

## Y 2015 Earnings Call

### Company Participants

- Gilsomar Maia Sebastiao, Chief Financial Officer
- Laercio Jose de Lucena Cosentino, Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Andres Coello, Analyst
- Michel Morin, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning. Welcome to Totvs' Conference Call to discuss the Fourth Quarter of 2015 Results. We have with us Laercio Cosentino, CEO and Gilsomar Maia, CFO. All participants will be in a listen-only mode during the presentation. After the presentation, we'll 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 [ir.totvs.com](http://ir.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 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 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 these forward-looking statements.

Now I will turn the conference over to Mr. Cosentino who will begin the presentation. Mr. Cosentino, please go ahead.

#### **Laercio Jose de Lucena Cosentino** {BIO 6567039 <GO>}

Good morning, everyone. Thank you for participating in our fourth quarter and full year 2015 earnings conference call. I like to start with a main factor that influences the results

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on slide three. The transition (inaudible) for subscription model was a main factor contributing to total sales in 2015. After a long period, we launched TOTVS Itera in the last June (inaudible) and all events reached clients.

TOTVS Itera is our subscription model that includes management solutions from the back office for the further collaboration in addition to the minimally need to use these solutions in costs.

From these launch, our franchisees also respect sell subscriptions. It's pretty hard the tradition, we are looking 10% drop in license revenue and more balanced growth in subscription revenues. As a percentage of total software revenue, subscription surpassed 10%. Considering Bematech, subscription revenue reached 13.5% of total software revenue in 2015. Besides the reduction in preferred (inaudible) our revenues backed to this early stage of transition.

The economy turn down in Brazil, producing stability creating additional challenges for the company 2015.

The most obvious example of this challenging were the 3.8% drop in GDP, they have since 1990, an inflation that surpassed 10% at the end of the year. We did average the IPCA and IGPM of 9% and 6.5% in the year respectively.

In addition, all of these, we took another very important step in our segmentation strategy, by acquiring Bematech. Together, TOTVS and Bematech are present in almost 90% of the Brazilian cities and in more than 500,000 checkouts. We became leaders in hospitality sector and the larger business solution provider for Brazil retail sector.

Moving now to the Q4 2015 events on slide four. After antitrust (inaudible) in October, we carry out the closing of transaction with Bematech. We think over the payment in cash and share swap to the former Bematech shareholders. Third, we began integration of its operations even into the cost for all this commercial teams in order to create to offering, integrate the solution portfolio for the retail servicing and microenterprises sector. It's worth mentioning that in order to preserve the TOTVS on year-end of closing 2016.

TOTVS and Bematech sales team began operating together in January 2016 for the integration of clients. In February, the Brazilian Stock Exchange and the Brazilian SEC raised the Bematech request to delist voluntarily authority from the stock exchange and to cancel it's registration as of publically held company which will allow us to invoke a few more than integration of strategic degrees.

Among the change in the management, two are relates to Bematech, the election of Wolney Betiol, as an independent Board a member and the election of Eros Jantsh as our Vice President of Microenterprises segment. Mr. Betiol is the co-founder and was the 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 for assets and joint operation with TOTVS. A lot of the change that's related for the integration from the election of Ronan

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Maia as our 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 a Head of Consumer segment, he is going to have potential holding in integration of Bematech Solution to TOTVS' portfolio retail.

Closing the management change, we had the election of Ronan Maia as CFO and Maia appointment to 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 positive results have been affected by extraordinary items which will detailed throughout this conference including expenses related to the transaction with Bematech.

Restructuring costs regarding a headcount reductions and the incremental provision of contingency. Now I turn to

Maia who will continue the presentation commenting on the Q4 2015 results from slide five.

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

Thank you, Laercio. Good morning everyone. The consolidated results for the year 2015 presented in the audited financial statements include the months of November and December of Bematech. In order to preserve comparability, we have presented a consolidated pro forma results and updated combined at 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 on both companies began commercial operations together from January 2016. Now, we started commenting on TOTVS results separately without Bematech from slide six. 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 are rather accounted for 62% of the year's revenue and 65% of the quarter's revenue.

Negatively impacted by the transition from the licensing model to a subscription model and the deterioration of the economic scenario. The growth of service 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 non-recurring revenues reflect the fall in 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 seven, the software revenue chart on top left corner shows the scenario described with license revenue following 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 model transition has been successful. Since the economic situation impacts negatively not only to license sales but also subscription which can be evidenced also by a greater reduction in the number of new clients for the licensing model as see on chart from 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 '14 and Q4 '15 was close to the gap observed in year. That meets 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 to services, the reduction in Q4 '15 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 HPM below readjustments of course closure to IPCA. And three, the consequence additional processing headcount reduction. To speak about TOTVS selling and administrative expense, I ask everyone to go to slide eight.

The sum of selling and commissions expense increased 4.5 percentage in 2015 with our performance relatively stable as a percentage of total revenues. The growth of 12.5% in Q4 is concentrated in selling expense mainly by mix of sales between franchises and all units and the mix of sales between licensing and subscription. Those 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 reported in Q4'15. This estimate change in the provision for legal contingencies. The result of continuous monitoring and control of risk of TOTVS which throughout 2015 included. The replacement of main legal advisors that come to the civil labor suits to achieve greater uniformity in the conduct and more efficient tracking and resolution processes.

The revision of estimates for expected losses is associated with lawsuits and the revision of historical outcome of lawsuits in new proceedings which the company is defended. 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 search proceedings.

In addition, this group of expense was negatively impacted Q4'15 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 usual effects, this group of expense represented 7.5% of net revenues versus 7.9% in 2014.

Moving now to TOTVS EBITDA and net income on slide nine. 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 non-recurring items mentioned in the previous slides, net income was also impacted by BRL6 million adjustments net of tax effects. To that point to provision for the non-conversion premium of debentures.

Eliminating all of 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 short-term effects of transition to subscription, lower allocation to own teams of software implementations and the reduction of recurring costs resulting for headcount reduction reflected in Q4 '15 results and consequently are included among the quarter's adjustment.

Accepted for the subscription which tends to contribute to margin expansion in the medium-term, the restructuring undertaken in the Q4 '15 should take effect in the coming periods. Now I would talk about Bematech's results on slide 12.

Bematech's total revenue was positively impacted by recurring revenues which grew 9% negatively impacted mainly by a 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 pace, 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 impact legislation tend to collaborate with the growth of recurring revenues, protect software solutions, reducing the share of non-recurring hardware revenue in the composition of total revenue.

As shown on the 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. The 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-capitalizations of new investments in R&D in Q4'15. And 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 and the services teams related to the hotel segments. In the bottom right, in hardware, the contribution margin decreased by

24% in 2015, and by 34% Q4 '15. 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 expense 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 reflects the improvement of the receivables portfolio and the efforts to recovers credits already accrued in the previous period.

Finally, general and administrative expenses plus management fees, another expense were negatively impacted in 2015 by the expenses related to the transaction with TOTVS the amount of BRL5 million recorded in Q3'15 and the provision for obsolete inventory in the amount of BRL2 million in Q4'15. In the year, is regarding these extraordinary events, this group of expenses represented 11.8% of Bematech 2015 net revenue versus 13.1% in 2014.

Now turning to EBITDA and EBITDA margin of Bematech in 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%. Now on the slide 16, netting those same extraordinary effect already mentioned on EBITDA, net OpEx 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 rates, the reduction in grant income and the non-capitalization of new investments in research and development in Q4'15. It's important to mention that TOTVS's strategy is to gradually adapt with the hardware sales price in order to rebalance revenues and costs of this operation.

Now, we'll talk about the consolidated pro forma figures of TOTVS and Bematech from the 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% at 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 up sectorial diversification and it 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 the 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 the EBITDA margin of 20.2%.

Similarly on the slide 21, after the extraordinary effect, adjusted pro forma net income of Q4 '15 totaled BRL49.5 million with net margin of 80.7%.

In the year, adjusted pro forma net income amounted to BRL283 million, the margin of 13.7%. Important to note that besides other effect already mentioned, the 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 HPM 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 the slide 22 has not produced significant effects in the year of 2015.

As the adjustment deteriorated 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 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 the MDS. On slide 25, we have the schedule of the total gross debt amortization totaling BRL878 million in Q4 '15 to be amortized by 2020 of which BRL246 million will be amortized in 2016.

To complete the earnings presentation on the slide 26, we present the proposal for dividend should be submitted for approval at the Annual General Shareholders meeting on the April 2016. The proposal provides distribution of BRL66.6 million in dividend for the year of 2015. This dividends below 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 due

to the 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 the slide 27.

### **Laercio Jose de Lucena Cosentino** {BIO 6567039 <GO>}

Thanks, Meyer. Over the past 10 years the Brazil economy 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 translates into the IGPM index. Tax burden increased due to the end of payroll tax relief, arising labor cost and then the (inaudible) and more activities and the deteriorating business environment taken place in 2016.

Also wherever the market mode change and imposed they harder task of adjusted net restructuring price and business volumes. In 2015 the positive agenda of Brazil had to be changed. So that it was possible to leave the press to read out in a great business opportunities to Brazil. With this business thoughts made a necessary adjustments in the structure to maintain the balance between revenues and costs. We assessed served the legal contingents and the result of the continuous monitoring and risk control without losing the focus and pursue its rights.

Took an important step with the integration of Bematech to consolidated sales as the large business solution provider for the retail segment. Intera, the subscription award with Intera commercial model keeping the general EBITDA margin about 20% and capital investment in technology system and client selectivity, particularly in the last quarter in order to enter in 2016 with a full force.

In 2015 software licensed track but the subscription one growing more than 25% and the mix was stronger in the immediate long term. Anyway the great legacy of 2015 what is decision solutions and acquisition, which prepared the company for the new challenges of (inaudible), '16, '17. Thus moving forward in the consolidation provisioning in Brazilian market, expand the leadership segment by segment, converting customers to subscriptions in cloud and about the productivity collaboration by the firm trading and mobility to its customers. Brazil is bigger than everything that we are going to and TOTVS work 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'll now begin the question-and-answer session. (Operator Instructions) Our first question comes from Michel Morin with Morgan Stanley.

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



Thank you. Good morning everyone. 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. And then secondly on the non-recurring 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 non-recurring, those types of cost really are? Thank you.

#### **A - Laercio Jose de Lucena Cosentino {BIO 6567039 <GO>}**

Good morning. Michel. Okay, trying to start from the later question, regarding the restructuring costs. The exercise we did in the Q4 was I would say a more stressed one, considering the context of the market. So now 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 elements, 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 we sometimes we have to take the 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 ensured that we are doing what has to be done.

The second question was related to expectations of licensed 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 subscriptions. 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, medium and small companies. When I say the most of those clients, I mean in terms of revenues, in number of clients we have a relevant number of new clients describing software from the microenterprise layer.

In numbers, I would say that from the -- 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 the 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 the end of the day, we respect our

clients demand and but if you ask me today if we preferred to sell license or subscription. I would say that we prefer to sell subscriptions.

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 micro-enterprises and the SME companies. By nature, microenterprises have higher churn, and it's very clear in the subscription because these guys, they really, easily switch from one solution to another, seize those solutions provider to micro-enterprise are pure cloud solutions, simpler solutions, more standardized and these companies have higher mortality rate and a lower level financial discipline to keep using a management solution or 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 big difference between churn of SME companies subscribing software comparing to SME companies acquiring license. So it seems that the behave of our clients are pretty similar between subscribers and license acquires.

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

Excellent, thank you very much for all the color.

**A - Unidentified Speaker**

You're welcome.

**Operator**

Our next question comes from Andres Coello with Scotia Bank.

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

Yes. Thanks for taking my question. 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 through distributors in terms of cross-selling TOTVS solutions to Bematech subscribers?

**A - Unidentified Speaker**

Hi, Andres. 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 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 [ph]. 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 a

really interesting opportunity to leverage that distribution network in the low-end market, see solid distribution is much earlier stage than the Bematech.

And so if we do a good job in -- we can better use that distribution network in the lower-end markets and then become a more relevant player, that's a completely fragmented market in Brazil and in the second one is more regarding SME and high-end markets more driven by software solutions are 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 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 addressed properly your question.

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

Yeah, 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 Jose de Lucena 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 [ph] 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 products. 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 in working together to have convergence in our development roadmaps.

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

Okay. Thank you, very clear.

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

You're welcome.

**Operator**

(Operator Instructions) Our next question comes from (inaudible) with Morgan Stanley.

**Q - Unidentified Participant**

Hi, 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.

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

Okay, Diego [ph]. In terms of synergies, synergies of topline, 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 and Bematech had all the cost burden related to listed company and it's clear to optimize the structure, the administrative and corporate governance is structure of Bematech. So we can distract 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 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 contract. We have with some major providers of technologies, used by both TOTVS and Bematech. And in terms of distribution, connecting to Andre's 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 and exactly with you guys.

**Operator**

Okay. Thanks, Maia.

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

You're 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 Jose de Lucena 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 about and TOTVS work for this. I wish you all a great day, best for everything.

**Operator**

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

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