

**OPERATOR:**

Good morning. Welcome to TOTVS's 3Q20 results conference call. Dennis Herszkowicz, CEO, and Gilsomar Maia, CFO, are present.

Please note that all participants will be on listen-only mode to the conference call during the Company's presentation. Then, we will start the question-and-answer session for investors and analysts, when further instructions will be provided. If anyone needs any assistance, please press \*0.

The audio is being simultaneously webcast on [ri.totvs.com.br](http://ri.totvs.com.br).

Before proceeding, we want to clarify that any statements that may be made during this conference call connected to TOTVS's business prospects, projections and operating and financial goals are based on beliefs and assumptions of the Company's Executive Board of Officers, as well as information currently available. Forward-looking statements are not any guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and, hence, depend on circumstances that may occur or not. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of TOTVS and could lead those results to differ materially from those mentioned in such forward-looking statements.

I will now give the floor over to Mr. Dennis, who will start the presentation from slide 3. Dennis, please go ahead.

**Dennis Herszkowicz:** Good morning, everyone. Thank you for joining us in our earnings conference call for the third quarter 2020.

After a second quarter in which the resilience of TOTVS's business model was put to the test, over the third quarter we witnessed a recovery in the pace of economic activity and in the increase of the Company's Technology and Credit Solutions operations in the various regions of Brazil.

In this context, aiming to offer increasingly differentiated solutions to our clients and customers we launched two new products and entered into a new partnership this quarter.

The first launch was the so-called 'TOTVS Consignado' platform. This is another Techfin product aimed at facilitating and simplifying the management of private payroll loan, allowing loan approvals to be carried out without any manual intervention by the clients' HR teams, through a native integration with the TOTVS's payroll system that is accessed directly by our financial partners (BV and Creditas), ensuring more accuracy and agility throughout the entire process.

The second novelty is the launch of the Instant Payments Module for clients of TOTVS Financial Services. In line with the main trends and recent developments in the Brazilian financial sector introduced by the Central Bank, we have developed a new module that will support financial institutions of all types to join the new system of payments and instant transfers - the so-called PIX, which will modernize and simplify these day-to-day transactions for individuals and organizations.

We have also entered into a new partnership with Mercado Livre, which we believe will allow our vertical retail customers to make their offers, manage their stocks and sell their products in a simple and automated way, further strengthening their omnichannel strategy through the integration between the TOTVS Omni by Moddo solution and the Mercado Livre marketplace.

I will now give the floor over to Mr. Maia who is commenting on the Technology result for this quarter from slide 4.

**Gilsomar Maia:** thank you, Dennis. Good morning, everyone.

Net revenue from technology area continued its consistent growth trend, having increased 9.4% year over year, especially due to the 12% growth in Recurring

Revenue. On the other hand, non-recurring revenues remained stable in the same period, with Revenues from Licenses having increased 17% in the period and Revenues from Service having decreased 10%, in line with the trend observed in previous quarters.

Compared to Q2'20, the 4.7% increase in Net Revenue reflects the 19% growth in Non-recurring revenues, especially from Licenses, which reached a strong 35% expansion, together with Non-recurring Services that grew 8.7%.

Talking again about Recurring Revenue, the year-on-year growth of 12% in the quarter and 12.8% in the 9-month period is the result of the combination of: (i) the sales growth, both for base clients/customers and for new clients/customers; (ii) maintaining the high level of client renewal rate above 98%; (iii) contract updates; and (iv) the consolidation of Consinco and Wealth Systems' results as of the second quarter of this year.

As we can see in the chart on the left of slide 5, the Annualized Recurring Revenue (ARR) calculated based on the contracts in force at the end of the quarter, grew 14.9% year over year. The net addition of ARR reached R\$ 56.7 million this quarter, an amount 27% higher than the addition of R\$ 44.6 million in Q3'19. Such growth in ARR at a level higher than the organic growth of 8.2% of Recurring Revenue is essentially associated with the greater volume of shortfalls granted in new sales, part of the important and successful sales strategy, already mentioned in Q2'20, to keep the pace of closing sales during the Covid-19 pandemic period.

Such ARR performance is an element that contributes positively to Recurring Revenue in the coming quarters. In addition to sales of cloud solutions and other solutions that help clients operate remotely, as noted in the previous quarter, the sales of Consinco and Wealth Systems were also relevant for such performance.

Now let us take a look on slide 6 and talk about EBITDA. Adjusted EBITDA in this quarter increased again, reaching a 23.3% growth over Q3'19, with 270 basis points of Margin expansion and reaching 23.6%, which shows the Company's operational leverage capacity. In the accumulated result for the year, the EBITDA Margin expansion was 190 basis points, showing discipline in performing the strategy and the resilience of the Company's business model, even in an exceptionally challenging year.

Now I am going to present the results of Supplier's Credit Products on slide 7.

The recovery trend in credit production that started in the 2nd quarter was confirmed in this third quarter, forming a resumption in "V", with the production in September being the highest since January 2019. This production performance reflects the recovery in the economic activity of the chains served by Supplier and also the increase in Supplier's share in the sales volumes of its affiliates.

In addition, such resumed performed was reflected in: (i) an increased loan portfolio, as shown in the graph to the right of the slide, which one more time exceeded R\$ 1 billion; and (ii) the Q3 cash position at a level closer to historical levels, as shown in the graph on the left side of slide 8, in contrast to the surplus cash presented in Q2, which negatively impacted the results for that quarter.

In the graph to the right of the slide we can see the more conservative stance adopted by Supplier in setting the limits for granting credit since the beginning of the Covid-19 pandemic, especially due to the behavior of the portfolio up to 30 days late, which showed the highest increase in defaults in May, which is currently below pre-Covid-19 levels.

Considering the average portfolio term of about 60 days, Supplier has already turned over its portfolio 3 times during the pandemic period; and the effective loss rate, which had increased at the beginning of the pandemic, is currently at a level lower than the low historical average of this indicator. This fact highlights the resilience of Supplier's business model and its discipline in granting credit,

which were reflected in the expressive increase of the 3rd quarter result as shown on slide 9.

Revenue from Credit Products grew 82% compared to Q2. In addition to the resumption of credit production, the consolidation of just 2 months of Supplier's results in Q2 also impacted this growth percentage.

In comparison with Q3'19, the 11% decrease in revenues is mainly associated with the drop in the Selic rate in the period, which fell from the average of 6.15% in Q3'19 to 2.1% in 3Q20, thus impacting the nominal formation of the rate practiced on Supplier's credit products, even with the average spread for the period having remained stable.

Also in the year-over-year comparison, EBITDA dropped by 28.6%, mainly due to the change in Supplier's capital structure, with the majority assignment of the credit portfolio to FIDC and the reduction in the representativeness of subordinated quotas in such fund. It is worth mentioning that such change in the capital structure raised Supplier's Return on Equity from 7.3% to 16.6% in the year-over-year comparison.

Compared to Q2'20, EBITDA increased from R\$ 0.3 million to R\$ 12.9 million. This performance is due especially to the following factors: (i) increase of 220 basis points in the gross margin; (ii) the positive effect of R\$ 0.5 million from allowance for doubtful accounts (PCLD) versus the negative effect of R\$ 4.9 million in Q2; (iii) the consolidation of only two months in Q2; and (iv) the Q3 cash position at a level closer to historical levels.

Now, speaking about the consolidated cash profit on slide 10, we can see that the EBITDA increase was the key factor that led to the growth of Cash Profit in all comparisons presented, with emphasis on the 35.8% growth in this quarter against the previous quarter and 21.8% growth in 9 months.

Now I give the floor back to Dennis for his final remarks on slide 11.

**Dennis Herszkowicz:** thank you, Maia. As a final message, I would like to say:

We keep pursuing our medium- and long-term strategy of consolidating a 3-dimensional ecosystem with products and partnerships that add more and more value to our clients and customers; we continue in search of developing new products and partnerships while providing them with the best tools to help them grow.

We keep maintaining our solid and consistent growth trajectory in the Technology pillar - for instance, as shown by the 27% year-over-year growth in ARR Net Addition - while the Credit operation begins to show robust signs of recovery - as evidenced by the V-resumption of credit production - proving the resilience of the business model against the challenges imposed by Covid-19.

We do all of the above without neglecting to look inside our own house, continuing to grow in a perennial and profitable way in our various business fronts, which also reinforces the scalability and robustness of TOTVS's business model, closing this quarter with the highest EBITDA margin in the last 5 years: 23.8%. I would like to thank all TOTVERS that are part of these results.

We remain convinced that our proposal for a business combination with Linx will allow the greatest value creation for both companies, their respective shareholders, clients, customers and associates, and is based on the highest governance standards, preserving equal and equitable treatment to all shareholders. After obtaining favorable statements from the key shareholders of TOTVS, we chose to call an extraordinary general meeting for November 27,

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2020 to resolve on said proposed business combination even before submitting it to Linx's general meeting. This call, among other purposes, aims to address the fear (that is unjustified, in our view) of Linx's independent directors as to the firmness of our proposal and the approval of such business combination by TOTVS's shareholders.

We strongly believe in the ability of Brazilian entrepreneurs to reinvent themselves in this unprecedented moment. Focus has been TOTVS's keyword in this regard. Guided by it, we were also able to gradually resume the progress of our results, both operational and financial, with quality in performance and focus on the medium- and long-term strategies, building and strengthening our presence in the 3 dimensions that make up our ecosystem: Management, Techfin and Business Performance.

This was only possible thanks to the commitment of all TOTVERS that over this year have spared no effort to guarantee the continuity of our operations, the development of new products, the maintenance of services and support services to our clients and customers.

We are now available to take your questions in the Q&A session.