

## Y 2019 Earnings Call

### Company Participants

- Dennis Herszkowicz, President
- Gilsomar Maia Sebastiao, Chief Financial Officer, IR Officer & Member of the Executive Officers Board

### Other Participants

- Cesar Medina
- Tito Ferraz

### Presentation

#### Operator

Good morning, and welcome to the TOTVS conference call to discuss the results of the fourth quarter and full year of 2019. We have with us today Dennis Herszkowicz, the CEO; and Gilsomar Maia, the CFO. Note that, all participants will be in on listen-only mode during the Company's presentation. After the presentation we will start the question-and-answer session for investors and analysts, when further instructions will be given. (Operator Instructions) The audio is being simultaneously webcast at [ri.totvs.com.br](http://ri.totvs.com.br).

Before proceeding, we wish to clarify that any forward-looking statements that may be made during the conference call related to the 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 hence depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors could affect the future performance of TOTVS and could lead the results to differ materially from those mentioned in such forward-looking statements.

I will now turn the call over to Mr.Dennis who will begin the presentation. Mr.Dennis, please go ahead.

#### Dennis Herszkowicz {BIO 17998338 <GO>}

Good morning, everyone. Thank you for joining in our -- for joining us in our earnings conference call. I am pleased to announce the results of TOTVS for the fourth quarter and full year 2019, a year in which we started a new chapter in the story of success and leadership of TOTVS. That's why I want to begin by thanking all TOTVERs, clients and

partners. You are the true protagonists of this journey filled with lessons learned and challenges overcome.

My sincere gratitude for the efforts, trust, dedication and for believing in what we are building together. We ended 2019 with further progress in the financial and operational performance and launched the new cycle of investments in both new growth avenues with the acquisition, for example, of Supplier and the core business of management software with the acquisition of Consinco at the end of the year.

As highlighted on Slide 3, Consinco is the leading provider of management software for the supermarket and self-service wholesale cash-and-carry vertical in Brazil. Besides taking an important step towards strengthening our position in the Retail segment, with this acquisition, we can generate further synergies with our Techfin division.

Another milestone in the period, the inclusion in Ibovespa, makes TOTVS the first technology company to figure in Brazil's most important stock market index. This important achievement is the result of the efforts of each TOTVER throughout last year and reflects TOTVS' leadership position in the software market and the recognition of the positive moment that we are going through. Finally, the launch of the new marketing campaign has enabled us to recover our media presence and reposition ourselves vis-a-vis all our stakeholders.

TOTVS believes in a Brazil that MAKES IT HAPPEN, highlights TOTVS' trajectory as one of the Brazilian companies that believes and invests in the country, underscoring the commitment of local companies that have worked hard to achieve business success and thus contribute to the country's development. We are Brazil's largest technology company, and we believe in the country's potential. We believe now is the right moment to launch this campaign, a time when the belief in the Brazilian market is driving us to expand our operations.

Well, I now hand over the presentation to Maia for his comments on the quarterly results, starting from Slide 4.

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

Thanks, Dennis. Good morning, everyone. With double-digit growth in all the quarters, recurring revenue ended the year at more than BRL1.7 billion, which represents more than 75% of total net revenue, an organic growth of 11.8% over 2018. This growth drove, in both the quarterly and annual comparisons, the acceleration in total net revenue, which grew 7.5% and 8.1% in Q4 '19 versus Q4 '18 and 2019 versus 2018, respectively. Note that despite a decline in nonrecurring revenues, both in relation to Q4 '18 and 2018 year-end, license revenues grew 37.2% compared to Q4 and 20.4% compared to 2018 full year, stemming from the higher sales volume throughout the year especially to existing customers.

As seen on Slide 5, annualized recurring revenue reached BRL1.9 billion, 10.8% more than the same period in 2018, which resulted in a net addition of approximately BRL60 million

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in the quarter, reflecting the customer renewal rate above 98% over the quarters of the year and the pace of sales to existing and new customers. This performance and the increasing customer satisfaction are the pillars that sustain our business model.

Moving to Slide 6, we have indeed the margin expansion of 590 basis points in the quarter and 420 basis points in the year when compared to the same periods in 2018, reaching a level of 20.4% in the quarter and 20.6% in the year. This margin expansion in summary reflects the scalability of software business, provided by the expansion of revenue when combined with discipline in the management of costs and expense. It's also worth noting that this margin evolution occurred even with the provision of bonuses and the long-term incentive program based on shares at a level significantly higher than that of 2018 given the advances in the company's results as well as in the price of shares granted.

Moving on to Slide 7, we can see that EBITDA was the main element for the increase in adjusted net income. This improvement in financial result was offset by the increase in depreciation and amortization due to the application of IFRS 16 and the absolute increase in income tax and social contribution as a consequence of taxable income growth.

Moving now to Slide 8, I will comment on cash flow and debt. Free cash flow grew 33.2% in the quarter and 10.2% in the year when compared to the same periods of 2018 mainly due to the performance of taxable income, which grew 90.9% in the quarter and 75.5% in the year. In addition to the higher volume of interest paid especially due to the non-conversion premium of debentures issued in 2008, this increase in profit at a level higher than that of free cash flow was due to the increase in the need of working capital given that revenue growth especially for license that have a longer average collection period, the use of accumulated tax credit in 2018, the payment of labor obligations and extraordinary layoff costs in Q4.

Thus, the company ended 2019 with a net cash position of BRL1.072 billion, corresponding to 2.3 times adjusted EBITDA 2019, demonstrating its financial strength and investment capacity to support especially the execution of the company's M&A strategy.

I'll now turn the presentation back to Dennis for his closing remarks on Slide 9.

### **Dennis Herszkowicz** {BIO 17998338 <GO>}

Thanks, Maia. I wish to end the presentation with the following message about 2019 and what we expect for 2020. On the operational and financial level, we divested our hardware operations to once again focus exclusively on software. We gave priority to products that generate recurring revenues, and we are keeping an eye on new markets. We have also implemented changes in the sales structure, such as improving relations with franchisees and making adjustments to sales incentives for recurring and nonrecurring solutions.

We have also started a new cycle of M&A with the acquisition of Supplier and Consinco, which mean that we have already invested about 60% of the proceeds from the follow-

on. These acquisitions, combined with the organic creation of our Techfin team and the joint venture with VTEX, were the initial steps in building an ecosystem aimed at expanding our portfolio and advancing further in the value chain of our clients.

In new markets and the advance in the value chain of new clients, the ecosystem that I mentioned consists of three dimensions; first, the management dimension with our portfolio of open, connected and customizable ERP, HR and vertical solutions and platforms. The second one, the Techfin dimension, expanding, simplifying and cheapening the access to credit and other financial services. And the third dimension, which is business performance in which we will build a portfolio that helps our clients to sell more and better.

Regarding the TOTVS employer brand, we recognize that attracting and retaining talent are the key ingredients to build a solid company, and we have been working constantly to strengthen our employer brand. This is reflected -- this work is reflected on our annual survey of engagement, which revealed that 89% of TOTVERs feel very proud to work at TOTVS and 92% believe in the company's potential for success. This is the main justification for the hashtag created by TOTVERs right after Universe TOTVS, #thegiantisback. TOTVS Believes in a Brazil that GETS THINGS DONE campaign is much more than a simple motto. We want to show our genuine commitment and power in democratizing access to cutting-edge technology to companies of all sizes and segments, helping them to succeed and overcome their challenges and to drive the nation's sustainable growth.

TOTVS is driven by the transforming power of technology and the simplicity to generate results. We will continue to help our clients to be increasingly efficient and competitive in their businesses, allowing them to access innovative solutions in a unique ecosystem.

Well, we now are available for the questions-and-answers session.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Tito Ferraz, Itau.

### Q - Tito Ferraz

Hi. Following up on the structure of your sales channels, could you tell me a little bit more of what percent of sales come from direct or indirect sales?

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

Hi, Tito, this is Maia speaking. Actually, the relevance of our sales through our own sales force and our channels is really well balanced. In average, they represent kind of 50% each one. More recently, in last year, the franchises recovered its participation in this breakdown. But today, it's running about 50%.

## Q - Tito Ferraz

Okay. Thanks.

## Operator

(Operator Instructions) Our next question comes from Cesar Medina, Morgan Stanley.

## Q - Cesar Medina {BIO 16600229 <GO>}

Hi. Congratulations on the results. I wanted to follow up on the details regarding your acquisitions. Can you please comment on timing of closing, time line for integration and perhaps a little bit of margin for Consinco and Supplier? Thank you.

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

Hi, Cesar. In terms of Consinco, we've just closed the deal at the end of January. So the integration has already started, and it's going to take a good part of this year. Of course, it's really more familiar with us, this kind of business, and it's more natural for us to lead this kind of integration. In relation to Supplier, we still need to have the closing of that deal. The main aspect that's pushing a little bit this closing is related to the raising capital of the FIDC in order to increase the size of the funds and accommodate the whole portfolio of credits that we have in the balance sheet of Supplier. So the idea is to move all of those credits to the FIDC and then have the shape of the company we intend to have. That process is running extremely well, in line with the plans originally designed. Our feeling is this process is probably being concluded by the end of this quarter, eventually in the maximum, the more conservative view in the beginning of April or beginning of the second quarter. So -- and once we have the closing deal occur that we can start the plan of integration we have already designed together with the Supplier team.

## A - Dennis Herszkowicz {BIO 17998338 <GO>}

In terms of -- Cesar, this is Dennis. In terms of the margin profile of the businesses, I would say we don't get into the numbers themselves. But Consinco has margins that are similar to ours because the business model is very similar as well. And for Supplier, the margin is higher than it is ours.

## Q - Cesar Medina {BIO 16600229 <GO>}

Great. Thank you so much.

## A - Dennis Herszkowicz {BIO 17998338 <GO>}

Thank you.

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## Operator

(Operator Instructions) This concludes the question-and-answer session. At this time, I would like to turn the floor back to the company for any closing remarks.

### A - Dennis Herszkowicz {BIO 17998338 <GO>}

Well, thank you all. I think most of the questions were answered in the Portuguese call. So if you have any additional questions, please let us know. I would like once again to thank all the TOTVERs for the great performance during 2019, and I hope that we can continue to rally the troops for a 2020 as good as 2019. And finally, the guys here are remembering me that we will hold our Investor Day on Monday, February 17 here at TOTVS in the afternoon. So everyone is welcome here to hear what we have to say. Thank you very much again. Have all of you a good day.

## Operator

Thank you. This concludes today's TOTVS conference call. Have a nice day.

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