

## Q4 2015 Earnings Call

### Company Participants

- Gilsomar Maia, CFO
- Laercio Cosentino, CEO

### Other Participants

- Andres Coello, Analyst
- Diego Ragon, Analyst
- Michel Morin, Analyst

### Presentation

#### Operator

Good morning. Welcome to TOTVS conference call to discuss the Fourth Quarter of 2015 results. We have with us Mr. Laercio Cosentino CEO; and Gilsomar Maia, CFO. (Operator Instructions) After the presentation, we will have a question-and-answer session for investors and analysts when further instructions will be given. (Operator Instructions) The audio is being simultaneously transmitted via webcast at [ri.totvs.com](http://ri.totvs.com).

Before proceeding, we wish to clarify that any forward-looking statements that may be made during the conference call related to business outlook, operational and financial projections and targets of TOTVS are based on beliefs and assumptions of the Company's management as well as on information currently available. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties. And assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions. And other operational factors could affect the future performance of TOTVS and could lead to results that differ materially from those mentioned in this forward-looking statement. Now I will turn the conference over to Mr. Cosentino who will begin the presentation. Mr. Cosentino, please go ahead.

#### Laercio Cosentino {BIO 6567039 <GO>}

Good morning, everyone. Thank you for participating in our Fourth Quarter and full-year 2015 results conference call. I'd like to start with the main factors that influenced the year shown on slide 3. The transition (inaudible) for subscription model was the main factor contributed to TOTVS sales in 2015. After a long period of studies, we launched TOTVS Intera in the last June at (Universal) TOTVS, (inaudible) to reach clients. TOTVS Intera is our prescription model that includes management solution for industry sector from the back office to the further (inaudible) in collaboration with (inaudible) in addition to the minimum infrastructure needed to use this solution in cloud.

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From this launch, our franchisee also expect to sell subscription. It's been the tradition resulting 20% drop in license revenue and more than 25% growth in subscription revenues. As a percentile of TOTVS revenue, subscriptions surpassed 10% considering Bematech subscription revenue reaching 13.5% of total TOTVS revenue in 2015. The size of the reduction in profitability already expected early stage of transition, the economy turned down and Brazil political stability creating additional challenges for the Company in 2015. The most obvious example of this challenge were the 3.8% drop in GDP, the highest since in 1999 and inflation that surpassed 10% at the end of the year. We did average IPCA and IGPM of 9% and 6.5% in the year respectively.

In addition of all of this, we took another very important step in our segmentation strategy by acquiring Bematech. Together TOTVS and Bematech are present in almost 98% of the Brazilian cities and in more than 500,000 checkouts. We became leaders in the hospitality sector and the largest business solution provider for Brazil retail sector.

Moving now to the Q4 2015 events on slide 4. After antitrust (inaudible) brought in October, we carried out the closing of transaction with Bematech which involved a payment in cash and share swap to the former Bematech shareholders. Thus we began integration of its operation (inaudible) brought commercial (inaudible) in order to create the offering integrated solution portfolio for the retail services and the microenterprises sector.

It's worth mentioning that in order to preserve the (Fox) on year-end of closing 2015, TOTVS and Bematech sales team began operating together in January 2016 following for the integration plan. In February, the Brazilian Stock Exchange and the Brazilian SEC granted Bematech's request to delist voluntarily from the stock exchange and to cancel its registration as a publicly-held company which will allow us to impose a few more integration of strategic degrees.

Among the change in the management, two are related to Bematech, the election of Wolney Betiol as independent Board Member and the election of Eros Jantsh as the Vice President of microenterprises segment. Mr. Betiol is the co-founder and was a Bematech board member. Eros is the current Bematech CEO where he has been working for the last 23 years. Both Wolney and Eros can contribute a lot not only in the matters involving Bematech. But also to help create business strategy for joint operation with TOTVS.

Another change that's related for the integration from in the election of Ronan Maia as the Vice President of consumer segment. Ronan has over 15 years of career in PC SISTEMAS, a company acquired by TOTVS in 2013. And now as the head of consumer segment, he is going to have an important role in integration of Bematech Solutions to TOTVS' portfolio retail.

Closing the management change, we had the election of Gilsomar Maia as CFO. And my appointment through the position of Executive President. To conclude my comments on this main events of this quarter. And before we get into numbers, it's important to mention that this quarter results had been affected by extraordinary items which will be detailed throughout this conference including expenses related to transaction with

Bematech, restructuring costs regarding a headcount reductions. And the incremental provision of contingencies.

Now I turn to Maia who will continue the presentation, commenting on the Q4 2015 results from slide 5.

### **Gilsomar Maia** {BIO 16400533 <GO>}

Thank you, Laercio. Good morning, everyone. The consolidated results for the year 2015 presented in the audited financial statements include the amounts of November and December of Bematech. In order to preserve comparability, we have presented the consolidated pro forma results and updated combined the full results of TOTVS and Bematech for both quarters and the years of 2015 and 2014. We also present the results of TOTVS and Bematech separately as this is the First Quarter of unified reporting and both companies began commercial operations together from January 2016.

Now I will start commenting on TOTVS results separately without Bematech from slide 6. Q4 2015 total revenues fell 0.5% and in the year grew by 3% year on year and was positively impacted by the growth of recurring revenues which already accounted for 62% of the year's revenue. And 65% of the quarter's revenue and negatively impacted by the transition from the licensing module to a subscription module. And the deterioration of the economic scenario.

The growth of services revenue in 2015 mainly originated from services not related to software implementation which represented 39% of 2015 services revenues, up from 33% in 2014 with consulting services growing by a remarkable 25%. The reduction in nonrecurring revenues reflected a falling economic activity reflected in the slower pace of conversion of the sales pipeline, especially larger accounts of software licensing and the consequent lower allocation of our own implementation services team.

On slide 7, the software revenue chart on top left corner shows the scenario described with license revenue falling 31% in the quarter and 20% in the year, while subscription revenue increased 22% in the quarter and 26% in the year. Given the context, we believe that the module transition has been successful since the economic situation impacts negatively not only the license sales. But also subscription which can be evidenced also by a greater reduction in the number of new clients for the licensing module as seen on charts on the top right corner.

Now talking about contribution margins at the bottom of the slide, the quarterly service contribution margin, the chart on the left side, was 0.4% negative. In absolute amounts, a gap in services result between Q4 2014 and Q4 2015 was close to the gap observed in a year, that means approximately BRL9 million. In summary, the negative results of services in this quarter is explained by three main reasons.

One, lower allocation of own implementation services team. Two, the higher wage increases in 2015 not fully passed on to the pricing of projects. And three, the consequent additional costs with headcount reduction. Similarly the services; the reduction in Q4 2015

contribution margin of software, the chart on the right side, in absolute values approached the reduction calculated in 2015, about BRL15 million. And can be explained by three main reasons. One, reduction of software license sales; two, adjustments of recurring revenue by the IGPM below the adjustments of costs closer to IPCA; and three, the consequent additional costs in headcount reduction.

To speak about TOTVS selling and administrative expense, I ask everyone to go to slide 8. The sum of selling and commissions expenses increased 4.5% in 2015 with a performance relatively stable as a percentage of total revenues. The growth of 12.5% in Q4 is concentrated in selling expenses mainly by mix of sales between franchises and all units. And the mix of sales between licensing and subscription, plus additional costs for headcount reductions to adjust the sales force structure.

Marketing and advertising expense increased by 30 basis points year on year mainly due to the reduction in advertising and marketing expense in 2014 because of Soccer World Cup in Brazil. The allowance for doubtful accounts expense represented 1.8% of net revenue in 2015 compared to 1.6% in 2014. The increase in this provision is mainly due to the increase in the delinquency observed in the market throughout the year. And lastly the general and administrative expense including management fees and other expense increased 45% in 2015 and is concentrated in general and administrative expenses which were affected by the incremental provision for legal contingencies of BRL59 million recorded in Q4 2015.

This estimate change in the provision for legal contingencies is the result of continuous monitoring and control of risks of TOTVS which throughout 2015 included the replacement of main legal advisors that conducted the civil and labor suits to achieve greater uniformity in the conduct and more efficient tracking and resolution processes; the revision of estimates for expected losses associated with lawsuits; and the revision of historical outcome of lawsuits. And new proceedings in which the Company is defendant.

It's important to note that this provision does not affect the cash flow immediately and even with such provisions, TOTVS will continue to take all necessary measures to defend its rights in such proceedings. In addition, this group of expenses was negatively impacted Q4 2015 by BRL5.9 million of expenses related to M&A transaction with Bematech and BRL2.5 million for the provision for impairment of Ciashop, both classified in other operating expense. In the year, excluding incremental provision for contingencies and other unusual effects, this group of expenses represented 7.5% of net revenues versus 7.9% in 2014.

Moving now to TOTVS EBITDA and net income on slide 9. After eliminating the extraordinary effects mentioned on previous slides, adjusted EBITDA for the quarter totaled BRL74 million with adjusted EBITDA margin of 16.3%. With that, the Company ended the year with adjusted EBITDA of BRL399 million and adjusted EBITDA margin of 21.8%.

Talking about net income on slide 10, in addition to the nonrecurring items mentioned in the previous slides, net income was also impacted by BRL6 million adjustment net of tax

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effects to adequate the provision for the non-conversion premium of debentures. Eliminating all these impacts, adjusted net income for the quarter totaled BRL46 million with an adjusted net margin of 10.2%. For the year, adjusted net income totaled BRL251 million with an adjusted net margin of 13.7%.

In summary, the decline in EBITDA and adjusted net income in the year and in the quarter is basically associated with the short-term effect of transition to subscription, lower allocation to own teams of software implementations. And the reduction of recurring costs resulting for headcount reduction, not reflected in Q4 2015 results and consequently not included among the quarter's adjustment. Excepted for the subscription, which stands to contribute to margin expansion in the medium term, the restructuring undertaken in the Q4 2015 should take effect in the coming periods.

Now, I will talk about Bematech's results on slide 12. Bematech's total revenue was positively impacted by recurring revenues which grew 9% and negatively impacted mainly by reduction of 1.5% in hardware revenue in 2015. This reduction in hardware revenue resulted mainly from decrease in the economic activity level reflected in the sales base, in the lower number of new establishments opened. And the change in the tax legislation especially in Sao Paulo State where the fiscal printers were replaced by the S@T fiscal equipment which has a lower unit price. Change in tax legislation tend to collaborate with the growth of recurring revenues from tax offer solutions, reducing the share of nonrecurring hardware revenue in the composition of total revenue.

As shown on slide 13 on the top left, subscription revenue increased 13% in the year and exceeded maintenance revenue. Together subscription and maintenance totaled 94% of total software revenue in 2015. At top right, the software contribution margin in the year was 50.5% versus 58% in 2014. This impact is concentrated in research and development expense held mainly by non-capitalization of new investments in R&D in Q4 2015, an inorganic effect of Unum. In services on the bottom left, the contribution margin increased 440 basis points in 2015, mainly due to the restructuring made by Bematech, the services teams, related to the hotel segment.

In the bottom right in hardware, the contribution margin decreased by 24% in 2015. And by 34% Q4 2015. This reduction was mainly due to the exchange rate not fully passed through to prices during the year. Hardware margin was also impacted by the reduction in grant income established by the Parana State Government from September 2015.

Turning now to the selling and administrative expenses on slide 14, combined selling and commission expenses represented 11.2% of the net revenue in 2015 versus 9.8% in 2014. This growth was mainly due to the restructuring of sales team promoted by Bematech in the period. Advertising and marketing expense accounted for 2.2% of net revenue in 2015, 20 basis points up when compared to the previous year. Expenses on allowance for doubtful accounts decreased 48% in the year coming from 2.5% of net revenue in 2014 to 1.3% in 2015. This change reflect the improvement of the receivables portfolio and the efforts to recover credit already accrued in the previous periods.

Finally, general and administrative expense plus management fees and other expense were negatively impacted in 2015 by the expenses related to the transaction with TOTVS in the amount of BRL5 million recorded in Q3 2015 and the provision for obsolete inventory in the amount of BRL2 million in Q4 2015. In the year, is -- regarding this extraordinary event, this group of expenses represented 11.8% of the Bematech's 2015 net revenue versus 13.1% in 2014.

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Now turning to EBITDA. And EBITDA margin of Bematech on slide 15. Excluding all the extraordinary effects already mentioned, Bematech's adjusted EBITDA totaled BRL10.9 million in the quarter and adjusted EBITDA margin of 9.3%. In the year, Bematech's adjusted EBITDA totaled BRL58.2 million and adjusted EBITDA margin was 21.8% (sic; see slide 15, "13.4%").

Now on slide 16, netting those same extraordinary effects already mentioned on EBITDA net of tax effect, Bematech's adjusted net income totaled BRL3.3 million in the quarter with adjusted net margin of 2.8%. For the year, adjusted net income totaled BRL31.8 million with an adjusted net margin of 7.3%.

In summary, the decline in EBITDA and adjusted net income of Bematech in the year and in the quarter is primarily associated with the effects of currency exchange rate, the reduction in grant income. And the non-capitalization of new investments in research and development in Q4 2015. It's important to mention that TOTVS' strategy is to gradually adapt with the hardware sales price in order to rebalance revenues and costs of this operation.

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Now we will talk about the consolidated pro forma figures of TOTVS and Bematech from slide 18. Bematech TOTVS net pro forma revenue totaled BRL2.3 billion. From this total, retail amounted for BRL535 million which makes TOTVS the largest business solution provider for the retail segment in Brazil. This segment accounted for 24% of total pro forma revenue in 2015, becoming the largest segment of TOTVS together with the manufacturing sector. In addition, without Bematech, TOTVS grew 25% in the retail segment in 2015.

Bematech's dominance in solutions for hotels and for passenger transportation reinforced our position in the services segment which represented 16% of total net pro forma revenues in 2015. This data shows that the segmentation strategy increased top sectorial diversification and created a greater revenue balance among segments.

Moving on to slide 19, in the pro forma revenue breakdown, software accounted for 62%, services 26%. And hardware 12% in 2015. The pro forma recurring revenue amounted to BRL1.3 billion and represented 56% of the pro forma net revenue in 2015 versus 53% in 2014. The growth in the pro forma recurring revenues resulted mainly from the 21% growth in the subscription revenue and 6% growth in maintenance revenue, which together accounted for 82.4% of the 2015 pro forma software revenue.

Moving on to TOTVS pro forma EBITDA and pro forma EBITDA margin on slide 20. Excluding the extraordinary effects already mentioned in the comments about TOTVS and

Bematech, the adjusted pro forma EBITDA totaled BRL85 million in the quarter and EBITDA margin of 14.9%. In the year adjusted pro forma EBITDA totaled BRL467 million and EBITDA margin of 20.2%.

Similarly on slide 21 after the extraordinary effects, adjusted pro forma net income of Q4 2015 totaled BRL49.5 million with net margin of 8.7%. In the year, adjusted pro forma net income amounted to BRL283 million, a margin of 13.7%. Important to note that besides other factors already mentioned, EBITDA margin and net margin of TOTVS and Bematech were affected in 2015 by the mismatching between the IGPM and IPCA inflation rates. The inflation in recurring revenues is measured largely by the IGPM and cost inflation has remained close to the IPCA. Average IGPM in 2015 was 6.5% while the average IPCA was 9%.

The sharpest recovery of IGPM in the last quarter presented on slide 22 has not produced significant effects in the year of 2015 as the adjustment in the period affected a few months of the year. Furthermore these adjustments are also going to affect the full year of 2016.

Now speaking about the cash flow on slide 23. The Company ended the year with BRL426 million of gross cash and BRL452 million of net debt which represents approximately one time the adjusted pro forma EBITDA of 2015. The pro forma reduction of BRL389 million of gross cash in 2015 is mainly due to the payment of BRL474 million regarding the transaction with Bematech, the payment of BRL204 million dividends and pro forma interest on equity, the inflow of BRL181 million related to the last tranche of the credit lines hired in 2013 from BNDES.

On slide 25 we have the schedule of the total gross debt amortization, totaling BRL878 million in Q4 2015 to be amortized by 2020 of which BRL246 million will be amortized in 2016.

To complete the earnings presentation on slide 26, we present the proposal for dividends to be submitted for approval at the annual general shareholders' meeting on April 2016. The proposal provides distribution of BRL66.6 million in dividends for the year of 2015. These dividends plus the interest on equity already paid represents a total of BRL0.78 dividend per share. Despite this amount to be lower than in recent years, this is a decrease in net income in 2015, it represents a payout ratio of 65%, which is slightly above our historical average.

Now I turn the presentation back to Laercio for his final comments on slide 27.

### **Laercio Cosentino** {BIO 6567039 <GO>}

Thanks Maia. Over the past 10 years, the Brazilian economic scenario has allowed the Company to focus solely on their business, giving priority to investments and dedicating to growth. Then the negative agenda came on the scene in 2015. GDP growth of minus 3.8%, the real inflation level not translate into the IGPM index, tax burden increased due to the end of payroll tax relief, a rise in labor cost and the (inaudible) and more activities and the deteriorating business (inaudible) in 2016. However, the marketing mood changed and

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it was the hard task of adjustment structures, price and business cost. In 2015, the positive agenda of Brazil had to be changed so that it was possible to leave the press to read out in great business opportunities to Brazil.

With this business thoughts, made the necessary adjustments in the structure to maintain the balance between revenues and costs. We assessed the legal contingents and the result of the continuous monitoring and risking also without losing the focus and pursue its rights. Took an important step with the integration of Bematech to consolidate itself as the largest business solution provider for the retail segment. Intera, the subscription award with Intera commercial model keeping the EBITDA margin about 20%. And capital investment in technology system and client selectivity particularly in the last quarter in order to enter 2016 with full force.

In 2015, software license shrank. But the subscription won growing more than 25% and they make TOTVS stronger in the medium-long term. Anyway the great legacy of 2015 (inaudible) decision, solutions. And acquisition which prepared the Company for the new challenges of the (inaudible) 2016-2017. Thus moving forward in the consolidation provision in Brazilian market, expand the leadership segment by segment, convert its customer to subscription in cloud. And about the productivity and collaboration part of firm (inaudible) and mobility to its customers. Brazil is bigger than everything that we are going to and TOTVS works for this.

I thank all for your participation and we are now available for Q&A section.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Michel Morin, Morgan Stanley.

### Q - Michel Morin {BIO 1873971 <GO>}

I have two questions, just the first is on your transition towards a subscription-based revenue model. I was wondering if you can give us a little bit of color in terms of these new subscribers that you are attracting, what their profile is, are they comparable to your - to the customers that you are still selling new licenses to or are there any differences there? And I'm wondering if you can mention -- if you can discuss whether or not you're seeing any churn on the subscription part of the business. I think it's obvious that you're seeing some churn in maintenance and your existing clients and you're seeing an impact on license.

But are you seeing any impact also on your existing subscriber base or subscription based revenue? And do you have a sense as to when we should expect license revenues to fall to zero from new clients in particular? So that will be the first question if you can give some color around that migration.



Then secondly on the nonrecurring items, there were some restructuring costs and typically when facing a difficult macro environment it would be typical to anticipate that we might see more restructuring cost in the future. So I just want to gauge how nonrecurring those types of cost really are? Thank you.

## A - Laercio Cosentino {BIO 6567039 <GO>}

Good morning, Michel. Okay, trying to start from the later question regarding the restructuring costs, look, the exercise we did in the Q4 was, I would say, a more stressed one, considering the context of the market. So in our expectations, we should be able to avoid incremental restructuring in the short term. Of course we don't like to do this kind of thing because the main element, main asset in our business is our people. So every time we'll have to reduce our workforce, it's a hard decision.

But of course sometimes we have to take this decision in order to preserve the health of the business. And in this direction, eventually if we see more to be done, we will. But in the same way really having insured that we are doing what has to be done. The second question was related to expectations of license to like run to zero. Actually it's hard to say and more specifically you mentioned new clients. So clearly the flow of new clients is migrating to subscription and then I can connect to your first question.

When we analyze the profile of new clients, they are subscribing software instead of licensing the software. Mostly clients subscribing software are medium and small companies in a -- when I say most of those clients, I mean in terms of revenues. In number of clients, we have a relevant number of new clients. So describing software from the microenterprise layer. In numbers, I would say that from like in growth numbers about one quarter to 30% of the total number of new clients can be classified as microenterprise approximately.

So the remaining are more typical clients of TOTVS in the SME or SMB space. And that's consequently affecting license to new clients. We don't have this expectation in our hands now. But it's clear that every day we are closer to that event. But again, we don't discard the possibility to sell license to new clients because in the end of the day, we respect our client's demand. And -- but if you ask me today if we prefer to sell license or subscription, I would say that we prefer to sell subscription.

And the last question regarding churn. Churn in subscription, if we do the same exercise trying to split the churn into two parts like one regarding microenterprises and the SME companies, by nature microenterprises have a higher churn and that's -- it's pretty clear in the subscription because these guys, they really easily switch from one solution to another since those solutions provided to microenterprise are pure cloud solutions, simpler solutions, more standardized and these companies have a higher mortality rate and a lower level of financial discipline to keep using a management solution, a financial solution. And paying every month.

In terms of the churn rate to the other part of the SME companies more specifically, we don't see a big difference between churn of SME companies subscribing software

comparing to SME companies acquiring license. So it seems that the behavior of our clients are pretty similar between subscribers and license acquirers.

**Q - Michel Morin** {BIO 1873971 <GO>}

Excellent. Thank you very much for all the color.

**A - Laercio Cosentino** {BIO 6567039 <GO>}

You're welcome.

## Operator

Andres Coello, Scotia Bank.

**Q - Andres Coello** {BIO 16205255 <GO>}

I believe more on the operational side regarding the acquisition of Bematech, how easy is for the Company, for TOTVS, to actually reach the Bematech users, the Bematech clients. And do you have direct access to the clients or are you going to this through distributors in terms of cross-selling TOTVS solutions to Bematech subscribers?

**A - Laercio Cosentino** {BIO 6567039 <GO>}

Thank you for your question. Your question is a very interesting question. Actually when we talk about Bematech's existing clients, we could separate into two groups. One group is that low-end market of microenterprise being attended by the resellers and distributors of hardware. And the other Group are companies in the SME high-end space, clients of software mainly and some high-end companies are also clients of hardware.

So consequently Bematech having those two main groups of clients, Bematech has different ways to distribute their solutions to those public. The first one I already mentioned, resellers and distributors, that's not part of our classical distribution system and that was one of the "assets" of Bematech that call our attention because we see really a interesting opportunity to leverage debt distribution network in the low-end market since our distribution is in a much earlier stage than the Bematech's. And so if we do a good job in -- we can better use that distribution network in the low-end market and then become a more relevant player. That's a completely fragmented market in Brazil.

And the second one is more regarding SME and high-end markets, more driven by software solutions, more similar to our software business here and that part of the market we are working together since January commercially and solutions driven. So we are sharing now our sales pipeline. So teams are working together in order to present the better choice for our clients. So what we have as a best choice for our clients or our potential clients. I don't know if I addressed properly your question.

**Q - Andres Coello** {BIO 16205255 <GO>}

Yes. Thank you. So you do feel confident that through your own distribution capabilities in SME, high-end market and through distributors, you will be able to reach the Bematech

users with your software products, right? I mean, you are confident that you can actually reach the entire subscriber base either directly or indirectly?

**A - Laercio Cosentino** {BIO 6567039 <GO>}

Yes. We are. Again there are different strategies on those two segments or layers of the market. So in the distributors and resellers, we have to work internally, more internally to better (handle) TOTVS and Bematech solutions in order to deploy more righteous sales solution and then the guys, the distributors can do the rest. If we give them a good solution and attractive product. So they -- I'm sure they will enjoy. The other group is more similar to what we classically have here and it's more a matter of working together to have a single sales approach and working together to have conversions in our development roadmaps.

**Q - Andres Coello** {BIO 16205255 <GO>}

Okay. Thank you. Very clear.

**A - Laercio Cosentino** {BIO 6567039 <GO>}

You're welcome.

**Operator**

(Operator Instructions) (Diego Ragon), Morgan Stanley.

**Q - Diego Ragon**

Thanks for taking my question. Actually just a follow-up question regarding Bematech, can you provide us a sense of what kind of synergies are you expecting to extract on the cost structure and also maybe a follow-up regarding what are your expectations for the top line? Thank you.

**A - Gilsomar Maia** {BIO 16400533 <GO>}

In terms of synergies, synergies of top line, it's always more complicated to talk about and just to make a comment here, when we announced, we didn't disclose publicly synergies in financial terms. But in terms of top line, of course that's the more relevant portion of synergies we expect. And -- but considering that Bematech was a publicly-held company here, Bematech had all the cost burden related to a listed company and it's clear to optimize the structure that administrative and corporate governance is structure of Bematech. So we can extract some clear synergies in that front. Not going deeper in that subject. But some obvious examples are we don't need to have two board of directors, we don't need to have two different external auditors, we can have a single management systems -- a single management system, we can have a better negotiation with infrastructure providers, telecom providers.

So companies that are our suppliers of benefits to our employees, for example, we can better negotiate conditions, commercial conditions of those things. So in the administrative front, that's the most obvious one. In terms of software business, also we

have some opportunity to put Bematech under our umbrella as contract, we have with some major providers of technologies used by both TOTVS and Bematech and in terms of distribution connecting to Andreas' question, we can try to better leverage the distribution network of both companies, distributing solutions from both portfolios. In terms of top line. So in fact my answer already comprise the top line synergies. But again it's hard for me to share figures exactly with you guys. Okay.

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## Q - Diego Ragon

Okay. Thanks Maia.

## A - Gilsomar Maia {BIO 16400533 <GO>}

Welcome.

## Operator

(Operator Instructions) This concludes today's question-and-answer session. I'd like to invite Mr. Laercio Cosentino to proceed with his closing statements. Please go ahead sir.

## A - Laercio Cosentino {BIO 6567039 <GO>}

I want to thank you for all participation saying that we remain focused on executing TOTVS spread. And I tell again that Brazil is bigger than everything that we are going throughout and TOTVS work for this. I wish you all a great day, best for everything.

## Operator

That does conclude TOTVS' audio conference for today. Thank you very much for your participation and have a good day.

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