

Local Conference Call

WDC

2nd Quarter 2023

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Simone Oyamada – RI Manager

Good morning. Welcome to the WDC outcome presentation. I'm Simone Oyamada, the manager. We have Giovanni, the manager of FP&A and Vanderlei Rigatieri, the CEO.

I'm going to start with the legal warning. Now with the disclosure. These expectations depend on the conditions of the market, the international market, therefore they are subjected to changes with no previous explanations or variations here are calculated based on the numbers we know as rounding up the present report of results include all the accountable dates and non-accountable and now we have Vanderlei with the word.

Vanderlei Rigatieri – CEO

Good morning everybody. First of all, I would like to apologize for the delay.

So, here we are once again for another demonstrations of our outcome in 2Q3. We have some very good things as highlights. We are back to the net revenue of 3.5 million this quarter, this is a result of 10 million above the same quarter in 2020. We had a EBITDA of 68.6 million, which is about 20% above 1Q, and even though we might not have had the top line volume as revenue, our EBITDA is very stable, is very healthy.

So, we were able to do a reduction here of our... according to the same period of last year, to compensate all the pressure that we felt in terms of market for last year, so this also has grown [unintelligible – 0:03:17]. In the telecom market we were able to increase our market share in the uses of fiber. In this 1H we added 1.7 million new [unintelligible – 0:03:39] for fiber in Brazil, and from this, 0.6 million were sold by WDC.

Within our strategy of TaaS, for our projects as a service, we were able to increase our contracted future revenue in the amount of 35.3% versus the last quarter, accumulating 865 million.

As far as total sales, as you can see on this chart, we had a reduction in BRL in 1Q23 to 2Q for 250 million, and in the accumulated we have 607 million versus 666 million from last year. But I would like to say that since 2021 all segments in which

we participate had suffered a drop on sales prices in USD, be it on Telecom, just for you have an idea, all the fiber kits of cables had a reduction of over 25%, this in USD for many different reasons, the modems that go on the house of the person, so the volume dropped to 15%. Solar, we don't even say. For the last few years, the international adjustment was about 37%.

So, when we see the total sales, we do not see a very strong growth, but a base for EBITDA, EBITDA are very well, and we continue advancing. And we've been also decreasing our expenses.

As far as net revenue, we see the growth here from the last five years, and in 2Q we see a drop of 10% of the net revenue. In the accumulated, a drop of 11%, but all according to the scenario that I just mentioned.

And as far as the TaaS development, we had an amount of new contracts in this of 298 new contracts, which is a drop. The average ticket also has decreased, all these, close to an improvement on image, but it's still 2Q the development of TaaS was a bit below what was expected.

The VGV of locations was about 79 million, CapEx of course decreased to 35 million. The mark, which is the relation of locations and CapEx, had an advance of 2.27. It is still stable, the number of months of contract is lower a little bit, it dropped to 45 the average of the location contracts.

So for the future contract revenues, we've seen an increase. It's a composed growth of 46.6%, which have been falling up for the last five years. This quarter also had a [unintelligible – 0:07:55] growth, and in the bottom here we show the aging of these contracts, well, contracts with future revenues and how they become a revenue in our balance. So we have over 156 million to become revenue. These are like EBITDA, because you just get the PIS and COFINS, and all the rest is EBITDA, because we already had the CapEx, we paid all the costs involved in the sales, so, from there on it is net revenue, just with the PIS and COFINS that might change a bit.

As far as Telecom, this increase of market share has been very significant because we were able to penetrate into more clients, especially smaller providers that has a space for growth. We feel that the ISPs and the medium, they still have some difficulty to increase their organic net adds because there is a big fight in the market. We like to say that everybody wants to rob the other's clients and we've seen that we started a movement of consolidating the big ISPs before they would have a small ISPs and now they are thinking in terms of how to get together, to have a composition to be even bigger.

So, in our case, we cannot depend only on new clients, so we've been making new actions to have new products. So now we have 31 new Data Centers for these segments. The offer of Data Centers has increased and we believe this will be a

constant. We are increasing our capillarity as well to not be dependent or concentrated in a number of ISPs. We have over 2000 ISPs and we are increasing on these numbers, and we have also the offer of new services for the ISPs.

And besides, we also got into a model of private networks for 5G. So, in the end of this month we'll inaugurate the first 5G network that we sold together with Nokia in the Itaipu Technological Park. So, this is the beginning of an offer of solutions for Telecom market.

For the Enterprise, what we see is that we also have been suffering a deflation of prices. We have LED panels falling prices according to the USD, which is good for the market, this improves penetration of those technologies in the market. All the cameras and all the electronic safety system are also suffering the same effect of the international market that are able to produce in a more efficient way, but it's important that we are keeping our growth margin, which is above 33%.

Audio and video professional market has grown a lot, up to 32% point 8 in this semester, and this has to do with digitalization of what we see in construction, in supermarket, is the visual part, especially the internal, they are changing all the paper for the ad to led panel. So, this has changed on retail. There is a big change, the change from a static panel to digital panels, and this will increase sales of this kind of product. So we can see what is happening, I don't know if you're following up in Times Square, that you can buy 50 seconds of fame and get your video for \$190.00 on those mega panels. I don't doubt that soon we'll have this kind of things in Brazil due to the expansion of the out-of-home media that has been implemented.

And as far as the solar market, this market is really changed. Is not only a momentary drop; we talk with all the other players, and we've seen a change on the total volume expected for this year and for the next year. The retail market, which is residential market, has been affected due to this difficulty of having financing from banks. The interest has increased a lot and we see all the market of centralized generation of energy that do not go through the network, [unintelligible – 0:14:09] advancing. But the GD up to 5 Mb we see a return of this project to the table. It has dropped over 35%, so these projects that did not have economic viability, from now on we got some especially with the perspective of the interest rates dropping in future months.

So, since the volume has dropped and the expectation is to have smaller volume, we transferred our production of solar energy Salvador to Extrema and we improved our logistics and we are just increasing our area there in Salvador with the same benefits that we had in Extrema, and we also created the sales via credit card in 21 times to help make it possible for more sales, especially for residences. And we have a novelty, which is the beginning of the sales EaaS, like TaaS, but we give discounts on the energy. We're going to have this afternoon a ceremony for the signature with our main partner of this offer, which is making this business possible.

So we are trying not to be still waiting for market to react. We are innovating in the segment. We believe a lot in this renewable energy, we believe in this business model, and from now on we are doing this with lower cost and better offers in this segment.

As far as the financial results, we had the better EBITDA for this semester, even with the drop on the revenue - and this is important, I don't need to sell more, but I need to have a better result. EBITDA. As far as amortization and depreciation is part of the process. The more contracts I have, the better depreciation I will have in the next quarters. We made this change in average terms over the last two years, so we see stabilizing soon.

As far as the financial outcome, we had a lot of amortizations. We improved our financial results as well, improving on 12% related to last quarter. The assisted net interest has a very positive, we got from 8.6 million to 3.5 million of interest, so is a 10 million difference from 1Q.

We had a leverage here, is a very healthy leverage here. You can see with EBITDA about 2.26, we had a stable net debt and we were able to decrease greatly in the last month for 953 million in 2Q to 640, so the net debt was 567 million. Backlog of the revenues is important and I also like to show this to give us an idea of our reality, because as I like to say, our backlog do not show directly on our FS. So here we see a gross debt at about 640 million, and a revenue backlog of 860 million. So, if you calculate, we are covered, our indebtedness obligations are covered in the next months and years.

We've reduced this 33% of this gross debt thinking in terms of being saving in our financial distribution looking into a future with a lowest Selic, bringing the possibility of debt base that is the need we not done any kind of objective to have any debt, we are very stable in this process, and in the case there is a need, we know that the banks are very open to give us more credit from here to the end of the year.

So our working capital is very positive, we had from 134 and we got to 72. Why? Because we had less working capital, we were able to privilege the sale of the stock that we have home, this is a victory to be able to turn your stock, what you already have in the house as a revenue, as sales. So, you see that the operational activity was about 99 million, so, this is 10% above 1Q. CapEx of TaaS was small because the sales for TaaS in 2Q was smaller and we were able to have 86 million of debt amortized in pays.

So, to end, I like to give a little bit of our perspective for the future. I see that the reduction of the interest rates, at least the indication that there will be that reduction, will encourage and stimulate a lot our market, the clients of our clients. And this is very positive. Telecom, for example, we believe that the market is in a new phase with consolidation of the new big ISPs that will bring change. If you talk to any ISP,

their capacity of debt and investment has been reduced in this period, which helps us to have TaaS offers.

We talk with a lot of providers to increase the TaaS, especially their client kits, they are all very open to new revenues. So, we have a package of things that we always try to fit in these providers, but they were very much focused on building networks, constructing the smart home, electronics safety, digital safety for the clients. And now they are all more open and this opens them more space for us for the next months.

And the other point is that every is very much concerned with the improvement of the network availability, which help us to have better offer of network management and everything that has been built on this last month.

As for enterprise, I see a very positive new cycle for growth because we're getting into electronic safety for small and medium projects, things that did not happen before. So, now we are increasing our capillarity with that, increasing our sales teams with adequate prices. We will have in the next months new products for cyber security, with a lot of diversity of producers, manufacturers that we are talking to. We will have much more connectivity, which we didn't sell so much for the whole net, and this has been increasing in WDC. We have a lot of offers for switch and routers, and so this visual digitalization for retail still has a lot of space for growth. The media out of home has increased a lot with projects with regional outdoor businesses for external media, out of home.

So, I'd like to say for Solar, that we are in a new level, but my vision is that we've got to the lowest level possible. We've talked to the manufacturers and they believe that the drop of prices due to the polissilício has come to the end. So the ones that we're expecting more drops on the prices, we hold that the prices will be stabilized, and this might bring these projects for us again, because a lot of these projects had concessionaries, approvals that might be over on the next month, so this might bring us very good results in the end. And the entry of the EaaS, Energy as a Service, will bring a lot of innovation. We have over 800 integrators of Solar, and this will give new possibilities for negotiations within the regional markets.

So this is our vision, our outcomes. They are very positive according to our perspective, and we believe that from now on, we believe we might have more and more better results for the macroeconomy.

This is what I had to tell you. Thank you very much. We are going to open now for questions and answers.

Question-and-Answer Session

Simone Oyamada – RI Manager

Thank you Vanderlei. We have some questions already. One is from Mateus Varela from Soma Group: “How do you see the perspective of each segment for the next quarters? What are the perspectives for new TaaS contracts? Should we have something similar to what was presented for this quarter?”

Vanderlei Rigatieri – CEO

Mateus, I talked a little bit about our perspective in the last slide. I believe that TaaS will be back to have a big expression like it had last year. As I mentioned, all segments, in my opinion, will be much better from now on. Telecom market, we've been able to expand capillarity, we have new offers, the new offer for corporate 5G, enterprise 5G. I believe there is a lot of appeal in many companies, especially the ones that are already our clients, because we have concessionaries for the highways, utilities, education and industry. So I believe that we might have a very good phase for the infrastructure of 5G for enterprises.

And the other point is Data Centers that are still a very important point, especially because all providers they need to sell new products. Providers have look in terms of they cannot be concentrated in the residential segment; they need to go into the enterprise segment. And to sell to enterprise you need to have new products, hosting, cloud, to have new things using your network.

The electronic security, to be able to store data, images for your clients, your Data Center, so I see a wave of renewal in the process for enterprise as I mentioned. And I believe that we'll be able to see a big growth. We are increasing the sales team in this segment, we see a lot of opportunity ahead of us, and for the Solar it's not as much as I mentioned, but from now on I believe there will be a growth related to our 1Q and 2Q.

Simone Oyamada – RI Manager

We have one more question from Rafael Gama. “In the 2Q we saw a cash burn of approximately 75 million, operating cash flow, investments. Could you understand the main triggers behind this burning? And how do you expect it to evolve in the second half and in 2024?”

Vanderlei Rigatieri – CEO

Rafael, I did not burn cash. This is a very bad way of expressing it, because we used our cash in a very intelligent way, we did not burn our cash. We used the cash very

well, especially to the amortization of debt. So if you think that we should have a high cash and pay interest on what we are paying, well, this is not our philosophy here.

So, I think that we use our cash very well, not only this last semester; we've been using our cash very well. We rather decrease our financial expenses, we have credit lines that are open with all banks in case we need. So, I'm not burning anything, OK? Not in our perspective. As you've seen, in 2H23 I have 65 million of revenues that accumulated from the TaaS, and for the other over 270 million. So from our perspective, Rafael, I don't see any burning of our cash.

We have decreased our internal expenses a lot. We've done our homework very well so that we would not burn our money. We've used our money very well. We reduced, for example, our working capital, we stopped making advances to suppliers, renegotiated payment terms with international suppliers, so, from our point of view, we are managing cash in a very austere way is responsible.

Any other question?

Simone Oyamada – RI Manager

We have one more. “Could you talk a little bit about what you've seen on the market from July on and August? Can we have an expectation? Can we foresee each quarter will be better than the previous? And 4Q is usually better, right?”

Vanderlei Rigatieri – CEO

Yes, exactly. Historically, August, September and October, after vacations and so on, always show an increase. We always have this happening. And I see with very good eyes all this change, because we have not only that, that's an important point, but also the reduction of the interest rates. So, if we are able to keep these interest rates in this process, this will be very important for new investments to come back. As I mentioned, with this drop on prices for the Solar, we imagine that many things will return and I see a very strong perspective for growth. This is our vision, yes.

Simone Oyamada – RI Manager

We have two more questions. Lucas Monteiro. “The drop on Solar on sales should continue in the next quarter?”

Vanderlei Rigatieri – CEO

Lucas, we don't have any new zone national drops of sales. If the international sales are dropping in USD, the prices I have to pass it on to my clients, therefore the drop line drops. But our expectation is that this is not going to happen in the next quarter. Our expectation is to keep things and do not have any drops in total sales, keeping especially our revenue in a higher level.

Simone Oyamada – RI Manager

One more question from Conrado. “Does the Company continue with you accumulating positions?”

Vanderlei Rigatieri – CEO

Conrado, we are in the process of recruiting for the new CFO. We've started with over 64 people, now we've got to 5. So we are getting there, but I can tell you that this thing of accumulating portfolio is being a very good experience because the team that we have and that we're working and has been working in a very well, very efficiently.

So I'm sure that throughout this month we're going to have a good candidate. I don't want to err because a very important position, but I'm not in a hurry. I have to confess, I'm not desperate to have this selection because I want to make sure I get the right person to be a strategist, somebody that will be able to help me to take the Company to a new level. To a higher level.

Simone Oyamada – RI Manager

I have another question. “What is the reason for the decrease in new contracts?” I believe it's TaaS he's talking about.

Vanderlei Rigatieri – CEO

Lucas, as I mentioned, we always look forward keeping a 25% on TaaS contract. And many times, when you get this proposal to the client, due to the interest rates that we have in Brazil, we felt a retraction not only because of TaaS, but mostly due to the difficulties of these clients to make decisions regarding new investments. So the acquisition of a TaaS contract does not have much to do with not being competitive, but it's more due to the moment that our clients are living right now.

I don't see a trend of decreasing in the contracts. On the contrary, we do not have that for Solar plants, this is true, and this has decreased our volume for TaaS, because the TaaS for Solar plant is done in 10 years. So we went back on this offer,

but for all the other segments we see a lot of adherence, especially for the enterprise market, because Enterprise likes this business model and I see that probably we might increase there much more on Enterprise than in the other segments.

Simone Oyamada – RI Manager

So, Vanderlei, I think we do not have any more questions, so, I pass on the floor to you to say your final words.

Vanderlei Rigatieri – CEO

So I would like to thank you all for your attention, for your questions. I think it's always good to make clear the moment that WDC is living right now, to give you our perspective, I believe this is fantastic. In my opinion we are going through a moment right now in this year that is very important when I see us improving more and more our competitiveness, our rentability, and I think that from now on, we'll have a very promising perspective.

We can't really say because we can't foresee see so much in Brazil, but I see that we went through the lowest curve in the last quarter. I just see improvement from now on for everything. For our image, sales, total sale, competitiveness for WDC, an increase on market share, new products, new financing. I can only see improvement, expect improvement from now on.

So thank you so much and we are available to you. We have our RI channel that is always open for any questions or for having meetings with you. You as investors, we believe it's important that you have a very transparent understanding of our vision, of everything that we have and what we are doing. We are not saying that we are very rentable and so on, but we are doing our work, our work of operational resistance in this moment of pressure. I believe it will bring very good fruits when the market go back full strength, and that's what we are preparing ourselves to, to be very well prepared for when we have this recovery, macroeconomic moment in general, which I believe is not going to take long. Brazil is very strong.

So thank you so much for all of you. Have a great Father's Day on Sunday you all and be well.
