVS customers. That's why we call it TOTVS-centric model, benefiting SMEs throughout the country's production chain.

With the closing, the Joint Venture with Itau will materialize in the TOTVS Techfin SA, co-controlled by 50-50 by TOTVS and Itau, as presented on slide 16. TOTVS Techfin holds among other assets, the control of 100% of the Supplier and our Direct Credit Society - SCD of the subordinated TOTVS of Supplier's FIDC and it will hold - and entities that will may have in the dimension to enable the sustainable growth of the

JV portfolio. Thus the JV is now called TOTVS Techfin and is made up by two operations; Techfin, the organic operation with the sustainable growth mandate and the Supplier with the profitability and efficiency mandate.

Slide 17, we see that the organizational structure is a Board of Directors made up of three TOTVS Executives. Dennis, Maia, and Gustavo Bastos, and by three Itau executives, Flavio Souza, Marcio Domingues and Marcos Cavagnoli. Techfin is led by me as a CEO and has an experienced focused and differentiated team of executives who combine the necessary complementary expertise and management systems data and financial services with operational autonomy to manage the business strategy. Supplier continues to be led by CEO, Mauro Wulkan, keeping its operational independence.

On slide 18, we have the vision of TOTVS Techfin's product portfolio and intelligent portfolio that may be integrated or not to the ERP and that will have a hybrid and flexible approach, having a differentiated UX, both for the simplicity and efficiency in hiring and use as well as in the relevance of offering personalized services based on ERP data and that can be consumed directly at the touch points with management software.

The concept is called ERP concept in a product-led growth model. The credit analysis will use hybrid data from the ERP and from public information being the first credit model in this type in the market. With this, we will have the write-off for the right customer at the right price and at the right time. In addition, the portfolio will seek to combine scope, frequency and relevance to generate principality to customers with products related to digital accounts, working capital and B2B2C credits as initial priorities.

I'll now return the presentation for Dennis to comment on the ESG highlights on slide 20, and then to close the presentation with his final message. Dennis, it's up to you.

Dennis Herszkowicz:

Thanks, Edu. We closed the first semester with important achievements in our ESG agenda:

1. we had the elevation of our score from A to AA by MSCI which positions TOTVS within a select group of global companies;
2. for the fourth consecutive year, we had an excellent result in the Institutional Investor ranking. Ranking first in all categories amount the TMT MidCaps.
3. finally, I should of course mention last night's publication of the seventh edition of our integrated report, an important voluntary initiative for accountability and reporting on sustainability and ESG performance to our stakeholders.

These advances demonstrate the consistency of our journey in the recent years and motivate us to continue innovating, seeking to strengthen our ESG initiatives across all our operations.

Moving now to my final message on slide 22. I'd like to state that investing in technology is key to drive results and transforming companies. In this context, Brazil still has a long journey in terms of technology investments and TOTVS is there to provide innovative solutions that help our customers in this growth path. We do this by building and innovating 3D ecosystem that is constantly evolving.

In Management, we follow the same tone for many quarters with solid performance of Recurring Revenue growth, followed by consistent Contribution Margin, as well as organic growth of our net add even with the strong reduction of inflation. Highlight was the Business Performance dimension, a business that already has more than R\$430 million of ARR and that has been accelerating growth and has been very profitable.

I see here an excellent opportunity in a little penetrated addressable market with great potential in which we have leadership, a team with deep expertise and an expanding portfolio, which is already the most complete in the market.

Then lastly in the Techfin dimension, we have important messages. Of course, the greatest highlight is the closing of the JV starting this unique and autonomous operation focused on the development and distribution of B2B financial services and with the light and intelligent business model. This is the beginning of a journey with transformational potential for TOTVS.

And it is, with this innovative spirit present in our DNA that we've opened the second semester, expanding the use of big data, artificial intelligence and ESG to deliver solutions that improve the results of companies and thus evolve consistently to become even more the trusted advisor of our customers.

Now we are available for the Q&A session, which will be led, as usual by Sergio.

Questions And Answers

Sérgio Sérgio:

Thank you. Just to remind, as we said in the beginning of the videoconference, if you want to ask a question live, press the bottom, on the bottom part of the Zoom screen, and then we will regret you the microphone. We'll try to answer most of your questions, but if we cannot answer all of them today during the live session, our IR team will answer them later. So the first question comes from Itau, Thiago Kapulskis. Thiago, we have enabled your microphone. Go ahead. Ask your question.

Thiago Kapulskis:

Great. So once again, thank you for taking my question. It was great to hear from all of you, Dennis, Maia, Sergio, and Eduardo. And Eduardo, by the way, welcome to the team. I have two questions here on my side. The first question is the following. Last evening we heard many questions about margins. It was a harder quarter to read the results, but you did a great job showing us what is Techfin, what is supplier, what is investment, but when we look at the margins ex-Techfin, so excluding Techfin, Management plus Business Performance, that is, there was a slight reduction, but many people believe that these margins will grow in the future, in the longer run.

So can you give us further details about what you expect when it comes to those margins? Do you think you still need to invest a lot to foster the investment in this core? And my second question is about Techfin. We saw the closing of the JV with Itau. You talked a lot about that. There were many slides on that, but I'd like to hear a bit more about, what you are taking from TOTVS and Itau, the best of both worlds. I know a lot about Itau because I work here, but I believe the rest of the market doesn't know as much. What can you expect in the longer run? Thank you.

Dennis Herszkowicz:

Okay, thank you, Thiago. We apologize once again for the technical problems. I hope you're all still connected here. So I'll start and then I'll turn the floor over to Edu to talk about Techfin.

About margins, Thiago, it's what you said earlier, historically speaking, the second quarter of the year is usually the quarter with the lowest margins in the year. That's the historical seasonal behavior of results here at TOTVS. That was lost during the pandemic and the post-pandemic period mainly due to uncommon variations related to inflation rates, which were very low one year and very high the other year. So that impacted this dynamic. But this year we see this behavior happening once again.

So with regards to margins, we don't have the revenue of licenses in Q2 as we usually have in Q1. That leads to much higher margins in Q1. And in Q2, historically speaking, we also have the TOTVS Universe, Universo TOTVS event happening this year. It was the largest event ever held by TOTVS and that's the largest marketing investment that we make. So that accounts for a representative amount.

If you look at the line for marketing expenses, the greatest increase is due to that. Either if you compare to Q1 or to Q2 2022, because the event this year was even larger than the event last year, and also from time to time we usually face something that is really hard to predict which are variations in contingency

lines and provision for bad debt. So these are lines that we should look at in the longer run and not focusing only on the quarter at stake.

So when we do that, we realize that in terms of margins, excluding Techfin operations, of course, margins for Management and Business Performance were quite healthy, robust and within the expected pattern. We'll certainly have a third quarter with growing margins as compared to the second quarter. That's the pattern we expect and there is nothing that is signing to any type of change when it comes to this pattern.

So, Edu, about the Techfin.

Eduardo Neubern:

Thank you, Thiago, for your question. So first, talking about the teams. That was the first part of your question about the Techfin. So I think that we have a lot to add to each other. At the Board, we have Dennis, Maia, and Gustavo, Flavio Souza, the President of Itau BBA, the Chairman and Dennis as the Vice Chairman of the Board and we also have Marcos Cavagnoli with great expertise in products, which is key for us to have this great management. And Marcos has been the Head of Commercial Banking at Itau BBA.

So at the Board, we can see that these skills complement each other. Gustavo is TOTVS Platform VP. He has the expertise of data and integration, which are, you know, competitive differential at the JV.

At Supplier, we have Mauro Wulkan. So that's the structure of the Supplier. And for Techfin business, organically, we have Flavio Kamada under my leadership. He used to be Itau BBA and he also worked in other major banks. He has been looking at credit for mid-sized companies for 27 years. So he has a vast experience, because we don't want any type of improvisation. We want someone who has a solid experience to lead our credit and collection team at the Techfin company.

And we also have Marcus Rodrigues, who is already working at Techfin. He worked at Serasa. He has this expertise in data and analytics, another competitive differential JV and Tupi, who is now the CFO of the JV. He worked at Itau BBA for a long time. He has great experience in this market. He can add a lot with his funding skills, which is key for this JV's success and we also have Carol, Ana Carolina who also worked at Itau BBA and at Safra which is a bank that focuses on mid-sized companies. She also worked in a fintech, working in a similar segment and she already had two years of experience working the Techfin before the JV.

And also Gerson Teixeira who worked in the financial market, itau, Porto Seguro, Santander, and he also came from Serasa. So we wanted to have this data engineering perspective as part of our team, because we believe this is key for our success. So this is basically the org chart that you saw on slide 17 of the presentation.

And now about the second part of your question, which is our roadmap. In this first wave, we have a product that is shared between TOTVS and Itau. The first wave, we're going to prioritize working capital because of the coverage this product has. This is the most widely consumed product by small and medium-sized companies in Brazil, and we're going to prioritize, therefore, working capital because of the penetration, this product has and the high demand.

And we believe that with access to data, we can have a very good credit management in order to make decisions related to working capital. We're also working on a digital account, the first market digital account that is integrated to ERP. That solves a major pain that we had constantly which was done manually. Our customers are still using three to four banks on average each one of them. So integrating all that will lead to productivity and efficiency in the process that they do several times a day. So the differential of our digital account is the integration to ERP.

And finally, B2B2C credit, as we mentioned earlier, because of the footprint and the strength of TOTVS in the HR market with over 10 million leads processed a month. As part of our strategy, we want to focus on

an HR pain point as well, and now, we have our own B2B2C credit solution to offer them. This is a business that we learned how to distribute, activate and engage and we have a platform running to automate the lives of HR professionals in order to focus on productivity and efficiency. These are our top three priorities.

You saw on the slide, the magnitude of our ambition which is with time to build a complete portfolio of middle products, which is the focus of our work here, both in cash management and credit, either B2B or B2C and additional solutions as we mentioned earlier, such as foreign exchange and insurance, which are part of our JV's roadmap.

Thiago Kapulskis:

Thank you, that was very clear. Thank you so much for your answers.

Sérgio Sérgio:

Thank you. Thiago. And we apologize for the technical problems. Our next question is by Bernardo with XP.

Bernardo Guttmann:

Good morning, everyone. Thank you for taking my questions. I have two questions about Techfin. The first about the guidance that you gave for the second half of the year. It helps us to set the expectations related to cost at this moment in which the JV is being set up, but what can we expect of revenue being boosted by these initial investments? We want to understand the margin dynamic for the second half of the year.

Now my second question is about the portfolio. The slide that you showed us showing the new products, and products under development was great. It shows a very robust pipeline, but I see that you are also focusing on a new niche. Edu was talking about that, which is something more focused on B2B2C. This seems like a new growth avenue which sounds quite interesting focusing on your customers, employees. So we have a specific question about the customer journey, maybe these are points of context going to happen through RT or are you also going to launch new apps? Can you comment on this new front, that would be nice.

Dennis Herszkowicz:

Thank you, Bernardo. I'm going to start and then Edu and Maia can complement.

As to the guidance, no, we are not signaling specific revenue numbers of the Techfin. Obviously, the Supplier is a business that already has a long history that naturally allows you to model and estimating. In this Techfin specific case, the business model is still in the very beginning and since the investment cycle changes in terms of its level, we rather now focus as we've done on the formal guidance on the OPEX, which is what we actually are able to control quite a lot.

Again, any questions that you have regarding the guidance, we're open to clarify them. We try to give as much visibility as we can. And I hope it's been made clear that we're talking about till the end of next year, until 2024.

And obviously. as it is required from us, we over the quarters, we give the follow-up as to how this is running. We understand that this is quite important point and that is totally consistent to everything we've been saying since April last year as we signed this operation. We said after that, that what could be expected was a "J" curve in which we would have a relevant increase of investments in this business, relevant to this dimension from the standpoint of the TOTVS consolidated results, understand that the -- that is negligible, not very relevant, but for this dimension, no doubt.

On the other hand, the Supplier would have a great benefit, certainly a benefit from the standpoint of funding cost and consequently improvement in profitability. Unfortunately, we cannot yet see that now

because of the fact that the first and second quarters were quarters in which the credit market as a whole was doing poorly and our focus, as we said was preserving the credit track record and not production revenue even though the operation is still very profitable, but again, revenue is not something that we will go over at the moment.

Other portfolio, before I turn over to Edu, we certainly have some assets in our hands that can be used. They have been used actually. Also you know very well the app "Meu RH", so in this approach, B2B2C getting to our clients, it is an important asset that will be more frequently used. As to having other apps, it is of course possibility, not something that we would discuss.

Edu, I don't know if you would like to add.

Eduardo Neubern:

Just on the part of OPEX, the highlight of this investment to strengthen the differentials we mentioned of the JV. Priority here is on data, a lot of data science, data engineering, products, the mandala is the focus of such investments, marketing practice, we are sure about awareness, product growth, and naturally the teams, which we started the previous question to strengthen the teams, to complement them, we're creating a new company here. And this is the use and the priority aim of those investments.

As to portfolio, a small note, we already operated business of B2B2C for private payroll loans. What we're doing here is doubling the bet, considering our learnings, the appeal that we've seen and the assets as Dennis mentioned, so this is a portfolio that is made up by several aspects.

So this is a product hired by HR and TOTVS has a huge footprint and the goto-market of this product invariably goes over HR and TOTVS has several negotiations and products and a large portfolio of products. So, we have great commercial synergy.

And then the last part of the chain, well, the uses of the products and associates as Dennis mentioned. In HR, we have a vision of HR strategy, start with payroll loan, the B2B2C credit. So it would not be restricted to that. We want to generate value to this compound portfolio to HR, but also to associates.

As we see, we call it here chain vision. We have Supplier client and client of the client in this vision of the whole TOTVS ecosystem. So the associates are key part. So in the strategic, this is where we have this our B2B2C strategy, an important that is worth highlighting.

For our guidance, as Dennis mentioned, this is something that is very relevant within the building of this operation that we call it more organic of the Techfin which we move from a level in this Q2 to another level in Q3.

On the other hand, it's worth reminding that the, after the closing, the reflects of that is half on our bottom line, where we see the total number of OPEX under the Techfin and half of that is reflective the bottom line of TOTVS. So even with this growth, half of that, considering what was a 100% before the closing, also does not have such drastic change in terms of results.

Of course, the result of the Supplier is reflected by half in the TOTVS bottom line. Looking from the viewpoint of the investment TOTVS was making and will continue making, accounting for half of these investments. So this is not something so drastic.

Bernardo Guttmann:

Okay, very clear. Thank you, Dennis, Edu and Maia. Thank you.

Sérgio Sérgio:

Thank you, Bernardo. Next question, Marcelo Santos from JP. Your mic is open, Marcelo.

Marcelo Santos:

Good morning, everyone, thanks for the opportunity of asking questions. I have two questions. The first, regarding Business Performance. You highlighted the size of potential market. Dennis mentioned in his comments. With the part that you have positioned, the assets that you have, how much can you embrace of this potential market and how much do you need to fill in terms of this mandala? This is the first question. And what would be, so the great parts, there are still missing.

And the second question is a follow-up on Thiago's question. You mentioned that the margin for second half of the year should be higher than Q2. TOTVS has been showing margin growth year-over-year. Can we expect this behavior growth in the second half of the year? Or will it be in a period of investment vis-a-vis last year? These are my two questions.

Dennis Herszkowicz:

Wonderful, Marcelo. Thank you always for your questions. I'm going to take the BP and now turn over to margin to Maia to talk about H2 margins.

On BP, we consider that we have a portfolio that is very solid. But it's not yet complete, okay? We also have an additional challenge, not only we're going to bring more solutions ultimately, but we're still starting to work on the integrated journey of these solutions.

Great part of them which have reached TOTVS less than six months ago. So when you think about Tallos, Shopify, actually when you think about Exact Sales and Lexus, the very tail being integrated now and the chassis of RD and RD being transformed into the heart of Business Performance. We still have this work of building the journey within Business Performance, that is major, it gives us great trust. It's that we are able to speed up the results of Business Performance.

Based on any metrics that you assess, the speed that we had in Q1 and specifically in Q2 is very powerful, even still be in the beginning of this process.

We've grown, if I am not mistaken, we've grown 10% quarter-over-quarter in terms of Business Performance. It's very strong growth and part of it, quite relevant one, is deriving from what we call multi-product, okay, Marcelo, and this multi-product is precisely where we have greater potential for extracting value in this building of this integrated journey that we have ahead of us.

So, we have great room for growth. Maturity of the Business Performance market as a whole, in our view, it's still low. We do not see many other companies with this approach that is so complete, so broad as ours, which gives us a possibility to compete. That is quite special. But just to end, there are still parts that we want to bring and starts going to complement all the three major macro themes that we have in terms of Business Performance.

On one hand, marketing, on the other hand, sales tools where we include e-commerce and marketplaces, for example, and customer experience in all three major fronts of Business Performance. We understand there is still a lot of room for us to complement this portfolio.

Gilsomar Maia:

Adding to margin, actually connecting with this theme of Business Performance, I think there is an aspect that we haven't actually addressed in the earnings release even, an effort we're making here, I don't know if it will be possible in the next quarter, but actually, we've been working here to try to exercise the opening of EBITDA between Management and Business Performance.

And actually considering all the acquisitions that have been made, that Dennis has just mentioned, you can imagine that there are operations that individually have lower margins considering the very ERT. So as we bring those companies at the start, it creates some additional challenge in terms of margin especially. As you integrate and create an integrated journey in terms of Business Performance, so we gain operational leverage.

Anyhow, as to the business margin as a whole, specifically, Business Performance and Management Margin for the second half. Well. Dennis' comment looks at the history of the company, its operations, its historical behavior of the operations, is shown to us that over the year second half, this benefited from the operational leverage and the dilution of collective bargaining, especially in Sao Paulo, they are heavier they have beginning of January date as a basis.

So as Dennis mentioned in the very opening, it has benefited from the increase of the corporate license that has a very fast response in terms of bottom line, almost instantaneous to the bottom line. This has offset the collective bargaining. In the second quarter, we didn't have these chunk in terms of licenses. In terms of dilution, you still have an effect, that is not totally diluted of the collective bargaining at the Q2.

As you go to Q4 or, three and four, so the -- we have more dilution. So the adjustment in contrast contribute to that. We look at it more historically. This is what leads us to be more confident, looking at the first half of this year vis-a-vis, first half of last year, we take this effective behavior of the quarter, first and second. We see an advance of 10 basis points and the EBITDA Margin of Business Performance and Management jointly together.

So we have to be careful in this view point of the quarter and have a broader view and more retrospective view. Of course, our mind is of gaining margin because the softer business itself, especially recurring should lead to expansion of margin over time for operational leverage over the quarters. This follows a natural logic of development of the business.

Marcelo Santos:

Great, thank you for the answers.

Sérgio Sérgio:

Thank you, Marcelo. I'm going to open to the last question to reinstate the questions that we have in the Q&A. The IR team will address all the questions individually. But I'm going to open up to Luca - Bank of America for the last question and then I'll turn over to Dennis' final remarks. Luca, your mic is open.

Luca Brendim:

Thank you for taking my questions. I have two questions on my side. I'd like to understand better, regarding the ARR evolution for the second half in Business Performance and Management. Management, there was a great development in terms of sales volume. I'd like to understand whether this should be kept for the second half, there is an expansion, how we should think about that?

And for the Business Performance, there has been great speed up levels that was close to R\$20 trillion that was close to R\$30 trillion. Is this something new in the quarter or should we think about a similar level or higher for the next quarters? That was first question.

The second question regarding the conversion gap from ARR to Recurring Revenue, it was going up in the past quarter, and now it seems to be stabilizing. I'd like to understand whether this gap should continue to close now or how should we think about the timing for this to stabilize and start declining. Thank you.

Dennis Herszkowicz:

Thank you, Luca. I'm going to start and then Maia will take the part of the gap.

As to adding to ARR, I'm going to start from the end in terms of Business Performance. There has not been any run-off. In terms of Business Performance, basically, we do not have this component of one-off because the Business Performance is very pulverized. It's even more pulverized than the Management business that is very much pulverized. So it is actually an increase in terms of volume.

The market seems to be booming. There was an adjustment last year. Because of the end of the pandemic things, we were a bit out of pattern but in this first half we see a great recovery. And on the

other hand, I believe that we also have an execution that is quite important. So the combination of both things is what leads us to think that the trend should continue looking ahead.

With regards to management, we have always been showing that the elements that led us to change our level in the addition to ARR, they are actually very -- there's not a single pillar that sustains this improvement over the past two, three years. There are many pillars and there are pillars that are quite deep. We're talking about improvement of product quality translated into record NPS.

We're talking about improvements in the efficiency and productivity of the commercial structure. We're talking about renewing the brand and we're talking about several elements, TCO reduction, that opened up a new front for customers entrants. So there are elements that once they are created and established, it's very unlikely that can be broken overnight, which means that we have a belief that we are able to actually have a positive behavior and the addition of ARR in the forthcoming semesters.

When we look at the volume component, the price component is just automatic transfer of inflation. This is where passengers, when it sped up or when it is slowed down which is what's happening now.

In terms of volume, no, we -- for the best of volume, we have TOTVS ability to influence with our execution, Maia?

Gilsomar Maia:

Now about the correlation between ARR, accounting Recurring Revenue, what have we noticed? If you look at the quarter-over-quarter growth of Recurring Revenue, it was actually higher than the ARR itself quarter-on-quarter.

ARR grew by 3.9% or 3.8% and Recurring Revenue 1% growth quarter-on-quarter. So if Recurring Revenue grows faster than ARR, that gap closes. And of course, we look at this on a contract-by-contract basis. And of course, it's much harder to compare one metric to another.

In our IR modeling, trying to emulate what you do on the buy side, what we do is to try and establish that correlation in the last two quarters to the revenue of the quarter at stake. So, we're actually talking about heading this exercise to our core of indicators starting next quarter. And I think this will make it easier for you as well, so that you can see that we also do this exercise internally in the IR team.

So based on this exercise, what we see is a certain stability, as you mentioned. In recent quarters, we thought that this gap was getting larger. But now it's getting smaller. So we saw a stability during the quarter, but if we look at the gap month over month, there has been a reduction of the gap and this gap might be closed in the coming quarters.

Luca Brendim:

Thank you very much for your answers. That was very clear.

Sérgio Sérgio:

Thank you. Okay. Now closing our Q&A session, I would like to thank you all for joining. Now I'd like to turn the floor over to Dennis to close the call of the day.

Dennis Herszkowicz:

Once again, I'd like to apologize for the technical problems we had in the beginning of the call. And I would like to thank you all for joining us. Thank you for your patience. I hope you have all been able to remain in the call and had no connection issues. Then if you have any further questions, get in touch. We'll answer them later. We hope that the details that we have shared with you, help you to run the best possible analysis of our results.

Thank you very much, and have a great week.