Vanderlei Rigatieri:

Good afternoon, everyone. Thank you for your presence during our earnings conference for 2Q22. My name is Vanderlei Rigatieri, I am the CEO of the Company and one of the founders, and I have with me André Valente, the CFO and IR Officer. We also have our COO with us, our Director of Operations. He will be part of this at the end in case we have any questions for him.

We have prepared some slides to show you today what this last quarter was all about. I will give the first part of the presentation, and then I will hand over to André Valente and he will give you the rest of the presentation.

André Valente:

Good afternoon. Before Vanderlei begins, I am going to read the disclaimer. The statements contained in this document regarding WDC Networks business and growth prospects are based solely on the management expectations for the future of the business. These expectations depend substantially on market conditions, the performance of the Brazilian economy, the industry and international markets, and therefore are subject to change without prior notice.

All variations shown herein are calculated based on the numbers without rounding. This performance report includes accounting on accounting data such as operating and proforma financial data. The non-accounting data was not subject to review by the independent auditors of the Company. Thank you.

Back to you, Vanderlei.

Vanderlei Rigatieri:

I would like to start off by giving some highlights for this quarter. I would like to say that we, once again, beat the records of net revenues in the Solar division, and have also significantly recovered the sales for Enterprise and Telecom.

I believe you remember that in the 1Q we were suffering a little in terms of sales volume. Our net revenues in Solar achieved R$96.7 million, 36.5% more year over year, and achieved a backlog in revenues where once again, all the revenues that we have to perform of our TaaS agreements, they have already been signed and have already been delivered to our customers, and we recognize the revenues on a monthly basis, according to guidance from our accounting auditors. So R$639 million, almost R$640 million. That is 23% less than the one we had in 2Q21.

Another important thing is that we have grown total sales, which is the sum of the sale of all products plus the contracts. The PSV of the new signed contracts that grew 26.8% quarter over quarter, and that is important because it shows a recovery this year of these sales' growth.

Our consolidated net revenue was R$284.3 million in 2Q22, compared to R$276.7 million in 2Q21. That is a growth of 2.8% year over year. The consolidated adjusted EBITDA was R$67.4 million in 2Q, compared to R$68.5 million in 2Q21, a slight drop of 1.6% year over year. The adjusted EBITDA margin was 23.7% in that quarter, compared to 24.7% in the same period last year, a reduction of 1 p.p. in that period.

Total sales in the Telecom segment were R$158.9 million in 2Q22 compared to R$135.6 million in 1Q22, a growth of 17.2% quarter over quarter. So you can see the recovery of that segment that was slowing down.

They total sales of the Enterprise segment were R$101.1 million in 2Q22 compared to R$63.7 million in 1Q22, which was a significant growth of 58.6%, and that shows a bit of the recovery of the corporate business with the end of the pandemic, or at least the decrease of the effects of the pandemic, where we suffered a lot last year.

The Company is once again presenting positive, consolidated adjusted net income of R$8.6 million in 2Q22, compared to R$25.2 million in 2Q21.

The KPI of produced goods in our plants in Brazil reached 61%. That is very significant, because every time we produce more locally, we can improve our operating margin.

We have an external corporate rating issuance through two companies, not only Standard & Poor's, but also Moody's. In May, they ranked us as AA-, and that was very important to show our financial health, the quality of our receivables and the Company's plan.

And we also had our second issuance of debentures in the amount of R$500 million, two series with terms of five and seven years and a grace period of three years for amortization. That gives us breath in capital to go through a good period and grow our test model, operate our inventories and improve working capital.

So this is a summary of the highlights, and now I would like to hand over to André Valente to go into the details of these indicators. And at the end, I will come back so we can talk about the future and answer any questions you may have. Thank you. André, the floor is yours.

André Valente:

On the next slide, we present the evolution of consolidated total sales for the Company. In 2Q22, they achieved R$372 million, and that is a variation of -4.6% year over year, and a growth of 26.8% quarter over quarter. In the year to date, for the year, we have a variation of -6.5% compared to the 1H21.

We would like to highlight that, considering that our sales are always anchored to the exchange rate on the date of sale, as the exchange rates have dropped when we compare 2Q22 to 2Q21 or 1Q22, you can see a negative variation caused by that drop in the exchange rate.

Here in gray, on the bottom of the slide, we can see the average in the sales. And here, we show what our operation was when we consider it in USD, which is the day to day of our operation. And when we see the -4.6%, because we are considering that in USD, so we had an impact of 7.3% resulting from the exchange rate. And for the half year instead of 6.5%, we would probably be flat when we consider in USD, given that the exchange rate effect caused -6.1% when we compared the 1H22 to the 1H21.

On the next slide, we have the evolution of net revenues. Net revenues show us a more positive scenario than what we see in total sales, as net revenues consider the entire modality of TaaS, and recognizing the revenues on a monthly basis according to each rental agreement. Therefore, we have a more positive effect. When we look at the quarter, we had a positive variation of 2.8% year over year, achieving R$284 million in net revenues for the quarter, and year to date, R$525.5 million, showing a growth of 4.6%.

We would also like to call your attention to how much each segment represents for the Company. So the Solar business, 34% of the Company, Telecom 41%, and Enterprise 25%. Solar is achieving the 34%, and year over year, it accounted for 25.5%. So according to our projections and expectations, every quarter, Solar is gaining more share in the total Company mix.

Before I go into the slides of each segment, we decided to show this one first, before Telecom, so that you can see what is been going on in the fixed broadband landscape in Brazil. So this is the official data available on the Anatel regulator website.

So since the closing of 2020, up to June 2022 closing, you can see the total number of households connected in Brazil. As you can see, across the one year and a half, we had pretty much 6 million new households connected, going from 36.4 million to 42.1 million in June 2022.

We always betted on the fiber optics connections. So here, you can see what it represents. So you see much stronger growth in this case, going from 17 million connections in December 2020 to 27.8 million connections in June 2022. And the purpose of this slide is to show you how it behaves quarter after quarter and has been behaving in the last quarters.

in 2Q20, you can see that we had an addition of just 100,000 new households connected. And in the red arrow, you can see that we went from. 27.7 million to 27.8 million households connected. And when compared year over year, we have an addition of new connections in 2Q21 of 2.4 million. So here it is visible in terms of market difficulty in Telecom.

Another interesting aspect, you can see other connections on the bottom showing the less technological connection, so to speak, which is the base that is being replaced by fiber optics, and fiber optics has almost 11 million new subscribers. And the other connections dropped from 19 million to 14 million, so 5 million less connections that have less technology. And we predicted that and a lot of our volume was focused on servicing that technology replacement, which should end at some point.

However, we can see that we still have 4 million in access in those technologies. So there is also the point of view of an opportunity of getting more volume by replacing with fiber optics. But in the past two quarters, you can see that the number of subscribers have not grown substantially.

In the last line, you can see the density on access per 100 inhabitants. It has been growing from 17 to 19, almost 20 households connected for every 100 inhabitants. And our understanding in Telecom, even though we had the past two complicated quarters, we do have future expectation for growth considering the micro economy that we are presenting here. We expect that the population will continue to grow in the next years, and the density on access for every 100 inhabitants will bring in new household connected and more infrastructure relating to that.

Another interesting information that you can see in Anatel's data is that, among the 20 households connected for every 100 inhabitants, we have more developed states such in the south of the country, with over 30 households for every 100 inhabitants, and in some states up in the North and Northeast of Brazil, we only have six households connected for every 100 inhabitants. So that kind of information shows us the potential to develop Internet connection across the countryside of Brazil, and that is the segment that we are highly connected with.

Now let us look at Telecom data, on the next slide. Here we show that we delivered total sales of R$159 million in 2Q, and that shows a drop year over year, but an evolution based on what we saw in the 1Q22.

This quarter, we provided the routers that are connected in these households, so 196,000, compared to 177,000 in 1Q22. So the macro scenario of the number of households connected is much worse than what we observed in our sales, and that is a result of successful strategies in the Company of focusing new revenues by implementing turnkey projects, and also data centers in the Telecom segment.

We also observed an improvement in the supply chain, but this half year was still very much affected because of the lack of GPON boards, and that is very important in the technology chain of ISPs.

About the margin in this scenario, at 28.6% of gross margin, we saw a drop not only quarter over quarter, but also year over year, mainly resulting from the terms of the new TaaS contract, and I will give you more flavor on that further into the presentation, and lower sales margins also, given a flatter scenario that we have seen in these two quarters. And we believe that at some point we should go back to seeing growth in the Telecom segment.

On our next slide, we can see the Enterprise segment. Enterprise has very good performance for the quarter, with net revenues of R$71 million. That means 5.8% of growth year over year and 27.6% growth quarter over quarter, as Vanderlei mentioned, mainly a result of the pandemic, we did not expect it to affect the first part of the year. We saw events being canceled, social events, Carnival and other social events, and that postponed some projects and investments in that industry. In the 2Q, we have seen good recovery speeds, and we expect that that should. Continue in the upcoming quarters.

The margin was another very positive aspect in Enterprise, achieving 33.6%, significantly higher to all the comparisons, not only quarter over quarter, but also year over year, mainly a result of the mix of the higher relevance of professional audio and video and cybersecurity, which is been bringing in good projects and successful revenues from our areas that are involved in that.

On the next slide, we have Solar. Solar beat the record of total sales and net revenues, achieving R$112.9 million total sales for the quarter. Annualized, that means the track record of R$451.6 million. We are still working to deploy TaaS in Solar.

I would like to remind you that we only started with TaaS in Solar after two years in the segment. We started from scratch, on January 1st, 2020. We celebrated two years, and we ended at R$33 million in the size of the segment. And then we felt much more to put into practice the TaaS implementation in that segment. In the 1Q, we had R$1 million in sales in TaaS, and multiplied that volume by 5, reaching R$4.6 million in 2Q22 total sales for TaaS in Solar.

There was a lot of pressure on margins in that quarter, given the high levels of inventories of all players than the segment leader, leading to more competitiveness and shortage in credit lines from financial institutions, given the macroeconomic scenario where most of our customers projects had their credit lines denied, or it is taking much longer to be approved than it used to be in other quarters.

So we are very diligent in this case to bring in solutions and management to monitor and achieve good performance, not only in sales, but also bringing in better margins to the segment, because we believe it should always be higher than 15%.

On the next slide, we have TaaS performance. We have sold new contracts in a total amount of 346 contracts, and that is an evolution compared to the 249 contracts sold in 1Q22, but still far from the numbers sold in 2Q21, mainly as a result of what happened in Telecom. And Telecom is our segment where the maturity of TaaS is very high. So there is an effect coming from Telecom in this product.

But the product still has a lot of traction among customers. The total volume of TaaS achieved R$105 million in total sales, meaning 22.8% quarter over quarter and -20% year over year, once again, because of the Telecom segment. CAPEX was R$42.8 million in mobilization in the 2H of the year. And here, we see the markup of TaaS. So we achieved record levels of 2.45. So for every R$1 of CAPEX in a TaaS contract, we get R$2.45 in total sales in that same contract. So that is a higher level not only to what we saw in the 1Q of the year, but also year over year.

In the last bullet, you can see that we are continuing the strategy to extend the terms, achieving 51 months in this quarter, compared to 47 months in the average terms of contract sales in 2Q21.

So Soler in this case should bring a continuity in the extension of terms, given that the type of project and products require a higher term. So in Solar, we should be, for the big power plants, higher than 60 months that we had as the standard. So that should contribute towards the increment of the terms for the Company.

On the next slide, we have the revenue backlog evolution. And this is a very important indicator for the Company, where we practically achieved R$639.9 million in 2Q22, a 23.2% growth compared to the backlog one year ago, at the closing of 2Q21. So we grew 23.2%.

The backlog is very important because it shows the revenues that will be accounted for and received in the future and ongoing contracts, where we already have the CAPEX, we have already incurred in all the expenses, not only for production, freight and commissioning for salespeople. So the only payment that we have to make here for costs or expenses would be the PIS/COFINS tax incurred on this. And you can see the recognition and receivable schedule on the bottom, according to contract terms.

On the next slide, we can see a variation analysis of the adjusted EBITDA for the 2Q22, which was R$67.4 million, compared to R$68.5 million in 2Q21. We had a drop that is explained by the drop in sales volume of R$8.2 million.

As you can see, the R$8.2 million comes from what happened in the Telecom segment. So on the table on the bottom, you can see a breakdown of the margin and volume impacts to each of the segments. So obviously, we suffered with the volumes from Telecom. We had an increment of average margin in pretty much all divisions, bringing to R$12.8 million of the positive impact, and an increase in operating expenses of R$5.7 million resulting from specific factors of applying inflation to the general costs and expenses of the Company.

We had an impact of increase in delinquency in some customer niches, especially Telecom, bringing on provisioning for bad debt in that period. We had an increase in marketing in travel expenses. When we compare to 2Q21, that quarter was affected by the pandemic, so we did not have any marketing events or travel. And in this 2Q22, the Company is completely active, going to events with a lot of traveling and visiting customers to continue to plant the seeds, so the Company can continue to grow.

And in expenses, we had more expenses in freight because Solar has a higher mix in the Company. Solar products are bigger, way more than the general average, so that percentage of freight affects the total amount of cargo, and it is higher in Solar than what we see in the other Company's segments.

On the next slide, we have some other drivers of our results. We have depreciation that grew from R$33.4 million to R$41.9 million, so a growth of 25%. From 2Q21 to 2Q22 the increase in depreciation. Depreciation is very much in line with the increase in the backlog of revenues. So the higher the backlog in revenues, the higher it is, because we have more contract agreements and that brings in more property, plant and equipment, and more depreciation. So the percentage variation of the increase in backlog and depreciation are very close and related.

The financial results for the Company, as you can see here, has achieved R$-16.2 million, almost zero in 2Q21, and compared to 1Q22, R$-30.9 million, we had a positive variation.

So here on this table, on the bottom, you can see the main factors of the variation of the financial result. Here, I would like to highlight the higher financial revenue, which is the result of cash management in applying these funds in financial revenues of R$10 million compared to R$3 million last year. And in 2Q21, we have an operating exchange variation that was positive compared to R$4.5 million for 2Q22.

We are still suffering with the present value adjustments given the interest rates. Every time the Brazilian interest rate, Selic, increases 1 p.p., as we have seen in the meetings and the average that they have, we see a higher provisioning for the present value adjustments on our balance sheet, so the R$-6.9 million compared to other smaller amounts in previous periods. We also have a basic effect of increasing financial expenses given the increase of the Brazilian interest rate. So it was much lower in 2Q21 compared to the Selic rate in 2Q22, leading to another 10 million in financial expenses.

On this slide, we show the net debt and leverage indicators. (32:06 TECHNICAL DIFFICULTY)

Vanderlei Rigatieri:

So here we are talking about our net debt and our leverage, as you can see on the slide. Our net debt in 2Q was R$424 million, and that gives us a leverage of 1.5x over EBITDA, very much in line with what we established as a healthy standard of indebtedness. We do not want a very high leverage.

Are you back, André?

André Valente:

I am sorry for that. Let us take a look at the cash flow now. On this slide, we have the cash position in the closing of last year, 4Q21, compared to the R$536 million in 2Q22. We had operating. cash generation, in the first column, of R$143 million, and here for working capital, we have R$178 million. That is separated into inventory, suppliers and accounts receivable for the Company.

We have TaaS, CAPEX and the deployment of new contracts that started in the quarter. We amortized that and paid interest in the amount of R$165 million. We had an issuance of debenture and follow on bringing in R$493 million, and paid R$11 million in dividends. So that is the bridge analysis in a simplified manner of what happened to the Company's cash flow. For further detail, you can see our cash flow statement. So in our opinion, those are the main aspects of that.

On the next slide, Vanderlei, over to you.

Vanderlei Rigatieri:

Thank you, André. I believe it is very important for us to have had this quarter. In my opinion, it is showing us that things are recovering. The macroeconomic scenario is not helping. It is still very challenging, demanding a lot of attention in managing working capital.

I am sure all of you have perceived that there is more delinquency of customers. And when I say that, I mean late payments. I am not saying that we are losing revenues, but they are paying late. A feeling that these customers, especially in Telecom, as you have seen, the number of net additions of fiber users has dropped significantly. We have been seeing that on behalf of the on the provider side, still a very high churn, a tight competition for the same customer and the consolidation of providers also affects that scenario and makes it more challenging.

In WDC's case, we not only sell for new subscribers and new users, we have other revenue lines that are in line with what we talk about in improving the quality of providers networks. If you talk to any professionalized provider today, their main concern is in improving the quality of the network, be it by replacing the physical network, or implementing the better (38:17) with more resiliency, or implementing data centers to have content closer to their subscribers.

So we have seen that more people are looking for built to suit projects. So that would be the case where WDC would build the network, the physical network, and rent the entire infrastructure. That is a very interesting model for us, where we take a deeper dive into the value chain of providers. It is a higher investment on our side, and revenue recognition takes a bit longer, but it does establish a more strategic relationship with these providers, not just selling or renting the fiber modem, or central or ULT that they are using, they are part of the operation.

And the other one is the continuity of this Solar segment growth trend. This year, without a doubt, and you always monitor that, we had expectations that Solar would explode in consumption. But with the increase of the interest rates, that slowed down many projects that were in the pipeline.

So customers were doing the math again about their return on investment. For residential subscribers, there was also an impact in the change on the ICMS tax levied on the power bill. So every time something like that changes, people do the math and they say, “well, maybe I can postpone this”. Interest rates and financing are still high. We know that today, 70% of all Solar sales for residential, especially residential, is financed. So if you increase the interest rate, it drops. But in spite of that, we grew. So that means that we are well in line in Solar.

As you all know, and we have disclosed that, we launched a new line in WDC Solar, Titanium, which is a low cost line, to achieve a different level of subscriber. And then, that will result in something, changing the price of these Solar kits.

So we had a good result in Enterprise, and we have good future perspectives in that. Many projects to be delivered that we have already closed and still have not brought in the products. So that segment is still suffering from the production chain.

We have been doing very good things in terms of bigger projects, the projects in infrastructure that require more surveillance cameras and more IP telephone systems, LED panels and sound systems. With the end of pandemic, they have come back in the out of home media companies, event companies, churches. All of that has given us good perspectives of what is coming.

And the Company is still looking for M&A opportunities. We do receive many opportunities, but we want M&As to add on to our operation, not a transformational M&A. And we are always on the lookout for that, and we will continue on that process this year.

That is what we had to say for today. I believe that now we can open the Q&A session. André?

André Valente:

Yes. I would like to introduce everyone, this is Marcelo Rezende, our COO.

Marcelo Rezende:

Good afternoon, everyone.

André Valente:

We have two questions about perspectives, not only for the 2H, but also for 2023. Maybe I can answer this, Vanderlei, and you can add if you wish.

I think it is important to highlight to everyone that the Company does not give guidance about future earnings and sales expectations. We have been monitoring the market perspectives, so we believe that, among the segments where the Company operates, we have a positive outlook for the 2H and for next year, much in the sense that we will continue to recover the Enterprise segment, considering the post-pandemic scenario and events recovering.

In Solar, we contracted many studies from many different institutions and the Brazilian Association of Solar Energy, so that should continue to significantly grow in the upcoming quarters, and the Company has internal planning to continue to grow. So we imagine that we should have good numbers in the next quarters.

And in Telecom, when we look at the past two quarters, we can see what happened in the market and we believe that that is not a long term trend. We cannot fathom that the population would stop growing and people would be less connected. So we are on the lookout to implement product and service portfolios that service the needs of all the players that are growing in that segment.

So our expectation is that we should have continuity of growth, and as we mentioned in the road show before the IPO, in Telecom, we do not expect such strong growth percentage wise as we have seen in few in earlier years, but we still believe there will be growth in the segment.

Marcelo Rezende:

I think it is worth noting that we have seen the importance of projects as we have been growing in the value chain of providers, ISPs and customers, and providing turnkey, datacenters. That offers us other opportunities for value added and more presence in our customers today, with a possibility of incrementing TaaS to that initiative. So we see that initiative with good eyes.

Another very important aspect, even though we still have problems related to supply, international logistics and product availability, we have seen that the worst is in the past. So the manufacturers that we represent here in Brazil, most of them seem to have been stabilized, even though they have a longer lead time, which makes us think better in inventory investment, but it seems like the worst is behind us now. For the 2H, we believe in terms of supply it should improve and not worsen.

André Valente:

We do have another question here, Vanderlei, about the variation in non-current liabilities.

That is the long term liabilities, and it went up a lot this quarter because of the issuance of the debenture. So the debentures gave us a better distribution of the duration of the Company's debt, considering that we issued one of the series as five years with a grace period of three years, and the second series is seven years with a grace period of three years.

So considering the three-year grace period, that means that the R$500 million of the debenture would be in the long term for at least two more years. So that is the main explanation for the investor that asked about that, for us to have a high increase to our liabilities. And that will give us the breath so that we can continue on our growth plan via TaaS. That was the main objective of issuing that debenture.

Vanderlei Rigatieri:

It makes us safer and gives us more breath to go through these more difficult times up to the end of the year.

André Valente:

We do have one more question. One investor asking about supply of the chain. Marcelo?

Marcelo Rezende:

It seems like the worst is behind us in supply. Some manufacturers are still affected by the chipset. The logistics costs are still high; now it is down. International transportation is going up again. We are paying much attention to the China-Taiwan situation that really affects the whole world and logistics, so that it is a concern. But that is an international situation, it does not depend on us here at the Company.

But my impression is that most of our suppliers are getting back to normal. Like I mentioned, a longer lead time, but more stable, more visibility and a trend for improvement and not worsening. And that is what we see for the manufacturers and providers that we represent here in the country.

André Valente:

Okay. We have no further questions. At this time, we would like to thank you all. Vanderlei, would you like to make your final remarks?

Vanderlei Rigatieri:

Yes, of course. Thank you, everyone, for your presence, for your attention. It is always great to be here and tell you more about WDC, about our operations. And we hope and expect to have good times in the future, and we will see you next time.

Thank you very much, everyone. Thank you, André. Thank you, Marcelo. That is it. Thank you. Bye-bye.