

# Internet, Media and Software

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## Executive Summary

**The investment in IT shares showed to be the right strategy in 2006 and...**

In 2006 we started to cover the companies from the Information Technology (IT) sector: UOL, IdeiasNet, Totvs and Datasul. Due to the expectations of (i) expansion in the broadband, (ii) reduction of the so-called "grey market" of PCs, (iii) speedy growth in the market of integrated corporate management software over the next few years and (iv) an increase in online advertising, we consider the investment in the sector's shares to be an attractive move.

Except for UOL, all the other companies proved to be good options and their shares' upside surpassed the performance of the main indices in 2006.

**... for 2007 the outlook remains positive**

For 2007 the outlook remains positive. In the internet and media sectors, we estimate Brazil to close 2006 with 5.4 million broadband connections and we project a 35% growth in 2007 to 7.3 million. The expansion of this market will benefit all the companies we cover in the IT sector, mainly UOL and IdeiasNet.

The online advertising improved, but at a slower pace than expected. Up until the end of July/06, the total gross sales (excluding sponsored links) were estimated by the Projeto Inter-Meios at R\$ 188 million (+36% in comparison to the same period of 2005). The performance of online advertising in 2007 will be closely monitored, as this is the main critical factor for the investment in UOL.

The growth of the integrated corporate management software segment will be significant over the next few years due to the following factors: (1) an increase in demand for integrated corporate management software, mainly in the small to mid-sized companies segment (PMEs); (2) sale of supplementary solutions; and (3) the expansion of businesses for strategic Latin American markets, with a profile similar to the Brazilian market.

Over the short term, the competitive advantage belongs to local companies which have more expertise in the PMEs segment and higher capillarity in the distribution network. However, the large local suppliers are repositioning themselves to achieve more efficiency in answering this market and, as a consequence the competition will definitely get fiercer.

The expectations for the performance of the integrated corporate management software segment have been confirmed and the gross sales of Totvs and Datasul should have an organic growth of 21% and 9%, respectively, in 2006. For 2007, we project a 21% and 17% growth in the revenues of Totvs and Datasul, respectively.

On the other hand, the ERP potential market might be overestimated, both in the size and in the speed of its growth.

**Our top pick is UOL**

The IT sector is going through a consolidation process and, accordingly, we would not be surprised to see a more intense movement regarding mergers and acquisitions in 2007.

For 2007, we recommend an exposure to the shares above the sector's participation on the Bovespa Index. Our top pick is UOL.

## Retrospective 2006

**In 2006, we started to cover shares in the IT sector**

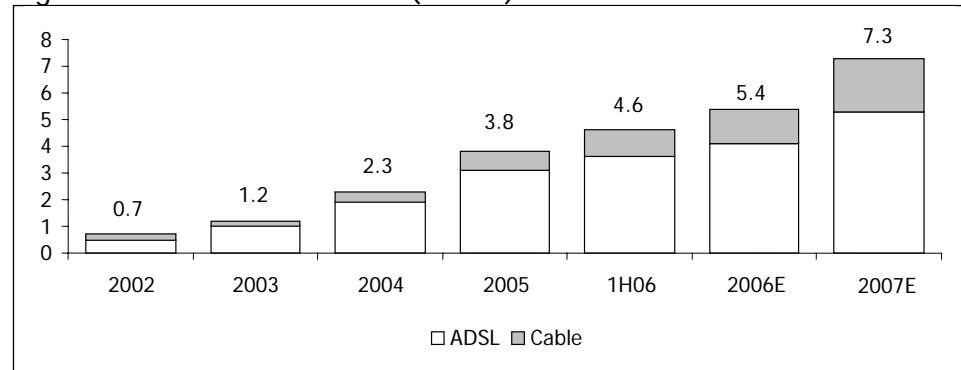
**Broadband growth, increase in online advertising, reduction in the grey market and...**

Between the end of 2005 and the first half of 2006, some IT companies finally opened up their capital, an event which had been expected since 2000, but became impossible at the time due to the so-called "burst" of the internet bubble. With the exception of IdeiasNet, whose initial public offering occurred in Jun/00, UOL (Dec/05), Totvs (Mar/06) and Datasul (Jun/06) started trading their shares on the stock exchange.

In 2006, we began to cover UOL (Mar/06), IdeiasNet (Jul/06), Totvs and Datasul (Oct/06) and we assigned an OUTPERFORM recommendation to their shares, due to the following factors:

(i) broadband expansion. Besides the modest growth in the number of residential users of the internet (17.2% between Aug/05 and Aug/06, according to Ibope Netratings), the migration of dial-up connections to broadband increased. On 06/30/06, there were 4.6 million high-speed accesses, a 50% growth in the annual comparison. The growth of this market was positive for all the companies we cover in the IT sector, mainly UOL and IdeiasNet;

Figure 1. Broadband accesses (million)



Source: Teleco and companies

(ii) Increase in the online advertising. It advanced, but slower than expected. Up until the end of July/06 the total gross sales, excluding sponsored links, were estimated by Projeto Inter-Meios, at R\$ 188 million, a 36% growth in comparison to the same period of 2005, noting that the 2Q06 was extremely positive due to Fifa's World Cup. UOL maintained the market share of approximately 30% on the total market, and the participation of the online advertising of its total gross sales grew to 12% on 09/30/06, from 8% in 09/30/05;

(iii) Reduction of the so-called "grey market" of PCs. According to data from IDC, in 2004, the illegal sales of information technology equipment accounted for 74% of the total market. This number fell to 60% in 2005 and we estimate the current participation at 50%-55%. This fall arose, mainly, from the tax exemption of PIS and Cofins taxes for computers valued up to R\$ 2.5 thousand and the efforts from the authorities to reduce smuggling. This reduction was one of the main factors which have contributed to the expansion of the revenue of IdeiasNet's portfolio, mainly through Officer and Softcorp; and

(iv) Expansion in the integrated corporate management software. Between 2004 and 2006, this market had a Compound Annual Growth Rate (CAGR) estimated at 14%. This expansion was mainly due to the following factors: (1) an improvement in the economic performance and, as a consequence, an increase in the demand, mainly in the PMEs segment, in which the penetration is still low; and (2) the sale of supplementary solutions, mainly for large to mid-sized companies. The local companies, e.g. Totvs and Datasul, had growth in the revenues above the market's average, as they have more expertise in the PMEs segment and greater capillarity in the distribution network.

**... expansion of the management software market were the main drivers for the sector**

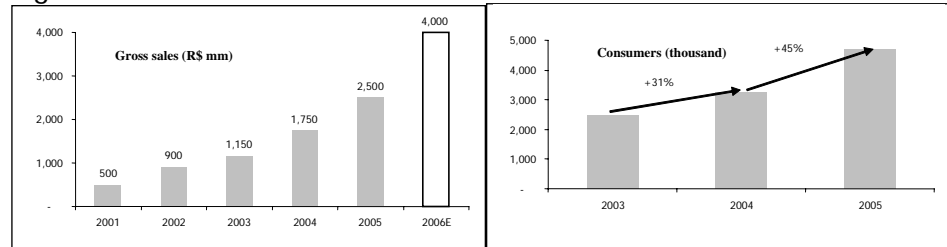
With the exception of UOL, whose performance was negatively affected by uncertainties regarding the potential of online advertising marketing, the other companies have proved to be good options and the upside of their shares surpassed the main indices in 2006.

## Outlook and Recommendations

**The IT will continue with a speedy growth in 2007, but...**

For 2007, the perspectives for the IT sector remain positive especially because the economic growth cycle is expected to continue, though moderately, and there is a potential demand for several of their markets. In the segment of internet and media, despite the growth considered as being low in the number of residential internet users, 22% in 2004 and 14% in 2005, the migration of the dial-up connections to broadband has been increasing and we estimate Brazil to close 2006 with 5.4 million high-speed accesses (+42% against 2005). In 2007, we project a 35% growth, to 7.3 million. The broadband expansion allows for the increase in the average time online and, as a consequence, greater use of online services.

Figure 2. e-Commerce in Brazil



Source: e-Bit

Online advertising will continue to grow over the next few years and its participation in the total advertising market in Brazil will increase, though gradually. In 2005, it accounted for 1.7% on the total gross sales. Up until the end of July/06, it increased a little, to 1.9%. In the USA, this percentage reaches 6% and the average of the main global markets is between 5% and 6%.

Recently, Yahoo warned that the fall in its online advertising sales would have a negative impact on its third quarter's results. The warning generated uncertainties regarding the stock performance of the main portals. After all, would this be an isolated and specific event limited only to Yahoo, one of the global leaders in online advertising or would the growth of the sector as a whole be threatened? We will closely monitor the online advertising performance in 2007, as this is the main critical factor for investing in UOL.

The integrated corporate management software's license sales in Latin America will continue to grow at rates higher than the global average, mainly due to the potential market and to the still low penetration among the small to mid-sized companies (PMEs).

It is a consensus among the most diverse experts in the management software segment that the expectation for annual growth is over 10% for the market between 2005 and 2010, being more noticeable in the small to mid-sized companies segment. Thus, if this does not occur, we will have to downgrade our projections for the companies in the segment: Totvs and Datasul.

**... its speed and magnitude might be overestimated**

**The internet market is still under formation and it is difficult to make forecasts**

Also, with the slowdown of the market's growth rate for large-sized companies, the increase in the competition is a foregone conclusion in the PMEs segment, mainly through the repositioning of the global players who work in Brazil, e.g. SAP.

Our projections for the companies in the internet, media and software segment are based on fast growth over the next few years. Thus, despite the high potential for profit, there are the risks inherent to the adoption of this type of assumption, mainly in a market that is still being formed and therefore it is difficult to make forecasts, as in the case of the internet.

Finally, due to the high number of companies in the Brazilian management software market – of which there are over 1,800 mainly concentrated in the PMEs segment, but only around 45 are present in the whole national territory - there is a high potential for consolidation in the industry.

For 2007, we recommend an exposure for the shares above the sector's participation on the Bovespa Index. In the segment, our main recommendation is UOL.

**Table 1. Summary of the Recommendations**

Company	Recom.	Current price		WACC	P/E (x)			EV/EBITDA (x)		
		R\$/share (*)	Target Price R\$/share		06E	07E	08E	06E	07E	08E
UOL PN	BUY	12.45	21.19	12.5%	17.2	13.8	11.6	9.0	9.1	7.8
IdeiasNet ON	OUTPERFORM	2.81	4.39	13.0%	-	-	-	18.4	15.3	9.8
Totvs ON	OUTPERFORM	44.50	55.47	12.7%	67.1	30.6	19.6	15.8	12.4	9.7
Datasul ON	OUTPERFORM	19.30	23.97	12.7%	20.7	11.5	10.1	9.3	8.2	7.5

(\*) price on 12/08/06

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# UOL

(UOLL4: R\$ 12.45)

Recommendation: BUY

Target price: R\$ 21.19

## The company

Created in April 1996, UOL is the main online media portal in Brazil, which is based on monthly page views, online time per month and in number of paying subscribers, besides holding the leadership in online advertising, with a market share of approximately 31%. Since 1999, it has also been working as a portal and access provider in Argentina.

The Company holds the largest content in the Portuguese language in the world and offers local access to the internet to over 3 thousand cities in Brazil and 14 thousand abroad. It has 1.5 million paying subscribers of access and content, and its portal is organized in 42 themes and over a thousand channels of news, information, entertainment and services, with approximately 7 million pages.

According to Ibope/NetRatings, on 09/30/06, UOL had an average of 8.9 million unique residential visitors per month in Brazil, which accounted for around 65% of this market's coverage.

## Main Operating Data – History and Projections – Consolidated (R\$ million)

	Net Revenue	Chg. %	Gross Profit	Chg. %	Oper. Profit	Chg. %	EBITDA	Chg. %	Publ. Profit	Chg. %	Adjusted Profit	Chg. %	ROE %
2005	444.0	8.8	229.3	6.7	55.1	110.3	79.2	55.5	266.3	-	262.8	-	441.8
2006E	469.6	5.8	255.1	11.3	93.1	68.9	124.6	57.3	86.8	-67.4	86.3	-67.1	18.0
2007E	507.2	8.0	274.8	7.7	96.6	3.7	123.8	-0.7	108.6	25.1	108.6	25.1	18.7
2008E	555.8	9.6	300.7	9.4	111.8	15.8	144.5	16.8	128.5	18.3	128.5	18.3	18.4
2009E	618.3	11.2	345.5	14.9	143.8	28.6	180.9	25.1	151.9	18.2	151.9	18.2	18.1

## Main Recommendation points

We updated UOL's projection and remain with a **BUY** recommendation for its shares. Through a DCF at a nominal rate of 12.5% p.a. and a 6.0% p.a. nominal growth in perpetuity, we reached a **target price of R\$ 21.19**. Based on the price of 12/08/06, the upside potential is 70%, and the Company's shares are being traded at 2007E and 2008E EV/EBITDA multiples of 9.1x and 7.8x, respectively.

We estimate increases of 9%, 7% and 5% in the **total number of subscribers** of access and content for 2007, 2008 and 2009, respectively. The number of dial-up clients will continue to gradually decrease. However, this fall will be more than compensated by the increase in the broadband subscribers.

We bet on the improvement of **online advertising as the great catalyst for UOL's growth** for the next few years. UOL's main objective will be to increase the participation of online advertising in its gross sales, from **12% to something around 50% over the next few years**. This segment has significantly higher operating margins (around 70%) than those obtained with the subscriptions of content and services (20% on average). As a market leader in audience, UOL will absorb a good part of the expected growth in online advertising.

In our evaluation model, **we assumed that the Company will reach the above mentioned objective in 2015**. Gains of scale in a more profitable segment will stimulate the Company's operating margins over the next few years. Thus, we project an EBITDA margin of 24%, 26% and 29% for 2007, 2008 and 2009, respectively.

The **main risks** to the investment are the following: (i) an eventual significant loss in audience, due to the increase in the competition; (ii) the reversal of expectations regarding the growth in online advertising; and (iii) changes to the legislation which free the ADSL connection user to pay for an access provider.

## DCF Assessment (R\$ million)

Present value of the cash flows	698.5
Present value of the perpetuity	1,472.3
<b>Enterprise value</b>	<b>2,170.8</b>
(-) Net Debt on 09/30/2006	(375.2)
<b>(=) Equity Value</b>	<b>2,546.0</b>
Number of shares (mm)	120.1
<b>Target Price (R\$/share)</b>	<b>21.19</b>

## Sensitivity analysis of the target price

Discount Rate		Perpetuity		
		7.0%	6.0%	5.0%
	10.5%	36.33	30.39	26.60
	11.5%	28.45	24.95	22.52
	12.5%	23.43	<b>21.19</b>	19.55
	13.5%	19.97	18.45	17.29
	14.5%	17.45	16.37	15.52

### Main Stock Data

Current Price (12/08/06)	R\$ 12.45
Target Price (Dec/07)	R\$ 21.19
Number of shares (million)	120
% Common Shares (ON)	50
Free Float (%)	23.5
Maximum and minimum (12m)	R\$ 24.00 / R\$ 10.75
Daily Average Volume 21 (R\$ thousand)	3,298
Performance versus Ibov (%)	-11.4 (1m); -29.9 (3m); -63.1 (12m)
Performance versus IBX-50 (%)	-12.1 (1m); -30.0 (3m); -63.6 (12m)
Beta (x)	0.68
Volatility (%)	57
Market Capital (R\$ million)	1,495.6
Enterprise Value (R\$ million)	1,120.4

### Performance of the Share vs IBOV and IBX-50



Main Assumptions	2005	2006E	2007E	2008E	2009E
Number of Subscribers (thousand)	1,453	1,580	1,725	1,854	1,954
- broadband (thousand)	586	810	1,037	1,253	1,439
- Dial-up connection (thousand)	867	771	688	601	515
Advertising/Total Revenues	8%	11%	14%	18%	22%

Summarized Profits and Losses (R\$ million)	2005	2006E	2007E	2008E	2009E
Net Revenue	444.0	469.6	507.2	555.8	618.3
EBITDA	79.2	124.6	123.8	144.5	180.9
(-) Financial Expenses	27.2	28.9	43.8	54.1	66.7
(=) Net income	266.3	86.8	108.6	128.5	151.9

Summarized cash flow (R\$ million)	2005	2006E	2007E	2008E	2009E
EBITDA	79.2	124.6	123.8	144.5	180.9
(+/-) Changes in working capital needs	(11.7)	(12.8)	(3.8)	(0.1)	(4.6)
(+/-) Net Financial Revenues (Expenses)	27.2	28.9	43.8	54.1	66.7
(+/-) Loans Funding (Amortization)	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)
(-) Investments	13.2	21.7	45.4	48.5	34.5
(-) Income tax and Social Contribution	(175.1)	36.3	29.5	34.9	55.2
(=) Free Cash Flow for the Shareholder	256.0	82.7	88.9	115.2	153.2

Summarized Balance Sheet (R\$ million)	2005	2006E	2007E	2008E	2009E
Cash and equivalent	334.3	414.0	511.9	636.7	807.0
Accounts Receivable	47.5	55.8	62.2	67.5	76.2
Inventories	0.0	0.0	0.0	0.0	0.0
Permanent Assets	61.7	67.3	85.7	101.6	99.3
<b>Total Assets</b>	<b>687.4</b>	<b>781.4</b>	<b>904.2</b>	<b>1,050.2</b>	<b>1,226.8</b>
Suppliers	52.6	48.1	50.8	55.9	60.1
Total Debt	0.2	0.1	0.1	0.1	0.1
<b>Total Liabilities</b>	<b>687.4</b>	<b>781.4</b>	<b>904.2</b>	<b>1,050.2</b>	<b>1,226.8</b>
<b>Shareholders' Equity</b>	<b>438.1</b>	<b>524.9</b>	<b>633.5</b>	<b>761.9</b>	<b>913.9</b>

Market Indicators	2005	2006E	2007E	2008E	2009E
P/E (x)	5.6	17.2	13.8	11.6	9.8
EV/EBITDA (x)	14.1	9.0	9.1	7.8	6.2
P/Free Cash Flow (x)	5.8	18.1	16.8	13.0	9.8
Pay Out (%)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Operating Indicators	2005	2006E	2007E	2008E	2009E
Gross margin (%)	51.6	54.3	54.2	54.1	55.9
EBITDA margin (%)	17.8	26.5	24.4	26.0	29.2
ROE (%)	441.8	18.0	18.7	18.4	18.1

Financial Indicators	2005	2006E	2007E	2008E	2009E
Net debt/shareholders' equity (%)	-76.3	-78.9	-80.8	-83.6	-88.3
EBITDA/Financial Expenses (x)	0.7	3.6	6.2	14.9	24.0
Investment/depreciation (x)	0.9	0.6	1.2	1.8	1.6

# IDEIASNET

(IDNT3: R\$ 2.81)

Recommendation: **OUTPERFORM**

Target price: **R\$ 4.39**

## The company

IdeiasNet is a holding of participations in IT companies, positioned as a vehicle for long-term investment in IT in Brazil. The Company has the goal of investing in specific IT segments, mainly in e-Commerce, infrastructure and wireless, adding value to the organizations and selling interest in them.

Established at the end of 1999, the Company completed its Initial Public Offering (IPO), in June of that year, with 3 million shares and gathered R\$ 40.6 million (R\$ 33 million from the market plus R\$ 7.6 million invested by a BNDES fund).

Currently, IdeiasNet has holdings in 16 companies. Recently, the Company decided to reorganize its structure in order to separate its work in venture capital and in private equity – companies at a more advanced stage of the business, in a consolidation phase.

## Main Operating Data – History and Projections – Combined Portfolio (R\$ million)

	Net Revenue	Chg. %	Gross Profit	Chg. %	EBITDA	Chg. %	EBIT	Chg. %
2005	238.0	-	44.3	-	6.5	-	5.4	-
2006E	302.3	27.1	47.8	7.9	11.3	73.6	10.5	95.2
2007E	341.0	12.8	61.4	28.3	13.6	20.8	12.2	15.7
2008E	424.7	24.5	80.7	31.5	21.2	55.7	19.4	59.3
2009E	494.5	16.4	94.0	16.4	29.7	39.7	27.7	42.9

## Main Recommendation points

We updated the projections of IdeiasNet and maintain our **OUTPERFORM** recommendation for its shares. Through a DCF at a nominal rate of 13.0% p.a. and a 7% p.a. nominal growth in perpetuity, we reached a **target price of R\$ 4.39**. Based on the price of 12/08/06, the upside potential is 56%, and the Company's shares are being traded at 2007E and 2008E EV/EBITDA multiples of 15.5x and 9.9x, respectively.

IdeiasNet's **assessment model** consists of the **proportional present value of the companies which comprise its portfolio** and disregards any acquisition or divestiture, payment or receipt of dividends. Also, we deducted the operating costs projected for the holding from the estimated cash flow.

We estimate that the net revenue will grow by 13%, 25% and 16% in 2007, 2008 and 2009, respectively, as we expect a significant **expansion in sales of IT equipment, an increase in the penetration of sales via e-commerce and a growing demand for wireless solutions and telecommunications infrastructure.**

Despite the significant increases in the sales for the next few years, we estimate **small increments in the operating margins**, as there is little room for gains of scale and of efficiency in the business model of the companies which form IdeiasNet's portfolio, especially at Officer (responsible for around 85% of the proportional gross sales), which works in a very competitive market, still very exposed to smuggling.

Our estimate **considers that the companies** who make up IdeiasNet's portfolio **will continue to grow at a faster pace** over the next few years. However, as we pointed out, IdeiasNet's business model is very sensitive to the economy's performance, especially regarding the income of the population.

## DCF Assessment (R\$ million)

Present value of the cash flows	103.6
Present value of the perpetuity	221.8
<b>Enterprise value</b>	<b>325.4</b>
(-) Net Debt on 09/30/2006	(3.9)
<b>(=) Equity Value</b>	<b>329.3</b>
Number of shares (mm)	75.5
<b>Target Price (R\$/share)</b>	<b>4.39</b>

## Sensitivity analysis of the target price

		Perpetuity		
		8%	7%	6%
Discount Rate	11.0%	8.64	6.89	5.84
	12.0%	6.35	5.39	4.74
	13.0%	4.98	<b>4.39</b>	3.96
	14.0%	4.06	3.67	3.38
	15.0%	3.41	3.14	2.93

**Main Stock Data**

Current Price (12/08/06)	R\$ 2.81
Target Price (Dec/07)	R\$ 4.39
Number of shares (million)	76
% Common Shares (ON)	100
Free Float (%)	45.7
Maximum and minimum (12m)	R\$ 3.90 / R\$ 2.18
Daily Average Volume 21 (R\$ thousand)	543
Performance versus Ibov (%)	-1.8 (1m); -26.1 (3m); -13.7 (12m)
Performance versus IBX-50 (%)	-2.5 (1m); -26.2 (3m); -14.2 (12m)
Beta (x)	0.54
Volatility (%)	48
Market Capital (R\$ million)	2120.0
Enterprise Value (R\$ million)	208.1

**Performance of the Share vs IBOV and IBX-50**



**Selected Data – History and Projections (R\$ million)**

	2005	2006E	2007E	2008E	2009E
<b>Gross revenues</b>	<b>293.3</b>	<b>385.5</b>	<b>433.8</b>	<b>540.3</b>	<b>629.0</b>
- e-commerce	269.9	357.4	382.0	468.5	541.2
- Wireless	4.6	4.8	11.2	17.2	22.9
- Infrastructure	10.9	20.6	38.3	52.2	62.2
- Others	7.9	2.7	2.2	2.4	2.7
(-) Taxes	55.3	83.2	92.8	115.6	134.6
<b>Net Revenue</b>	<b>238.0</b>	<b>302.3</b>	<b>341.0</b>	<b>424.7</b>	<b>494.5</b>
Growth	-	27.1%	12.8%	24.5%	16.4%
COGS	193.6	254.5	279.6	344.0	400.5
<b>Gross profit</b>	<b>44.3</b>	<b>47.8</b>	<b>61.4</b>	<b>80.7</b>	<b>94.0</b>
Gross Margin	18.6%	15.8%	18.0%	19.0%	19.0%
Operating Expenses	37.8	36.6	47.7	59.5	64.3
<b>EBITDA</b>	<b>6.5</b>	<b>11.3</b>	<b>13.6</b>	<b>21.2</b>	<b>29.7</b>
EBITDA margin	2.7%	3.7%	4.0%	5.0%	6.0%
(-) Depreciation	1.1	0.8	1.5	1.9	2.0
<b>EBIT</b>	<b>5.4</b>	<b>10.5</b>	<b>12.2</b>	<b>19.4</b>	<b>27.7</b>

**Operating and Market Indicators**

	2005	2006E	2007E	2008E	2009E
EV/EBITDA (x)	32.6	18.4	15.3	9.8	7.1
Gross margin (%)	18.6	15.8	18.0	19.0	19.0
EBITDA margin (%)	2.7	3.7	4.0	5.0	6.0

# TOTVS

(TOTS3: R\$ 44.50)

Recommendation: **OUTPERFORM**

Target price: R\$ 55.47

## The company

Totvs, previously called Microsiga, was established 23 years ago and develops and sells integrated corporate management software (ERP), and the supply of related services, e.g., CRM, BI and SCM, besides specific modules, known as "vertical" modules, that supply additional capacities according to the client's activity. Also, the Company offers management advisory, training, support services and outsourcing.

Totvs is the absolute leader in the Brazilian market of integrated corporate management software for small to mid-sized companies, with a participation estimated at 51.5% on 06/30/06. It is also the leader in the same segment in Latin America, with a 24.1% market share.

In March 2006, Totvs' shares began to be traded on the Stock Exchange. The operation's total net value was R\$ 431 million, of which R\$ 267 million entered Totvs. The resources were then destined to the acquisition of RM Sistemas (R\$ 206 million) and to strengthen the Company's cash position.

## Main Operating Data – History and Projections – Consolidated (R\$ million)

	Net Revenue	Chg. %	Gross Profit	Chg. %	Oper. Profit	Chg. %	EBITDA	Chg. %	Publ. Profit	Chg. %	Adjusted Profit	Chg. %	ROE %
2005	311.8	113.4	214.0	118.5	43.8	173.8	51.9	186.7	31.6	222.4	31.3	219.4	28.4
2006E	378.2	21.3	257.0	20.1	4.2	-90.3	69.2	33.5	17.7	-44.1	17.8	-43.2	5.6
2007E	458.2	21.1	309.0	20.2	35.6	-	87.9	26.9	38.8	119.2	38.8	118.1	10.2
2008E	555.7	21.3	357.1	15.6	59.3	66.8	113.2	28.8	60.7	56.5	60.7	56.5	14.8
2009E	635.1	14.3	398.4	11.6	80.1	35.0	135.8	20.0	81.2	33.7	81.2	33.7	17.9

## Main Recommendation points

We updated Totvs' estimate and we remain with our **OUTPERFORM** recommendation. Through a DCF at a nominal rate of 12.7% p.a. and a 5% p.a. nominal growth in perpetuity, we reached a **target price of R\$ 55.47**. Based on the price of 12/08/06, the upside potential is 25%, and the Company's shares are being traded at 2007E and 2008E EV/EBITDA multiples of 12.4x and 9.7x, respectively.

According to information provided by Totvs, **each R\$ 1.00 obtained in the sale of licenses (non-recurring) generates R\$ 2.00 more in services (partially recurring) and R\$ 0.34 per month from maintenance (recurring) for eight years on average.** Thus, the sale of licenses generates, over the following years, an ongoing and recurring flow of revenue. The maintenance contracts are annually readjusted by the IGPM index. We have used these premises in our projections. In our model, **we have considered only the organic growth.**

We project a compound annual growth rate (CAGR) of 16.0% between 2005 and 2010 for the revenues from the **sale of licenses**, as the segment of small to mid-sized companies, which is responsible for around 80% of the Company's revenue, will grow above the average due to the still low penetration. For the **revenue from services**, we consider the multiplier factor described above, weighted by the estimated number of sales made by the direct channel, of 55%. We have held the same proportion in all the projected flows. We estimate **maintenance revenues** of R\$ 173 million, R\$ 208 million and R\$ 257 million for 2006, 2007 and 2008, respectively.

The **main risks** are the following: (i) the sector is **sensitive to the economic activity level** and, therefore, the business expansion may be harmed by a slowdown in the economy, especially in the small to mid-sized companies segment, as they are more susceptible to fluctuations; and (ii) **the potential market of integrated corporate management software might be overstated**, both in its size and in the pace of its growth.

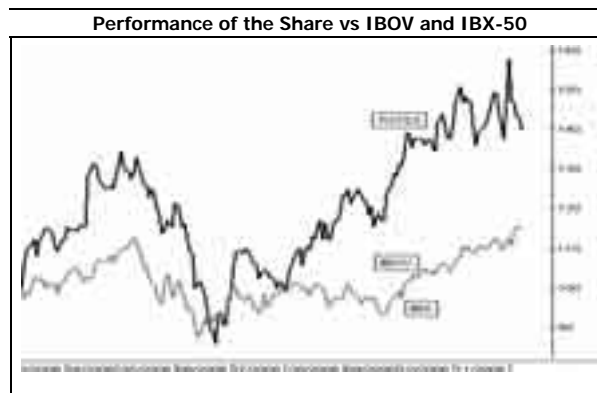
## DCF Assessment (R\$ million)

Present value of the cash flows	540.4
Present value of the perpetuity	844.9
<b>Enterprise value</b>	<b>1,385.3</b>
(-) Net Debt on 09/30/2006	(95.1)
<b>(=) Equity Value</b>	<b>1,480.4</b>
Number of shares (mm)	26.7
<b>Target Price (R\$/share)</b>	<b>55.47</b>

## Sensitivity analysis of the target price

		Perpetuity		
		6.0%	5.0%	4.0%
Discount Rate	10.7%	86.93	76.18	68.63
	11.7%	71.22	64.26	59.09
	12.7%	60.24	<b>55.47</b>	51.80
	13.7%	52.14	48.74	46.05
	14.7%	45.93	43.43	41.41

Main Stock Data	
Current Price (12/08/06)	R\$ 44.50
Target Price (Dec/07)	R\$ 55.47
Number of shares (million)	27
% Common Shares (ON)	100
Free Float (%)	56.9
Maximum and minimum (12m)	R\$ 50.49 / R\$ 27.50
Daily Average Volume 21 (R\$ thousand)	7,709
Performance versus Ibov (%)	-9.3 (1m); -6.3 (3m); 6.8 (12m)
Performance versus IBX-50 (%)	-10.0 (1m); -6.4 (3m); 6.3 (12m)
Beta (x)	0.86
Volatility (%)	43
Market Capital (R\$ million)	1,187.6
Enterprise Value (R\$ million)	1,092.6



Main Assumptions (R\$ million)	2005	2006E	2007E	2008E	2009E
Licenses	88.7	106.1	122.3	146.1	166.6
Services	111.7	140.3	177.6	212.1	241.9
Hold	147.4	173.2	208.1	257.3	292.1
Others	-	4.4	6.4	8.4	12.4

Summarized Profits and Losses (R\$ million)	2005	2006E	2007E	2008E	2009E
Net Revenue	311.8	378.2	458.2	555.7	635.1
EBITDA	51.9	69.2	87.9	113.2	135.8
(-) Financial Expenses	(1.1)	(8.1)	(11.6)	(14.5)	(18.5)
(=) Net income	31.6	17.7	38.8	60.7	81.2

Summarized cash flow (R\$ million)	2005	2006E	2007E	2008E	2009E
EBITDA	51.9	69.2	87.9	113.2	135.8
(+/-) Changes in working capital needs	(11.5)	(24.8)	(15.7)	(16.5)	(9.4)
(+/-) Net Financial Revenues (Expenses)	1.1	8.1	11.6	14.5	18.5
(+/-) Loans Funding (Amortization)	(0.0)	(0.1)	(0.1)	(0.5)	(1.3)
(-) Investments	8.7	8.9	6.9	8.4	10.1
(-) Income tax and Social Contribution	14.0	(5.7)	8.3	12.9	17.3
(=) Free Cash Flow for the Shareholder	18.8	49.3	68.5	89.3	116.2

Summarized Balance Sheet (R\$ million)	2005	2006E	2007E	2008E	2009E
Cash and equivalent	22.1	101.2	133.5	179.6	246.9
Accounts Receivable	47.0	75.3	92.5	111.9	122.8
Inventories	0.0	0.0	0.0	0.0	0.0
Permanent Assets	34.8	214.3	209.1	203.8	198.4
<b>Total Assets</b>	<b>123.2</b>	<b>438.4</b>	<b>482.6</b>	<b>542.8</b>	<b>615.6</b>
Suppliers	3.1	6.7	8.2	11.0	12.5
Total Debt	0.2	0.4	1.5	8.3	18.8
<b>Total Liabilities</b>	<b>123.2</b>	<b>438.4</b>	<b>482.6</b>	<b>542.8</b>	<b>615.6</b>
<b>Shareholders' Equity</b>	<b>76.2</b>	<b>368.4</b>	<b>391.7</b>	<b>428.1</b>	<b>476.8</b>

Market Indicators	2005	2006E	2007E	2008E	2009E
P/E (x)	37.6	67.1	30.6	19.6	14.6
EV/EBITDA (x)	21.1	15.8	12.4	9.7	8.0
P/Free Cash Flow (x)	63.2	24.1	17.3	13.3	10.2
Pay Out (%)	25.0	40.0	40.0	40.0	40.0
Dividend Yield (%)	0.3	0.4	1.3	2.0	2.7

Operating Indicators	2005	2006E	2007E	2008E	2009E
Gross margin (%)	68.6	67.9	67.4	64.3	62.7
EBITDA margin (%)	16.6	18.3	19.2	20.4	21.4
ROE (%)	28.4	5.6	10.2	14.8	17.9

Financial Indicators	2005	2006E	2007E	2008E	2009E
Net debt/shareholders' equity (%)	-28.7	-27.4	-33.7	-40.0	-47.8
EBITDA/Financial Expenses (x)	15.3	6.4	7.2	70.8	77.4
Investment/depreciation (x)	2.7	1.4	1.5	1.5	1.0

# DATASUL

(DSUL3: R\$ 19.30)

Recommendation: **OUTPERFORM**

Target price: **R\$ 23.97**

## The company

Established in 1978, Datasul is the pioneer in the development and sales of integrated software solutions, with 28 years in the Brazilian market. The main activities of the Company are development, licensing and implementation, integration, maintenance, customization, organization of processes and advisory services in integrated corporate relationship and management solutions.

The business model is comprised of Datasul and its subsidiaries, Development Franchises (FDES) and Distribution Franchises (FDIS), which together form the Company's network. In June 2006, Datasul went public, with an Initial Public Offering (IPO).

Datasul has a strong position in the sales of integrated corporate management software to mid to large sized companies in Brazil, with a market share estimated at 16.7% at the end of 2005. Considering the total market, Datasul held a market share of approximately 15.4%.

## Main Operating Data – History and Projections – Consolidated (R\$ million)

	Net Revenue	Chg. %	Gross Profit	Chg. %	Oper. Profit	Chg. %	EBITDA	Chg. %	Publ. Profit	Chg. %	Adjusted Profit	Chg. %	ROE %
2005	154.4	24.1	100.2	27.6	27.4	7.0	35.0	17.8	19.4	-9.3	19.4	-9.3	60.8
2006E	168.0	8.8	103.9	3.7	20.9	-23.5	43.0	23.1	27.0	39.5	27.0	39.4	22.5
2007E	196.4	16.9	119.7	15.2	40.9	95.6	48.9	13.6	48.7	80.0	48.7	80.0	22.1
2008E	219.9	12.0	130.9	9.4	45.1	10.1	53.4	9.2	55.3	13.7	55.3	13.7	21.4
2009E	244.0	11.0	146.6	12.0	53.6	18.9	60.1	12.6	65.9	19.0	65.9	19.0	21.6

## Main Recommendation points

We updated Datasul's estimate and remain with our **OUTPERFORM** recommendation for its shares. Through a DCF at a nominal rate of 12.7% p.a. and a 5% p.a. nominal growth in perpetuity, we reached a **target price of R\$ 23.97**. Based on the price of 12/08/06, the upside potential is 24%, and the Company's shares are being traded at 2007E and 2008E EV/EBITDA multiples of 8.2x and 7.5x, respectively.

According to information provided by Datasul, **each R\$ 1.00 obtained from the sale of licenses (non-recurring) generates R\$ 2.00 more in services (partially recurring) and R\$ 0.30 per month from maintenance (recurring)**. Therefore, the sale of licenses generates a continuing and recurring flow of revenue over the following years. The maintenance contracts are readjusted annually by the IGPM index. We have used these premises in our projections. In our model, **we have considered only the organic growth**.

For the next few years, we project a compound annual growth rate (CAGR) of 11.1% between 2005 and 2010 for the revenue from the **sales of licenses**, in comparison to estimates between 10% and 13% for the total ERP market in Latin America. For the **revenue from services**, we considered the assumptions above plus the 10% percentage charged as a franchise fee. We have maintained this proportion throughout the years of the flow. We estimate a **gross maintenance revenue** of R\$ 125.5 million, R\$ 147.4 million and R\$ 165.1 million for 2006, 2007 and 2008, respectively.

The **main risks** are the following: (i) the sector is **sensitive to the economic activity level** and, therefore, the business expansion may be harmed by a slowdown in the economy, especially in the small to mid-sized companies segment, as they are more susceptible to fluctuations; and (ii) **the potential market of integrated corporate management software might be overstated**, both in its size and in the pace of its growth.

## DCF Assessment (R\$ million)

Present value of the cash flows	221.9
Present value of the perpetuity	315.4
<b>Enterprise value</b>	<b>537.3</b>
(-) Net Debt on 09/30/2006	(157.3)
<b>(=) Equity Value</b>	<b>694.6</b>
Number of shares (mm)	29.0
<b>Target Price (R\$/share)</b>	<b>23.97</b>

## Sensitivity analysis of the target price

Discount Rate		Perpetuity		
		6.0%	5.0%	4.0%
10.7%	34.73	31.05	28.48	
11.7%	29.35	26.97	25.22	
12.7%	25.59	<b>23.97</b>	22.73	
13.7%	22.82	21.67	20.76	
14.7%	20.70	19.86	19.17	

### Main Stock Data

Current Price (12/08/06)	R\$ 19.30
Target Price (Dec/07)	R\$ 23.97
Number of shares (million)	29
% Common Shares (ON)	100
Free Float (%)	66.1
Maximum and minimum (12m)	R\$ 20.00 / R\$ 13.00
Daily Average Volume 21 (R\$ thousand)	948
Performance versus Ibov (%)	-3.0 (1m); 11.9 (3m); -25.1 (12m)
Performance versus IBX-50 (%)	-3.7 (1m); 11.8 (3m); -25.6 (12m)
Beta (x)	0.12
Volatility (%)	40
Market Capital (R\$ million)	559.2
Enterprise Value (R\$ million)	402.0

### Performance of the Share vs IBOV and IBX-50



Main Assumptions (R\$ million)	2005	2006E	2007E	2008E	2009E
License of Use	37.2	36.3	42.0	48.3	56.4
Maintenance services	119.8	125.5	147.4	165.1	181.4
Franchise Fee	6.5	8.9	8.4	9.7	11.3
Other services	12.2	16.2	19.6	20.3	21.0

Summarized Profits and Losses (R\$ million)	2005	2006E	2007E	2008E	2009E
Net Revenue	154.4	168.0	196.4	219.9	244.0
EBITDA	35.0	43.0	48.9	53.4	60.1
(-) Financial Expenses	0.9	(10.6)	(24.0)	(28.8)	(34.3)
(=) Net income	19.4	27.0	48.7	55.3	65.9

Summarized cash flow (R\$ million)	2005	2006E	2007E	2008E	2009E
EBITDA	35.0	43.0	48.9	53.4	60.1
(+/-) Changes in working capital needs	(10.2)	(0.3)	(1.9)	(2.3)	(3.6)
(+/-) Net Financial Revenues (Expenses)	0.9	10.6	24.0	28.8	34.3
(+/-) Loans Funding (Amortization)	(0.6)	(0.2)	(0.0)	(0.3)	(0.8)
(-) Investments	4.9	2.3	2.5	2.9	3.4
(-) Income tax and Social Contribution	8.8	4.8	16.2	18.5	22.0
(=) Free Cash Flow for the Shareholder	11.3	46.1	52.2	58.2	64.6

Summarized Balance Sheet (R\$ million)	2005	2006E	2007E	2008E	2009E
Cash and equivalent	8.2	172.4	224.2	277.2	337.2
Accounts Receivable	29.6	29.5	33.5	36.7	41.4
Inventories	0.0	0.0	0.0	0.0	0.0
Permanent Assets	28.9	20.7	15.3	9.9	6.8
<b>Total Assets</b>	<b>86.0</b>	<b>236.9</b>	<b>287.3</b>	<b>338.1</b>	<b>399.7</b>
Suppliers	8.5	8.0	10.1	11.0	12.1
Total Debt	9.6	0.2	0.2	5.3	11.6
<b>Total Liabilities</b>	<b>86.0</b>	<b>236.9</b>	<b>287.3</b>	<b>338.1</b>	<b>399.7</b>
<b>Shareholders' Equity</b>	<b>38.8</b>	<b>201.8</b>	<b>238.3</b>	<b>279.8</b>	<b>329.3</b>

Market Indicators	2005	2006E	2007E	2008E	2009E
P/E (x)	28.8	20.7	11.5	10.1	8.5
EV/EBITDA (x)	11.1	9.3	8.2	7.5	6.7
P/Free Cash Flow (x)	49.3	12.1	10.7	9.6	8.7
Pay Out (%)	-	-	25.0	25.0	26.0
Dividend Yield (%)	-	1.2	2.2	2.5	2.9

Operating Indicators	2005	2006E	2007E	2008E	2009E
Gross margin (%)	64.9	61.8	60.9	59.5	60.1
EBITDA margin (%)	22.6	25.6	24.9	24.3	24.6
ROE (%)	60.8	22.5	22.1	21.4	21.6

Financial Indicators	2005	2006E	2007E	2008E	2009E
Net debt/shareholders' equity (%)	3.7	-85.3	-94.0	-97.2	-98.9
EBITDA/Financial Expenses (x)	7.6	7.7	11.4	76.9	56.7
Investment/depreciation (x)	0.9	2.8	1.0	1.0	1.0

**Assessment Method Used to Calculate the Target Price for UOL's Shares:** discounted cash flow at an average rate of 12.5% p.a. and a 6.0% p.a. growth in perpetuity.

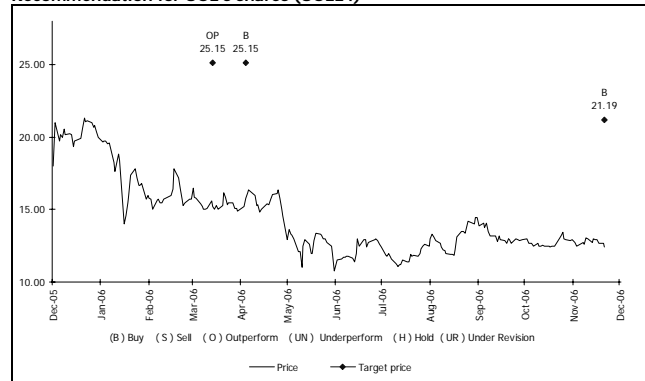
**Risk Assessment:** the Company's operating performance depends on the growth of the global and domestic economy. Regulatory Risk.

Monitoring Universo Online's shares (UOLL4) by the current investment analyst started on 03/30/2006.

**Recommendations History:**

Date	Recommendation	Target Price (R\$/share)
03/30/06	OUTPERFORM	25.15
04/18/06	BUY	25.15
12/08/06	BUY	21.19

**Share Price, Target Price and Performance of Fator Corretora's Recommendation for UOL's shares (UOLL4)**



**Assessment Method Used to Calculate the Target Price for IdeiasNet's Shares:** discounted cash flow at an average rate of 13.0% p.a. and a 7.0% p.a. growth in perpetuity.

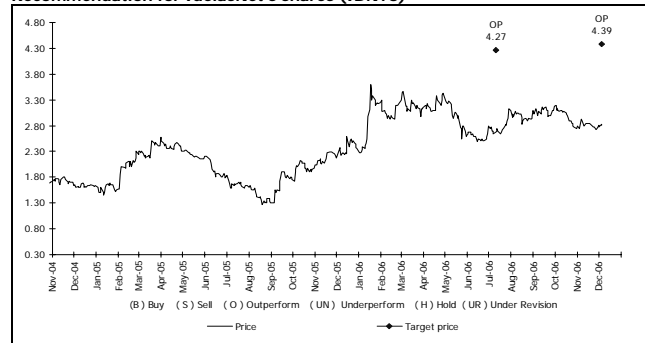
**Risk Assessment:** IdeiasNet's business model is very sensitive to the economy's performance, especially to what refers to the income of the population.

Monitoring IdeiasNet's shares by the current investment analyst started on 07/12/2006.

**Recommendations History:**

Date	Recommendation	Target Price (R\$/share)
7/12/06	OUTPERFORM	4.27
12/8/06	OUTPERFORM	4.39

**Share Price, Target Price and Performance of Fator Corretora's Recommendation for IdeiasNet's shares (IDNT3)**



**Assessment Method Used to Calculate the Target Price for Totvs' Shares:** discounted cash flow at an average rate of 12.7% p.a. and a 5.0% p.a. growth in perpetuity.

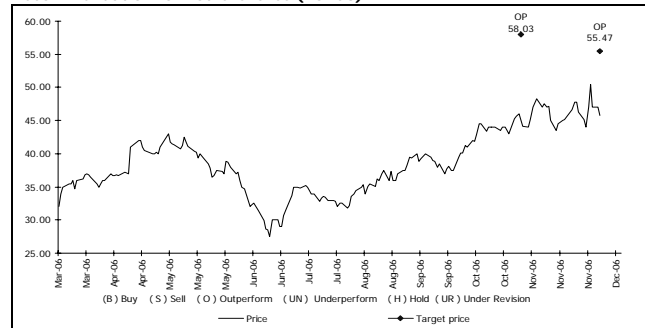
**Risk Assessment:** the Company's operating performance depends on the growth of the global and domestic economy.

Monitoring Totvs' shares (TOTS3) by the current investment analyst started on 10/16/2006.

**Recommendations History:**

Date	Recommendation	Target Price (R\$/share)
10/16/06	OUTPERFORM	58.03
12/08/06	OUTPERFORM	55.47

**Share Price, Target Price and Performance of Fator Corretora's Recommendation for Totvs' shares (TOTS3)**



**Assessment Method Used to Calculate the Target Price for Datasul's Shares:** discounted cash flow at an average rate of 12.7% p.a. and a 5.0% p.a. growth in perpetuity.

**Risk Assessment:** the Company's operating performance depends on the growth of the global and domestic economy.

The current investment analyst began covering Datasul's shares (DSUL3) on 10/16/06.

**Recommendations History:**

Date	Recommendation	Target Price (R\$/000)
10/16/06	OUTPERFORM	23.29
12/8/06	OUTPERFORM	23.97

**Share Price, Target Price and Performance of Fator Corretora's Recommendation for Datasul's shares (DSUL3)**

