

Earnings Release

3Q2020



Padtec Holding S.A.
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Padtec

Investor Relations

ri@padtec.com.br

+55 21 3206-9204

padtec.com



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Campinas, SP, November 12, 2020. Padtec Holding SA (B3: PDTC3) (“Padtec Holding” or “Company”), today presents its results for the third quarter of 2020 (“3Q20”), 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 quarterly information audited for 3Q20 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.

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

Throughout its history, Padtec has always focused on the continuous improvement of its products and services, in order to offer solutions with a high level of technological content, capable of positively contributing to the business of its customers.

The technology sector, one of the least affected by the global crisis triggered by the COVID-19 pandemic, remains heated, demonstrating that the market still needs more network and broadband infrastructure, and that telecommunications and connectivity are increasingly fundamental.

And if on the one hand COVID-19 translates into a digital transformation agent, contributing to the increase in Padtec's sales in this quarter and requiring the Company to be prepared for new deliveries, on the other, it evidences connectivity gaps and a demand through a better quality connection (higher speed and more data transmission capacity), which requires additional investments by players in this industry. The digital transformation is evidenced by the growing increase in the participation of regional internet service providers (ISPs) in this ecosystem, which are of fundamental importance in the provision of broadband to the smaller cities and less developed regions of the country, which are not always adequately served by large operators. Currently, there are about seven thousand internet providers in Brazil and, according to data from the 2019 ICT Household Survey, conducted by the Internet Steering Committee in Brazil, about 26% of the Brazilian population does not yet have access to the internet.

Padtec's optical transport systems use DWDM (Dense Wavelength Division Multiplexing) technology, which allows the transmission of very high traffic capacity through the same pair of fibers with an excellent cost/benefit ratio. An analysis carried out by the Company found a reduction in the cost per gigabit transmitted by approximately 34 times and in energy consumption per gigabit by 25 times in the last 16 years.

In addition to DWDM equipment, Padtec offers its customers the provision of support services for the operation and maintenance of networks that demand greater expertise in optical communication systems and better qualified labor, internally called “Premium Services”. One of the main competitive advantages of the Company is the level of service offered to its customers: specialized technicians distributed in more than 35 maintenance centers located throughout Brazil, Argentina and Colombia, which contributes to a shorter time to meet demands customers.

For the near future, the fifth generation (5G) technology of mobile services is another factor that will boost the demand for more broadband and, consequently, for more robust network infrastructures.

In August, Padtec underwent an external audit of the supervision of its Quality Management System (QMS), carried out on a virtual basis, which resulted in the recommendation to maintain its ISO 9001 certification until 2Q2022. It is important to note that modern agile methodologies are used in the development processes for

new technologies and products, allowing Padtec to quickly adapt to the demands of the optical network market, which is characterized by being constantly evolving.

- The impacts of the pandemic on Padtec

Padtec Holding constantly monitors and assesses the impact of Covid-19 on its operating activities and on its equity and financial position and concluded that there were no material effects on its 3Q2020 results. 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 adopted to mitigate the possible risks and impacts of the pandemic, is the maintenance of the home office for the administrative, commercial and technology areas (research & development) until the end of January 2021, which ends up also protecting those employees allocated to operational activities that require their presence at the Company's and/or customers' facilities. As a result of the experience with full-time remote work, the Company decided to adopt, as of February 2021, the practice of home office for at least three days a week.

Both the risk of default by customers and the delivery and payment terms of international raw material suppliers are being closely monitored, and until the end of the third quarter there was no record of impacts for the Company. However, despite all efforts with the main suppliers and the strengthening of the local inventories structure for strategic inputs, supply problems in relation to the supply of certain inputs may occur. The Company is working intensively with its partners, seeking to minimize any possible impacts.

- 3Q2020 performance

Operating Revenue

In 3Q2020, gross operating revenue was R\$ 84.8 million, totaling R\$ 210.4 million between January and September 2020 (9M2020).

In comparison with 2Q2020, gross operating revenue grew by 32.1%, with higher sales in both business lines. Sales of DWDM equipment correspond to 86.0% and Premium Services to 14.0% of the revenue recorded in the quarter.

In the comparison between 9M2020 and 9M2019, disregarding the values arising from the Submarine Systems business unit in 2019, which was sold, revenue increased 21.1%, with sales to ISPs having increased by 22.1% in the period. The Company is well positioned in this market segment and has been gaining new customers in the fixed broadband market. The total number of active customers in 2020 until the month of September grew by around 34% when compared to the same period in 2019.

R\$ thousand	GROSS REVENUES								3Q2020 > 3Q2019 > 9M2020 x		
	1Q2019	2Q2019	3Q2019	9M2019	1Q2020	2Q2020	3Q2020	9M2020	3Q2019	2Q2020	9M2019
DWDM	33.812	60.253	44.075	138.140	49.873	52.040	72.695	174.608	64,9%	39,7%	26,4%
Premium Service	11.528	12.502	11.579	35.609	11.602	12.136	12.082	35.820	4,3%	-0,4%	0,6%
Submarine Systems	4.072	2.908	41	7.021	-	-	-	-	-	-	-
Total Revenues	49.412	75.663	55.695	180.770	61.475	64.176	84.777	210.428	52,2%	32,1%	16,4%

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. Approximately 60% of Padtec's inputs are of imported origin, and therefore subject to exchange variation. For national inputs, the observed price volatility is lower, since the adjustments are usually annual.

In 3Q2020, costs of products sold and services rendered totaled R\$ 40.3 million, 22.0% higher than the previous quarter due to higher revenues made this quarter and the appreciation of the US currency against the Real and also the end of the period for reducing employee hours and wages in accordance with Brazilian MP 936. Between the months of January and September 2020 and 2019, these costs remained stable.

R\$ thousand	Costs of Products Sold and Services Rendered								3Q2020 x 3Q2019		
	1Q2019	2Q2019	3Q2019	9M2019	1Q2020	2Q2020	3Q2020	9M2020	3Q2020 x 3Q2019	3Q2020 x 2Q2020	9M2020 x 9M2019
Material	(11.747)	(23.180)	(16.146)	(51.073)	(19.878)	(18.987)	(24.366)	(63.231)	50,9%	28,3%	23,8%
Labor	(10.369)	(9.009)	(9.838)	(29.216)	(9.397)	(7.568)	(8.337)	(25.302)	-15,3%	10,2%	-13,4%
General Manufacturing Costs	(10.559)	(9.755)	(8.257)	(28.572)	(6.673)	(6.489)	(7.599)	(20.761)	-8,0%	17,1%	-27,3%
Total	(32.675)	(41.944)	(34.241)	(108.861)	(35.948)	(33.044)	(40.302)	(109.294)	17,7%	22,0%	0,4%

Operating Expenses/Incomes

The end of the period for reducing employee hours and wages in accordance with Brazilian MP 936 and its consequent impact on personnel expenses, explains the increase between 3Q2020 and 2Q2020 in these lines.

In 3Q2020, administrative expenses totaled R\$ 5.9 million in 2Q2020, an increase of R\$ 1.4 million compared to the previous quarter. For the nine-month period, these expenses remained stable in the comparison between the years 2020 and 2019.

Selling expenses were R\$ 5.5 million, 18.8% higher than 2Q2020. Between January and September 2020, commercial expenses totaled R\$ 15.3 million, a reduction of 9.2% compared to the same period in 2019, mainly due to lower travel expenses in 2020 due to the pandemic and lower expenses with shipping of products sold by the Company due to the change in the logistics used.

Research and development expenses totaled R\$ 7.4 million, an increase of 33.2% compared to 2Q2020. Investments made in the Company's product lines impacted these expenses. For the nine-month period, these expenses grew 5.0% between 2019 and 2020.

In 3Q2020, the Company received amounts from one of its customers that were provisioned for as losses, contributing positively to its other operating income.

Financial Result

The financial result in 3Q2020 was composed of financial income of R\$ 3.3 million and financial expenses of R\$ 4.4 million, resulting in a negative financial result of R\$ 1.2 million.

In July, the Company made payments to several foreign suppliers, benefiting from a more favorable exchange rate (which closed at R\$ 5.20 in that month) and thus reducing the balance of that account in that month. This ended up contributing to an improvement in the net financial result of 3Q2020 compared to the previous quarter.

In the nine months ended September 30, 2020, the net financial result was a negative R\$ 6.1 million.

Results from the Period

The Company's net income in 3Q2020 totaled R\$ 7.8 million and reached R\$ 8.4 million between January and September 2020.

Managerial EBITDA

Managerial EBITDA Pro-Forma										
	1Q19	2Q19	3Q19	4Q19	9M19	2019	1Q20	2Q20	3Q20	9M20
From EBITDA to Net Income										
Net Income	2.359	4.828	5.681	(1.165)	12.868	11.703	(821)	1.454	7.801	8.434
Depreciation & Amortization	1.243	1.308	1.308	1.409	3.859	5.268	2.874	2.681	2.967	8.522
Net Financial Results	4.637	1.217	1.435	1.532	7.289	8.821	2.256	2.621	1.143	6.020
Income tax and social contribution	1.662	(1.854)	1.686	(3.193)	1.494	(1.699)	1.864	(888)	(572)	403
Adjustment to Present Value	692	-	-	-	692	692	-	-	-	-
Net Income from Discontinued Operations	(17.531)	-	(7.609)	471	(25.140)	(24.669)	(7.423)	-	-	(7.423)
MANAGERIAL EBITDA	(6.938)	5.498	2.501	(946)	1.062	116	(1.250)	5.867	11.339	15.957
MANAGERIAL EBITDA MARGIN	-16,8%	8,4%	5,4%	-1,4%	0,7%	0,1%	-2,4%	11,5%	17,9%	9,6%

Managerial 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 business 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\$ 11.4 million in 3Q2020, with a Managerial EBITDA margin of 17.9%. In 9M2020, Managerial EBITDA was R\$ 16.0 million, with a Managerial EBITDA margin of 9.6%.

Indebtedness and Cash

The Company ended 3Q2020 with loans and financing in the amount of R\$ 79.4 million, comprising funding from Banco do Brasil, Banco Itaú, Banco Safra and Banco Daycoval, in addition to credit lines taken with BNDES (FINEM) and with FINEP. Between June and September 2020, interest and principal were paid on loans of R\$ 7.7 million and R\$ 10.0 million was raised in a new debt, which explains the increase in indebtedness in relation to the position in June 2020. The funds raised are used to reinforce the Company's working capital and at the end of September 2020 the average funding cost was 7.2% per year.

The amounts available in cash and cash equivalents at the end of the quarter total R\$ 50.1 million and restricted financial investments, R\$ 19.3 million, totaling R\$ 69.4 million.

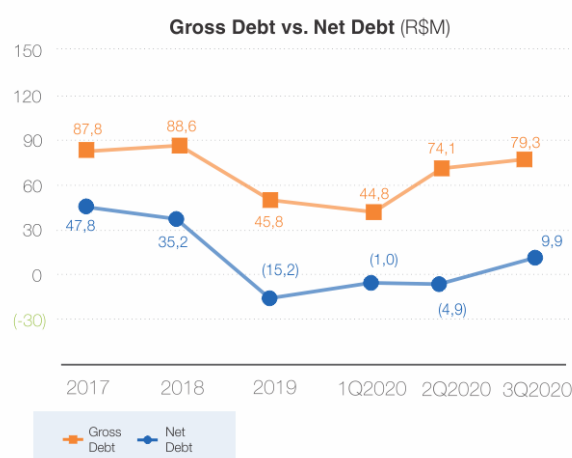
The amounts allocated to restricted financial investments correspond to investments made in a Bank Deposit Certificate (CDB) of Banco Safra, guarantor of the letter of guarantee, which in turn guarantees the debt taken with BNDES, in quotas of the FIC FIDC OSHER fund, whose purpose is to finance customers and prepay their receivables, and in Banco Bradesco's CDB, part used as judicial guarantee insurance and part to guarantee the debt with FINEP.

				CONSOLIDATED PRO-FORMA	
Modality	Agreed Rate	Due Date (Maturity)	Guarantee	Sept 30, 2020	Sept 30, 2019
<i>Domestic Currency</i>					
Working Capital - Banco do Brasil	CDI + 3.50% to 5.00% p.a.	05/10/19 until 04/10/22	-	26.836	-
Working Capital - Banco do Brasil	CDI + 3.50% to 6.50% p.a.	08/10/17 until 04/10/22	-	-	14.061
Working Capital - Banco Itaú	CDI + 2.50% p.a.	02/29/16 until 07/30/21	-	15.107	22.619
Working Capital - Banco Safra	CDI + 5.53% p.a.	04/26/21 until 09/24/24	Receivables	10.019	-
Working Capital - Banco Daycoval	10.08% to 14.02% p.a.	06/29/20 until 06/29/22	-	15.004	-
FINEM - BNDES	TJLP + 1.70 p.a.	04/15/17 until 01/15/23	Bank guarantee	8.492	9.135
FINEP	TR + 2.80% p.a.	04/15/20 until 02/15/32	Bank guarantee	3.896	-
				79.354	45.815
Current liabilities				46.289	23.927
Non-current liabilities				33.065	21.888
				79.354	45.815

Repayment Schedule by Year of Maturity - R\$ thousand									
2020	2021	2022	2023	2024	2025	2026 onwards	total		
17.538	36.232	16.967	3.480	2.457	374	2.306	79.354		

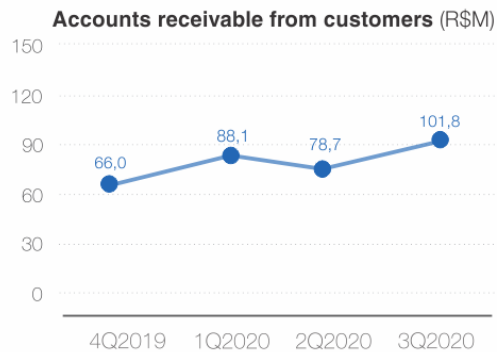
Considering the indebtedness at the end of September 2020, R\$ 79.4 million, 58% (R\$ 46.3 million) correspond to short-term obligations and 42% (R\$ 33.1 million) to long-term obligations.

In 3Q2020, net debt was R\$ 9.9 million, the net debt/Managerial EBITDA ratio was 0.62x and the net debt/equity ratio was 0.10.



(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 customers (mainly smaller ISPs) who were unable to obtain their own credit lines in the existing financing modalities due to their size and the worsened scenario due to the COVID-19. This fact is demonstrated by the analysis of the evolution of the amounts recorded in the Accounts Receivable from the Company's Customers:



In October, the Company raised a new funding with FINEP, in the amount of R\$ 6.4 million indexed to TR + 2.8% per year and maturity in 2040, which will be added to the Company's investments in new products and technologies.

Co-obligations

In order to facilitate the acquisition of its implantation products and services by customers who do not have direct access to the financing lines available on the market, Padtec carries out Vendor financial operations and a credit rights investment fund (or Fundos de Investimento em Direitos Creditórios - FIDC).

On September 30, 2020, the Company had recorded transactions of this nature in its balance sheet in the amount of R\$ 44.5 million, given as guarantee for financing taken by some of its customers. Approximately 79% of these obligations are short-term (21% long-term) and the counter entry for these registers is recorded in current assets and non-current assets.

Vendor operations amount to R\$ 41 million and consist of the granting of credits through Financing Promise Agreements signed between financial institutions and Padtec customers, whose resources are used in the acquisition of products and services for implementation of the Company.

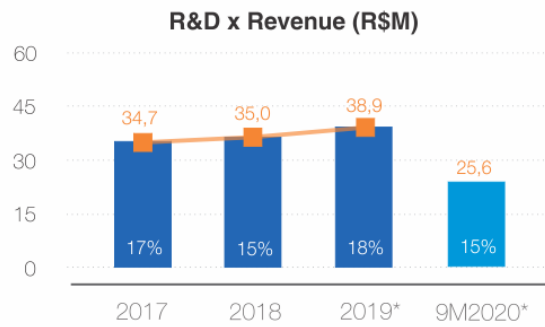
The FIDC, created in October 2019 and managed by the Sifra Group, in which Padtec holds a 25% interest, works in the same way and up to 3Q2020, R\$ 5.2 million was granted.

Padtec has been carrying out this type of transactions for about three years and, aiming at mitigating the credit risk of its counterparties, it conducts a meticulous monitoring with each of its customers. The portfolio is well dispersed and defaults are close to zero.

Investments

Padtec's technology is constantly evolving, as a result of intense research and development work, making it possible to offer customers increasingly compact solutions that allow the expansion of their transmission capacity in optical fibers hundreds of times. Between January and September 2020, the Company invested approximately R\$ 25.6 million in Research and Development (including R&D expenses and amounts allocated to intangible assets).

Through its investments, Padtec seeks to: a) maintain its technological parity vis-à-vis global competitors, b) offer its customers 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.



Recently Padtec SA 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. This product line has already been acquired by Padtec customers, with good acceptance and meeting the demands of market application.

The development of this new generation of transponders is in line with the Company's commitment to constantly invest in the evolution of its product line, providing the market with innovative solutions and state-of-the-art technology in optical communication systems.

One of the technical novelties of this generation of transponders is in the more flexible network interfaces, which allow better adaptation of the optical channels to the demands of performance and network expansion. In addition, the solution is also suitable for free channel applications in third party optical networks (Alien Wavelength). Its dimensions (only 1U high and 300 mm deep) meet the standard of racks in data center environments and also of telecom stations for applications in metropolitan networks, land optical meshes and submarine systems of operators and Internet service providers.

For the coming years, the Company plans to maintain its focus on the development of cutting edge technology, with high national content, to expand its leadership in the Brazilian market and to 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	9M20
Gross operating revenues	61.475	64.178	84.777	210.430
Sales taxes	(10.076)	(13.349)	(21.424)	(44.849)
Net operating revenues	51.400	50.829	63.353	165.582
Cost of products sold and services rendered	(35.948)	(33.044)	(40.302)	(109.295)
Gross profit	15.452	17.785	23.051	56.287
Operational income (expenses)				
Administrative expenses	(7.269)	(4.501)	(5.923)	(17.693)
Commercial expenses	(5.109)	(4.652)	(5.525)	(15.287)
Research and development expenses	(6.813)	(5.579)	(7.433)	(19.824)
Other operational expenses (income)	(385)	133	4.202	3.951
	(19.576)	(14.598)	(14.679)	(48.853)
Profit/(losses) before financial income (expenses)	(4.124)	3.187	8.372	7.434
Financial income	(8.377)	(4.982)	(4.431)	(17.790)
Financial expenses	6.121	2.361	3.288	11.770
Profit/(losses) income tax and social contribution	(6.380)	566	7.229	1.415
Income tax and social contribution				
Current	(1.864)	888	572	(403)
Deferred	-	-	-	-
Profit in the period from continuing operations	(8.243)	1.454	7.801	1.011
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	8.434

<i>(in thousand of Brazilian Reais)</i>	CONSOLIDATED PRO-FORMA					
	1Q19	2Q19	3Q19	4Q19	9M19	2019
Gross operating revenues	49.413	75.662	55.695	80.447	180.770	261.217
Sales taxes	(8.227)	(10.541)	(9.355)	(12.290)	(28.123)	(40.413)
Net operating revenues	41.186	65.121	46.340	68.157	152.647	220.804
Cost of products sold and services rendered	(32.674)	(41.946)	(34.240)	(44.908)	(108.860)	(153.768)
Gross profit	8.512	23.175	12.100	23.249	43.787	67.036
Operational income (expenses)						
Administrative expenses	(6.307)	(8.009)	(3.200)	(10.786)	(17.516)	(28.302)
Commercial expenses	(5.459)	(5.415)	(5.968)	(6.075)	(16.842)	(22.917)
Research and development expenses	(5.854)	(6.186)	(6.848)	(7.913)	(18.888)	(26.801)
Other operational expenses (income)	235	626	5.109	(830)	5.970	5.140
	(17.385)	(18.984)	(10.907)	(25.604)	(47.276)	(72.880)
Profit/(losses) before financial income (expenses)	(8.873)	4.191	1.193	(2.355)	(3.489)	(5.844)
Financial income	(8.606)	(5.095)	(6.772)	(7.247)	(20.473)	(27.720)
Financial expenses	3.969	3.878	5.337	5.715	13.184	18.899
Profit/(losses) income tax and social contribution	(13.510)	2.974	(242)	(3.887)	(10.778)	(14.665)
Income tax and social contribution						
Current	(1.662)	(27)	195	582	(1.494)	(912)
Deferred	-	1.881	(1.881)	2.611	-	2.611
Profit in the period from continuing operations	(15.172)	4.828	(1.928)	(694)	(12.272)	(12.966)
Discontinued operations						
Net income from discontinued operations	17.531	-	7.609	(471)	25.140	24.669
Net income from discontinued operations	17.531	-	7.609	(471)	25.140	24.669
Net profit in the period	2.359	4.828	5.681	(1.165)	12.868	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.