Q4 2013 Earnings Call

Company Participants

- Alexandre Mafra Guimaraes, CFO
- Gilsomar Maia, IRO and Corporate Finance Officer
- Laercio Cosentino, CEO

Other Participants

- Andrew Camberwell, Analyst
- Michel Morin, Analyst
- Richard Dineen, Analyst

Presentation

Operator

Good morning. Welcome everyone to TOTVS' Fourth Quarter 2013 results conference call.

Today with us we have Mr. Laercio Cosentino, CEO of the Company; Mr. Alexandre Mafra Guimaraes, CFO; and Mr. Gilsomar Maia, IRO and Corporate Finance Officer.

(Operator Instructions)

Before proceeding, we would like to mention that during this conference call forward-looking statements may be made relating to TOTVS' business prospects, operational and financial estimates, and goals based on beliefs and assumptions of TOTVS' management and on the information currently available.

Forward-looking statements do not guarantee performance. They involve risk and uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operational factors could also affect TOTVS' future results and could cause these results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Laercio Cosentino, who will begin the presentation. Mr. Cosentino, you may begin your conference.

Laercio Cosentino {BIO 6567039 <GO>}

Good morning, everyone. Thank you for participating in this conference and give us the opportunity to discuss TOTVS' Q4 and 2013. I'd like to start by sharing our understanding of 2013, a year in which our convictions on the (inaudible) of our strategy was put to test, a year that began with a good economic prospect.

Although as the months passed, inflation proved to be resilient and the product of GDP was constantly revised downwards by the market, even with the high credit variability and the low level unemployment indicators. This combination of factors resulted in general increase of labor cost in real terms without productivity gains.

As a consequence, the business profitability and the confidence of the Brazilian businessman fell, making to adopt a more conservative approach regarding new investment. In this context, we decided to maintain the planned investment for the year, even facing a more complex short-term market scenario. When I say investments, I mean projects connected to the Company's future. We put possible[ph] investments, again and even again[ph], that comprised human capital and ensure the enhancing of products and service offered by TOTVS.

And talking about human capital, I would like to introduce Alexandre Mafra, our Vice President of Human Relations and Organizational Infrastructure that assumed the CFO role in the first week of 2014. The choice of Mafra for this position was based on a succession plan, which takes into account mainly his professional experience in Brazil and his alignment to the DNA of TOTVS. Mr. Mafra, please share with our investors a bit of your background, and that is summarized on slide 2.

Alexandre Mafra Guimaraes {BIO 16015106 <GO>}

Thanks, Laercio. Good morning, everyone. My professional career has always had more emphasis on finance. During 12 years at AmBev, I acted at the Central Management as Finance Manager, General Factory Manager, National Financial Service Manager, and Planning and Performance Management Officer.

I joined TOTVS in March 2007 as planning officer, being responsible for the Company's financial planning. After two years, I took the financial and administrative office when the shared services center was implemented, unifying our Company's administrative areas such as billing, accounting and treasury, are areas which continually under my management as Vice President of Human Relations and Organizational Infrastructure.

These administrative areas are still under my responsibility and by accumulating also the Executive Financial Vice Presidency, I will be able to unify and optimize our administrative and financial structures.

Now, I turn the call to Maia to proceed with his comments about the quarter and the full-year results on slide 3.

Gilsomar Maia {BIO 16400533 <GO>}

Thanks, Mafra. Good morning, everyone. Beginning with the total net revenue, the 14% growth in 2013 as well as 19% in the quarter, outperformed the 5-year CAGR, highlighting maintenance and service lines, which together represented more than 78% of total revenue. In maintenance fees, we grew 17% in 2013 and 23% in Q4 year on year, surpassing the 5-year CAGR of this line, which is our main recurring revenue and that accounts for almost 49% of total revenue. This result reiterates the resilience of our business model.

Servicing revenues grew 16% in 2013. In the first half, this line grew 12%, showing the speed up of services execution in the second half, as shown by the 23% growth in Q4. This performance in the second half resulted from the actions taken in Q2 to recover the service efficiency.

Moving to license revenue, the 6% growth in 2013 was driven by sales to existing clients, which rose 12% year on year. In Q4, the highlight was the 14% growth in sales to new clients, with the addition of 970 new clients.

Part of this performance was due to the marketing campaigns to sales of new projects based on a specific template for each industry. These templates are pre-configured solutions with a specific scope, shortening the implementation cycle, reducing the solution cost and improving the implementation team's efficiency.

This sort of expediency reinforces our belief in the specialization strategy effectiveness to enhance the solution usage by existing clients as well as increasing the solution attractiveness to new clients.

Our sales pipeline has taken longer to convert into new sales. Nonetheless, it's consistent, with good opportunities especially in the service oriented sectors, which have been gaining relevance in our total revenue. The traditional marketing actions are also being taken within each industry sector, aiming to reduce the amount of time needed to close the deals, shortening the sales cycle.

The sector dynamics and its impact on revenue growth became clearer with the revenue breakdown by the most representative industries shown on slide 4. On the left, we have the representativeness of each sector towards the revenue; and on the right, the revenue growth of these industry sectors. Note that manufacturing and financial services together accounted for 40% of total revenue, having their share lowered by 4.8percentage points between 2011 and 2013.

On the other hand, distribution and logistics, retail and services gained 5.5percentage points of share in the same period. It's worth mentioning that manufacturing industry is a traditional investor in IT that contributes relevantly to our recurring revenue and plays an important role in our approach as value chain integrators for distribution and logistics, retail and credit, which are industries with high growth prospects.

Financial services is another traditional IT investor with significant contribution to the recurring revenue. The amount of share presented by this sector is mainly a consequence of the consolidation process of the Brazilian financial institutions and the movement of the Brazilian capital market, reducing demand for solutions by the asset management.

The behavioral diversity illustrates the different levels of maturity of the industry sectors in terms of IT adoption as well as the dynamics of the Brazilian economy in recent years, which is getting more service oriented.

Among these industries, we highlight the demand for our solutions to carriers, distributors and cash-and-carriers that have leverage in the participation in distribution and logistics industry. These solutions place us in a unique position in the chain that integrates manufacturers, distributors and retailers. By the way, retail has been a great industry with demand, especially for new solutions of point of sales and credit analysis that integrated are a unique solution for these industries.

We believe that investments in our solutions and in the expertise of sales and service teams through organic and inorganic actions are key to focus in on industry sectors with higher demand, making TOTVS an effective vehicle to capture the growth across industries in different moments of the economy.

In addition to this, TOTVS business model has also the resilience as a characteristic. Since its origins, the model exercises the recurrence in each event of short-term revenues, also a profile of the operations acquired by TOTVS.

In summary, TOTVS' model applies the concept of software as a service regarding revenues even before the servicing niche become popular. This is more evident when we analyze the pace of sales to existing clients in recurring revenue. Since the SME is the main focus of TOTVS, as these companies grow, they buy more and generate more recurring revenue.

On slide 5, the total recurring revenue growth in both the last three years and the Q4 show the pace which was 12% between 2011 and 2012, and 14% between 2012 and 2013. It is also worth mentioning the year-on-year growth of nearly 18% in Q4, without considering the results of August and September of RMS that were consolidated in the Q4, and the non-recurring effect of about BRL9 million from maintenance contracts settled this quarter. This growth shows that the recurrence of TOTVS business model has responded positively to the work performed.

Now, I turn the presentation back to Mafra so he can comment on the acquisitions made by TOTVS in 2013 presented on slide 6.

Alexandre Mafra Guimaraes {BIO 16015106 <GO>}

In Q4, we acquired two companies, Seventeen, a development franchise focused on the development of TOTVS management solutions especially those for large health insurance providers in Brazil. This transaction reinforced our expertise in the development and service[ph] for the very specialized industry sector.

The acquisition of Ciashop, which develops an e-commerce platform in the cloud, has more than 1,000 online stores among its clients. It's important to highlight that its business model has more than 80% of recurring revenue. This investment allows TOTVS to enter in the cloud e-commerce platform business, complementing the Fluig offering and enhancing the support by industry sectors of its clients, which have or intends to have an e-commerce business.

Looking back on the M&A operations in 2013, we began this new M&A cycle by acquiring PC Sistemas in January in the distribution, wholesale and retail segments. In April, PRX in the other business segment; in August RMS in the retail segment focus on supermarkets.

All of these acquisitions fit with our industry and specialization strategies, bringing specific knowhow to our solutions and to our sales team, with opportunity to capture synergy especially through cross-selling. Right after the acquisition, the acquired companies started to benefit from revenue synergies on new sales leads from the business ecosystem and from the TOTVS branding.

In the second stage, the sales synergy is captured as the solutions are integrated into our portfolio and distribution channels. On average, these companies grew 16% in 2013, above the average prior to the acquisition.

To conclude my comments on M&A, I see TOTVS strategy is strongly connect with the economic dynamics, focus on investment mainly in segments with higher growth prospects in the coming years.

Now, let's talk about the international market operations on slide 7. Since 2011, these operations have been speeding up with revenue growth and reducing its negative EBITDA, both in Brazilian reals and US dollars.

At the end of 2013, revenues from these operations represented 1.7% of TOTVS consolidated revenues. This is the outcome of the action plan that has been implemented since the beginning of 2012, which aims to grow this operation to a range of 3% to 5% of the consolidated net revenue by 2016. However, this growth shall be sustainable, gradually reducing losses to achieve EBITDA breakeven by the end of 2014.

Now, moving to EBITDA on slide 8, we ended the year with more than BRL400 million of EBITDA and Q4 was more than BRL100 million, which represent an increase of 6.4% in the year and 7.5% in the quarter. This growth lower than the net revenue growth lead to an EBITDA margin decrease of 1.8 percentage points in the year and 2.5percentage points in Q4.

In order to comment a little bit more on margins, I ask you to go to slide 9, where we have the breakdown of costs of our solutions, sales and G&A as a percentage of our net revenue. In this slide, we can see that the cost of solutions, which includes the cost of license fees, service and R&D were those that presented the highest growth. This group is crucial for the Company's productivity, since it includes the labor costs and those who have the knowledge of our solutions and services.

In addition, it challenges us all the time to pursue a good cost balance, considering people training, medium and long time performance and top line growth. Thus as mentioned by Laercio in the beginning of this conference, we decided to keep an appropriate cost balance to maintain the investments for the year, even with the top line below our expectations.

We chose not to stop investing in projects related to the Company's future, mainly those related to our technology platform innovation and the ones related to industry specialization process, which are more mature in the solutions development side.

It is important to emphasize our confidence about the return on investments in the medium and long term. We will not lose focus in the cost discipline in this group. I don't mean just R&D here, but also cost of service, which has evolved in the second half of 2013. In short, the focus of this group is to increase efficiency in service and dilute R&D investments considering top line growth.

In the group of cost related to sales, we also had significant investments in the year, especially in advertising and sales. Investments in advertising were enhanced in 2013 to support market campaigns per industry sector. Despite this increase, advertising expenses were in line with historical levels as a percentage of net revenue.

Regarding selling expenses, investments are also mainly related to industry specialization both in training the sales team and in the back office structure.

Now, on the G&A and management fees group, we keep our effort aiming to increase administrative efficiency in managing the day by day operations and also in the M&A integration. The merger of the vice presidencies of finance, HR and infrastructure itself which are now under my management is an example of this effort to have an optimized administrative structure that supports the Company's growth.

In summary, without putting TOTVS future at risk, we will seek efficiency in all areas, either by increasing revenues or by the alignment of the cost structure.

Now Maia will proceed with the presentation from slide 10.

Gilsomar Maia {BIO 16400533 <GO>}

Starting with the net income of Q4, it is important to keep in mind the (inaudible) from interest on equity than in 2012 were fully declared in the Q4. In 2013, it was declared partially in Q3 and Q4, diluting its effect June 2013.

This chart showed that we had declared 100% of the interest on equity in Q4 as we did in the previous year. The Q4 level current yield has grown 1.8% year on year. In the new year, the 7.7% net income growth surpassed the interest growth, mainly due to the reduction of financial expense from a higher average net cash position in 2013.

In slide 11, we have the evolution of the cash flow for the year. We started 2013 with a net cash position of almost BRL170 million, with BRL420 million in cash and BRL242 million of gross debt. The operating cash flow of BRL282 million accounted for about 70% of EBITDA and 127% of the net income. BRL199 million invested in M&A operations and net income comprised by the return on PC Sistemas, PRX, RMS, Seventeen, (inaudible) and the operator operations.

The purchase amount of BRL1.94 billion in the net loans is followed by the inflow of BRL250 million from the BRL658 million of financing line approved by BNDES in October and the payment of BRL70 million of previous financing lines. By the end of 2013 the cash position amounted BRL533 million and the gross debt amounted BRL407 million, totaling a net cash position of BRL126 million.

And we entered into 2014 with a cash position that give us financial capacity to execute both our organic and inorganic investment plan. The capacity already includes the dividend proposal of BRL0.96 of Brazilian reals per share presented on slide 12. This proposal will be submitted to the general shareholders meeting to be held on March 14th, representing a 31% raise in the dividend per share when compared to 2012, totaling BRL155 million.

Excluding the interest on equity declared on 2013, this proposal represents an additional dividend payment of BRL160 million, corresponding to BRL0.71 of reals dividend per share.

Now, I would like to invite back Laercio for his final remarks on slide 14.

Laercio Cosentino {BIO 6567039 <GO>}

By the beginning of this conference when I said that our commitments were to test in 2013, I meant the conviction on that talk is to pioneer an innovative company that grows and invests in knowledge growth even more and to have its clients, employees, partners and investors (inaudible).

2013 was a year that we invest in the fundamentals to create a new cycle of thinking, growth of TOTVS, besides not having the affects to top line and consequently an EBITDA margin below volatile.

Even though we closed 2013 with 14% of revenue growth, 6% of EBITDA growth and a 7% of net income growth in the constant cash burn ratio. TOTVS' reason for existence is making our clients more competitive in their industry sector. We believe in cost and expense management, giving us authority and responsibility without comprising the Company's future.

We started 2014 pursuing margin recovery, emphasizing the discipline of cost and expense and the top line growth based on offerings by industry sectors, assuring that we are even more attention to our clients day by day operations. This is a very important moment for us as our team had been delivering important structural projects and moving forward in the implementation for the three TOTVS' concepts, which are through technology essentially and the desired ERP in our products and services, as well as in the training of our team, the enhancing of our distribution and in the light of our clients.

2014 begins with a team that is both ready and are work to five priorities, guidelines of our spread sheet line for 2014 to 2020, which are, simpler in our products and process; more agile, reducing the development and implementation cycles, meaning more efficiency and productive; more connect, connecting our clients and users by available device; more cloud, promoting integrated platforms and management solutions in the cloud; more essential, to core business of our clients.

Identity evolvement, that is so important for TOTVS future, we decided to improve our logo so everyone will remember the day that we started to be a company that is simpler, more agile, more connect, more cloud and more essential. This logo which represents, through the light that shines from interaction of two screens, the ideal positioning for people, enterprise or devices that wants to be connected and become more essential.

Thank you. From now on, we are available for Q&A session.

Questions And Answers

Operator

(Operator Instructions)

Andrew Camberwell, Credit Suisse.

Q - Andrew Camberwell

I just wanted to go back to the very strong service revenue growth that you had in the quarter because normally there is a kind of correlation with the license sales growth because of service revenues coming so much from implementation, and the growth was so much stronger obviously than the license sales growth. So I was wondering if we could just go back to what the dynamic is that's driving that and if you think this is a trend that we may continue to see going forward?

A - Gilsomar Maia {BIO 16400533 <GO>}

Thank you, Andrew. This is Maia speaking. Regarding service growth, it is important to understand that this growth is also related to our dynamic in terms of industry sectors. Every time we go deeper in terms of specialization by industry sector, we create more opportunities and to our customers to provide more services. And so we become not only a software company, but we can provide intelligence with our solution and really adapting even more our solutions to the specific necessities of our customers, not creating a different solution, but more a matter of setting up the solutions on the field in order to address those specific necessities.

You are correct that the correlation is not so perfect as it used to be in the past when we compare to the license performance, but the license performance in this sense is more related to that sector dynamic and some flexibility that in terms of commercial approach we have when we negotiate the license. So we try to preserve as much as we can the recurrence revenue. In this case, services play an important role to address those specific necessities and we become more flexible on the license side.

And your question is if it's a trend. This kind of behavior can be observed in the last 2, three years at least. I would say that two of the years, not in the short term, but in a gradual movement we probably will see license fee losing relevance in our revenue breakdown. And again, I want to emphasize that it's really a gradual movement. But really we are much more concerned about number of clients and transactions we are doing than the only financial amount of our licensed revenues.

Q - Andrew Camberwell

Okay. Thank you. And just to clarify, so if you have a customer that moves to a more of a cloud based service and then they switch to basically a different billing model at that point, is this where we would see the revenues come through on the services line?

A - Gilsomar Maia {BIO 16400533 <GO>}

Look, we have some really pure cloud solutions being offered and throughout the time it can affect this model. But really in the short term, it's more a commercial approach because we try to reduce the initial cost of our project and in the Q4 we launched one specific advertisement campaign regarding those shorter projects in which we challenged ourselves to have the implementation done in 2-9 days.

It help us to add those 970 new customers. All the time, we understand that the last mile of the -- related to the relationship with the customer and the implementation plays an important role. And considering those long-term trends including cloud computing are in the same line. So reducing the relevance of this kind of one-off revenues and strengthening the importance of services in the recurrent revenues.

Q - Andrew Camberwell

Okay. Great. Thank you.

A - Gilsomar Maia {BIO 16400533 <GO>}

You're welcome.

Operator

Michel Morin, Morgan Stanley.

Q - Michel Morin {BIO 1873971 <GO>}

Just a follow-up on Andy's question. So can we expect therefore that your service revenues will continue to drive maintenance revenues?

A - Gilsomar Maia {BIO 16400533 <GO>}

Michel, really we understand that independently if the model is more based in license or not, number of transactions will be an important indicator. Services in terms of new customers, they are part of a sequencing which starts from the license fee and then the second stage is the implementation really and the third is the maintenance. That's the classical model we keep in mind.

In terms of existing customers, it's pretty common to have sometimes the opposite; customers demanding more specialized or complementary implementation or specific services through to fine tune the system. And that helps the customers to enhance the usage of the system, and consequently, so this brings more license sales in the future.

So in having this kind of performance we had during the year of 2013, in the previous years, it reflects on this kind of performance of service. But being more objective to your question, I see independently if we in the future, for example, in the medium; to long-term future, if we are more based on a completely solid[ph] model services, it will always be an important component and is very correlated to recurring revenues, yes.

Q - Michel Morin {BIO 1873971 <GO>}

Okay. Great. That's very helpful. Then secondly, regarding your EBITDA margin guidance, I think to paraphrase you had said a few years ago that you expect it to be between 27% to 30% and I think you had given a timeframe of 2013 to 2016 or something like that. If you could just clarify that?

Then related to this, when you gave that guidance a few years ago, this was before Brasil Maior, which has probably added close to 200 basis points to your margin. So your margins are now at multiyear lows if you were to adjust for Brazil Maior.

So I just want to make sure I understand what has changed, why has the trend actually gone in reverse. And if it's only the top line, then that's fine. But I am wondering if there is something else more fundamental that has changed. Thank you.

A - Gilsomar Maia {BIO 16400533 <GO>}

You are right. So the guidance was disclosed, if I am not wrong, in the beginning of 2009 and it was regarding the period comprising 2013 and 2015, this range of 27% to 30% of EBITDA margin. And unfortunately in 2013, we were below the low level of this range of 27%. And in terms of cost side starting from your point related to Brazil Maior, Brazil Maior was a change that the government made in terms of taxation. So instead of charging or taxing my payroll, the government decided to charge really the tax over my sales.

But this -- in the beginning, it created some positive net effect, but throughout the time it started to be absorbed especially among some negotiations with the salaries and wage increase and other costs. Then the structure -- all the market started to try to capture this kind of gain.

All the stakeholders around players started to realize this effect of Brazil Maior and it became part of our cost structure. So your colleague, Diego, was trying to exercise what was the impact of Brazil Maior. Really nowadays it's very hard to calculate that because it has already been incorporated in our cost structure and it was the same in our competitors. It's one rule applicable for all the players in our industry, I mean in almost 70 sectors in the Brazilian economy.

But the reason for TOTVS to be out of these range in our guidance in our view is more related to two things. The first one is the top line being lower than we planned for this while, and I think it was not only one thing that we saw in TOTVS. So lots of other companies and analysts, they were expecting a better scenario for Brazil and for this time.

But in other hand, we decided not to stop important projects related to the future and at this moment they reflect into a more costable[ph] structure for us. We understand that every time we decide to take decisions like that to become more especially in some sectors, it reflects firstly in the cost side. And of course we want to see the payback of those investments in our top line, but we have to understand and to manage this different behaviors of revenues and cost in 2014. We have to be even more disciplinated[ph] in terms of cost structures to reflect this kind of results in the top line.

Q - Michel Morin {BIO 1873971 <GO>}

And from your release, you are stating that you expect to -- you are maintaining your guidance basically. So for 2014 your expectation is that your margin would be at least 27%, if I read your release properly?

A - Gilsomar Maia {BIO 16400533 <GO>}

Yes, you read -- and we are pursuing this, at least the bottom of the range, this guidance.

Q - Michel Morin {BIO 1873971 <GO>}

Okay. Great. Thank you.

A - Gilsomar Maia {BIO 16400533 <GO>}

You're welcome.

Operator

Richard Dineen, HSBC.

Q - Richard Dineen {BIO 5517898 <GO>}

Again on the cloud, I am just thinking how investment and your in-house development platforms like Fluig and acquisitions, as well as moving to this more of a on-demand revenue model, how that might affect your margins in the medium and long term?

I guess I was thinking we saw SAP lowering the medium-term margin guidance as they sort of expecting quite a rapid tipping point for cloud services over the next few years. I think they probably only get about as much revenue as you guys do from cloud at the moment, but they are expecting that to move to 15% to 20% in the next couple of years.

I am just wondering what you are anticipating in terms of that transition of the Brazilian SME and corporate clients to cloud delivery over the next couple of years and what that might mean for profits again in the context of your guided margins? That will be very helpful. Thank you.

A - Gilsomar Maia {BIO 16400533 <GO>}

Thank you, Richard, for the question. Again, this is Maia speaking. I understand your question, when you take SAP actions in the short term. In my view, we have different scenarios and situations here between TOTVS and SAP. In our case, the main investments are more oriented to this kind of specialization or segmentation by industry sector we have and cloud is one element in our strategy related to in our view more the structure. So the way you deliver, you deploy the solution we develop. So we understand that we have to address the necessities of our customers independently if they use the solution completely on (inaudible) or partially in the cloud or completely in the cloud.

The cloud for us means more infrastructure. I know that some players they are making some huge investments in terms of infrastructure to provide cloud services. That is not our case at this moment. We have a small data center adoptable for the reality of our customers. It's more mid-sized customers; some medium; to high-end customers as well. But our main efforts are more related to our platform, technology platform and the application, the management solutions really.

And those applications and platforms are very hybrid solutions because they can direct with -- on frames[ph] and cloud solutions simultaneously. And I wouldn't drive you, analysts and investors, to think that the increase of our investments are just related to cloud. It's much more than that.

In terms of returns, as I responded to Michel Morin and Andrew previously, we really see those actions in terms of our structure as costs. And consequently, we have to see returns from those investments and the return has to be converted into sales and consequently we can dilute those investments through the time.

I don't know if I addressed properly your question. And if no, you can please complement it.

Q - Richard Dineen {BIO 5517898 <GO>}

No. That's really helpful. Thanks very much. But maybe just one quick follow-up if I may and apologies if I missed your comments on this in prepared remarks. But you talked about the wage renegotiations in the Fourth Quarter in certain states. I am just wondering if you might give us an idea of any upcoming bargaining agreements with unions in other states that might kind of come up in the next year? Any sort of guidance on that would be helpful.

A - Gilsomar Maia {BIO 16400533 <GO>}

Unfortunately it's hard for me to provide you a guidance related to that. Maybe historicals can help you in this sense. Every 1Q and Q4, we disclose on our earnings release the percentage of -- coming out from those negotiations, when you can compare historically how the negotiations in Sao Paulo -- for example, behaviors comparing to others.

These negotiations are really in course and at this moment I wouldn't feel comfortable to comment on the negotiations because it's a collective negotiation. It doesn't involve only TOTVS. It's a regionalality negotiation involving technology companies and the unions of professionals from the technology sector. It's really a collective negotiation and it's hard to give you a guidance speaking only about TOTVS.

But really we are working for 2013 conservatively with a few scenario of inflation, resilient inflation in this year. We shouldn't consider a different scenario. And for those that follow us for a longer time, they know that our business model is also the same model in the medium-long-term in terms of inflation, because we have instruments to pass through inflation in our revenue lines.

We have maintenance contracts automatically adjusted by inflation, service team adjusted, especially the hourly rates when we have costs being adjusted in terms of personnel. And license is more commercial dynamic in the market. So we have to follow the license dependent in accordance with the dynamics of commercial negotiations.

Q - Richard Dineen {BIO 5517898 <GO>}

Okay. Thanks. That's great. Many thanks indeed.

A - Gilsomar Maia {BIO 16400533 <GO>}

Okay. Thank you.

Operator

Michel Morin, Morgan Stanley.

Q - Michel Morin {BIO 1873971 <GO>}

So you gave additional disclosure this quarter, so we thank you for that. And specifically on the revenue by industry, I thought that that was very helpful indeed. I guess the key question I would have there is when you look at some of those verticals and the growth rates year on year, was there any trend during the year that you think was notable that you would be willing to share with us? And specifically I am wondering whether or not the manufacturing segment, your largest one, which grew 4.5%, whether or not you saw any pickup in activity during the year? That will be helpful. Thank you.

A - Gilsomar Maia {BIO 16400533 <GO>}

So Michel, really it was a demand from you and investors, you analysts and investors, this kind of breakdown. And we tried to show both things, the relevance of those factors in terms of our revenue and the growth they are presenting this while. It's hard to comment the populations[ph] of these factors throughout the year because really we cannot completely control the negotiation process. The decision process in the customer -- in the customer side, they are very different depending the reality of the customer. And really there is no clear seasonality or behavior that we can identify and say look at that specific moment of the year that industry is more active or not.

Of course there are certain factors that is noticeable for everyone. Like retail when they are closer to the end of the year in Christmas time, they are not so active in terms of investments especially related to the infrastructure. So some seasonality typically regarded to those industries. But besides that, there is no one specific thing that I can tell you. So the dynamic of the year --

Q - Michel Morin {BIO 1873971 <GO>}

Maia, sorry. Yes, I was talking in terms of the year-on-year growth rates basically, so there would be no seasonality if you think about it year-on-year. And the reason why I am asking the question is because given that the real has weakened during the year, given that the manufacturing part of the economy may be more sensitive to the currency and may be more willing to invest when export markets open up thanks to a weaker currency, I am wondering if perhaps you started the year with your manufacturing clients spending less year on year and you closed the year maybe up 10% such that the average was 5% for the year. That's really what I was trying to understand, if there was any change in any of the verticals really, but that one in particular. But that's fine if you don't have -- if you don't have this handy.

A - Gilsomar Maia {BIO 16400533 <GO>}

Yes, look, when we talk about manufacturing, there are guys within manufacturing more or less affected by exchange currency rate. I understand your point, but really it's hard to give you more detail on that at this moment.

Q - Michel Morin {BIO 1873971 <GO>}

Okay, that's fine, Maia. Thank You.

A - Gilsomar Maia {BIO 16400533 <GO>}

You're welcome.

Operator

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

A - Laercio Cosentino {BIO 6567039 <GO>}

Thank you, everyone for joining our conference. I would like to say that we will not waste a single minute of 2014. The (inaudible) of 2013 is done and all teams[ph] are working in our goals. We have more than 12,000 people including our franchises (inaudible) that we just discussed and completed talks on our pursuing our goals. I wish a great year for everyone. Thank you very much.

Operator

Thank you. TOTVS First Quarter results conference call is now over. Have a nice day.