



TOTVS 1Q22 EARNINGS CALL

Operator:

Good morning. Welcome to the TOTVS 1Q22 results video conference. We're here with Dennis Herszkowicz, CEO, Gilsomar Maia, CFO, and Gustavo Bastos, Vice-President of Platforms.

Please be advised that all participants will be watching the video conference during the Company's presentation. After that, we will begin the Q&A session for investors and analysts, when further instructions will be provided. If anyone listening to this conference call requires assistance, please dial *0. The audio and video can be accessed via the internet through the link available on the Investor Relations website ri.totvs.com.

Before proceeding, we would like to clarify that any statements that may be made during this conference call regarding TOTVS' business prospects, projections, and operating and financial targets are based on beliefs and assumptions of the Company's Executive Board, as well as on information currently available.

Forward-looking statements are not guarantee of performance, they involve risks, uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors may affect TOTVS' future performance and may cause TOTVS' results to differ materially from those expressed in such forward-looking statements.

I now turn over to Dennis, who will start the presentation from slide 3. Please, Dennis, you may proceed.

Dennis Herszkowicz:

Good morning, everyone. As usual, I would like to start by thanking all TOTVERS and families and all our thousands of clients and millions of users scattered throughout Latin America, who remain engaged and sparing no effort to contribute to our journey, build and strengthen an interconnected and interdependent ecosystem.

Well, we start 2022 on a pace that is similar to the close of 2021. In management dimension, the combined attributes, unique cross and upsell capability, plus the increasingly broader and higher quality product portfolio, sales machines and pricing power capability continue to drive us to new records in an immature and expanding market.



This quarter, we highlight the new records in ARR additions, organic growth, NPS and the historical performance of the corporate model license revenue increment that reached 36.6 million BRLs, a growth over 200% year over year.

In Business Performance we continue with a strong advance of 34% year-over-year in recurring revenue and with new investments and advancements in digital commerce and in the growth strategy of RD Station via PLG.

Finally, in Techfin, even seasonally impacted, we had a 25% growth in credit production year-over-year, with a record credit portfolio of 1.8 billion and maintaining low levels of delinquency and that's not to mention the Joint Venture with Itaú. This unique and pioneering move definitely addresses the issues of portfolio and specially funding.

Now to the financial and operational highlights in slide 5, we see that our growth engines continue to drive the Company's result as even with the strong license revenue result from the corporate model increment, the business performance and Techfin dimensions combined to management sense accounted for a third of total revenue and almost half of the year over year growth.

Net funding revenue reached 946 million BRLs in the quarter, a 34% growth over the same period of 2021, with highlights in the three dimensions: in Management, 26% year-over-year growth in net revenues, driven by 26% organic growth in recurring revenue and the historical performance of corporate model increment; in Business Performance, the dimension's revenue continued at a good pace with an emphasis on recurring revenue, which grew 34% year-over-year on the same comparative basis; in Techfin, Supplier's credit production grew 25% year-over-year, reaching 2.6 billion BRLs in the quarter.

In slide 6, EBITDA margin ended the quarter at 23.6%, down 330 basis points from 1Q21. This is mainly explained by the effect of the collective bargaining on the management contribution margin of 2021 versus 2022. In this case, 1Q21 benefited from the inflationary effect in price on revenue and was significantly higher than the collective wage adjustments. In 1Q22, the collective adjustments reflected the strong inflationary rebound of 2021, resulting in a relative increase of almost 2.3 times higher. Also, with the natural increase in recurring revenue throughout 2022, especially in the second half, the impacts of these cost adjustments should be diluted. In addition, to a lesser extent, we were also impacted by seasonal reductions in the Business Performance and Techfin contribution margins on revenue of the respective margins, which will be commented later by Maia.

Regarding rule of 40, as we can see on the right side of the slide, this metric reached 57.4% level this quarter, an advance of 13 percentage points over 1Q21, of which 16.3 points came from exceptional rent revenue. And now Gustavo will comment the management dimension.

Gustavo Bastos:



Good morning, everyone. As we can see in Slide 8, net management revenue showed two important marks this quarter, record year-over-year organic growth in recurring revenue and the highest quality level of licensed revenue in the last nine years, especially driven by the record performance of 36.6 million increase in corporate model license. This performance displays the accelerated growth of customers under this modality, reflecting the economic recovery of the market in 2021 after the peak of the pandemic and reinforcing the perception that our customers are more resilient than the average Brazilian company.

The contribution of the distribution segment, which grew more than 40%, and the educational construction project segments, which grew more than 30%, should also be highlighted. We also observed positive side effects resulting from the synergies associated with the consolidation process of the franchises. The growth of 27% year-over-year on recurring revenue, of which 26% was organic, resulted from another new all-time record organic net addition of ARR of 247 million BRLs, which is 2.7 times higher than 1Q21 and 3.6% higher than 4Q of the same year. With this, management ARR surpassed 3-billion mark. This expressive growth was possible mainly due to the evolution of sales volume, which corresponds to approximately 69%, and the addition in the corporate area, which was 91% higher than 1Q.

It is also worth noting the following elements that contributed to the performance of the ARR net addition in the period: the price effect, responsible for 31%, resulting from contract readjustments; and the maintenance of low churn levels, as demonstrated by the renewal rate of almost 99%. The combination of these same elements and new SaaS signings, pricing power, ability to pass on inflation and maintenance of low churn levels led the management SaaS revenue to grow 35% year-over-year, with a highlight to Cloud, which grew 46% in the same period, as seen on the right side of the slide.

It is worth mentioning that, with a hybrid strategy and Multicloud use of more than one public cloud provider, we are optimistic about the opportunity to explain the Cloud theme in our customers supported by the following factors: extending our service level by expanding the availability zones; further specialization in services dedicated to our products, such as through T-Cloud; scalability for infrastructure data and security issues.

Now turning to Slide 9, management contribution margin surpassed 450-million mark in the quarter, whereas contribution margin to dimension net revenues grew 130 base points versus 4Q21 and maintain the same level of the first quarter. Taking into account the almost 2.3-fold increase in the inflationary adjustment applied to the cost structure in 2022 versus 2021, while the average inflationary indices impacting revenues remained stable, this is a result that proves how robust and scalable our businesses are. I now turn over to Maia for his comments on the performance. Maia.

Gilsomar Maia:

Thank you, Gustavo, good morning, everyone. In the graph on the left side of slide 10, we can see the net revenue, which grew 33% year-over-year on the same comparison



basis, and this was driven by the 34% increase in recurring revenue, which reached 99% of the dimension's total revenue.

The dimension ARR, seen on the right side of the slide, ended the quarter at 284 million BRLs, with net additions of 15.6 million BRLs, slightly lower than in the first quarter due to seasonal aspects of the operation.

The digital commerce front continues to evolve, having closed the quarter with more than 200 clients in production, in other words, that are already generating GMV, a level 2.5 times higher than in the first quarter. We had an increase of 300 million and this represents a growth of 150% year-over-year.

We also took another important step in our strategy to expand this front by bringing from the market a new head for this operation, who has extensive experience, having worked in companies such as link and more recently VTEX.

In slide 11, the contribution margin of 48% was lower than in 1Q22 and 4Q21. This was mainly due to the higher level of investments in research and development, reflecting the timing and mandate of the dimension, which is revenue growth, preparing the foundations for leadership in this market of low penetration and high growth potential.

Despite the current mandate, this is already a profitable operation. Economic levels are very positive and reinforce the high potential for value generation in this dimension. An example of this is RD Station's premium digital marketing product, which closed the quarter with an LTV/CAC ratio close to five times.

Now, in slide 12, we talk about Techfin results. Revenue grew 49% year-over-year, driven by the increase of the Selic rate and the 25% growth in credit production in the period.

The 10% quarter reduction in Techfin presented on the left side of the slide, was due especially to the following factors: number one, the negative impact of 9.3 million related to the assignment of portfolio to FIDC; number two, negative impact of 2.9 million by the reduction in volume of credit production for the quarter; and number 3, the positive impact of 3.5 million BRLs because of the Selic rate in that period.

In relation to the cessation of portfolio, associated to the combination of three elements: number one, the increase in the cession fee, reflecting the Selichigh, remembering that this is related to the acquisition of receivables, and that is converted into fund revenue over the term of the portfolio; the second element was the increase in the volume of the portfolio ceded to the fund aiming to optimize the use of cash; number 3, the increase in the average term of the portfolio, going from 53.1 days to 62.9 days this quarter, which increases their revenue to be appropriated by this fund.

This revenue is recognized here and reached 26.3 million in the quarter, which is 22% higher than the level in 4Q22. Now talking about credit production, the 2.3 reduction compared to 4Q22 is linked to a seasonal behavior in the first quarter, mainly due to



the reduction in production by industries because of the collective vacation period and the offseason in agribusiness. It is important to mention that in 2021 the behavior was different because there was a stronger performance than normal in the second half of 2020, due to the recovery after the peak of the pandemic.

Additionally, it is also worth mentioning that the cross-sell strategy for the Mais Negócio product continued to evolve in this quarter, 58% of the new prospecting affiliates and 56% of the affiliates under implementation are TOTVS clients, proving the potential of this solution in our customer base.

The net credit portfolio for the provision of expected losses shown in the chart at the bottom left corner of the slide reached the historical level of 1.8 billion BRLs in the quarter, 30% higher year-over-year, mainly due to the increase in the average term that I mentioned before, especially in operations related to agribusiness.

The net funding revenue, presented in the upper right chart, was 27% lower than the previous quarter. This was a result, we already talked about, related to 10% reduction in Techfin revenue and 30% increase in funding costs. This increase was due to the mismatch that we had in increase of Selic rate in the credit portfolio and its effects on the credit portfolio, actually, resulting in a negative impact of 6.4 million BRLs in the quarter.

As we mentioned before in previous quarters, this mismatch occurs when there are changes in the Selic rate, resulting in negative effects in high Selic cycles and positive effects in low cycles, so these effects may offset over time, in a longer period of time.

In this context, the creation of the Techfin JV, a Joint Venture with Itaú Unibanco, will bring great benefits in terms of funding, not only in terms of availability, but also cost flexibility and therefore efficiency, which will considerably reduce seasonality effects and mismatches, enabling Techfin and Supplier to be more profitable and competitive.

With respect to the delinquency level overall of the total portfolio, the provision for expected losses rose from 0.21% of credit production in 4Q to 0.4% in 1Q. Despite that, this did not lead to a significant increase in the percentage of delinquency above 90 days, as we can see in the lower graph on the right side of the slide.

This higher level of provisioning in the quarter primarily reflects the 33% growth in the past, due to portfolio, versus a 16% increase in the past due to portfolio.

It is worth mentioning that the company has already been observing a reduction in overdue portfolio, mainly in the initial delay ranges, as a reflection of the constant readjustments in credit limits and, until now, the volumes of effective losses have not increased. Thus, if the reduction in past due portfolio continues and the effective losses remain at current levels, there may be a reduction in this provision.

Finally, on slide 13, the effects presented in the graph in the right hand side of the slide referring to the assignment of portfolio to FIDC, the mismatch between the effects of Selic on the cost of funding versus the effects of the loan portfolio and the



reduced volume of credit production for the quarter, combined with a higher level of provisioning for the quarter, were the main factors that led to the reduction in Techfin's contribution margin to the quarter.

I turn over the presentation back to Dennis to talk about ESG on slide 14.

Dennis Herszkowicz:

Thank you, Maia. Related to Pillar G, we highlight in the period our ordinary and extraordinary shareholders' meetings held on April 19th, attended by more than 71% of the Company's voting capital and had all the proposed matters approved, among them capital budget, global management compensation and composition of the Board of Directors for the next two years.

We also highlight the upgrade of TOTVS' rating by Fitch from AA to AA+, reflecting, among other things, the Company's cash generation capacity, the expectation of preserving margins and the diversification of business with the addition of the Techfin and Business Performance dimensions, coupled to a high growth potential.

Now moving to slide 15 as a final message, I would like to underscore that, as we know, our dimensions go through what we call distinct moments and mandates. This expression implies an important concept. We need to be careful not to demand the same things from businesses that do not experience the same reality. We can confidently say that we are being careful about that, remain focused on our journey of growth and transformation, delivering important and clear achievements and evolutions in our growth engines.

In the Management dimension, the arrival of Gesplan brings quite significant secondary repercussions for the Techfin dimensions. This acquisition strengthened even more a dimension that has been showing very strong growth and continuous record-breaking levels. Even with our undisputed leadership in the ERP market, this is a dimension that we see with as many opportunities and it's clearly expanding, and, because of that, we'll keep investing and looking for new ways to generate value.

In Business Performance, the arrival of a new head with extensive experience for the digital commerce operation and the advances in RD Station's cross-sell and upsell strategy, strengthened by the planning of the first pilot of portfolio synergy between RD Station and TOTVS are just two examples of our conviction that this is a dimension with high potential for generating value and that we will continue to invest heavily on that, aiming to increase the competitive advantage and seize the opportunity of a market with low penetration.

Finally, and this is the big news until now, in Techfin, the TOTVS plus Itaú Joint Venture will revolutionize the way SMB contracts and consume financial services. This unique combination of our expertise in management systems with Itaú's financial expertise accelerates our roadmap and strongly guides our ambition to build the biggest and



best financial service platform. The goal is to expand, simplify and democratize access in the B2B market.

When most of the performance indicators are moving in the right direction, we usually start getting the questions from analysts and investors asking what is missing? And the answer in this case is relatively simple. Make the three dimensions that are solid on their own into a truly integrated, interconnected, and interdependent ecosystem.

Of course, the challenge is executing this construction, because it requires size, investment, structure, sophistication, and M&A capacity. These combined attributes is something TOTVS has.

We believe that the value proposition of helping companies improve their performance is strong and solid. We believe that technology is the way to go. Our journey to build this ecosystem is in full development and we will move forward seeking to transform TOTVS into the trusted advisor of most Brazilian companies, always believing in the Brazil that makes it, that does it.

Now we will open for the Q&A session. Thank you.

Q&A SESSION

Operator:

Thank you. We will now start our questions and answers session. If you have any questions, please press *1. If your question is answered, you can remove yourself from the queue by pressing *2.

Our first question is from Marcelo Santos with JP Morgan.

Marcelo Santos:

Good morning and thank you for taking my question. I have two questions. First has to do with performance. Could you please tell me about the timeline and the size of the cross-sell opportunity between LV and TOTVS? How do you expect this to evolve? Could you quantify it or maybe give us some idea of the size of this opportunity?

And my second question has to do with the gross margin. I understand that this is going to grow over time, but there are going to be more Clouds, how do you believe that this growth margin will begin over time along years, not quarters, because there will be more Clouds in the future. What do you expect from that?

Dennis Herszkowicz:

Thank you, Marcelo. I will start and of course Gustavo and Maia can help me answering your questions. Related to this business performance opportunities and especially cross-sell between TOTVS and RD Station, we cannot quantify the size of this opportunity at this point, but eventually we could give you some tips. Well, the first



pilot project we're going to develop is with the CRM product. I think that this has already been mentioned in the previous earnings call, so now we have moved forward significantly, and we are now designing this initiative with CRM in particular. Based on a work that TOTVS has been doing for quite some years, a good size of our base of customers has a pressing need to use CRM. We already had a CRM offering here, but not necessarily had compliance to all our customers, because CRM is a very wide, arching and overarching category, with too many products, so this RD product fits very well the needs of thousands of customers. But we have a challenge here, which is the average ticket challenge. The average ticket that we have today is rather low and even lower than we need to get a good fit with our distribution platform and how can we solve that? Most of current CRM customers, not TOTVS customers, have a proportionally small number of users, while our customers have a much higher number of customers themselves, so when they use a model, the model we're going to use where we charge per user, we have a capacity of value generation that justifies this offering through our distribution system. So, once again, we cannot give you very specific levels in terms of volumes of business, but on one hand we are going to have a significant number of customers, thousands of customers that will be interested in this product, but we expect an average ticket that is significantly higher than the CRM average ticket we have for standalone RD Station, because customers are bigger and the number of users they have is also higher.

Regarding your second question related to the gross margin in management, considering this timeline you mentioned, and not just the next quarter, we expect that this margin will keep growing. I think that the ultimate factor that defines this gross margin is the proportion of recurring revenue and service revenue. So, when we start having a higher percentage of recurring revenue, and this is why every time we migrate to SaaS, so every time we migrate customers to the Cloud, this percentage increases. So, we expect that over time this gross margin will increase simply because the gross margin of recurring services is of about 80, sometimes even higher than 80%, while the gross margin of services is half of that, sometimes even less than half of that. So, again, as we get an increased level of recurring services, by the time it reaches maybe 90% of the total we expect the gross margin to increase regardless of the cost of Cloud.

Marcelo Santos:

Perfect, thank you for your answer.

Dennis Herszkowicz:

Thank you, Marcelo.

Operator:

Our next question, Fred Mendes, Bank of America.



Fred Mendes:

Good morning, everyone. Thank you for being here and the call. The first question is that we had a net revenue of 16 million in the corporate area, which was higher than in 1Q21. So, how can I interpret this for the second quarter, because we thought that you would provide this net value for six months, but I don't know whether this is a correct understanding, so is a good part of it already informed in this quarter, or is there a more relevant part? And this is my first question.

And number 2, I understand, it perhaps we cannot say a lot here, it's regarding Techfin and the Banco Itaú debt. It's a difficult question, but I'd like to know whether there is an understanding that TOTVS, at least in terms of execution, will have a higher participation, especially initially, so that you can try and avoid losing it because of the size and relevance of Itaú. Thank you.

Gilsomar Maia:

Well, Fred, starting with the ARR net addition, since January and February we've been slower. This is done because of the increment in corporate, which takes place in the beginning of the quarter, and so the impact is more significant. When we look at production, we see a concentration which is common and stronger in the last month of the quarter, which is the month of March. With that, the impact of the net addition for the quarter has a proportionally lower contribution in 1Q than it will have in 2Q. An important part of it is that it will carry over to 2Q. For corporate, we see it in 1Q and 2Q. Now the 2Q, Dennis, sorry, the second question, Dennis.

Dennis Herszkowicz:

Well, to complement Maia's answer, this was observed in February for sales. Every end of quarter or the last month of a quarter is usually stronger. We see this dynamic in our sales structure and distribution, but in this quarter in particular, March was equivalent to January and February. Of course, there is an impact of corporate but, for the second quarter, we do have an important positive impact of this production, which was concentrated in March.

Now, regarding the second question, Fred, let me give two steps back. JV is not a practical reality, because as it usually happens in a process like this, we have a period that can take a few months for the approval by Cade, and we've already said that that won't be any major challenge. But we also have the approval of BACEN and that will take a little longer. I don't see any problems, but from a mechanical point of view it will probably take a little longer.

Having said that, every negotiation process, and actually this was a one-year negotiation process, it allowed us to generate trust and knowledge, and this is true for both parties. This makes us confident that: number one, Itaú has it clear that this is a deal, it is a centric-TOTVS deal. And why so? Because it will focus on TOTVS client



base, it will create competitive advantages based on the integration with TOTVS' products and on the effective use of data in TOTVS' system.

That alone makes both sides aware of the relevance of TOTVS, but that means that TOTVS will lead the way in this JV? No, this will be done in partnership, with a consensus. We are confident that Itaú will give due attention, because we have governance mechanisms in place, they have been explained thoroughly and they guarantee that if we do not have a certain level of performance, and if both parties do not comply with the fundamental liabilities, there are mechanisms in place that will guarantee the adjustments of eventual problems and eventual requirements that are not met. And, if that is not enough, there is a penalty that has been pre-established. I will not go into the details, but they guarantee that both parties will need to and will definitely give the due attention to this matter.

Of course, we cannot guarantee that something new will be successful, but I am confident, Fred, to say that the process has been thoroughly discussed, we are very confident that all mechanisms created will provide both parties the guarantee that we will take all efforts required for this deal to be successful.

Fred Mendes:

Thank you very much. Well, perfect. That was very clear. I thank you very much, Maia.

Dennis Herszkowicz:

Well, thank you Fred.

Operator:

Our next question is from Victor, Credit Suisse.

Victor:

Good morning, Dennis, Maia and Gustavo, thank you for the opportunity to ask questions. I actually have one Techfin question. When we look at the cash volume at the end of 1Q, we can see that you used a lot of cash. Keeping in mind that the credit portfolio increased in the last quarter with the expansion of the portfolio at the same time as the margin was compressed because of Selic, is it possible to consider that you will continue provisioning a growth of the credit portfolio, and perhaps that will decrease the contribution margin?

Dennis Herszkowicz:

Well, I'm going to start and then I will turn over to Maia and we're going to use this question to better explain some items of the dynamics of Techfin and in special of the administrators, among others in the explanations of the release, but the answer is that we are always looking for a balance. In the specific case of credit, and I cannot say



that this is the same answer for Techfin in general, but for credit in special, and of course this is a credit operation, we're always pursuing a balance. Growing is, of course, very important. We will continue adding new partners and gaining relevance with our affiliates. We pursue all of this, but we always preserve profitability. So, it's not either one, we're talking about both. We already have some maturity and a 20-year experience, and therefore the dynamics are very similar to the ones we have in the management dimension, where we try to combine the two elements, including profitability. So, once again, in terms of credit, we're not talking about growth or profitability, we're talking about both. Maia, please complement my answer.

Gilsomar Maia:

Regarding the flow, we basically have two entities, one is the credit card manager and the other one is the credit fund with the credit card. The administrator originates credit and operates along with the affiliates. That includes production and it follows FIDC. We have money and the cession fee, we charge it from the manager, we have the quota, the simple quota, and as the Selic increases, the fund should also increase. And, in practice, we can migrate the results to the fund and then the fund will carry over the portfolio. With that, you will be displacing revenue, moving it. In this quarter, it coincided with two other elements: number one, an important increase in the average time where there is an effect of present value which is more important; and the second thing is that, even though production was two 2.3% lower, because the average time was longer, when you look at the accrual, it is a little bit lower. Proportionally speaking, this is something for us to adjust in terms of days, but with that we had a 2% decrease. So that is combined to the flow effect, leading to the effect that we observed.

Victor:

Thank you, Maia.

Operator:

Our next question is from Cristian Faria, with Itaú BBA.

Cristian Faria:

Good morning. Thank you for taking my questions. I have two. First one relates to ARR, but I'd also like to understand what you foresee for the second quarter and what do you believe are the perspectives for the future? We know that the figures you for 200 million has been strong, especially vis-à-vis the last year. Could we expect the same levels for the future? In other words, when should we expect the growth levels to become normal or to go back to normal?

My second question has to do with the Techfin. I notice that the percentage of delinquency is aligned with historical levels of 0.8, but PDD went up, the expenses went up, so I would like to understand whether this reflects the impact of reversions that were being implemented last year? Thank you.



Dennis Herszkowicz:

I will answer the first question and I will turn over to Maia to talk about PDD. Regarding ARR, we have good expectations, especially in our dimension, I think that we've had good results. In March, for example, this was a strong month, we hit a new record in terms of sales production. In April, we usually have what we call a hangover because this is a very strong month, when we close the quarter, but we expect the second quarter to have a very good sales production level. This means that, when we say that the effect of the collective bargaining agreement in 1Q, especially this year, because the level of this agreement was much higher than last year, it was about 10% this year, 4% last year. So, along the year this effect is going to be offset, diluted over time. In the second half of the year, we're not going to have this effect as much, because the time is going to be even shorter and because the corporate model licenses will not be applicable in the second quarter, but certainly will in the third and fourth quarter, and because this dilution will be reflected in the second half of the year. Combined with ARR levels maintained at very good levels, we expect to perform in our management dimension over the year to be very positive, very positive performance. I'll turn over to Maia now.

Gilsomar Maia:

About the delinquency levels in Techfin, you are right. We look at the overdue portfolio, past due portfolio is rather low, but the point is delinquency or PDD is getting worse, so the portfolio has grown, the one of those who pay punctually, and that decreases the relevance of the past due portfolio. I think it was a 16% difference in the one that is about to be due, are punctual, versus about 30% in the due portfolio, past due portfolio, and there are some adjustments were made in the operation and also some adjustments in the thresholds and limits. We have some adaptations, and, in this earnings release, we had a snapshot of the portfolio for April, and you see that up to 30 or up to 60 days in past due portfolio, this has been reduced, but of course past due portfolio is the one that increases the levels of the provision per doubtful debtors, the PDD. This does not mean that this will turn into losses, quite the opposite, because we are working on to reverse those delayed receivables or past due receivables. This is along the lines with our historical data, so we expect that part of this provision will be reversed in the future. So, this is a feature of credit operations and very conservative, especially in this past due portfolio, adjusting those limits so that new productions will not increase this number. I think that this item is under control in my opinion.

Cristian Faria:

Great, thank you. I would just like to ask a follow-up question related to that. This lengthening of the time of the portfolio, is this related to the seasonality of the portfolio in the future, though this timeline is going to go back to normal for the portfolio turnover and, of course, the cost related to that?

Gilsomar Maia:



I believe so. I think that the average time of 1Q21 was close to 61 days, so it's not so far away, because it's 63 days we had in this quarter. This is because of the agribusiness, agribusiness generates a lot of credit in this period and usually the average time of the agribusiness portfolio is longer. Because of that, the average time of production for this period and consequently portfolio is higher than the average. So, when the relevance of agribusiness reduces within the portfolio, the average time of this portfolio will go back to historical levels, close to 50 days.

Cristian Faria:

Okay, thank you.

Operator:

Our next question is from Leonardo, with UBS.

Leonardo:

Good morning, everyone. I have two questions related to Techfin. First one relates to what Maia has just said related to agribusiness. Could you give us an example of how this works and how this time is longer? Along 2022, will there be other factors that you expect to affect the average time of the portfolio?

And my second question is about the cession of the portfolio to FIDC. I may be confusing things, but in the past, you said you use more of your own cash and in this quarter, you made this cession to FIDC, so is it the same? The fact that you're having this cession, you're giving the portfolio to FIDC, would you expect to increase that? I would like to understand the perspectives for growth and margin.

Gilsomar Maia:

Thinking about the average time of the portfolio, this is a feature that relates to the end of the 4Q, beginning of 1Q. This is when you have the different crops and the different seasons for agribusiness. So that reduces overtime because of agribusiness seasons and this average time is related to this longer cycle that is used in agribusiness. Their time is almost twice the average time of other portfolios. So that is a very specific feature related to agribusiness. The relevance of agribusiness over time has grown. This is an industry that supplier has developed. And it's good because they require this type of service a lot. But honestly, I do not expect to find other segments like this that are as relevant as agribusiness and that could, at least in the timeline we are considering, that could lead to a time lengthening effect in the portfolio, so I cannot see this at this point.

Regarding this cession you mentioned, there is no perspective of change. What we did over time was to optimize the use of cash of the operations and part of our affiliates, in an agreement with our affiliates, has a longer payment date. Usually affiliates have like 3 days, but there are some agreements with some affiliates, and they are paid in a month. So, this leads to a float in the manager because they receive from the funding



D+2 or D+3 and that money will stay in the Supplier over the months until you pay the group of affiliates whose payment dates are longer. So, this floating effect over time could be used as a resource within the manager to carry over part of the portfolio, but there are limits to that. When we work with insurance, it's different because we want to keep the risk of the Supplier within the limits, we established for that.

So, I don't see how this balance could change. In this quarter, specifically, this cession was more concentrated in a period right after the rates increased and it was a coincidence with the fact that the time for the portfolio has increased, so the rate charged by the manager were increased because of the time increase and because of the Selic rate increase, which automatically impact on FIDC's quotas, because they need to charge more to have enough to pay quotas. So, in fact you're removing resources or revenue from the manager, take that to the fund and the fund uses that over time, but through subordinate quotas these will return, but in a different time frame. I don't know whether my answer is clear to you.

Dennis Herszkowicz:

And yes, it was, but I would like to add something. I think that these two elements, so a longer time, as well as constantly pursuing more efficiency in funding resources are two positive systems. They will eventually have circumstantial impacts, as we can see particularly in this quarter that are not positive, but overall, the impacts are positive when you lengthen the time of the portfolio. This means that if you keep having the same levels of production you had, the portfolio will increase, because that is going to be carried over for a longer period of time, so it's a positive effect. But, of course, there could be this effect explained by Maia and also the use of the floating from Supplier. Those are two positive aspects. The first one is that floating will increase because of the growth in operations, so there is more availability in the manager. This shows that the business is growing at an appropriate level. And the second point is that when we use the floating resources from the manager, from the perspective of that operation over time, you are using less and resource is more expensive, which is the senior quota for FIDC. The more we could use a floating resource, the less paid resources would have within FIDC. Of course, there should be a balance in terms of risk, depending on the size of the floating resource, but overall, this is very positive, and this is why we choose that regardless of that impact in the short term. In the short term it's not positive, but over time, when you consider the time of that cession, this is extremely positive.

Leonardo:

Thank you. Yeah, that was very helpful, thank you.

Operator:

I'd like to remind you that to ask a question, please press *1. To remove your question from the line, please press *2.



Thank you. We have no more questions and therefore I'd like to turn over to Mr. Dennis for his final considerations.

Dennis Herszkowicz:

Well, thank you very much. To wrap-up, I'd like to make an invitation to our Investor Day, which will be held within the TOTVS universe. After two years without our TOTVS universe event, we are resuming our activities, combining very well-known names in the market with a lot of content and therefore I'd like to ask you to participate and to make a note of the date for June 14 and 15 in Sao Paulo and in the near future, our team, along with Sergio, will share more information.

I once again would like to thank you all for your participation and in special to the TOVERS. I thank you and hope you an excellent day. Thank you.

Operator:

TOTVS' video conference is now over. We thank you all for your participation and wish you a wonderful afternoon.