Q3 2021 Earnings Call

Company Participants

- Alexandre Apendino, Services and Relationship Executive Officer
- Dennis Herszkowicz, Chief Executive Officer
- Gilsomar Maia, Chief Financial Officer/Investor Relations Officer

Other Participants

- Marcelo Santos, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and welcome to the Results Video Conference of the Third Quarter of 2021 of TOTVS. We have with us Mr. Dennis Herszkowicz, CEO; Alexandre Apendino, the Services and Relationship Executive Officer; and Gilsomar Maia, CFO. We would like to emphasize that the organization of this video conference follow the health and safety measures, which have been established by law and all health protocols required by the competent authorities. We also inform that all participants will be watching the video conference during the presentation by the company. After that, we will start a Q&A session for investors and analysts when further instructions will be supplied. (Operator Instructions) The audio and video can be accessed over the Internet using the link available in the Investor Relations site, which is ri.totvs.com.

Before we continue, we would like to explain that information contained during this presentation and statements that may be made during this conference call connected to TOTVS business prospects, projections and operating and financial goals are based on beliefs and assumptions as well as information currently available.

Forward-looking statements are not any guarantee of performance. They involve risks, uncertainties and assumptions and they refer to future events and depend on circumstances that may or not occur. Investors should understand that economic conditions, industry conditions and other operating factors could also affect the future results of TOTVS and can lead to different results from those mentioned in such forward-looking statements.

Now, we would like to give the floor to Mr. Herszkowicz who will start his presentation as from Slide 3. Mr. Herszkowicz, you can continue.

Dennis Herszkowicz {BIO 17998338 <GO>}

Good morning to all. I hope you are well and like us working and preparing to resume normality or at least a new normality. Our three-dimension ecosystem is already a reality, an achievement, which reflects the work and dedication of each one of us at TOTVS. So I would like to thank you and acknowledge all your work during this quarter and few previous quarters. With this ecosystem, the TOTVS customer has access to a new portfolio that goes way beyond ERP allowing acceleration of their digitalization journey involving internal processes, payments, credit supply and customer experience.

When offering this complete portfolio and unique portfolio, we are changing the competitive game especially among small and medium-sized companies that normally seek a strong partner that can help solve most of their problems and which will allow them to focus more and more on their core business.

As we can see on Slide 5, we are continuously advancing towards the direction in all dimensions with this creating new and powerful growth locomotives that represented more than 42% of total revenue and 73% of the growth year-over-year, something that will be discussed in greater detail in following slides. These locomotives represent expansion opportunity in addressable markets, acceleration of new models and other activities that could build value to the company and increase their competitive differences.

Consolidated revenue that had a 26% growth year-over-year, reaching BRL855 million can be highlighted in the three dimensions. Management, the SaaS revenue, which accelerated even more its growth year-over-year to 32% in relation to 26% of the second quarter. In business performance, the revenue of the dimension accounts for 7.3% of the company revenue and highlight to recurring revenue, which grew 46% year-over-year with the same competitive basis. And in Techfin, the credit production of the supply reached a new record, finishing the quarter with BRL2.7 billion, a growth of 51% over the third quarter in 2020.

Going to Slide 6, we can see that the rule of 40 helps us to understand the movement that we are going through at TOTVS, a strong additional revenue growth in the three dimensions, specifically in management with an EBITDA margin with a healthy threshold. As we can see on the graph on the right, the acceleration of the revenue growth of 8.3 percentage points more than offset the reduction of 1.2 percentage of the EBITDA margin, resulting in a 7.7 percentage points in the rule of 40, which reached 48.6%.

It's important to emphasize that the acceleration of the growth in revenue occurred specifically in the recurring and transactional revenues. The Techfin and business performance dimensions together already account for 13% of the contribution margin of the quarter in relation to the 9% of the third quarter in 2020. As mentioned in the previous slide, these two new dimensions have a clear mandate of growth and addressable market. They have a healthy margin of contribution, but obviously they are still lower to the management I mentioned and still has some fluctuation between quarters. Apart from the greater represent productivity of Techfin and business performance, the costs related to infrastructure and increase in labor agreements and also the gradual -- of going back to offices have added to a slightly lower EBITDA margin. Apart from these factors, EBITDA -- adjusted EBITDA grew 19% year-over-year, especially within the performance of the management contribution margin which advanced 170 basis points year-over-year in the quarter and 250 basis points in the accumulated of nine months. This performance shows the high level of scalability of the business model and that this model as we have seen is still far from its maturity and it's recurring revenue had an organic growth of amazing 20% year-over-year as we will mention further out.

Now, Apendino will mention the results of the management I mentioned on Slide 8.

Alexandre Apendino {BIO 20185832 <GO>}

Thank you, Dennis. Thank you. In the management, I mentioned we had a new acceleration in the recurring revenue, as was mentioned, had already an organic growth of 20%, that's a 20% organic growth, the greatest threshold of this indicator since 2012, the recurring already accounts for 82% of the net revenue in this dimension.

As we mentioned in the previous Investor Day, we believe that the market is still in expansion and far from its maturity. In the last quarters, for example, we have seen that the companies are after new technology and just to expand and invest in new management softwares. This acceleration is once again the result of the focus given to SaaS and cloudification, which grew 32% year over year, according to the graph that you can see in the center of Slide 8. This 32% growth is explained mainly by, one, acceleration of the new signings, that means the production and sales, highlighting the signings of cloud, which had an increase of 56% in relation to the same quarter in 2020. Two, reduction of the level of churning, and three, readjustments of the contracts in the period.

It's important to highlight that the signings in the SaaS model account for 70% of new signings in the quarter, of which 30% come from new names. These factors added to -- of no grace period and sales and the conversion of licenses have led to a new recurring revenue in the maintenance of ARR, annual recurring revenue, of BRL142 million, as you can see on the right of the slide. It's important to highlight that approximately 60% of the ARR additions occurred by volume, that means new signings of new names plus cross and upsell with the base customers and the remaining 40% were additions by price, that means contractual readjustments in using the IGPM and IPCA increases and also other indexes in with smaller contracts.

I say that this commercial success is the result of several things, one, the software market in expansion, which is far from its maturity, the NPS of TOTVS in record level, three, evolution and productivity and efficiency of the sales machine at TOTVS, renewal of the TOTVS brand, expanding the solutions portfolio, process of migrating to the cloud, which reduces the cost to customers, among other factors.

The evolution on price I believe it's due to the high critical aspects and relevance of the TOTVS solutions, which can be translated in the resilience of our business model present in the renewal rates of recurring revenues. The Economist Magazine in an article published at the beginning of this month stresses the capacity of pricing power of adjusting prices without affecting sales, especially in moments when there is cost inflation. And that is a characteristic of a differentiated company.

Companies with pricing power like TOTVS has the ability of finding the best balance between costs with passing on the price and production and sales and consequently has a better potential of having a healthy relationship between growth and profitability without affecting the relationship with its customers.

Going on to Slide 9, the scalability and robustness of the recurrence model at TOTVS aligned with the maintenance of the remote implementation levels of almost 95% in the quarter resulted in an increase of 170 basis points in the gross margin and the management contribution market when compared to the third quarter of '20, even with a 19% reduction in licenses. The responsible for this expansion in margin as the adoption of cloud and the SaaS model, the R&D of TOTVS that has to produce requires less services and implementation, including a reduced total cost of ownership increasing the commercial competitiveness and allowing us to reach a new profile of companies.

Now I will give the floor to Maia to comment on the results of the business performance and Techfin as from Slide 7. Over to you, Maia.

Gilsomar Maia {BIO 16400533 <GO>}

Thank you, Apendino. Business performance dimension continues with a very strong rhythm. It's revenue reached BRL63 million, a growth of 44% year-over-year as you can see on the left. According to the company, it increased 7% and more than 14% growth of the revenue based with the comparison of year-over-year. This performance has as one of its leverages the product-led growth of the RD Station. Through the entry level plans of the RD Station marketing, we can qualify the leads by the use of the product of the customer itself and then we've the upsell for the premium product. This process is known as PQL, Product Qualified Lead, and has the advantage of being a generation of lead with a lower cost. That means it optimizes the cost of acquisition of the customer.

The sales generated through the PQL of the RD Station in the third quarter 2021 account for 19% of the total sales of the premium product. These factors added to the retention rate show that the formula growth retention plus unit economics tends to lead to exponential results. Slide 11, we can see a reduction of 6 percentage points in the contribution margin of the business performance, which is associated to the increased investments in R&D as part of the construction plan and evolution of this dimension. Additionally, in this quarter, we had a variation of the loss provision line according to the alignment of the policy and provisions of the RD Station in relation to practices adopted by TOTVS.

As mentioned in previous quarters, the dimensions have moments and mandates, which are distinct and in the case of business performance, the mandate is a growth, preparing the foundation to lead the market of low penetration and enormous growth potential.

Now going on to Techfin dimension, it maintained its acceleration trend as we can see in the upper left graph, advancing 49% year-over-year and 20% over the previous quarter, a result of new records of BRL2.7 billion in credit production and BRL1.6 billion of the credit portfolio, as you can see in the lower left graph. This was caused by the steel industry, civil construction, as well as the high cycle of the Selic rate. All this performance production occurred without forgetting the discipline of credit concession reflecting the levels of delinquency which were less than a quarter of the Brazilian average for the sector as we can see in the lower graph in the middle.

Apart from this, the new Techfin products surpassed a 1,000 customers with signed contracts. And we have already had 763 activated clients, that means in production or about to produce in this quarter, 5.6 times over what we had in the third quarter '20. It's important to emphasize that the products like Antecipa, Mais Prazo, Mais Negocios, Credito Consignado had an exponential expansion with the credit production of BRL185 million, which is 56% over the second quarter and 36 times what we had in the third quarter of 2020.

Now, going to Slide 13. With the growth in credit and the number of activated clients, the FIDIC anticipated the funding of BRL204 million in this quarter, which added to the amounts obtained in the previous quarters. They are remunerated as soon as they're available, but on the other hand, they take some time to generate credit production to increase their portfolio, and there is a mismatch which temporarily reduces the result of this operation. This effect added to the Selic rate made the funding cost increase 50% in relation to the second quarter of '21 with an increase of 20% in revenue resulted in 7.2% growth in the net revenue of the cost of funding and a growth of 8.1% of the contribution margin of Techfin.

Once the increase of the Selic rate is normal and simulating how it is passed on to -- the contribution margin of Techfin grows 12% in relation to the second quarter of '21 and the percentage of margin grows from its net revenue the cost of funding from 66.6% in the second quarter to 67.8% in the third quarter.

Finally, we continue analyzing funding alternatives, which might be more efficient to our operation in any scenario. Concentrating FIDIC has allowed us to have a significant expansion on our return on equity, which has reached 52% in the accumulated in the last 12 months, which accounts for 34 percentage points over the third quarter in 2020 even with an increase in the cost of funding.

I will now give the floor to Dennis, who will talk about the advances in the ESG agenda. (Technical Difficulty)

Questions And Answers

Operator

(Operator Instructions).

Q - Unidentified Participant

I have two questions here. I'd like to focus on sales. My first question is strategic. With greater sales of pure cloud, we imagine that we would have a central implementation of services and that's important for you reduce the total cost of the project. And at open space, I would like to understand in the current sale of this organic growth 20%, you already see this as having a more active participation and that this was one of the drivers, that's one of my first questions.

And the second question, you say that the franchises improved a lot this organic growth. This improvement is -- comes from more of the same selling more ERP and products that they're used to, or it has adapted itself and by including more sophisticated products in the sales?

A - Dennis Herszkowicz {BIO 17998338 <GO>}

Thank you, Fredy, for your question. I will start and I will pass it on to Apendino. Your first question, yes, there is no doubt about that, this reduction that we see of the cost has helped a lot this process for new names as well. So whenever we can have an implementation, process is shorter, the number of hours involved reduces, that allows the cost of the ticket to reduce and we can reach a group of partners and companies that we wouldn't be able to achieve. My second point, I will give it to Apendino as well. Yes, we do see the franchising evolving in the portfolio. The e-commerce that you mentioned is a clear example of this. Most of the growth results that we have in e-commerce with our joint venture comes from the franchises. So they become more sophisticated in the management, but I will let Apendino explain this better.

A - Alexandre Apendino {BIO 20185832 <GO>}

Fred, good morning. Thank you for your question.

We mentioned in the Investor Day, and I'm going to start with your second question. We said that we were going through a consolidation process of the franchises, and that this process was very successful. We are being able to consolidate our franchise and that brings results already. We are far from what we wanted with this process, but we have had some results already. We have seen this in the third quarter, and we have these new solutions.

Going back to your first question, the pandemic brought an acceleration in remote services for us. And that allowed us to deliver cheaper services in different areas to many customers. So that also opened the opportunity of reaching smaller customers as well and at a better cost, the traveling cost isn't transferred to the customer and the customers like remote services. So we have maintaining a high level of remote services and that way we reduce the TCO for the customer.

Q - Unidentified Participant

Thank you, Dennis and Apendino. Just a follow-up. Those of you who are up at the front, the franchises, have you felt the improvement of the NPS. Do you see an important driver in the third quarter, but can you already see an effect on sales? Or is this something that you will obtain in the next quarters?

A - Alexandre Apendino {BIO 20185832 <GO>}

Fred, Brazilian people buy a lot by reference, Latin American people do that. So the NPS process is something that has a long-term impact. You will have a positive reference in the market. So we look at the NPS. And yes, it does have an effect, but it is a long-term effect, when you have more positive references, so it tends to have an effect but the NPS takes some time to get this return. But yes, we have had improvement with a better NPS and customers like if that's the best lead that's too our NPS is high, it helps the people in the front.

A - Dennis Herszkowicz {BIO 17998338 <GO>}

If I could add, Fred. As we have tried to show you with our meetings, this is very interesting because in other types of markets and products, the churn is linked to -- the NPS is linked to the churn. So if you have a drop in the NPS, you will perceive this impact very quickly in the churning and that happens because the cost of changing products is high but that's not the case with TOTVS, the NPS we were able to prove this through several analysis, obviously the NPS communicates with the churning, but it's in a longer period of time. So if we have a very low NPS or proportionate very low for a long period of time, there is no doubt that you will have an impact on the churning. Now if you effectively improve your NPS, the reflex is already seen on sales, you can see it on sales when most sales are made within the same customer base and even new names as Apendino mentioned, they come as a reference with a good NPS, it has a very strong impact on the relationship of sales. So as Apendino mentioned, we have already been reaping on this record level NPS that we've had, but I have no doubt that by maintaining this high NPS, we will still have lot to gain in management and even replicating this effect in other dimensions as they are great cross sell that we have in our customer base.

Q - Unidentified Participant

Thank you. Thank you very much for your clarifications.

Operator

Next question. Marcelo Santos, JP Morgan Bank.

Q - Marcelo Santos {BIO 17186991 <GO>}

Good morning to all, thank you for accepting my questions. I have two. I want to understand how to maintain this high volume involving in price. How do you see this expectation because we're coming into an electoral year? What do you have in relation to this?

And my second question is in relation to the new products apart from the supplier products, how the characteristics of these credit products, how do they compare with other suppliers with the delinquency rate?

A - Dennis Herszkowicz {BIO 17998338 <GO>}

Thank you, Marcelo. Once again, I will start and Maia and Apendino if they want to add. With regards to volume, we follow a very strong rhythm, you probably saw this, we have been accelerating from the first to the second quarter now from the second to the third quarter and there is a cessation in the release. We included six items but then we put among others because there are other elements. It's not only the six elements we mentioned, we are talking since smaller TCO, with that way, we can reach a new group of customers and then expanding our portfolio and changes within the franchise and that way we can close the performance gap which is proportional to our own units.

And we have all this renewal of the TOTVS brand. So there are several elements which are associated, and on the other hand, we also have the market itself. We have stressed this several times Marcelo that we do not see this management software market as a mature market, people believe that a high market share and the number of companies that use a management software as very having a high penetration, but every quarter, we prove that this penetration is still low. And the way of seeing this low penetration is comparing the average expense that a company has with a similar size with the management system, compare it to more competitive markets. And as we can see, the average expense here is oftentimes a third of the average expense that we have seen in companies of similar size in the developed markets.

So, at least on my end here, I believe that we will still for quite some time have a very healthy business here, specifically from the standpoint of volume growth and that evidently also has to be added to what we have just mentioned here, which is the pricing power that TOTVS holds today on a kind of a criticality of what we do, the value that we add to our clients. Also, the cost of exchange, which might be quite significant to our clients. And I'm not talking about money only. I'm talking about the operational implications. It's quite troublesome if you really wish to switch between systems. So the combination of all of these elements has truly led our performance to be indeed quite positive.

Now, if I look at the new products that we have here in the area of Techfin, Marcelo, it took us some time until we were able to generate knowledge about this here internally, those are products about which we didn't have as much knowledge such as a Credito Consignado, it's a new product and a supplier is not actually the partner that we have been using to offer Credito Consignado, it's (inaudible), that's the name of your supplier now. So it does take some time until you develop knowledge, until you test things out to see what works, what doesn't work and to make adjustments as well, but still we can see exponential developments coming out of this. It's difficult to compare this quarter to the same quarter of last year, it multiplied by center of 36. So I think that we are trailing a very good path right now, very healthy path and the amount that we have learned, or the lessons that we have learned since then it's been quite remarkable.

And in the second quarter, we are now having a very interesting experience and maybe Apendino might chip in which is to basically have all of these new products in the area of Techfin becoming a very strong set of products now amongst our commercial efforts. The effort we have been making now around these Techfin products inside what we call our AR, which is our commercial team, we have been producing very, very good results. I'm not sure if you have anything to add about that, Apendino.

A - Alexandre Apendino {BIO 20185832 <GO>}

We ended up not talking about that during the slides ever since we began this year and more strongly on the second half of the year. We've been really testing our commercial operation. We have distribution channels in all 26 Brazilian states plus the federal district every one of the major cities here in Brazil, we do have physical presence where we can really take Techfin via the traditional distribution channels that we have here with us in our software operations and the experience that we have had has been very, very positive and specifically how we've been able to really step down in the gas panel.

There is a bit of a learning curve to go through, but the relationship that our teams have with our clients. And our average clients here in Brazil is a indeed very good and that goes a long way when it comes to us really opening up the store and offering them new solutions. So this is something we have been trying, we do have quite a few franchises, which are well advanced and we do have a good fit for these new solutions. Sometimes, you have Credito Consignado being applied to more specific customers than others, but the experience has been very good.

Q - Marcelo Santos {BIO 17186991 <GO>}

Okay, that's great. Excellent, thank you.

Operator

Okay. The next question we have here comes from Andres Salas [ph] from UBS.

Q - Unidentified Participant

Good morning everyone and thank you for having organized this call. I do have two questions, the first of them has to do with the margins. You've talked -- you said during the call that part of that impact actually came from the fact that people are now working back in the offices, so how relevant was that impact on your margins and within the next few months. So I mean, I believe you might be expecting more people coming back to the offices working in person.

And the second question is again based on what you actually may share with us, and I'm going to try and see if you could please give us an idea of the kind of, we're going to gross pipeline opportunity, the pipeline that you have there in the company. Obviously, it might be at a more advanced stage right now and acquisition processes. So if you could please make a few comments about that.

A - Dennis Herszkowicz {BIO 17998338 <GO>}

Okay Andres and thank you very much by the way for your question. So let me try and address your first point one concerning the impact from the fact that our teams are coming back to the office. Look, we have a relatively low number of people if you look at the total headcount here, we have still a small portion of our workers going back to the office. But I would say that if you look at it from the standpoint of our commercial and sales business activities, we have had more customer calls being made, people going in person really visiting our accounts and clients and that in a way begins to also introduce a few more costs, but the travel expenses and the expenses tied to meetings with clients, it might not be the biggest impact element, and I think that as more people go back into the office again, yes, we could have some impacts -- some future impacts, but I think that this tends to happen in a more say gradual fashion and this is something we have been discussing as to whether we should have everyone back in the office as it used to be in the past, we're actually considering the possibility of moving into a hybrid arrangement and we've been discussing with our teams to see how best this would -- what are the best options for them, so I don't actually see this as having too strong an impact, not at least on one single blow.

I think that this will happen more gradually as we end up finding a -- or strike a balance.

As to your second question, you said something about M&As I think, is that what it is?

Q - Unidentified Participant

Yes, that's what was, if you could please give some more color in terms of the acquisitions pipeline that you may have there in the organization?

A - Gilsomar Maia {BIO 16400533 <GO>}

Well, there isn't much that I can share with you and I'm trying to be as honest as I can and then how soon with a great deal of what we've been discussing about our pipeline and it's been a strategy in this organization and we have really grown quite substantially in terms of business performance and Techfin, so management itself.

We do have a pretty broad unit, but with these two new dimensions, we do have a much larger so universe of possibilities right now, and this is the idea and it's really a move forward with the strategy, which has been implemented now for a few years. And so that can really got to go and so we do have alternatives. We do have opportunities available and now three dimensions today evidently, as I said earlier, it was only natural to consider that in business performance, for instance, given a new conditions that are coming up, M&A conditions or opportunities tend to be slightly larger, but that doesn't mean that we do not have nice opportunities also in other areas, I mean it's kind of hard for me to say much more than that to you.

And so far as the profile of those M&As and sort of timeline might be because we have to be very careful about that, because reality is that at a timeline is somewhat difficult to have a precise estimate because it is all about our relationship that involves us but also other people on the other end of the table, but again, as I said, we have a lot of opportunities ahead of us and rest assured, there is going to be new things coming up in the future.

A - Dennis Herszkowicz {BIO 17998338 <GO>}

Look, the only comment that I would add Maia is actually two things, and specifically to the first part of your question. The one concerning margins even though the question wasn't actually that brought about it, I think it is worth mentioning that we have seen some pressure -- some actual pressure in the scenario. On the one hand and quite naturally, as we have actually discussed here during our press release and also during the opening part of our session, we know that we have different mandates specifically as we look at each one of our separate dimensions. So you can't simply ask that the same profitability be given in terms of management and business performance because those moments are different, their mandates are different.

And as those new dimensions become more relevant, it is only natural that your consolidated margins at least you know as we're going through this ramp-up process, those margins will be somewhat diluted. On the other hand, we also see that there has been some pressure also coming up from inflation and also other companies trying to hire talent, and this is a moment that is actually even stronger right now than people going back to the office. This is an element that has generated some pressure and all of these things, at least as far as we see it right now, they are all under control and then they've been performing say quite healthily, so this is why for some time now, we've been using the rule of 40 so now because it provides us with a much quicker indication about the kinds of exchanges that we've been having here to kind of trade-offs and moving to have us as having more accelerated growth which is what we've been having versus having slightly smaller margins in the short term. So this is an important message as well and this has to be conveyed too and this is something that we'll keep pursuing. As far as M&As go, well, it's exactly what you said of the portfolio is there it is quite strong. If you look at the number of opportunities that we have here it's substantial given the announcement that we made earlier today about the accretion of our corporate venture capital initiatives, a clear indication of that in itself.

If we had a narrow pipeline we wouldn't really have to have a wider range of possibilities or broader paths even it is precisely because of the fact that we have a really broad pipeline in our hands, that's why we need to have a wider broader range of opportunities so that we can take advantage of everything that we see as good opportunities.

Q - Unidentified Participant

Perfect, that's really clear. And thank you very much for your comments also and answers to my first question. Thank you.

Operator

So the next question comes from Bernardo Goodman [ph] from XP.

Q - Unidentified Participant

Good morning everyone and thank you for picking my question. Actually I have two questions. The first question has to do with your supplier. Looking specifically at the significant growth that we have seen in the interest rate curve obviously not to have having a mismatch between revenues. I'd like to understand a little better, the rate at which you expect things to go back to normal. And if you could also make a few comments also about funding alternatives that you might be looking at right now.

And the second question has to do with the next steps and how you're structuring with the T3 and also the perspective that you have in this specific market. Thank you.

A - Dennis Herszkowicz {BIO 17998338 <GO>}

Okay, so let me start by your second question to what about our Dimensa, things are moving pretty well at least for now. So whether it is the relationship with B3, the snow partner, it's been truly a -- an almost perfect match, I would say. The level of alignment, the commonalities, the interests and the velocity with which things have happened, it's been truly, truly great and our Dimensa today they have their own Board of Directors, a functioning Board of Directors for that matter (inaudible) for instance (inaudible) as the Chairman of the Board, he has been helping and he has been involved with the company. We also see the new management of (inaudible) for instance and also the other folks who joined the team.

I can see that they are now beginning to make a difference. So up to now, it's been really great, we have been very happy with everything that we have seen and we are also very much hopeful of the fact that we will be able to unlock quite a bit of value and this will quite likely confirm within the next few quarters and possibly in a not-so-far future that Dimensa might even go through an IPO for itself.

Now, in regards to supplier funding, what I can say to you is that for as long as the interest rate is going up at the pace it is going up today, this mismatch unfortunately will still be in place because mechanically, it's not something that you can adjust the trees if the Selic interest rate keeps growing the way it is. So -- and the next meeting, it should go by 1.5% maybe 2% points and also it is quite likely we're going to have still further increases, we don't know if it's going to stop at 11% or 12% or if it's going to go above 12%. No one knows exactly, and for as long as those hikes keep happening specifically at the rate they've been happening, we are going to have this mismatch. Now as -- but whenever those raises stop and if the rate stabilizes, then it will start to self cancel itself, right, and then in the future, because obviously we don't know exactly when this will happen, but if -- and sometimes I hope that this will happen when it begins to go down, those effects will also be felt here, right. We're going to have a lower cost of funding and our portfolio will basically be adjusted based on those lower rates that we will have, so it's basically the kind of a motion that we have to wait and see what happens now.

As far as funding alternatives go, we are still looking into a number of alternatives which might come to fruition in the future, but as similarly to M&A, we cannot give you the details until things actually fall into place here and funding I have to say that you have that, well, that's pretty much the same story and we can't get ahead of ourselves and then tell you what we are going to do in the future until those (inaudible) actually come to fruition and materialize.

Q - Unidentified Participant

Excellent. That's very clear. Thank you very much.

Operator

Our next question is from Christian (inaudible), Itau.

Q - Unidentified Participant

Good morning. Thank you for asking my question. I saw you commented about accelerating investments in P&D and have this growth when low penetration areas. So my doubt is, the company has already a strong growth of 45% and the idea would be to understand how can we look forward, we have about 30% revenue and how could that continue and if the expectation is to accelerate this growth even more above 40% or it would be to maintain this threshold as a reasonable threshold for the future?

A - Gilsomar Maia {BIO 16400533 <GO>}

Thank you. It's obvious that our desire and our daily work is, if possible, to increase and accelerate this growth even more, but as you mentioned, it is a strong growth already 45% in a company that's not a start-up anymore. It's a company that has very strong revenue, I would say that we can accelerate even more might be a bit risky to say, but I'd say we would like to, but if we can, I can't commit myself to that, but in relation to the research and development, this investment has an almost assured return because the model of R&D is based on product, the logic of POG is linked to the evolution and the development of the product itself. So at TOTVS, Apendino side, we always include petrol in the commercial side, we do have an interesting rate of return, but in relation to R&D, this gasoline has to be invested in the P&L. That's where we get the return, the maintenance of this growth rhythm for a long period of time or even an acceleration of the growth.

So the R&D percentage stable would be more difficult to say, what I can say is, once again, R&D is a specific investment and is the most important one we have, and it has brought us the return that we want and we will continue following this model. Thank you.

Operator

(Operator Instructions) If there are no further questions, I would like to give the floor to Mr. Dennis Herszkowicz for his final comments.

A - Dennis Herszkowicz {BIO 17998338 <GO>}

Once again, I would like to thank you all for your participation in this call. Specifically, I would like to thank all the people at TOTVS for once again a very good quarter and a very good year, we are almost at the end of the year, despite all the difficulties that we have gone through. So once again thank you very, very much. I wish you all an excellent day and an excellent weekend. Goodbye.

Operator

The TOTVS conference call has ended. Thank you all for your participation and have a good day.