

Earnings Release

2020



Padtec Holding S.A.
February 11, 2021

Padtec

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2020 Earnings Release

Campinas, SP, February 11, 2021. Padtec Holding SA (B3: PDTC3) (“Padtec Holding” or “Company”), today presents its results for the year 2020, in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Company's annual information audited for 2020 considers the 34.16% shareholding held in Padtec SA (“Padtec”) until May 31, 2020, the results of which are reflected by the equity method, and 100.00% from June 1, 2020 and, therefore, fully consolidated since that date.

For the purpose of a better comparison with the previous quarters, the Company presents in this report pro-forma information, considering Padtec as its wholly owned subsidiary since January 2019.

- **The incorporation of Padtec S.A. shares by Padtec Holding**

Padtec Holding started operations as an investment company in Internet projects in 2000, under the name Ideiasnet S.A. (“Ideiasnet”), the year in which it went public in B3 S.A. - Brasil, Bolsa, Balcão. Ideiasnet's focus was to invest in technology companies with rapid growth in several areas of activity, such as SaaS (*Software as a Service*) in the security and construction industry, technology in the financial and payments sectors, digital commerce, digital media, mobility, broadband and optics.

For many years, Ideiasnet positioned itself as a technology venture capital in Brazil, actively participating in all stages of development of its investees, consolidating itself as a reference in the sector and a synonym of entrepreneurship with a high level of Corporate Governance.

In 2015, already in the process of divestment and after the sale of most of its assets, Ideiasnet began a process of simplifying its corporate structure. On June 1, 2020, it merged shares issued by Padtec S.A., then its only asset and in which it held a 34.16% shareholding, with the consequent conversion of Padtec S.A. into its wholly owned subsidiary. Today, Padtec Holding is the sole shareholder of Padtec S.A., a privately held company.

- **Padtec: for a smartly connected world**

Padtec is the largest manufacturer of optical transport systems in Latin America, supplying DWDM (Dense Wavelength Division Multiplexing) equipment to the main telecom network operators, new internet service providers, data centers, carriers and the entire technology segment, information and communication (ICT). It has a wide variety of optical equipment in its portfolio (consisting of equipment for corporate access, DCI (Data Center Interconnect), metropolitan networks and multi-terabit terrestrial and submarine long-distance networks) and has a business unit dedicated to highly technical assistance qualified for network projects, installation, systems alignment, technical support and maintenance of highly complex equipment. Its products and services are recognized as having a high level of technological content, great flexibility, high robustness, quality and reliability and capable of making a positive contribution to its clients' businesses.

Padtec constantly invests in research and development (R&D), allowing its technology and products to be constantly evolving, which results in the offer of increasingly compact solutions, with greater energy efficiency and better cost-benefit, allowing the expansion of the capacity of optical fiber transmission of your clients hundreds of times.

Padtec products are present in about 40 countries and, in Latin America, have already illuminated more than 200 thousand kilometers of optical networks.

- **The impacts of the pandemic on Padtec**

The Company continuously monitors and evaluates the developments of the Covid-19 pandemic in its operational activities and in its equity and financial position, in order to implement appropriate measures to mitigate possible impacts. To this end, it maintains a Crisis Committee since the end of 1Q2020. Considering all the analyzes carried out since the beginning of the pandemic, Padtec concluded that there were no material effects on the results obtained in 2020. However, the outcome of the pandemic and its macroeconomic impacts, especially with regard to the retraction in economic activity, may have a negative impact on the Company.

Among the measures taken by Padtec, is the implementation of work from home for the administrative, commercial and technology areas (research & development) since March 2020 (a measure that also protects employees working in operational activities that require presence at the Company's facilities and/or at clients' facilities). Due to recent developments, work from home is expected to be maintained throughout the first half of 2021.

The risk of default by clients and the delivery and payment terms of international raw material suppliers are also being monitored and evaluated, and up to the present moment there has been no record of any significant risk of delay that may impact the operations. However, even with all the efforts made with the main suppliers and the strengthening of the local stock structure of strategic inputs, adversities related to the supply of certain inputs may occur. The Company is working intensively with its partners, seeking to minimize any impacts.

- **The Company's performance in 2020**

The Covid-19 pandemic has brought enormous challenges for all of humanity. On the one hand, it propelled the digital revolution, making online activities keep the world running. In a few weeks, with the adoption of technologies that were already available, but whose application on a large scale was still seen with many reservations, numerous tasks started to be carried out from people's homes. Houses have become an extension of offices, classrooms, doctors' offices, stores. People had to adapt their form of fun and started to have a virtual social life. In addition, digital technologies have played another important role in the pandemic, providing information, monitoring disease transmission patterns and providing various health system services.

But on the other hand, half the world still does not have access to the internet. And the rapid changes experienced with the intense use of online platforms have fostered profound inequalities between those who

have and those who do not have internet. It is estimated that about 40% of the population in Latin America does not have adequate access to the internet. In Brazil, data from the 2019 TIC Domicílios survey¹ indicate that approximately 26% of the Brazilian population remains without internet. There are cities that do not yet have internet and in others, already connected, countless homes still do not have a connection, requiring additional efforts by society and the government for digital inclusion.

The world is both more connected and more isolated, which is a great paradox. Society remains eager for more data consumption and the volume of broadband data transmission tends to increase with the entry into operation of 5G networks. It is a consensus that optical fiber is currently the best means capable of enabling the exponential increase in the transmission of data from the internet on telecommunications networks. Decree 10.610/2021 was recently signed, establishing goals that telecommunications service concessionaires must meet, including the expansion of internet coverage by optical fiber to reach 5.500 Brazilian municipalities by 2024, that is, about 99% of the total in the country. That said, and considering that Padtec offers optical transport solutions for data transmission, the Company has solid growth opportunities ahead of it in this thriving market.

The technology sector was one of the least affected by the global crisis and remains heated. Padtec obtained excellent results in 2020, with reflexes in its incomes (increase of 21.7% in relation to 2019), new clients were added in the commercial portfolio, and in the cash generation (the Managerial EBITDA was R\$ 26.8 million, discounting non-recurring effects). The integration of Padtec Holding's activities into Padtec S.A.'s day-to-day activities proceeded as estimated and the Company ended the year without presenting net indebtedness, with funding costs lower than those recorded in 2019 and debts with longer terms than the previous year, proving solid financial and operational management.

In the “new normal”, telecommunications and connectivity are fundamental. Padtec is well positioned in this ecosystem to offer the market increasingly innovative telecommunications solutions and services and state-of-the-art technology, in a competitive way, and thus consolidate its leadership in Brazil and expand its presence abroad.

Operating Income

In 2020, gross operating income totaled R\$ 317.9 million, 21.7% above that recorded in 2019. Incomes from sales of optical transport systems (DWDM equipment) were 32.1% higher than those recorded in the previous year (around 85% of the total in 2020), while incomes from Premium Services decreased slightly in relation to 2019 (decrease of 3.6%), but remained stable during the four quarters of the year (corresponding to 15% of total incomes in 2020).

Income for new internet service providers grew by around 60% in the last year, which proves the Company's performance in this important market segment, being a relevant player in the digital transformation that has been taking place in Brazil in recent years.

¹prepared by the Internet Steering Committee in Brazil (Comitê Gestor da Internet no Brasil)

The Submarine Systems business unit was sold in 2019, which explains why there was no result from this unit in 2020.

In the comparison between 4Q2020 and 3Q2020, gross operating income grew 26.7%, with higher sales in both business lines, with sales of DWDM equipment increasing by 30.9% in this period.

R\$ thousand	GROSS REVENUES										4Q2020 x 4Q2020 x 2020 x		
	1Q2019	2Q2019	3Q2019	4Q2019	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	4Q2019	3Q2020	2019
DWDM	33.812	60.253	44.075	66.139	204.279	49.873	52.040	72.695	95.156	269.764	43,9%	30,9%	32,1%
Premium Service	11.528	12.502	11.579	14.309	49.918	11.602	12.136	12.082	12.292	48.112	-14,1%	1,7%	-3,6%
Submarine Systems	4.072	2.908	41	-	7.021	-	-	-	-	-	-	-	-
Total Revenues	49.412	75.663	55.695	80.448	261.218	61.475	64.176	84.777	107.448	317.876	33,6%	26,7%	21,7%

Cost of Goods Sold and Services Rendered

The Company has a policy of developing a continuous relationship with its suppliers, from the initial stage of development of the technical solution to its delivery, aiming to establish solid partnerships and a supply chain committed to its needs, with respect to the current legislation, in a transparent manner and ethics. Around 60% of Padtec's inputs are of international origin, and therefore exposed to exchange rate variations. National inputs do not present as much price volatility, since their readjustments occur, in general, annually.

In 2020, costs of products sold and services rendered totaled R\$ 162.5 million, 5.7% above that recorded in 2019.

These costs were impacted by the reduction in employee hours and wages in accordance with MP 936, the implementation of a compensatory time off (comp time) that resulted in less overtime actually paid, and fewer trips made in 2020 due to the Covid-19 pandemic.

R\$ thousand	Costs of Products Sold and Services Rendered										4Q2020 x 4Q2020 x 2020 x		
	1Q2019	2Q2019	3Q2019	4Q2019	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	4Q2019	3Q2020	2019
Material	(11.747)	(23.180)	(16.146)	(26.285)	(77.358)	(19.878)	(18.987)	(24.366)	(32.863)	(96.094)	25,0%	34,9%	24,2%
Labor	(10.369)	(9.009)	(9.838)	(10.128)	(39.344)	(9.397)	(7.568)	(8.337)	(9.886)	(35.188)	-2,4%	18,6%	-10,6%
General Manufacturing Costs	(10.559)	(9.755)	(8.257)	(8.495)	(37.067)	(6.673)	(6.489)	(7.599)	(10.447)	(31.208)	23,0%	37,5%	-15,8%
Total	(32.675)	(41.944)	(34.241)	(44.908)	(153.769)	(35.948)	(33.044)	(40.302)	(53.196)	(162.490)	18,5%	32,0%	5,7%

Operating Expenses / Incomes

In 2020, administrative expenses were R\$ 24.2 million, down 14.4% compared to the previous year, reflecting the elimination of expenses with the old Padtec Holding structure due to the merger of Padtec S.A. shares in June 2020.

Commercial expenses totaled R\$ 22 million in 2020, a 4.0% reduction over 2019, mainly due to lower travel expenses and lower costs for shipping the products sold by the Company due to the change in the logistics method used.

Research and development expenses totaled R\$ 28.7 million, an increase of 6.9% compared to 2019. The start of amortization of projects that were previously under development impacted these expenses.

Financial Result

The financial result in 2020 was composed of financial income of R\$ 15.1 million and financial expenses of R\$ 20.3 million, totaling a negative financial result of R\$ 5.2 million.

Income Statement

In 2020, the Company obtained a net profit of R\$ 16.3 million, an increase of 39.2% over the previous year, R\$ 11.7 million.

The divestment of the OTN Switch and Submarino Systems businesses units, both carried out in 2019, contributed, on a non-recurring basis, to net income of R\$ 24.7 million that year and R\$ 7.4 million in 1Q2020.

Managerial EBITDA

Managerial EBITDA Pro-Forma										
	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20	4Q20	2020
From EBITDA to Net Income										
Net Income	2.359	4.828	5.681	(1.165)	11.703	(821)	1.454	7.801	7.860	16.293
Depreciation & Amortization	1.244	1.308	1.308	1.409	5.268	2.874	2.681	2.967	3.237	11.759
Net Financial Results	4.637	1.217	1.435	1.532	8.821	2.256	2.621	1.143	(805)	5.214
Income tax and social contribution	1.662	(1.854)	1.686	(3.193)	(1.699)	1.864	(888)	(573)	510	912
Adjustment to Present Value	692	-	-	-	692	-	-	-	-	-
Net Income from Discontinued Operations	(17.531)	-	(7.609)	471	(24.669)	(7.423)	-	-	-	(7.423)
MANAGERIAL EBITDA	(6.938)	5.498	2.501	(946)	116	(1.250)	5.867	11.339	10.802	26.756
MANAGERIAL EBITDA MARGIN	-16,8%	8,4%	5,4%	-1,4%	0,1%	-2,4%	11,5%	17,9%	13,2%	10,8%

Management EBITDA corresponds to net income, plus income and social contribution taxes, depreciation and amortization expenses and financial results. From this figure, the non-recurring effects of sales of the OTN Switch and Submarine Systems businesses units made in 2019 and the adjustment to present value of sales financing operations based on the allocated credit assignment principle, which ceased to exist as of 1Q2019 due to the reduction in the financial cycle of receiving these sales, were discounted.

Padtec believes that EBITDA is an important parameter for investors, as it provides relevant information about operating and profitability results. Managerial EBITDA reached R\$ 26.8 million in 2020, with a Managerial EBITDA margin of 10.8%.

Indebtedness and Cash

At the end of 2020, the Company did not have a net debt, since its cash balance and cash equivalents exceeded its debt.

Loans and financing amounted to R\$ 43.4 million, comprising fundings from Banco Safra, Banco ABC Brasil and Banco Daycoval, in addition to a credit line taken with FINEP and whose resources are destined to investments in new products and technologies.

Additionally, in December, Padtec S.A. issued R\$ 40 million in simple non-convertible debentures, placed with restricted efforts under the terms of CVM Instruction 476 and maturity in December 2024. The net funds raised through this issue were allocated to the re-profiling and lengthening of the Company's debts, including the full payment of debts originally contracted with Banco do Brasil and Banco Itaú.

Total indebtedness, comprising loans, financing and debentures, was R\$ 82.5 million at the end of December 2020, with an average cost of funding of 6.3% per year (compared to 7.47% in 2019).

The amounts available in cash and cash equivalents at the end of the year were R\$ 64.7 million and financial investments in guarantee, R\$ 19.4 million, totaling R\$ 84.1 million.

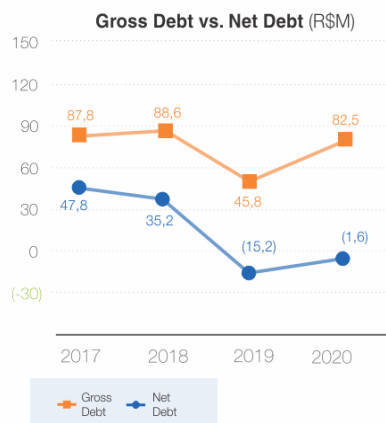
The amounts allocated to financial investments in guarantee correspond to investments made in quotas of the FIC FIDC OSHER fund, whose purpose is to finance clients and prepay their receivables, in Banco Bradesco's CDB, part used as judicial guarantee insurance and part used to guarantee debt with FINEP and in a Bank Deposit Certificate (CDB) from Banco Safra, guarantor of the letter of guarantee, which in turn guaranteed a debt taken with the BNDES and settled in November 2020. The resources of this letter of guarantee were released in early February.

R\$ thousand					CONSOLIDATED PRO-FORMA	
Modality	Agreed Rate	Due Date (Maturity)	Due Date (Maturity)	Guarantee	Dec 31, 2020	Dec 31, 2021
Working Capital - Safra	CDI + 5,53% p.a.	5,65%	04/26/21 until 09/24/24	-	10.020	-
Working Capital - Daycoval	5,9% to 10,08% p.a.	8,22%	07/29/20 until 09/30/24	Receivables	15.036	-
Working Capital - ABC Brasil	CDI + 4,38% p.a.	4,43%	12/23/20 until 05/23/24	Receivables	8.011	-
FINEP	TR + 2,80% p.a.	2,83%	02/01/23 until 02/01/40	Bank guarantee	10.365	-
FINEM - BNDES	TJLP + 1,70% p.a.	-	04/15/17 until 01/15/23	Bank guarantee	-	9.135
Working Capital - Banco do Brasil	CDI + 3,50% to 6,50% p.a.	-	08/10/17 until 04/10/22	-	-	14.061
Working Capital - Itaú	CDI + 2,50% p.a.	-	02/29/16 until 07/30/21	-	-	22.619
					43.432	45.815
Padtec S.A. debentures	CDI + 3,80% p.a.	CDI + 3,80% p.a.	06/21/21 until 12/21/24		39.078	-
					82.510	45.815
Current liabilities					18.916	23.927
Non-current liabilities					63.594	21.888
					82.510	45.815

Repayment Schedule by Year of Maturity - R\$ thousand							
	2021	2022	2023	2024	2025	2026 onwards	total
Loan and financing	11.151	11.380	7.692	5.065	739	7.405	43.432
Debentures	8.000	10.666	10.667	10.667	-	-	40.000
Total	19.151	22.046	18.359	15.732	739	7.405	83.432

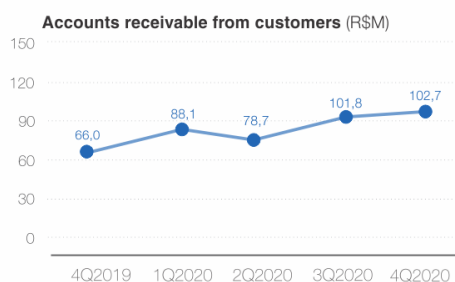
Of the indebtedness at the end of December 2020, R\$ 82.5 million, 23% (R\$ 18.9 million) correspond to short-term obligations and 77% (R\$ 63.6 million) to long-term obligations, a better situation than that registered in September, when this ratio was 58% short-term obligations and 42% long-term obligations.

The net debt in December 2020 was negative by R\$ 1.6 million and the net debt / Managerial EBITDA ratio was negative by 0.06. The net debt / equity ratio was negative at 0.02.



(1) Considers Ideiasnet S.A. since 6/1/20.

Part of the debt taken by the Company in 2020 is justified by the need to finance clients, especially the new internet service providers. The evolution of the amounts recorded in the Accounts Receivable from the Company's Clients proves this situation:



Co-obligations

To facilitate the acquisition of its products and implementation of services by clients who do not have direct access to the financing lines available in the market, Padtec carries out Vendor financial operations and a credit rights (receivables) investment fund (or Fundo de Investimento em Direitos Creditórios - FIDC, constituted in October 2019 and managed by the Sifra Group).

At the end of 2020, the Company had on its balance sheet operations of this nature in the amount of R\$ 48.6 million, given as guarantee for financing taken by some of its clients. Approximately 76% of these obligations are short-term (24% long-term) and the counterpart of these entries is in current and non-current assets.

Vendor operations, which consist of consist of the granting of credits through Financing Promise Agreements entered into between financial institutions and Padtec clients, whose resources are used to purchase products and services for the implementation of the Company, total R\$ 43.1 million.

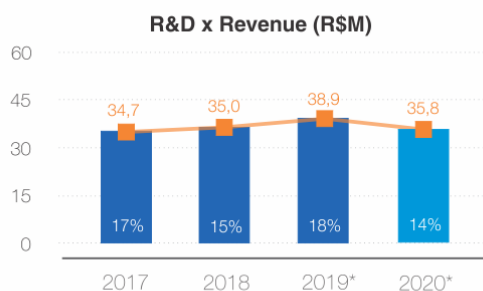
The operations carried out through the FIDC, in which Padtec holds a 25% interest and operates similarly to the Vendor operations, total R\$ 5.5 million.

Padtec has been carrying out this type of transaction for about three years now, its portfolio is highly fragmented and the default rate is close to zero. To better mitigate the credit risk of its counterparties, the Company conducts meticulous monitoring with each of its clients.

Investments

Investments in technology and acting close to the needs of its clients are Padtec's differentials. The technology offered by the Company is in constant development, the result of intense research and development work. The Company seeks to offer its clients increasingly compact and energy efficient solutions, which allow the expansion, in hundreds of times, of the transmission capacity in optical fibers. One of the main focuses of R&D activities is the constant reduction in transmission costs, which is essential to enable the exponential growth of the internet. Throughout 2020, approximately R\$ 35.8 million was invested, adding R&D expenses and amounts allocated to intangible assets.

Recently, the Company announced the launch of its new generation of 800 Gb/s and 1.2 Tb/s transponders, which translates into a solution with a very high capacity for data transmission (in short, medium or long distances) and meets the trend of increasing traffic and demand for bandwidth, not only in the networks - terrestrial and submarine - of communication service operators but also in the interconnections between data centers.



Through its investments, Padtec seeks to: a) maintain its technological parity vis-a-vis global competitors, b) offer its clients solutions in more advanced and robust products and services, aiming to become more and more competitive, c) increase its product portfolio, d) expand its leadership in the Brazilian market, and e) expand its geographic presence to international markets.

For the coming years, the Company plans to maintain its focus on the development of cutting-edge technology, expand its leadership in the Brazilian market and increase its international presence. Thus, it will be able to offer solutions in more advanced and robust products and services, becoming increasingly competitive.

- Income Statement – Consolidated Pro-Forma

<i>(in thousand of Brazilian Reais)</i>	CONSOLIDATED PRO-FORMA				
	1Q20	2Q20	3Q20	4Q20	2020
Gross operating revenues	61.475	64.178	84.777	107.448	317.876
Sales taxes	(10.076)	(13.349)	(21.424)	(25.314)	(70.163)
Net operating revenues	51.400	50.829	63.353	82.134	247.713
Cost of products sold and services rendered	(35.948)	(33.044)	(40.302)	(53.196)	(162.490)
Gross profit	15.452	17.785	23.051	28.939	85.223
Operational income (expenses)					
Administrative expenses	(7.269)	(4.501)	(5.923)	(6.535)	(24.227)
Commercial expenses	(5.109)	(4.652)	(5.525)	(6.702)	(21.988)
Research and development expenses	(6.813)	(5.579)	(7.433)	(8.831)	(28.657)
Other operational expenses (income)	(385)	133	4.202	695	4.646
	(19.576)	(14.598)	(14.679)	(21.373)	(70.226)
Profit/(losses) before financial income (expenses)	(4.124)	3.187	8.372	7.566	14.997
Financial income	(8.377)	(4.982)	(4.431)	(2.492)	(20.282)
Financial expenses	6.121	2.361	3.288	3.297	15.067
Profit/(losses) income tax and social contribution	(6.380)	566	7.229	8.371	9.783
Income tax and social contribution					
Current	(1.864)	888	572	(510)	(912)
Deferred	-	-	-	-	-
Profit in the period from continuing operations	(8.243)	1.454	7.801	7.860	8.871
Discontinued operations					
Net income from discontinued operations	7.423	-	-	-	7.423
Net income from discontinued operations	7.423	-	-	-	7.423
Net profit in the period	(821)	1.454	7.801	7.860	16.293

	CONSOLIDATED PRO-FORMA				
<i>(in thousand of Brazilian Reais)</i>	1Q19	2Q19	3Q19	4Q19	2019
Gross operating revenues	49.413	75.662	55.695	80.447	261.217
Sales taxes	(8.227)	(10.541)	(9.355)	(12.290)	(40.413)
Net operating revenues	41.186	65.121	46.340	68.157	220.804
Cost of products sold and services rendered	(32.674)	(41.946)	(34.240)	(44.908)	(153.768)
Gross profit	8.512	23.175	12.100	23.249	67.036
Operational income (expenses)					
Administrative expenses	(6.307)	(8.009)	(3.200)	(10.786)	(28.302)
Commercial expenses	(5.459)	(5.415)	(5.968)	(6.075)	(22.917)
Research and development expenses	(5.854)	(6.186)	(6.848)	(7.913)	(26.801)
Other operational expenses (income)	235	626	5.109	(830)	5.140
	(17.385)	(18.984)	(10.907)	(25.604)	(72.880)
Profit/(losses) before financial income (expenses)	(8.873)	4.191	1.193	(2.355)	(5.844)
Financial income	(8.606)	(5.095)	(6.772)	(7.247)	(27.720)
Financial expenses	3.969	3.878	5.337	5.715	18.899
Profit/(losses) income tax and social contribution	(13.510)	2.974	(242)	(3.887)	(14.665)
Income tax and social contribution					
Current	(1.662)	(27)	195	582	(912)
Deferred	-	1.881	(1.881)	2.611	2.611
Profit in the period from continuing operations	(15.172)	4.828	(1.928)	(694)	(12.966)
Discontinued operations					
Net income from discontinued operations	17.531	-	7.609	(471)	24.669
Net income from discontinued operations	17.531	-	7.609	(471)	24.669
Net profit in the period	2.359	4.828	5.681	(1.165)	11.703

This report may contain projections and/or estimates of future events. The use of the terms "anticipates", "believes", "expects", "estimates", "plans", "predicts", "projects", among others, intends to signal possible trends and statements that, of course, involve uncertainties and risks, and future results may differ from current expectations. Forward-looking statements are based on several assumptions and factors, including economic, market and industry conditions, in addition to operating factors. Any changes in these assumptions and factors may lead to practical results that are different from current expectations. These forward-looking statements should not be fully trusted. Forward-looking statements reflect opinions only on the date they were prepared and presented. The Company is not obliged to update them in the face of new information or new developments. The Company is not responsible for operations that are carried out or for investment decisions that are made based on these projections and estimates. Finally, the pro forma financial information contained in this report has not been audited, and therefore may differ from the final audited results.