

Simone Oyamada:

Good afternoon, everyone, and welcome to the conference call for the 4Q22 of WDC Networks. I am with André Valente, the Director of IR and CFO, and Vanderlei Rigatieri, the CEO and founder.

I will read the legal disclaimer, and then I will hand over to them for the presentation. The statements contained in this document regarding WDC Networks business and growth prospects are based solely on 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 and nonaccounting data, such as operating and pro forma financial data. Nonaccounting data is not subject to review by the independent auditors of the Company.

Enjoy the conference. I would like to hand over to Vanderlei.

Vanderlei Rigatieri:

Good afternoon, everyone. It's always a pleasure to be here with you all to talk about our earnings and explain a little bit more about the Company.

As always, I would like to show a slide with the main highlights of our results. And one of the most important things that we were able to achieve in this quarter was the mark of R\$808 million in future contracted revenues, meaning it's the revenue backlog. That is equal to 36.6% increase quarter over quarter.

This year, we have sold R\$516 million new total Taas sales. That's 34.8% of the total in sales this year. So that is to confirm that Taas continues strong and increasing. The adjusted EBITDA is R\$257 million.

In this quarter, total sales was R\$380 million, 8% higher quarter over quarter, and the total for the year was approximately R\$1.5 billion in sales, 1.7% higher year over year.

One of the important things in an important macroeconomic environment such as ours, is having a very detailed cash management. So we ended December 2022 at R\$305 million cash position, and we were able to pay some of the debt in advance, and one of them is the issuance of debentures where we settled that. There was R\$47 million left. And that's just so the financial health and our capacity of complying with the plan moving forward.

I will be back later. Now, I would like to hand over to André, our CFO, and he will talk about Company's figures. André?

André Valente:

Good afternoon, everyone. On this slide, we present the evolution of our total consolidated sales, where we achieved R\$1,481 billion sales in total sales in 2022, a growth of 7% compared to 2021. Here, it's important to show the quarterly evolution. So in the 4Q22, we delivered R\$380 million in total sales, compared to R\$351 million in 4Q21. That means 8% growth.

And here, I would also like to highlight the different exchange rates that were in force during those quarters. In 4Q22, our average rate was R\$5.27, and in the 4Q21, it was R\$5.58. So 5.4% higher. As the Company operates with products and solutions that have their prices linked to the exchange rate on the date of sale, when we think about things in USD, the growth was even higher. We would have to add 5%. So I would estimate growth at 13% when we consider the exchange rate, and that's a positive variation than the one that we show in the figure in BRL. When we look at year to date, the 1.7%, if we think of that in USD, that would actually be a growth of 6 p.p.

On the next slide, we have more net revenues. We delivered R\$1,071 billion; in 4Q22, R\$278 million, a growth of just 0.5% compared to for 4Q21, but here we also have the impact of the exchange rate.

It's worth noting that in net revenues, when we compare to total sales, all the Taas sales are considered in P&L and net revenues according to the contract. So if we sell a large contract on day zero, but it's a five-year contract, so the accounting for that sale revenues will consider how much would come in. So it would be one over 60 because of the number of months. So that's to show that with our strategy in extending the term of the new contracts, as shown on the bottom, we ended with 55 months in average term in 3Q22, within that strategy of extend contract term.

On the next slide, you can see Taas performance. So there's a lot of information here about the number of contracts that we sold, 279 new rental contracts, with an average amount of R\$169,000. And the total sales in rentals achieved R\$131 million. In 4Q22, year over year, it means 31% growth, as you can see in the second chart. And when we compare quarter over quarter, we have a drop. And in that case in the highlight, as we published in the last earnings call for 3Q22, we had a big sale for an engine provider in the total amount of R\$189 million. And in 3Q, we delivered R\$87 million. So that R\$87 million increased the amount that was accounted for in total Taas sales in 3Q, mainly as a result of that single contract.

I would like to remind you that R\$189 million contract, we delivered R\$87 million in 3Q. We still delivered well in the 4Q, reaching R\$54 million delivered and accounted for in the total sales of the 4Q, and we still have the final amount of R\$40 million or a little more to be accounted for in 1Q23.

On the right, In the third chart, you can see CAPEX evolution, and this is the comparison that I always like to make. We had a CAPEX of R\$47 million in the 4Q. That means a growth of spending the CAPEX for the assets that would be used in rentals and growing 45%. If we grew Taas 45% and CAPEX only grew 4%, that means that the performance is better in terms of the profitability of the rental contracts, and that's how we translate that into the fourth chart, where we have the Taas markup.

Just to remind you, it's the total of the rental contract divided by the CAPEX that we have to have after we deliver to the customer. So it was 2,20, 2,30, and we beat our records in Taas markup at 2.80. So for every BRL spent in CAPEX, we were able to transform that into R\$2.80 in future contracted revenues.

And to end this slide, we show the average term of contracts dating back many quarters, to tell you that way back in the beginning of 2020, we made a strategic decision to focus on the long term and change the characteristics of the rental contracts from short term. As you can see, it used to be two years, 27 months, in the first bar, and the objective was to transform all Company contracts into something close to five years, 60 months. So we have had good performance in increasing that curve, where we have 4Q22 at 55 months of average term of the contract sold in that quarter.

Next slide. Here, we can see the evolution of future contracted revenues. We really like this indicator. We achieved R\$808 million and contracted future revenues. I would like to remind you that means the Company has already imported the products and that's in the balance sheet. We have the sales' teams and commissions we have spent with the manufacturing cost, logistics costs to deliver to final customers, and these contracts, we will not spend any more on that. They are ongoing. And without having to spend, they are going to generate revenues to our P&L and consequently EBIDTA and cash, so with these R\$808 million across the years.

And right on the bottom, you can see the time schedule for the future revenues. So in 2023, we already have R\$280 million that's guaranteed in revenues and EBIDTA and cash, coming from the contracts from the past.

Obviously, this will get better because the sales' team will sell new contracts, and every time we sell new contracts, we already get the first installment of revenues the following month. And it's included

in this, generating effect of predictability in results, which is very appealing to us and it is what made us decide for this as a strategic decision and increasing the average terms.

So now I would like to hand over to Vanderlei to talk about each one of the Company's segments.

Vanderlei Rigatieri:

Thank you. As you know, we have three main segments: Telecom, Enterprise and Solar. Telecom represents a lot to us today. It represents 53.6% of total sales of the year. An important thing I would like to note in this period is that we had an increase in market share for the fiber modems in that go to the subscriber's home. So it went from 13.6% in 2021 to 20.4% market share. And based on Anatel's data, last year we sold 9.1 million to new subscribers, and in 2022, it was just 4.9 million. Almost half. But based on that scenario, we were able to increase our market share, and that goes to show the strength that we have in that segment.

Another important thing is that we had a small drop in gross margin from 25.7% to 25.3% in the 4Q, given the longer contract terms and the contracts that were closed.

Another important news that I always like to highlight, regardless of any analysis, is that Taas is extremely appealing in moments that we are going through, such as this one in the macroeconomy. Even with the market slowdown in the telecom market, we maintain almost 55% of the sales in Taas, growing that share. That's very important to show that even with the consolidation of providers, we are still very appealing in this as a service model.

And also to clarify, something that we already expected would happen was the beginning of technological renovation. Many providers are replacing their modems, such as the ones with WiFi 6, which is a much more powerful technology for the Internet at home. So that's the scenario we saw in this quarter and shows that we are quite strong in this segment.

In the next slide, we talk about Enterprise. Enterprise is the entire corporate segment. So we have revenue growth by 12.7% quarter over quarter, and we still have high unavailability of high-performance cameras in the international market, which is the electronic security segment.

Other important vertical in enterprise is the growth of the cybersecurity. We grew almost 60% in total sales, achieving R\$54.8 million during the past year, showing the growth that we saw. And now we are making that happen.

On the next slide, we will talk about Solar. The Solar segment was the segment in the quarter that suffered the most, that we had more difficulties in selling, mainly as a result of what we call pressure from the competition. All of the competition had high inventories, so they had the high volume of inventory that was purchased at the higher cost, and that put pressure on our margins.

We continued to implement new Taas contracts in Solar, especially in the corporate market and Internet providers that started to install solar in their units, achieving 6.4 million of total sales of Taas installs.

And as a result of that scenario that we went through in 2022 and all the difficulties that we found, we implemented a restructuring in the sales' team. We changed the management because we realized that we had to be closer to our channels. Distribution is something very important in Solar, and we also believed that that was lacking. So we did our homework. It is important that you know that the results were not good based on what we expected, but we did our homework so we could go into 2023 with a new organization and new perspectives.

Next slide, back to André, so he can talk about the financial results. André?

André Valente:

Next slide, please. Here we have the major lines in P&L. We achieved an adjusted EBITDA of R\$62.1 million in the 4Q. That was 17% lower compared to the R\$75 million in 4Q21, mainly as a result of what Vanderlei explained about the higher pressure from the competition. And in depreciation, we found an increase from R\$37.8 million almost to R\$45 million in 4Q, an increment of 18% in the depreciation line. And we believe that that is a good variation, considering that depreciation is very much in line with the reduction in the revenue's backlog.

So as you saw, it grew 36.6%, and here we see depreciation grow 18%. And that's very much a result of the increase in profitability of the Taas projects.

Financial results were R\$-18 million in 4Q22, compared to R\$-11.6 million in 4Q21, R\$6.9 million worse, mainly a result of the increase in the interest rates considering the higher debt contracted by the Company. So almost R\$7 million impact. And adjusted net income in 4Q was R\$1.6 million, compared to R\$4.23 million in the same period last year.

On the next slide, we show the behavior of the net debt and leverage. Gross debt. In the table on the bottom, you can see we ended the year at R\$794 million in gross debt, compared to R\$758 million in the closing of 2021. With the issuance of debentures in June 2020, we reached almost R\$1 billion in gross debt. As you can see, we followed a good amortization schedule in the quarter, ending 3Q at R\$913 million in gross debt and closed the year at R\$793 million in gross debt, over R\$200 million less debt.

With that, we have also been preserving the cash balance equivalents where we have the debenture and it give us R\$490 million to our cash in net resources, of which we have R\$305 million in cash at the end of the year, even considering the CAPEX expenditures, because we had the big Taas contract, as well as all the other Taas contracts that were processed in the 2H of the year.

Our leverage index that we monitor a lot, also because of the financial covenants, was 184. So our net debt divided by our EBITDA of the last 12 months means 1.64x. So our covenant is 3x. That's our maximum limit. So we are still far from that. And as Vanderlei mentioned, the focus has been to manage cash, to take care of that to maintain a healthy situation.

Here on the right, we have a very interesting chart. And comparing our gross debt to our future contracted revenue, at the end of the year, we have total debt of R\$795 million, compared to total contracted future revenues of R\$808 million. So, we have more contracted future revenues to receive than debt.

And on the right, year on year, we have a future schedule, to show that the issuance of the debenture in the middle of the year, in addition to stronger amortization of debt in the 2H of the year, gives us an indebtedness profile that's 'smoother', so to speak, for our cash flow.

On the next slide, we have what happened to the cash flow. So we started the year at R\$337 million, we had operating cash generation of R\$285 million. That's a very positive figure. So, FYI, our number for 2021 was R\$186 million, so we grew a lot in operations. We had cash burn and working capital, and here, working capital is mainly accounts receivable, funding, financing clients' inventories minus the supplier line, especially the international ones, consuming R\$179 million; Taas CAPEX, R\$217 million consumed about those sales of the R\$515 million that Vanderlei mentioned in new contracts; and we had the debt service of almost R\$400 million.

So out of those R\$396 million, we have R\$299 million of amortization of the principal of debt, and the remaining almost R\$100 million are for expenses with interest from debt.

Other things, R\$493 million here. So the debenture and the small follow on that we processed in February 2022. Here, we paid R\$11 million in dividends, and also buy back shares, R\$7 million, ending the year at R\$305 million in cash flow.

And by paying off the principal in debt, we made a decision on December 15 to pay our first issuance of debentures in advance. That would mature in November 2024. So that was a total of R\$47 million disbursement for that in December, so that we can settle that debenture issuance.

Now I would like to hand back over to Vanderlei to talk about the long term perspectives.

Vanderlei Rigatieri:

Thank you, André. I would like to end our presentation saying that, obviously, in 2022, we expected more robust results. But we are not just sitting there and waiting for things to happen. Our strategy as a company is not for the short term. When we decided to go into the Taas business model, we knew it's a long term thing, that it brings results in the long term.

And the first thing that I would like to show you is that we are reaching what we call the maturity of the Taas business model. Because as we change the profile of contracts to have longer term, we will have a better match with our revenues' future cash flow. So from now on, we will not be worn out in having to reshuffle that, and we will improve our results. It was a difficult decision to make back in 2020, but we are absolutely sure that that will be very positive in the future. We still have one or two more quarters, and then we will actually start to feel the change of the contract extensions.

So WDC, since the beginning of its story, wanted to connect people to technology. And the connectivity of people and companies will definitely still have demand for new infrastructure. We have been monitoring all the infrastructure that was built across all these years in optic fibers to offer broadband. When we started with fiber optics in the past, it was fearful. Nobody believed that it would happen, and we stuck with it, and you can see the reality today.

Anyways, we do know that there's a technological revolution as well, or renovation. The WiFi 6 generation of routers, and the conference of mobile in Barcelona is already talking about 7. So in 5G, and not only what we will use on our phones, but also industries and companies will start to deploy these networks in their own private environments so that they can control their industrial production and so on. So we have already started to do that, and that's going to come up during the year.

Another important thing is, in 2019, we expected that digitization of outdoor media, OH, would happen. So we were early in that, and now you can actually see strong movement in Brazil, following what's going on abroad in digitizing outdoor media. So OH that we see out in the streets, all of that is digital now, and that brings on a demand for our products.

I do not even have to mention cybersecurity. The more we are digital, the more we are attacked and the more protection we need.

The other important thing. That we have to mention that through the partnership with Huawei is the BES systems. So the better energy storage systems, the lithium batteries to store energy, especially solar, not only industrial, but also in telecom and in utilities as well. All of that is here as a trend, and we are very prepared for that new market.

And there's the macroeconomy that we do not control. It is increasingly more challenging, creating difficulties for our customers and for us as well. But for our customers, difficulty in getting credit is much higher. And we felt that in 2014, 2015, when we started to do Taas. We realized how much the OPEX model is interesting for that market. And we are absolutely sure, as we saw in the past year, that Taas is still strong. And in other markets, not only in telecom. And it will have even more adherence in the coming years.

So it's a trend, and the research institutes have been showing us that. So we are in line with that trend.

It's always very difficult to be innovative. You always have to overcome barriers, and there are some movements to adapt so you can continue to grow. So the capital structure that we created, very much capitalized, with important governance that was installed in the Company in the long-term, planning with that, we are absolutely sure that we will have a lot of growth ahead of us and value to add to our shareholders.

So that was our message today. Now, I believe we can open for Q&A. Before that, I would like to thank our internal team here, IR and the financial department, for delivering these results in such a short period of time. So now we are ready for questions.

André Valente:

We do have some questions, Vanderlei. There's a question about the drop in profitability, ROIC and other indicators. And in addition to that, the revenues that were stalled from 2021 to 2022. So investors are asking if we should create a new segment or source of income to change that scenario.

Vanderlei Rigatieri:

That's a great question. Actually, we have already put into practice this year, and I cannot say that it's a new business unit, because it does not have the size yet, but we are very strong in corporate datacenter market. It's not just about selling to Internet providers. We have a lot of experience in that because we opened up that market in the past, but now we have a partnership, specially with Huawei, for the infrastructure of corporate datacenters.

We already have a big thing in rental being implemented and there's a lot of pipelines ahead of us. The cloud, the datacenter is very important when you have more digitization in companies. So, without a doubt, that is a segment that we should have strong growth in the next two years. We believe that this model is very important.

Another thing is, within that new business, I have to highlight the private 5G model. It's not going to be a new Telecom segment like we have it, but it will be an important source of revenues. We already closed the first deal in the Taas model. It's small, but clearly, it shows that Brazil will adopt that technology in companies.

Another thing that's happening that we started way back is agribusiness. We started off with Solar and energy for the irrigation projects. There are some mills that are being built that are not generating revenues yet, and we cannot show that because first of all, we have to build, so then we can transform that in total sales as their rental models.

So all of that is ongoing. That's why I like to say that the result in the short term sometimes does not show everything that we are doing because of the Taas model. Test is very interesting, but it takes a while to show on the balance sheet. So we suffer a little when there's that type of change.

But we are very open and aware of the technology segments that we can explore. We cannot explore the sale of fiber modems forever because nobody's going to have two in their own home, but we are aware of that.

André Valente:

There's a recurring doubt from investors, that we always see it that way, so when we generate value through sales, we have two possible paths in the P&L. If it's through a sale, we give it to our result in the quarter, but if it's Taas, we take that same result and we put it in the revenue backlog of future contracted revenues. And that's exactly what you mentioned.

So it comes out in that backlog because that's the pathway that we are moving on our results in the long term. So when you see our backlog growing, this 37%, you look at that and you say, "well, the

Company's net revenue is not moving", but the backlog grew 36%. That means that we channeled the R\$515 million that Vanderlei presented in the first slide into what we want to reap in the future.

So in expenses, we have the bad part, so to speak, because even though you are channeling revenues in future revenues, the expenses are going to affect the P&L for the month, because we cannot enter those expenses in the future.

Vanderlei Rigatieri:

We have to deliver that all at one time.

André Valente:

Expenses together with CAPEX. That's why we want to clarify to investors. We like to show future contracted revenues, because that's what's going to give us a more constant life in the future. And we are following our path of servicing and connecting people.

And there's another question here, saying that we did well through the crisis in 2014 and 2015, and even with the Brazilian interest rate, the Selic. And to what extent can it be considered guilty for the credit experience that the Company is going through.

High Selic causes the collateral effect because we do have a negative interest rate, so that creates higher financial expenses. But as you have seen in our P&L, is that a problem that we have? Yes. That's why we are concerned in making advance payments of our debt.

Ending the year with R\$300 million in cash, and with the exercise 2023, we made the decision of prepaying debenture, as we are going through a moment of uncertainty, banks are going to have to make credit available, what will new debt cost? So we decided to pay off a debenture from 2019 and settle that in advance, so we can lower the burden of financial expenses in 2023. So, yes, Selic does have that effect.

We have a question from Mapfre. "Do you believe that gross margin from Solar should come back to the levels that we have seen before? What level of gross margin can we consider, and what are the Company's strategies for the Solar vertical in 2023 given the challenging economic scenario?"

Vanderlei Rigatieri:

In fact, Solar was a business unit that in 2022 made us learn a lot. There was an increase in competition that made us rethink our entire strategy. You could see that we really focused on building mills and not sticking to retail, only Solar retail. With 26,000 installers, it is a complex environment.

And going into 2023 with change in regulations has been scaring customers, and it's not a reason for that. We have done all simulations here, it is still worth it. Still worth investing in solar energy at home or in your small business. But the market is scared, because at the end of last year, all of the installers were acting like terrorists, saying "if you do not buy now, it's not going to be worth it anymore." So customers were scared of that. But that's not true.

The truth is that solar energy in Brazil still has a lot of room. We know that projects have to be a little more sophisticated. We have been investing a lot together with integrators, and that's why we restructured, to be closer to them.

In the past three months, I can say that I did what I did in the past, like a roadshow, talking to the installers to understand what they were feeling. And that's why I believe we are going to be able to explain to these installers, especially the ones that like quality, that we decided to provide quality products, but the market focused only on price. So it's not easy. It's hard to sell a product that's much more sophisticated, that could even have batteries. You do not have to have a generator in your

home or your company, it has all the electrical protections according to global standards, and compete with a product that is very robust.

But that's not what we see in the future for this market. We believe customers will be more sophisticated. They will have electric cars, hybrid cars. They are going to want a source of energy that has more protection, and we believe that there will be a comeback in the market.

And the margins, the one that we had in the last quarter was very low. So many factors, market pressure and the inventories that we bought in the past where the prices went down during the year, all of that can be corrected. And we imagine that that margin will come back to the levels that we had in the beginning, 15% or 18%, even. Those are the healthy levels that we believe for that market.

Will it take a while? Yes, it will. But we are treating that. We are working on that customer and that channel, the ones that are worried about delivering quality, at least. So all of that, what we are doing in the retail following, we are not going to have as much volume as the ones with low quality, but it's going to be a healthy sale.

And the other side, the mills, especially in agribusiness. We do believe that we can implement many of those mills in the upcoming two years, and that's going to bring in quality of revenues and sales that are much better.

Any more questions?

André Valente:

There's a question about new products and portfolio diversification.

Vanderlei Rigatieri:

I think I mentioned that, the datacenter. WiFi 6 and 7, IOT as well, that's something important. Something closer to the agribusiness segment. That's new to us. We knew a lot about telecom and electronics security, and now we are exploring the agribusiness, which is 25% of the Brazilian GDP.

So we created a management with this vision of new businesses here in WDC to help us in that long-term vision of what will be revenues looking for forward. So we are very much aware of portfolio diversification.

And there's another very important thing: we are still on a digitization journey for the Company. WDC is evolving in that process of transforming itself into a more digital company. Last year we brought in new professionals in IT to help us with that change. That will help us analyze data even better, analyze the type of customer that we service, with what, what we need for that customer to perform better.

Anything else?

André Valente:

Yes, we have a last question. What about the effects of the tax reform on Taas?

Vanderlei Rigatieri:

That's actually a good question. Because we know that Taas today is not taxed. There's no ISS, no ICMS tax, the city tax or the sales tax. So with the tax reform, with the item 31, rental is not taxed. There's not tax on services or tax on goods.

So I have a feeling that that will remain, but we cannot be sure. In Brazil, we can expect anything. But I think we will be benefited from it. So we would not have all those taxes on the monthly payments. It's not a service, it's a rental. Unless they change item 31.

So I have a feeling that the change will be very good for us, because when you let customers pay for technology on a monthly basis, they have money for other things. It's not an installment. It's like a subscription. So we have all of the advantages of having subscription, as we have that for vehicles and many different modalities. But we are doing that with technology.

Any other questions?

André Valente:

No further questions. So I think we can conclude. Thank you, everyone, for participating in our earnings call. Simone Oyamada, our IR Manager, myself and Vanderlei, we are always available to talk to you and clarify any doubts that you may have, talk about our business and everything that we have done, so that we can increase the understanding, our sentiments and our operations. You can contact us by email, and we are also available by phone, WhatsApp or LinkedIn. Please feel free to reach out to talk to us.

Simone Oyamada:

Anything, to clarify any doubts about our business.

Vanderlei Rigatieri:

Yes, definitely. We do appreciate all our shareholders. We truly understand our role in generating value to all of you, and the transparency is part of our DNA. So you can count on us, and always consider WDC as a long-term investment. Thank you, everyone. Good afternoon, see you soon. Bye.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the Company hosting this event, which was transcribed by MZ. Please, refer to the Company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript"