



TOTVS DAY 2017

(Public Meeting)

DISCLAIMER

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Forward-looking statements may be made relating to TOTVS's business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS's management and on information currently available.

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AGENDA

09:00 TOTVS: Transition to Subscription (*Gilsomar Maia*)

09:35 Digital Transformation (*Laércio Cosentino*)

10:10 Tour/Demos (*Gustavo Bastos/Marcelo Cosentino*)

11:10 Demo: Carol – AI Platform (*Vicente Goetten*)

11:35 Q&A

12:30 End of the event

TOTVS

*TRANSITION TO SUBSCRIPTION
VALUE GENERATION*



The ERP leader in Brazil, with ~50% *Market Share*

Source: Gartner – Market Share: All Software Markets, Worldwide, 2016



Highest level of Corporate Governance

- *Listed in “Novo Mercado” segment of B3*
- *Independent Board of Directors*
- *Strategy, Personnel, Audit and Governance Committees*
- *Corporation with ~70% of free-float*



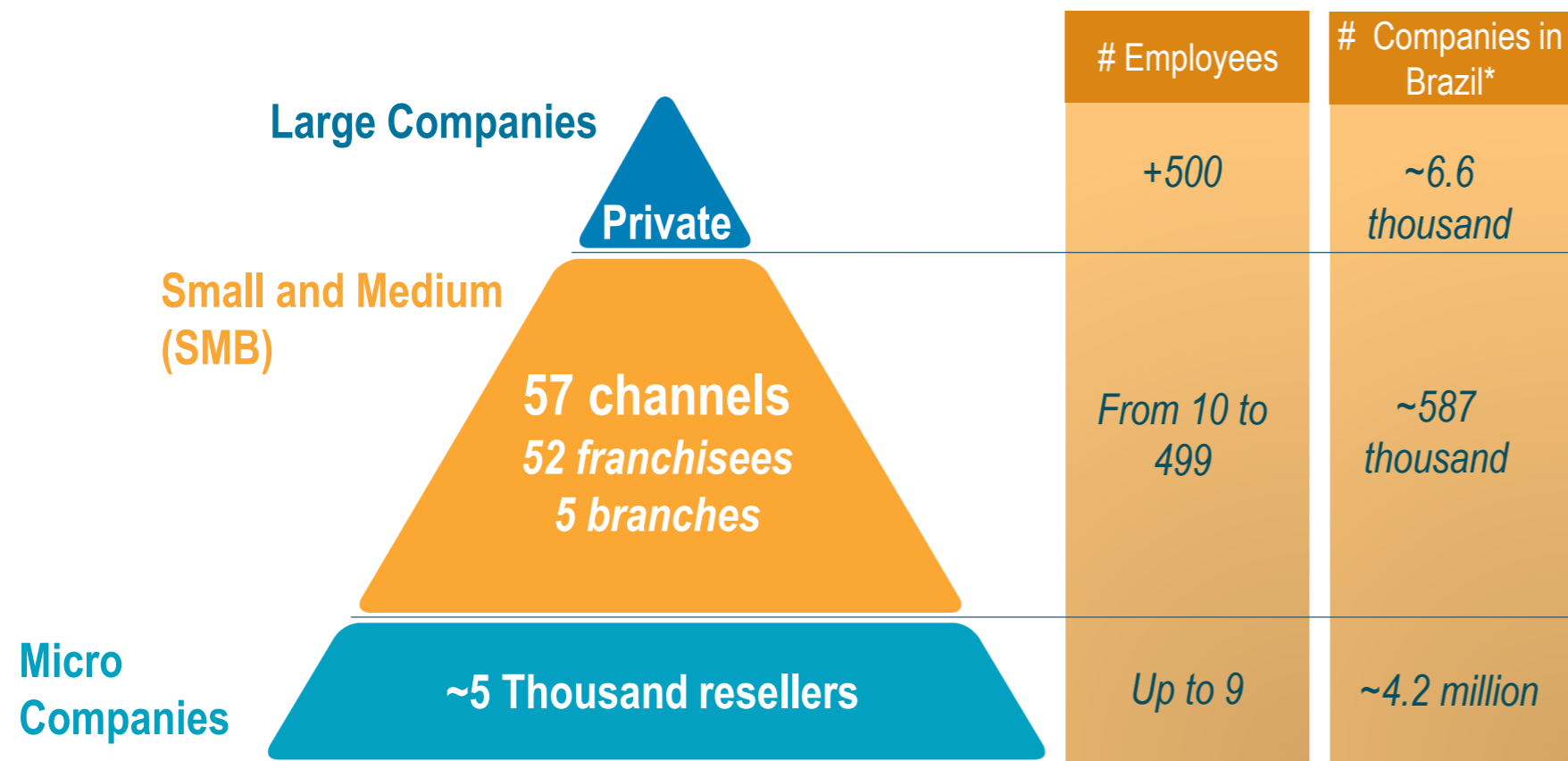
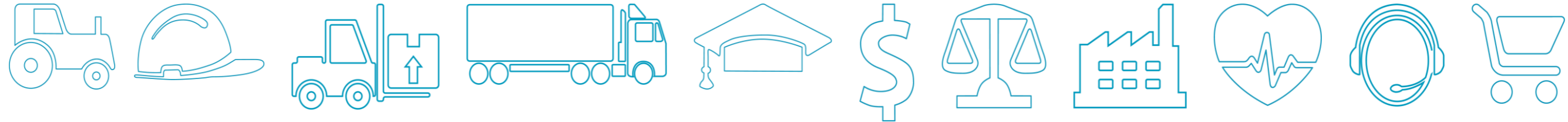
Sustainable Organic Growth

- *+7 thousand new clients added in the last 12 months*
- *32.9% growth of subscription revenue in the last 12 months*
- *10% growth in recurring revenue year-on-year in 3Q17*
- *32.5% growth of operating cash generation in the last 12 months*

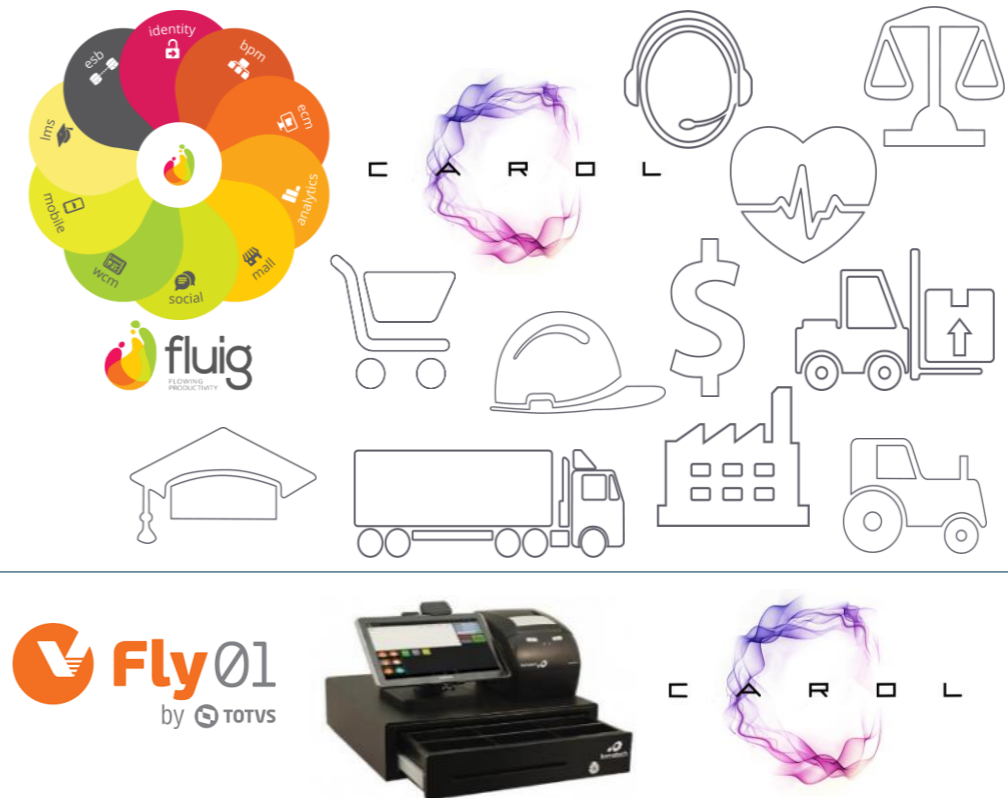




Distribution and Business Solutions for Clients of All Sizes in Several Segments

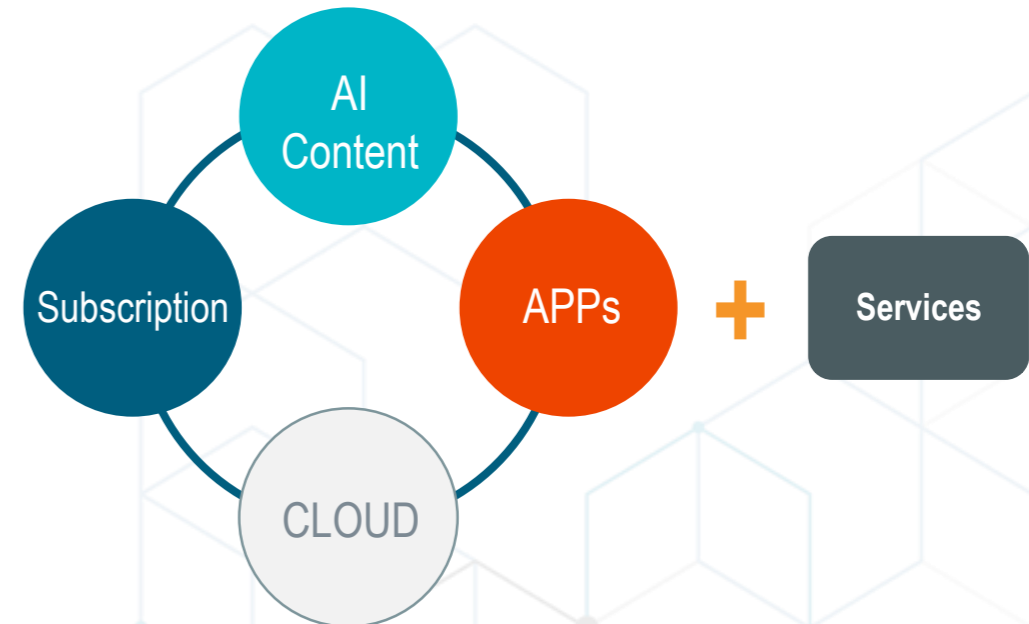
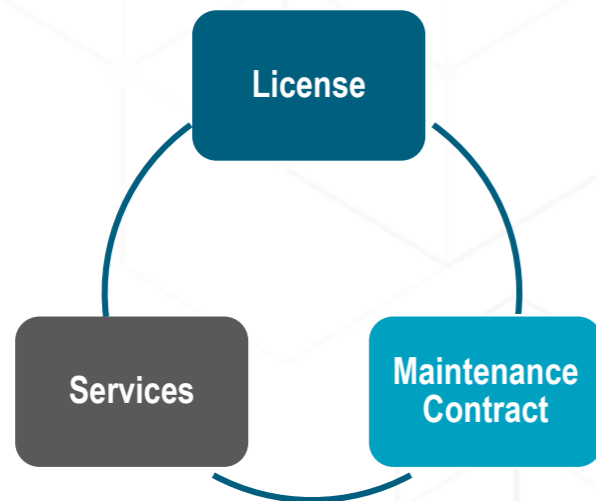


OUR SOLUTIONS



*Source: IBGE

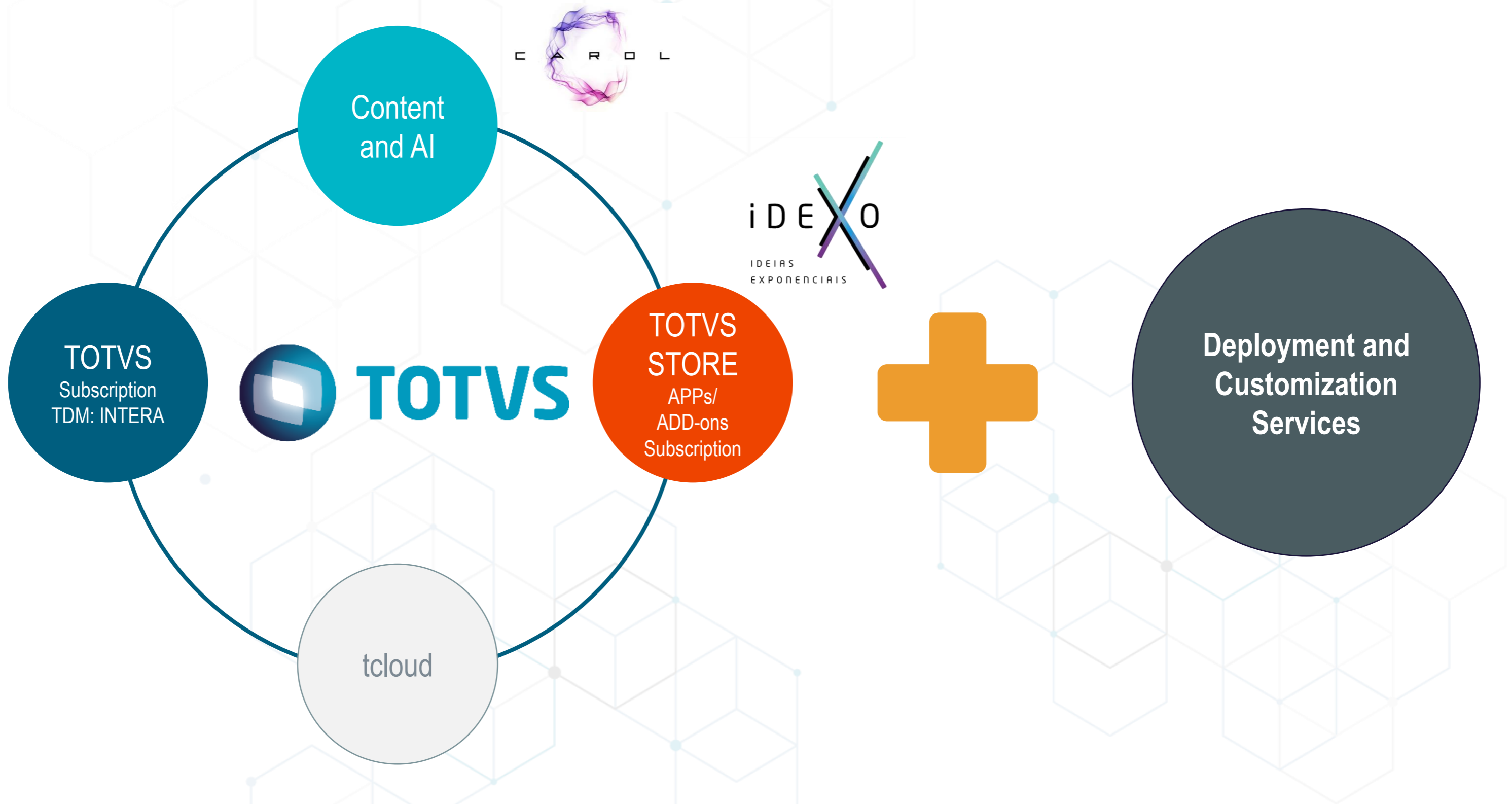
OUR MARKET- PAST AND PRESENT



Focus: Solutions for Clients
Business: License / Maintenance + Services
Software: Closed, complex and for users
Priority: On Premises / Desktop First / Versions
Competition: Client

- Solutions for Clients and its Clients
- SUBSCRIPTION + Content / AI + APPs + Cloud with Services
- Open, specialist and for IDs and APPs
- Cloud / Mobile First / Upgrades
- Client and/or by Client Sharing

SUBSCRIPTION COMPANY – BUSINESS MODEL



Microsoft's Transition To The Subscription-Based Economy

Aug.27.17 | About: Microsoft Corporation (MSFT)

Splunk's Move to Subscriptions Could Signal Huge Gains for the Stock

Splunk is focusing its sales team on selling its cloud-based subscription software product. This change could drive the stock much higher.

Frank DiPietro (CMFFrankDip)
Apr 10, 2017 at 12:06PM



Adobe's Cloud-Based Subscription Will Continue To Grow Its Revenue

Sep.11.17 | About: Adobe Systems (ADBE)

Autodesk: Embrace The Model Transition, Not The Myths

Jan.23.17 | About: Autodesk, Inc. (ADSK)

Tableau: Roaring Back To Life

Sep.14.17 | About: Tableau Software (DATA)



Gary Alexander

Software and cloud, high-growth technologies, IPOs

Follow

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Summary

- Tableau shares have recovered from 2016 lows on the back of strong subscription growth.
- The company's transition to the cloud model is resonating well with customers, as BI services are increasingly shifting to SaaS.

SAP Just Stumbled on Its Way to a Life in the Cloud

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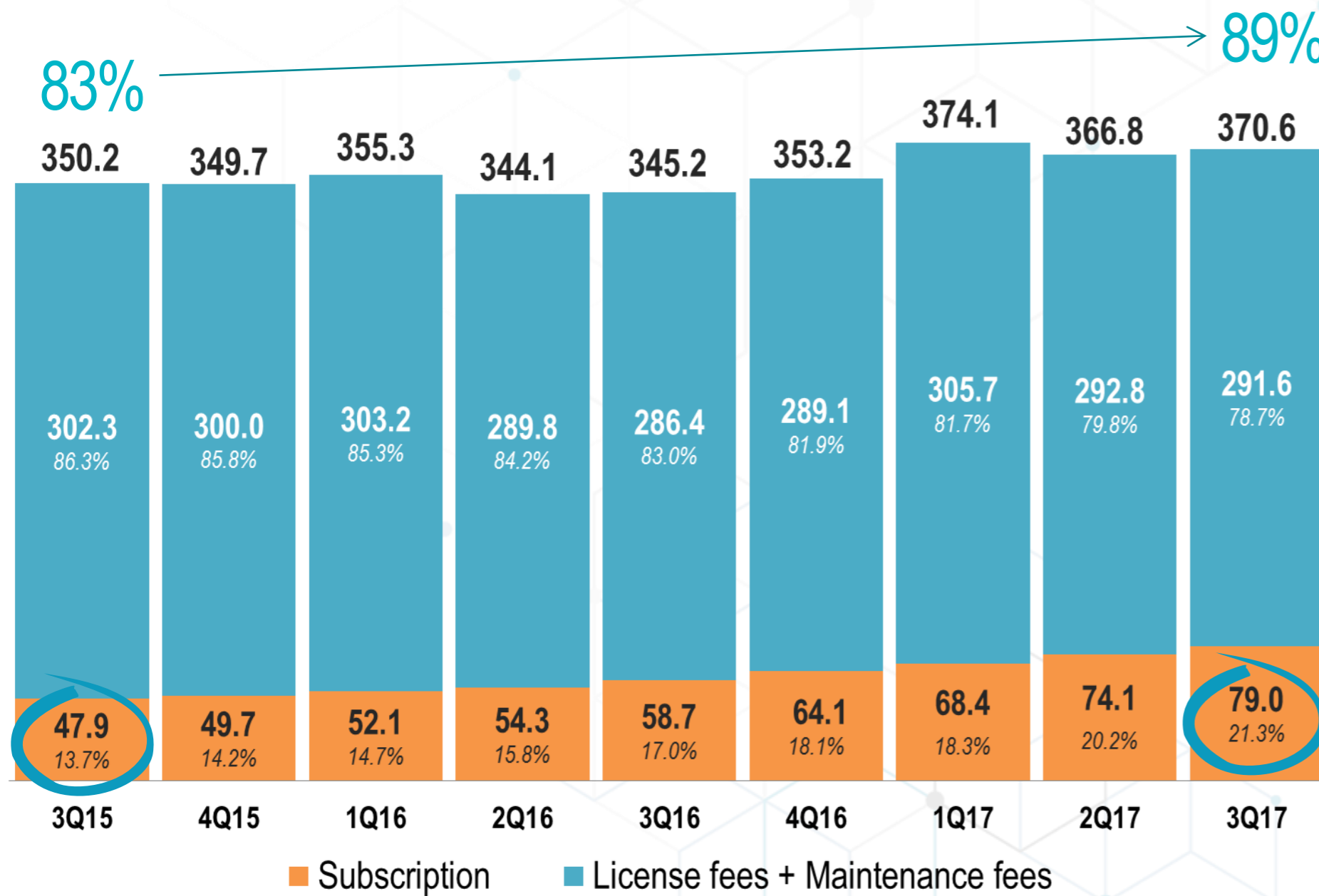
NEWS ANALYSIS

Transitioning to the cloud: Adobe hits it out of the park

Adobe is a case study in moving from traditional software delivery to the cloud. The bottom line seems to be enjoying the change.



TOTVS: SUBSCRIPTION TO NEW CLIENTS SINCE 2015 (R\$ MM)*



89% RECURRING IN SOFTWARE

SINCE 3Q15

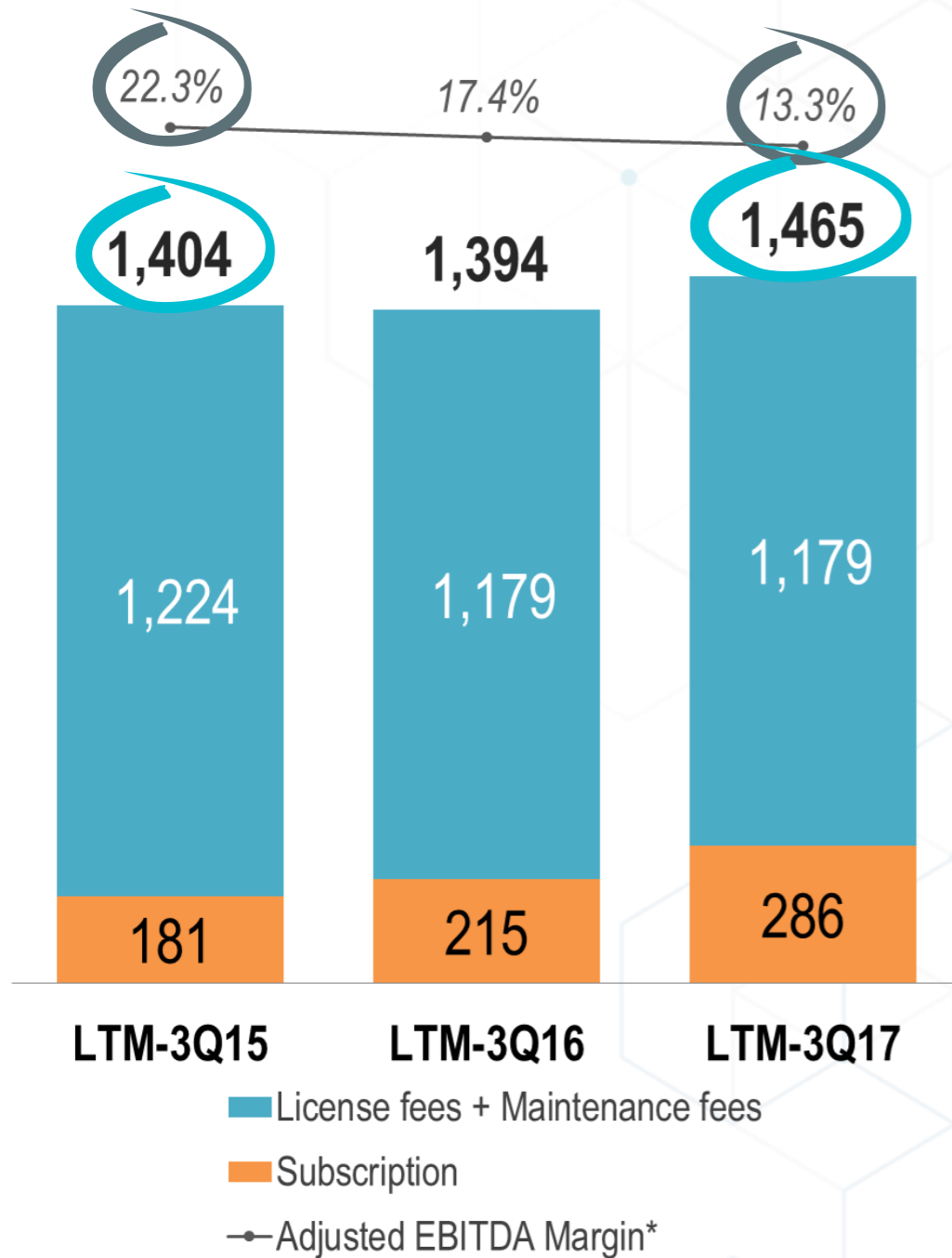
- ~11 thousand new subscription clients added
- ~7 thousand Bemacash units sold
- +R\$150 million off ARR from subscription added
- Renewal of support and customer service areas



Ótimo
01/05/2017 - 31/10/2017
Source: ReclameAqui

The Annual Recurring Revenue (ARR) is a metric widely used in the SaaS model to measure the growth of recurring revenue for the next 12 months referring to contracts already signed up to the end of the current period, excluding cancellations already requested.

TOTVS: THE RESULTS IN 2 YEARS OF SUBSCRIPTION (R\$ MM)**



-R\$45M IN LICENSE MODEL
+R\$105M IN SUBSCRIPTION
GROWTH IN SOFTWARE

WITH
 EBITDA MARGIN REDUCTION DUE TO:
 THE SHORT TERM EFFECTS OF THE TRANSITION TO SUBSCRIPTION

LOWER DILUTION IN R&D, SUPPORT AND SG&A

+
 BEMATECH'S PORTFOLIO INTEGRATION

+
 EFFECTS FROM THE ECONOMIC RECESSION IN BRAZIL

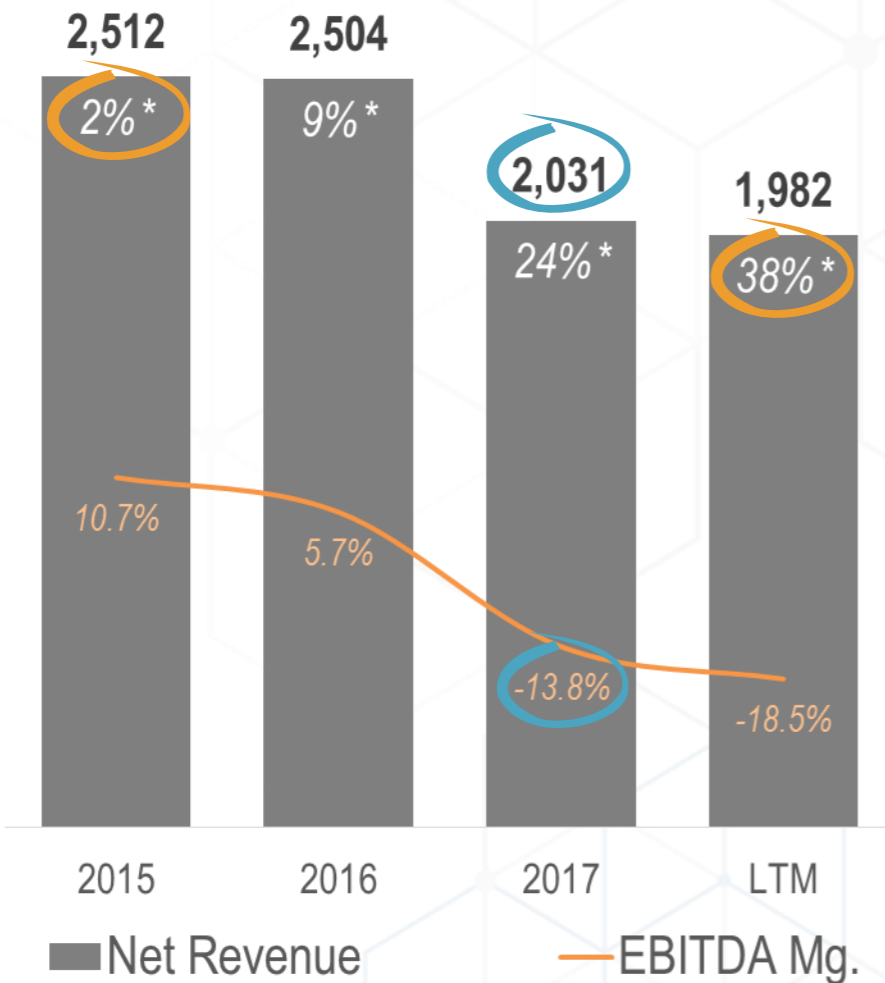
SERVICES, HARDWARE, CONTINGENCIES AND THE DIFERENCE BETWEEN INFLATION INDEX TO UPDATE REVENURES (IGP-M) AND COSTS AND EXPENSES

* EBITDA Margin adjusted by non-recurring items

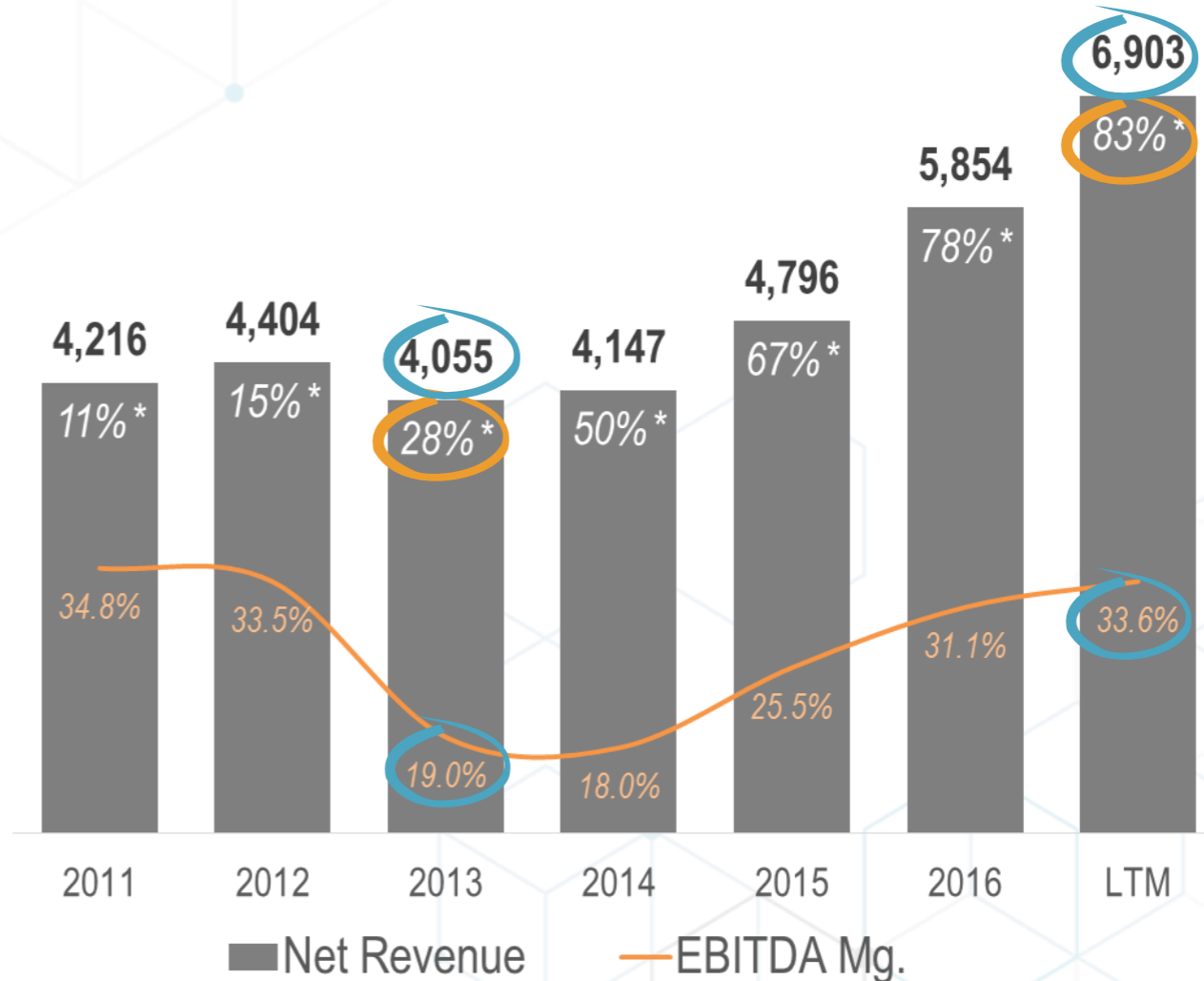
** Pro-forma information since they include the results of Bematech.

TRANSITION TO SUBSCRIPTION IN OTHER COMPANIES (USD MM)

AUTODESK



ADOBE



SUBSCRIPTION UP FROM 2% OF REVENUE IN 2015 TO 38% IN THE LAST 12 MONTHS**

REVENUE AND EBITDA MARGIN DROP IN THE BEGINNING OF THE TRANSITION AS A CONSEQUENCE OF THE END OF LICENSE SALES IN SOME BUSINESSES

SUBSCRIPTION UP FROM 28% OF REVENUE IN 2013 TO 83% IN THE LAST 12 MONTHS**

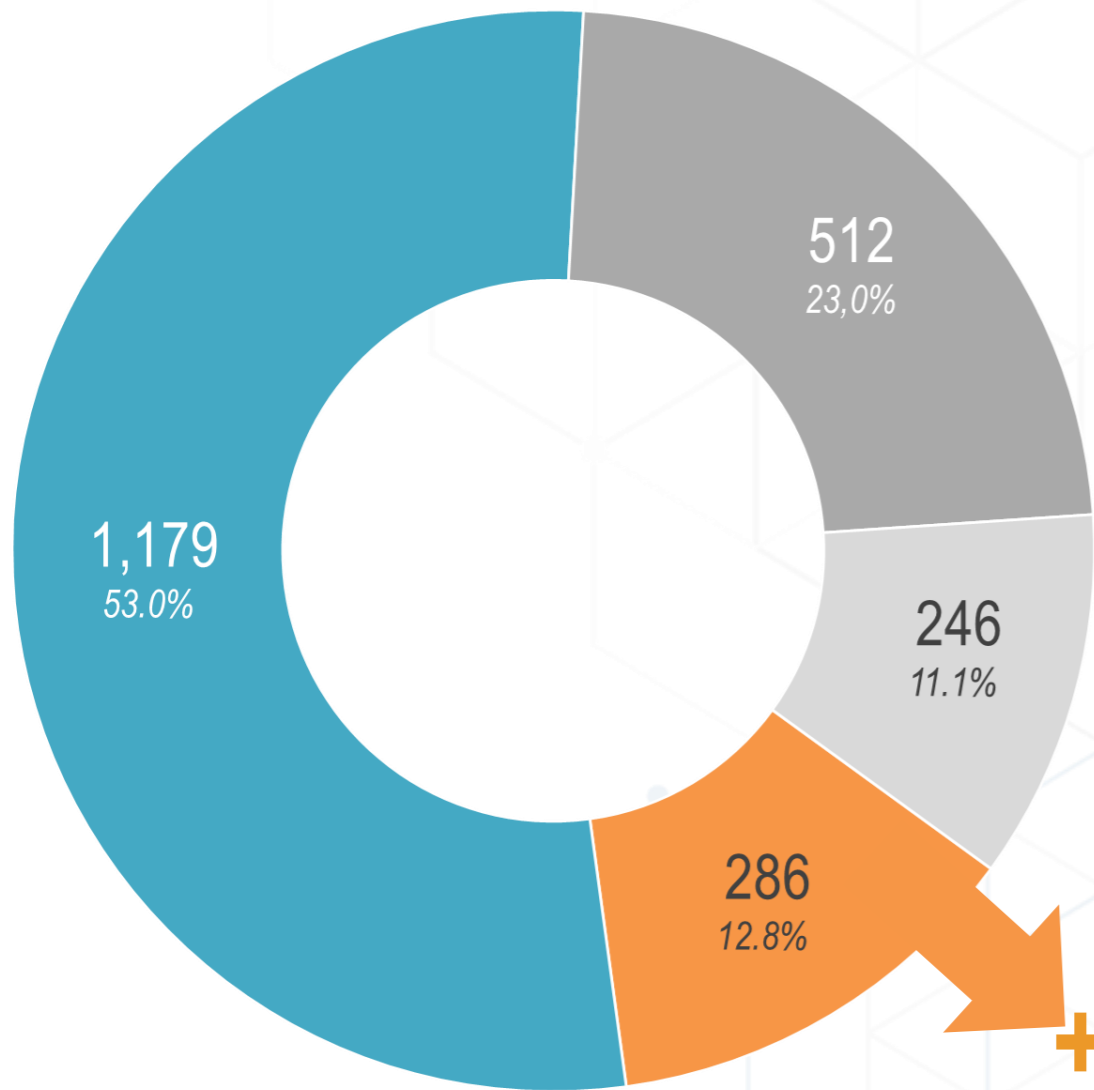
**REVENUE AND EBITDA MG. DROP IN THE BEGINNING OF THE TRANSITION...
...AND REVENUE AND MARGIN GROWTH IN THE MEDIUM AND LONG TERM**

Source: 10Q and 10K Forms (fiscal years related to different periods)

*Relevance of subscription revenue over total net revenue

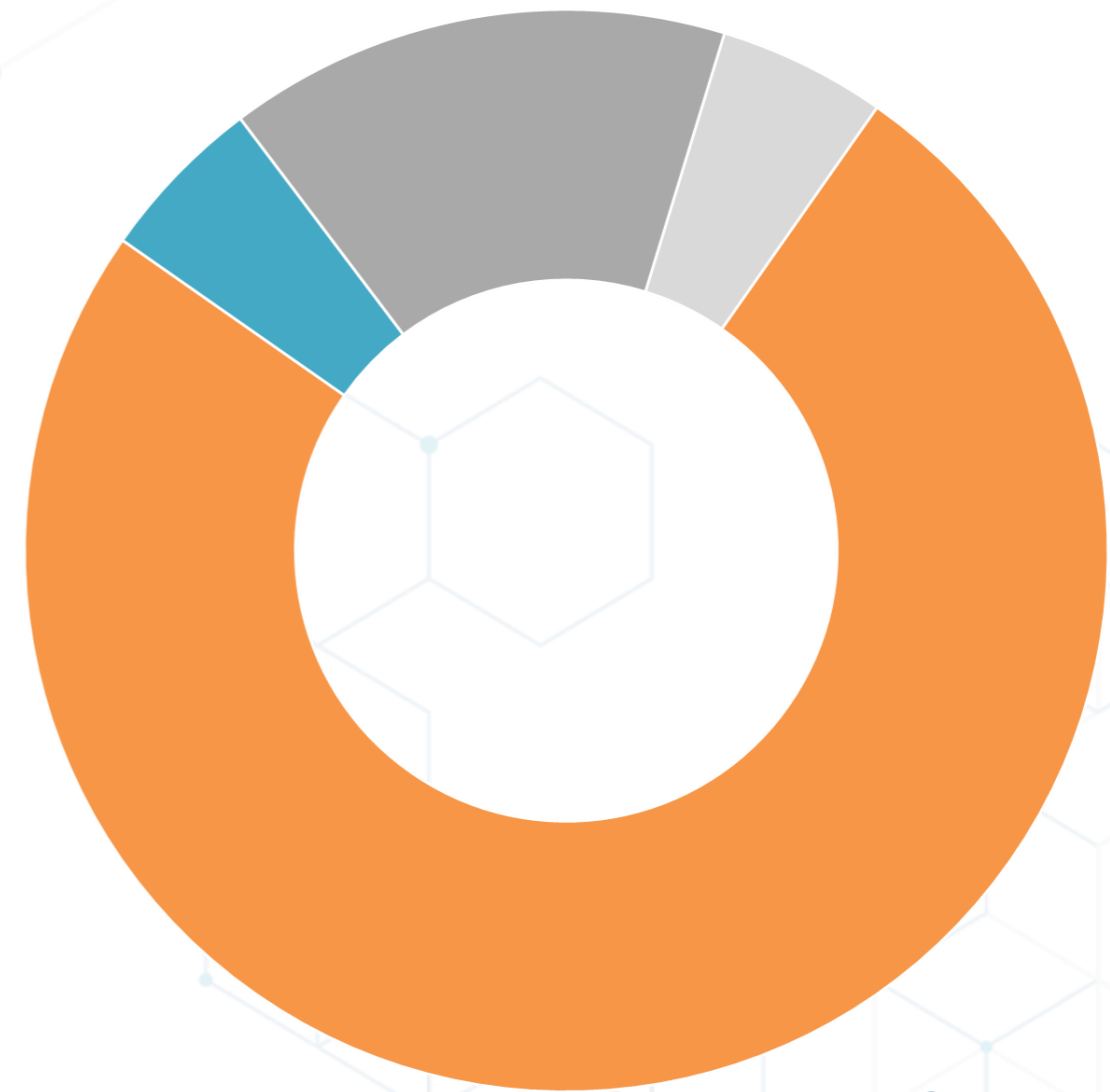
HIGHER VALUE GENERATION (R\$ MM)**

LAST 12 MONTHS



- Subscription
- License fees + Maintenance fees
- Services
- Hardware

POST MIGRATION OF THE MAINTENANCE BASE



+33% in the last 12 months

P/S*: 7,5x SALESFORCE: +25% in the last 12M

P/S*: 10,6x WORKDAY: +41% in the last 12M

P/S*: 12,2x AUTODESK: +102% in subscription in the last 12M
(WITH MIGRATION)

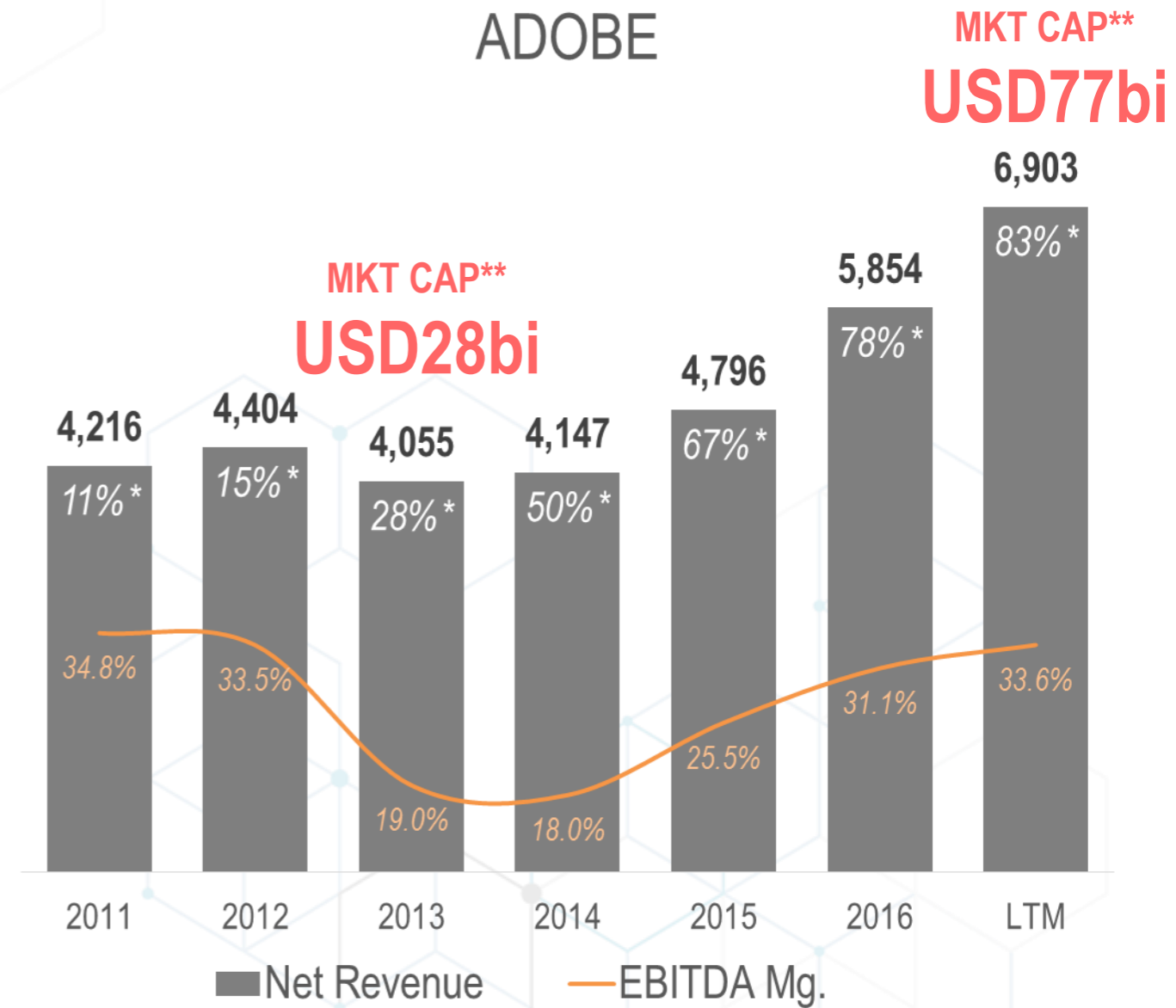
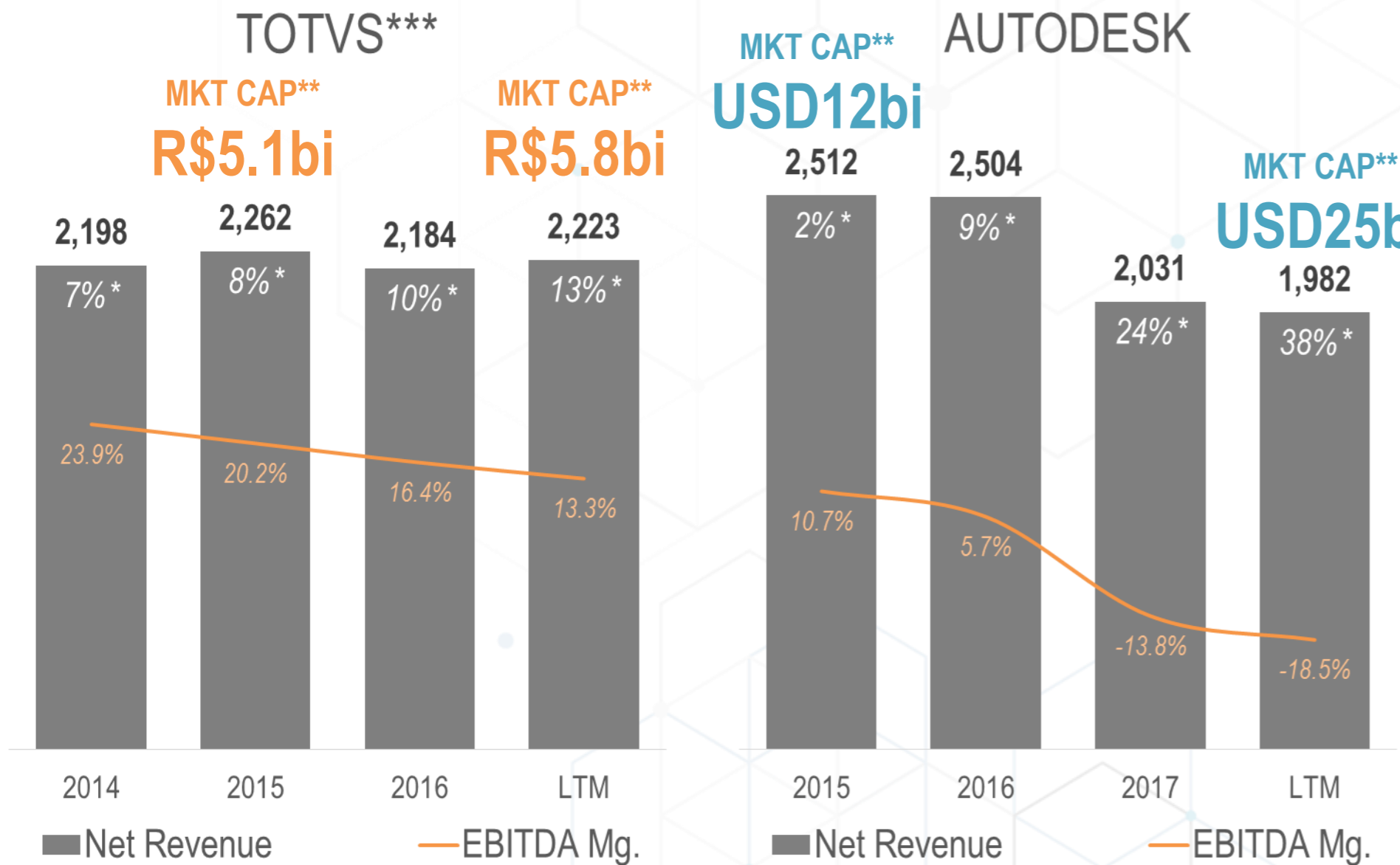
+ PREDICTABILITY
+ CLOUD

+ EFFICIENCY IN R&D,
SUPPORT AND SALES

*P/S: Last price to sales multiple available. Source: Bloomberg

** The information contained in this slide are theoretical and does not represent a financial projection (guidance).

HIGHER VALUE GENERATION (USD/R\$ MM)



Source: 10Q and 10K Forms (fiscal years related to different periods)
 * Relevance of subscription revenue over total net revenue
 ** Market Cap as of the ending of the fiscal year/period
 *** Proforma information since they include the results of Bematech. EBITDA Margin adjusted by non-recurring items



DIGITAL TRANSFORMATION

UNDERSTANDING THE EVOLUTION



People's decision to **connect and share information**

+Simple | +Agile
Predictability of Behavior

SERVICES

SCALE

BUSINESS

IMAGE

WRITING

SOUND

VOICE

DIGITAL
TRANSFORMATION
JOURNEY

TRADITIONAL

Culture & Workplace
Process & Customer Service
Offering & Portfolio

Information Volume

Information sharing



You need to “**destroy**” and **recreate** your business before “startups” start doing it.



Which problem of my client
am I still solving?

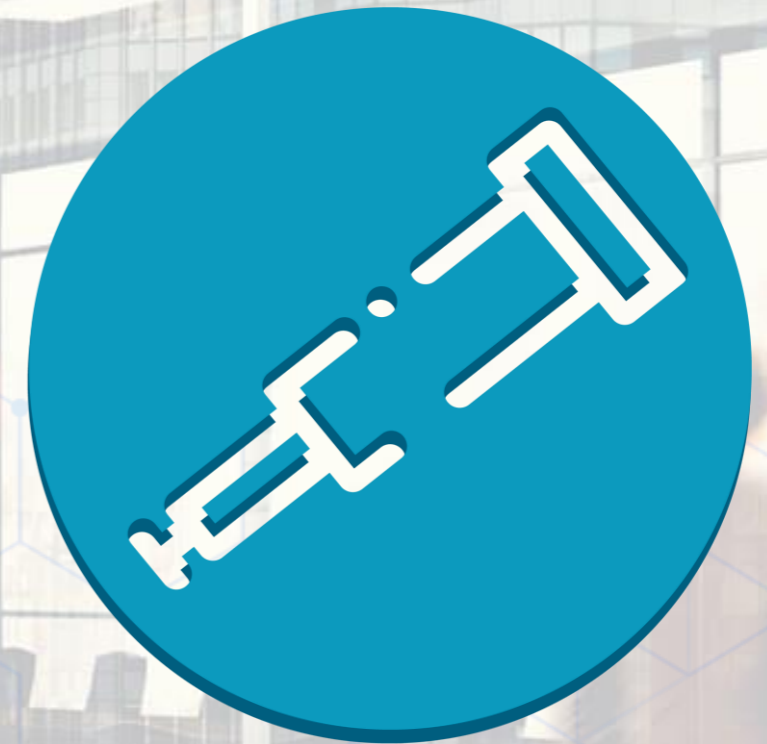
PROPOSAL OF 3 SCENARIOS



The scenario of your
BUSINESS creation



The scenario that you
are or should be



The scenario in 3 to 5
years

SOME THOUGHTS

SOFTWARE

Simplicity in the Hiring, Usage
and Management

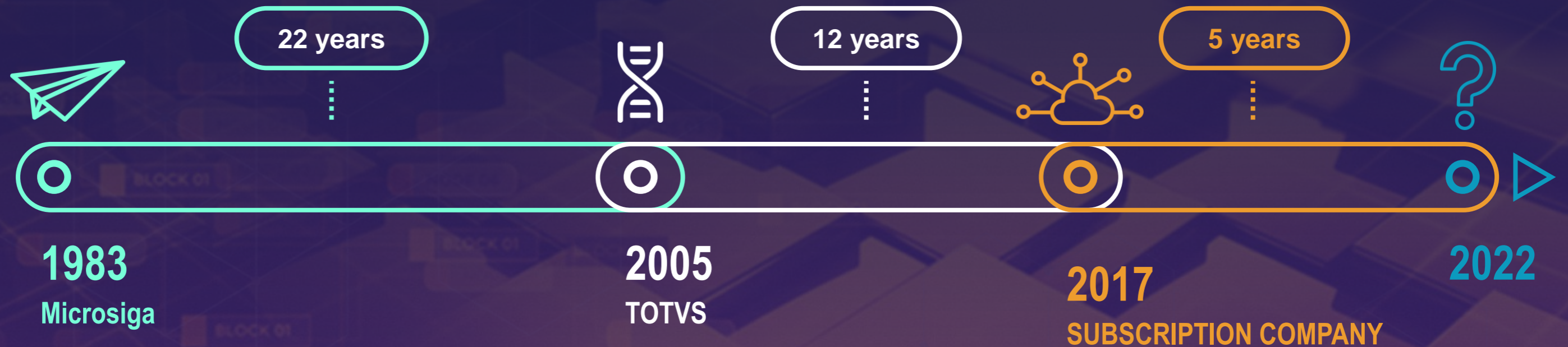


**Which problem of your CLIENTS
will TOTVS be solving?**



**Simplifying the business world with
the guarantee of compliance with
Legal, Business Rules and Corporate
Information Security**

TOTVS Journey



1983
Microsiga

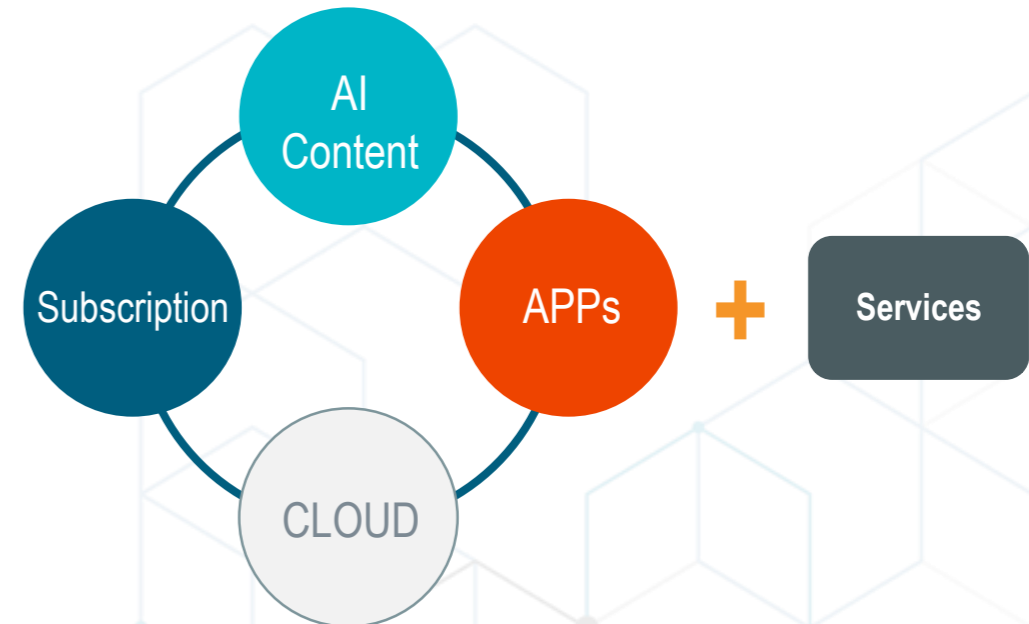
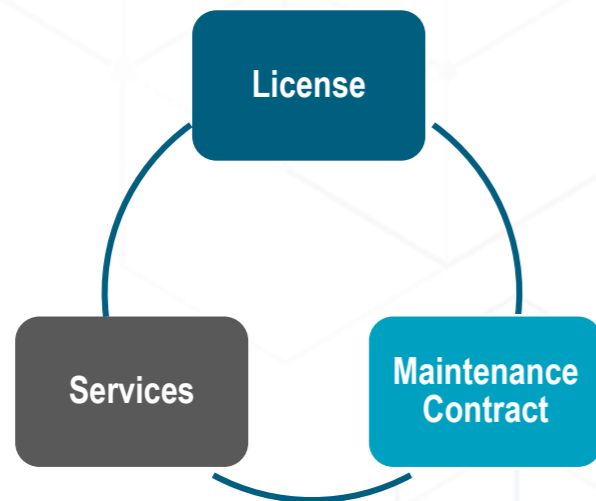
2005
TOTVS

2017
SUBSCRIPTION COMPANY

2022

*Digital Transformation
Journey – 4 years
(jun/2015 - jun/2019)*

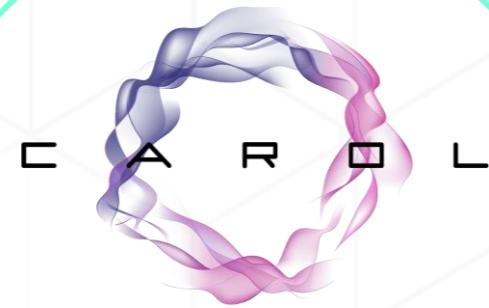
SOFTWARE MARKET EVOLUTION



Focus: Solutions for Clients
Business: License / Maintenance + Services
Software: Closed, complex and for users
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Competition: Client

- Solutions for Clients and its Clients
- SUBSCRIPTION + Content / AI + APPs + Cloud with Services
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- Cloud / Mobile First / Upgrades
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CONCEPT: PLATFORM



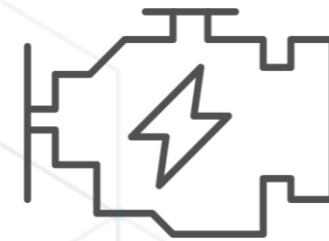
Data and Intelligence Solutions



Intelligent Devices and IOT



Collaboration and Productivity Solutions



T-ERP T-HR T-Industry
ERP/HR and Core Business Solutions



E-commerce

TOTVS BUSINESS MODEL



Tools that create Platforms that generate Specialized Solutions sold and implemented by a Distribution System integrated to a Development Community, Innovation and Business.

Objective: Expand the addressable Market with Platforms And Solutions and with the inclusion of more people / companies prospering around TOTVS.

DEVELOPMENT AND INNOVATION COMMUNITY

DISTRIBUTION

Sale & Delivery of Solutions, Platforms and Tools

SOLUTIONS

Specialized by segment

PLATFORMS

that help the development of Specialized Solutions

TOOLS

that define a technological stack



Startups Partner

Software houses

Developers



TOTVS STORE

Solutions

APPs

Platforms

Services

DISTRIBUTION: Solution

SIZE / REGION / SEGMENT

Private

SMB

Micro Companies

FR

FR 1

FR 2

FR n

CNT

CAT

RESELLERS

Distribution: Platforms and Tools

Software houses

Developers

Device clients

CHANNELS & RESELLERS of Platforms

TOTVS MARKET PLACE



TOTVS by Industry

- Manufacturing
- Logistics
- Agroindustry
- Retail
- Distribution
- Services
- Education
- Construction and Projects
- Legal
- Health
- Financial Services



TOTVS ERP



TOTVS HR

TOTVS Technology & SW Life

T-Tec

TOTVS Language

TL++

T-Face

TOTVS HTML Framework

TOTVS Cloud

T-Cloud

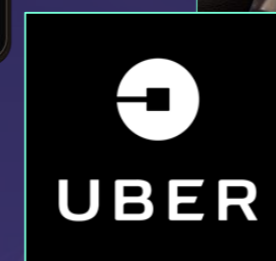
T-Talk

TOTVS APIs



SOME THOUGHTS

TRANSPORTATION



The auto industry researched the market, planned a model, made a prototype, produced it, gave it to a dealership to sell to a physical person, or "a taxi driver," and everyone had a street guide in the glove compartment.

The auto industry already understands the market by tracking digital information, developing digital prototypes and selling directly to the consumer. There is a discussion of whether or not to have a car and Waze appears.



...Autonomous Car

Ownership

Consumption

— 5 ATTITUDES TO THE DIGITAL TRANSFORMATION JOURNEY

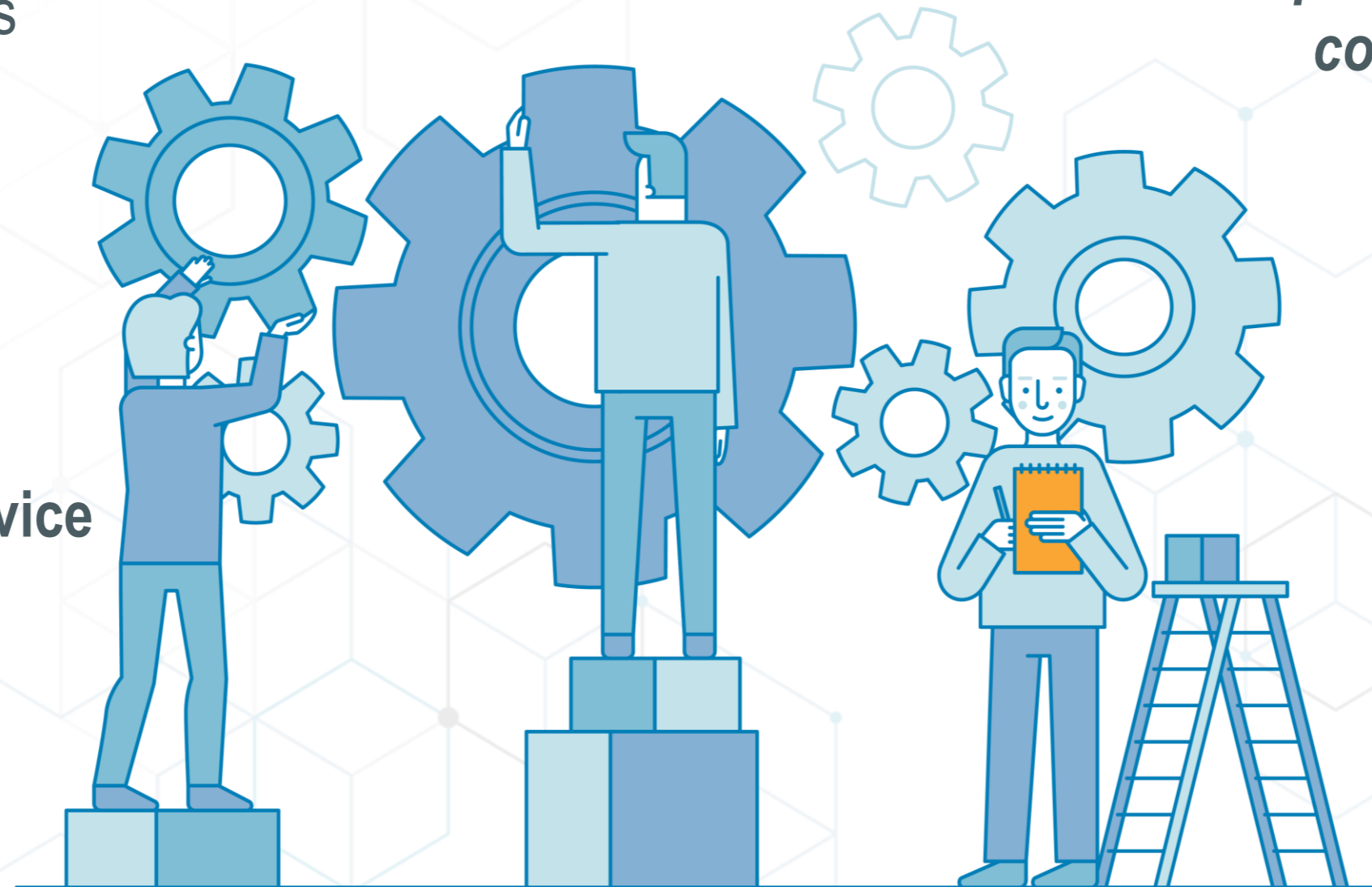
To monitor, analyze
and understand
ongoing developments

Try to destroy
your current business

Listen to the CLIENT, Revalidate
and Plan the strategy:
*What problem of my client will I
continue to solve?*

Act in:

Culture & Workplace
Process & Customer Service
Offering & Portfolio



To connect everything
and everyone



Investor Relations

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Technology + Knowledge are in our DNA

Our customer's success is our own success

— We value great people who accomplish great things

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