2019 MANAGEMENT REPORT

MESSAGE FROM THE EXECUTIVE DIRECTORS

The digital revolution has transformed business paradigms across every industry. Rules and business models that were once canonized in literature, dispensed by consultants and adopted by incumbents for decades, have changed. In this letter, we would like to share details on how the digital revolution has impacted strategic positioning.

Today, almost every corporate narrative related to strategy is filled with buzzwords borrowed from the digital dictionary: platform, superapp, ecosystem, big data, agile, lean, APIs, including ours. The homogenization of narratives makes it increasingly difficult for the market to verify their authenticity.

Most companies seem to be pursuing the same pot of gold at the end of the rainbow. They want to be the next Facebook, Google, Amazon, or Alibaba -- or to at least enjoy the same valuation multiples. This applies to companies in a broad range of industries, from finance to healthcare, education to utilities. For many of these companies, failing to adopt a "digital" narrative is the same as admitting to being anachronistic.

Point, Line and Plane

The digital revolution, however, has done more than merely increase the size of our lexicon. It has also opened the door to new strategic possibilities which were impossible in the analog world. There is no single digital strategy. Each company is responsible for taking stock of their own characteristics and following the strategy that is most viable and suitable for their reality.

To better understand the issue of strategic positioning in digital environments, we find the concepts of *point*, *line* and *plane*, pioneered by Alibaba's former Chief Strategist, Ming Zeng, informative.

Zeng updated business strategy guru Michael Porter's theories for the digital era, advancing the idea that companies will either become digital ecosystems (*planes*); control whole segments of a business (*lines*), or specific parts (*points*). According to Zeng, being a *plane* is not feasible for most organizations due to either their vocation (or lack thereof), scale, or capacity. *Lines*, on the other hand, control a particular chain (e.g.: large sellers in a marketplace and category killers in a given retail segment). *Points*, in turn, are highly specialized companies that provide solutions for *lines* and *planes*. The recent boom in Brazilian logistics and fintech startups targeting specific pain *points* are good examples of *points*.

For 18 years, we at Magalu followed a successful strategic *line* model. We became a profitable multichannel company in the durable goods segment. In 2018, however, we decided that we would transition to a *plane* model. We would become a digital retail ecosystem.

This decision is consistent with our mission. With just 5% e-commerce penetration, Brazil is rapidly falling behind in the digitalization race. Today, out of a universe of 6 million retailers, only 50,000 are selling online. And available solutions do little to solve the problems faced by the Brazilian retail segment.

Magalu is uniquely well-positioned to digitalize Brazilian retail. We are intimately familiar with the issues facing analog retailers. We were not born digital. We had to overcome the same issues that analog retailers face today. This makes a huge difference. The fact that we have never had a license to burn cash also makes a difference. Our shareholders have always demanded sustainable results. As such, we developed a profitable model adapted to Brazil's reality, leveraging our physical platform. Finally, our corporate DNA contains the key traits for a company that successfully transitions into an ecosystem. We have a win-win mentality; a customer-centric focus and believe in legal, ethical relationships. To us, these are the fundamental building blocks necessary to scale Brazilian e-commerce.

Democratizing access. This is our purpose. We want to realize our purpose through the digitalization of Brazilian companies and consumers. Our focus is on small and medium-sized businesses and, above all, consumers who are at the base of the socioeconomic pyramid.

We believe that digitalization is among the most powerful tools at our disposal to mitigate the profound inequalities that plague our country. Improved access to the digital world will enable microentrepreneurs to make their businesses more efficient, asset light and competitive. And being a part of this digital world will enable even the humblest consumers from the country's most remote regions to gain access to a wider array of products at a lower cost.

We took a giant step towards this goal with the launch of our marketplace in 2017 and the success of our marketplace since then has been nothing short of incredible. It took us 43 years to reach our first billion reais in revenue in our physical stores. With e-commerce, it took us 10 years. Our marketplace business, however, achieved 3 billion reais in GMV *in just three years.*

A *plane*, or a digital ecosystem, depends on various elements to become a success: widely accessible, digitalized processes available on a simple and scalable digital platform; smart algorithms connecting sellers and buyers, and intuitive interfaces available to all players in the chain. However, none of these elements is as important as scale. The more buyers there are, the more sellers will be attracted to the ecosystem. The more sellers and offers, the more buyers will wish to become a part of it. This is the positive, reinforcing network effect. The benefit offered by a product or service increases as the number of users grows.

As such, increasing scale was our top objective in 2019. We decided that Magalu would experience 365 days of China-like, exponential growth. Most of our KPIs were linked to expansion: GMV growth; active customer base; number of new categories and items for sale; number of sellers; monthly active users in the app, and new stores.

Magalu ended the fourth quarter of 2019 with 51% growth in sales—the highest in our history. We currently have almost 25 million active customers (more than 20 million of them with the superapp installed) and 15,000 sellers who, together, offer 13 million products on our platform. The company grew organically. During the year, we opened 159 new physical stores, same-store sales saw double-digit growth in the fourth quarter. Magalu also grew through acquisitions.

The most spectacular of them, due to its immediate impact, was the acquisition of Netshoes in June of last year. With Netshoes, not only did we enter two categories with huge potential—sports items and apparel—but we also incorporated one of the most loved brands in Brazilian e-commerce. Netshoes also provided Magalu with a highly skilled team of digital professionals and a platform with 1,000 sellers; 4 million customers, and 2.5 billion reais in GMV. With this major contribution from Netshoes, Magalu's e-commerce business took off in the last two quarters of the year: growing over 90% during the period.

This year, Netshoes will celebrate its 20th anniversary. This visionary venture no longer stands alone. By joining Magalu, Netshoes went from being a *line*, as per Ming Zeng's nomenclature, to becoming a *plane*. The company is the leader in the sports e-commerce category and one of the largest online apparel retailers. The difference is that it now belongs to a much larger ecosystem, benefiting from network effects. Netshoes contributes specific know-how and receives economies of scale from the ecosystem, such as logistics services, in return. By the end of this year, for example, Netshoes products will be available for pick up at all Magalu stores.

The same phenomenon has happened with other companies acquired by Magazine Luiza. First Época Cosméticos, then Estante Virtual. The value of these businesses as stand-alone entities is significantly lower than their value as part of the combined entity, the Magalu *plane*. Netshoes, Época Cosméticos, and Estante Virtual combine to help bring Magalu closer to becoming a category-rich one stop shop, similar to Chinese super apps like WeChat.

If 2019 was the year of China-paced growth, 2020 will be the year of #TemNoMagalu (or, #HaveAtMagalu). A vintage edition of Dostoyevsky's *Crime and Punishment*? #TemNoMagalu. The latest book by Brazil's most famous YouTuber? #TemNoMagalu. A 50-inch TV? #TemNoMagalu. A toolbox? #TemNoMagalu. The latest fashion trend? #TemNoMagalu. The official jersey for Brazil's national soccer team? …or your local team? #TemNoMagalu. Chocolate? Your child's favorite toy? Diapers? Beer for next weekend's barbecue? A couch for your new home? Whatever it is: #TemNoMagalu.

Our mission for 2020 is to go further down the long tail path. We want our 25 million active customers to know that they can find anything that they need in a single place, a place that adheres to strong legal and ethical principles.

To achieve this, we will focus on integrating our newly acquired companies. We will continue to increase the number of sellers in our marketplace and integrate their product catalogs and back-office operations. Of equal importance is the task of communicating to our customers that we are rapidly becoming a retailer of all things. Ideally, almost every type of product should be available in the Magalu catalog and should be found through a simple, intuitive search.

As for sellers, one of our main responsibilities as an ecosystem is to provide powerful, yet easy to use technology and management tools which will help them improve their operations. As parts of the same organism, it is essential that our partners be capable of maintaining the same service levels, reliability, professionalism, and customer service as Magalu.

Therefore, Magalu as a Service, or MassS, has become a strategic pillar for the company. At the end of 2019, we launched MagaluPagamentos, which is currently being rolled out. This service is for sellers. With MagaluPagamentos we will be able to monetize the accelerated marketplace growth while monitoring the chain, controlling payment flows to our partners, and offering funds to them at lower rates than the market. We also recently launched MagaluPay, a digital banking service for consumers that is fully integrated into our superapp. Its purpose is to create value for the retail ecosystem as a whole instead of operating as a siloed entity.

In both cases, we continue to pursue a *plane* strategy instead of a *line* strategy. We wish to connect our customers—be they sellers or consumers--to the best financial solutions available. We have no intention of becoming a bank. We want to create a digital payment platform that will feed and fortify our overall retail platform.

Within MaaS, we have also launched MagaluEntregas. We currently offer the highest quality, lowest cost logistics service in Brazilian e-commerce. This is mainly attributable to our multichannel integration and our proprietary distribution network. For 1P products (products originating from our own inventory), 66% of deliveries are currently completed within two days, a percentage that keeps improving. With increased access to MagaluEntregas, our sellers will benefit from the same logistics chain, which enables pickup in our 1100 stores. This is a true multichannel marketplace.

We went through our year of China-like exponential growth (our theme for 2019) while remaining customer-centric (our theme for 2018). As we grew, we also improved our Net Promotor Score or NPS and reduced the number of formally filed customer complaints. We are the only major retailer in Brazil to achieve the top RA1000 seal on Reclame Aqui, a consumer ratings website, despite the fact that we chose to list our marketplace (3P) and e-commerce businesses (1P) together.

We have started our 2020 theme, #TemNoMagalu, while maintaining our 2019 theme, China-like exponential growth, and our 2018 theme, focus on customers. We will now continue to focus on and invest in all three themes simultaneously, trading off short-term margin whenever optimal to guarantee the best long-term results.

Over the last 2 years, Magalu has invested around 2 percentage points of EBITDA margin--from 8% to 6%--in the acquisition of new customers; in the creation of the best shopping experience, in reducing delivery times and in the consolidation of Netshoes, generating a great deal of value for all of our customers and shareholders. And we will not stop there. We have many opportunities ahead of us. This year, following the same trend, we will continue to invest in faster delivery; in expanding our super app; in extending MagaluPay; in acquiring companies and in accelerating the integration process of acquired companies, such as Netshoes. All done in a sustainable and value accretive way.

While these initiatives may increase our expenses in the short term, we believe that they will generate a great deal of value in the future. After our successful follow-on offering in November, Magalu has built a solid capital structure, strong enough to carry out our mission.

Finally, we would like to thank our more than 30,000 employees, whose energy and enthusiasm have managed to scale with our ambitions, our sellers, suppliers, business partners and shareholders. And a special daily thanks to each of our customers. Gratitude is something that we also #TemNoMagalu.

EXECUTIVE MANAGEMENT TEAM

HIGHLIGHTS

Sales up by 39%, reaching R$27 billion, with growth in all channels
E-commerce up by 76% in 2019, reaching 45% of total sales
Marketplace grew 254%, reaching 24% of total e-commerce
Adjusted EBITDA of R$1.3 billion (6.6% adjusted margin)
Adjusted operating cash flow of R$1.5 billion in the year
Net cash position of R$6.3 billion in Dec/19

- **Consistent market share gains.** In 2019, total sales (physical stores, traditional e-commerce (1P) and marketplace (3P)) increased 38.7% to R$27.3 billion, reflecting growth of 76.0% in e-commerce (on top of 60.1% growth in 2018) and 17.9% in physical stores (on top of 25.8% growth in 2018). It is worth highlighting the performance of the 159 stores opened during the last 12 months, that generated sales above our expectations, expanding total physical store sales growth by 10.1 p.p.

- **Accelerated growth in e-commerce.** E-commerce sales grew 76.0% in 2019, reaching 45.3% of total sales, compared to market growth of 16.3% (E-bit). In traditional e-commerce, sales grew 51.4%, and the marketplace contributed with additional sales of R$3.0 billion. Among other things, Magalu's market share gains were driven by: app performance--with 19 million MAU (including Magalu Superapp, Netshoes, Zattini and Época Cosméticos); an increase in the seller base; the growth of marketplace assortment; faster delivery, and the maintenance of our high level of customer service and the best retail experience.

- **Evolution of gross profit, investments in service levels and new customer acquisition.** In 2019, adjusted gross profit increased 27.6% to R$5.7 billion. Adjusted Gross margin was stable in 29.1% reflecting the growth of traditional e-commerce, growth of new categories, especially by Netshoes sales, and the excellent performance of the marketplace. Adjusted operating expenses increased 34.2% in 2019 due to additional investment in service levels and new customer acquisition, as well as the Netshoes consolidation.

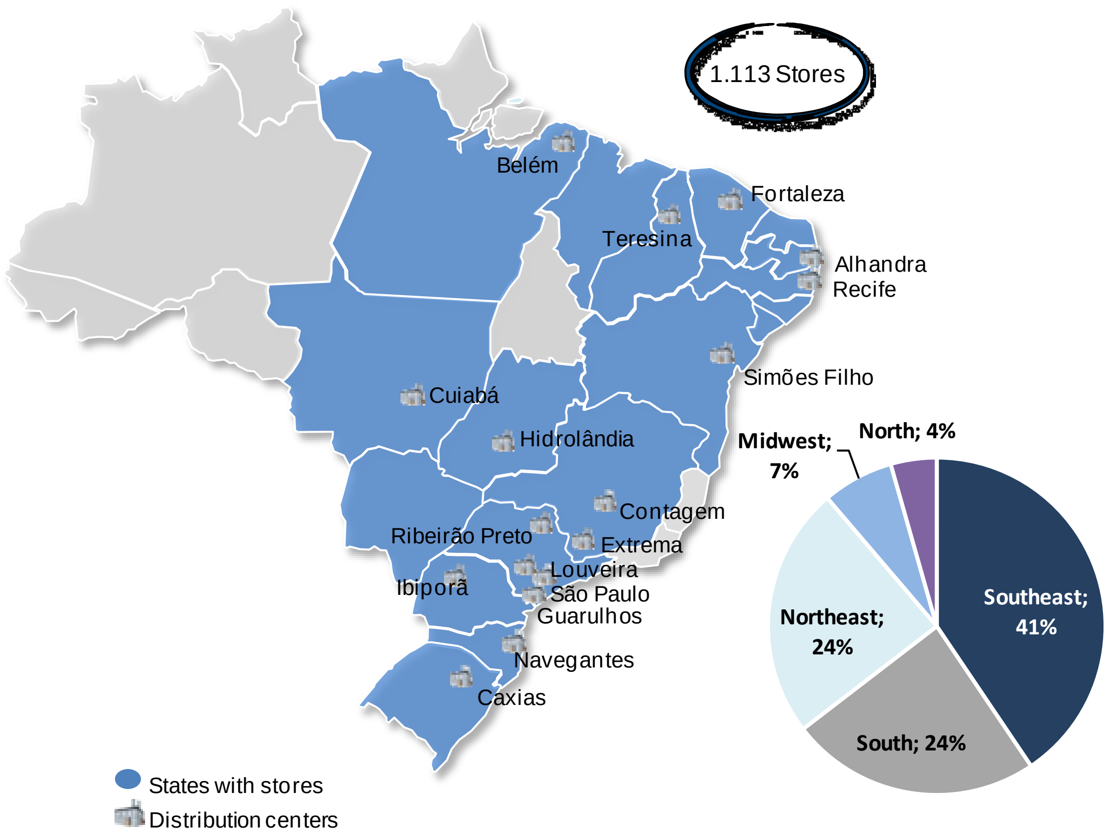
- **Significant Luizacred growth.** The Luiza Card base increased in almost 1 million in 2019, reaching 5.2 million cards. In the same period, the Luiza Card revenue grew 33.8% surpassing the mark of R$ 27 billion. In 2019, Luizacred posted a net income of R$40.3, influenced by the strong growth of the card base and the credit limit available to the best customers. Considering the accounting practices established by the Brazilian Central Bank, Luizacred's net income was R$109.1 million in 2019.

- **EBITDA and net income.** In 2019, Adjusted EBITDA reached R$1.3 billion. High sales growth and the positive contribution of e-commerce were responsible for the EBITDA. Additional investments in service levels and the Netshoes consolidation influenced the EBITDA margin, which went from 7.9% to 6.6% in 2019. Taking into account the financial expenses dilution and the benefit of interest on equity, adjusted net income reached R$552.1 million in 2019, with a net margin of 2.8%.

- **Strong cash flow generation and ROIC.** Cash flow from operations, adjusted by receivables, reached R$1.5 billion during the last 12 months, due to positive results and disciplined working capital management. Once again, the Company presented high growth with high ROIC and strong cash generation. In the last twelve months, annualized ROIC reached 21%.

- **Net cash position and capital structure.** In the last 12 months, the Company increased adjusted net cash by R$4.1 billion, from a net cash position of R$2.2 billion in Dec/18 to R$6.3 billion in Dec/19, including the capital raised in follow-on offering totaling R$4.3 billion. As of this date the Company reached a total cash position of R$7.1 billion, with cash and securities of R$4.7 billion and credit card receivables of R$2.4 billion.

Magazine Luiza, or Magalu, is a technology and logistics company focused on retail and offers a wide range of products and services to Brazilians of all classes, through a multi-channel retail platform (app, website and physical stores). As of December 31, 2019, the Company operated 1.113 stores and 17 distribution centers strategically located in 18 Brazilian states. At the same date, the Company had more than 34 thousand employees.



CONSOLIDATED FINANCIAL PERFORMANCE

The table below presents the amounts related to the consolidated income statements for the fiscal years ended December 31, 2019 and December 31, 2018.

CONSOLIDATED INCOME STATEMENT (R$ million)	12M19	12M19 Adjusted	V.A.	12M18 Adjusted	V.A.	% Chg
Gross Revenue	24,377.1	24,377.1	122.6%	18,896.5	121.2%	29.0%
Taxes and Deductions	(4,490.8)	(4,490.8)	-22.6%	(3,306.1)	-21.2%	35.8%
Net Revenue	19,886.3	19,886.3	100.0%	15,590.4	100.0%	27.6%
Total Costs	(14,332.3)	(14,096.3)	-70.9%	(11,053.0)	-70.9%	27.5%
Gross Income	5,554.0	5,790.0	29.1%	4,537.4	29.1%	27.6%
Selling Expenses	(3,444.1)	(3,698.7)	-18.6%	(2,747.4)	-17.6%	34.6%
General and Administrative Expenses	(701.6)	(802.9)	-4.0%	(596.1)	-3.8%	34.7%
Provisions for Loan Losses	(76.0)	(76.0)	-0.4%	(59.7)	-0.4%	27.2%
Other Operating Revenues, Net	416.7	64.8	0.3%	41.5	0.3%	56.3%
Equity in Subsidiaries	26.6	26.6	0.1%	57.8	0.4%	-53.9%
Total Operating Expenses	(3,778.4)	(4,486.1)	-22.6%	(3,304.1)	-21.2%	35.8%
EBITDA	1,775.5	1,303.9	6.6%	1,233.3	7.9%	5.7%
Depreciation and Amortization	(487.0)	(210.9)	-1.1%	(163.7)	-1.0%	28.8%
EBIT	1,288.6	1,093.0	5.5%	1,069.6	6.9%	2.2%
Financial Results	(70.4)	(378.7)	-1.9%	(294.7)	-1.9%	28.5%
Operating Income	1,218.2	714.3	3.6%	775.0	5.0%	-7.8%
Income Tax and Social Contribution	(296.3)	(162.1)	-0.8%	(185.4)	-1.2%	-12.5%
Net Income	921.8	552.1	2.8%	589.6	3.8%	-6.4%
Retail Total Sales[1]	27,270.7	27,270.7	-	19,667.8	-	38.7%
	-	-	0	-	0	-
Same Physical Store Sales Growth	7.8%	7.8%	-	18.6%	-	-
Total Physical Store Sales Growth	17.9%	17.9%	-	25.8%	-	-
Internet Sales Growth (1P)	51.4%	51.4%	-	48.4%	-	-
Total E-commerce Sales Growth	76.0%	76.0%	-	60.1%	-	-
E-commerce Share in Total Sale	45.3%	45.3%	-	35.7%	-	9.6 pp
Number of Stores - End of Period	1,113	1,113	-	954	-	159
Sales Area - End of Period (M2)	648,227	648,227	-	572,394	-	13.2%

(1) Total sales include physical store sales, traditional e-commerce (1P) and marketplace (3P).

In 2019, the Company opened 159 new stores, ending the year with 1,113 stores (912 conventional and 195 virtual), 5 kiosks (Lojas Marisa partnership) in addition to our website. Of the total base, 33% of stores are in the process of maturation.

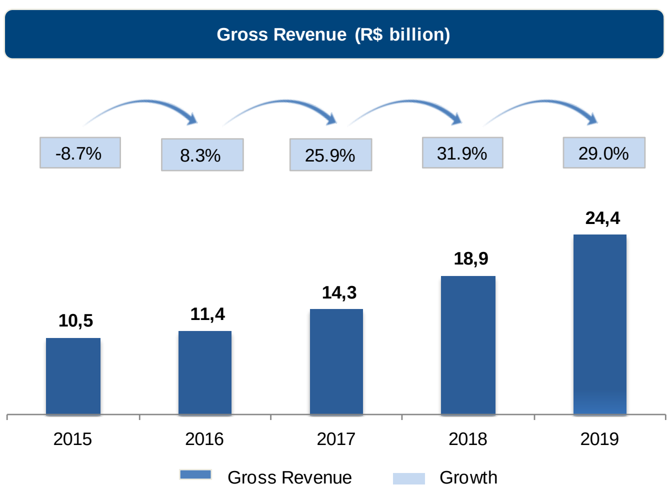
Gross revenue increased 29.0% to R$24.4 billion, due to accelerated growth in e-commerce, including Netshoes, increase in same physical store sales plus the contribution of new stores.

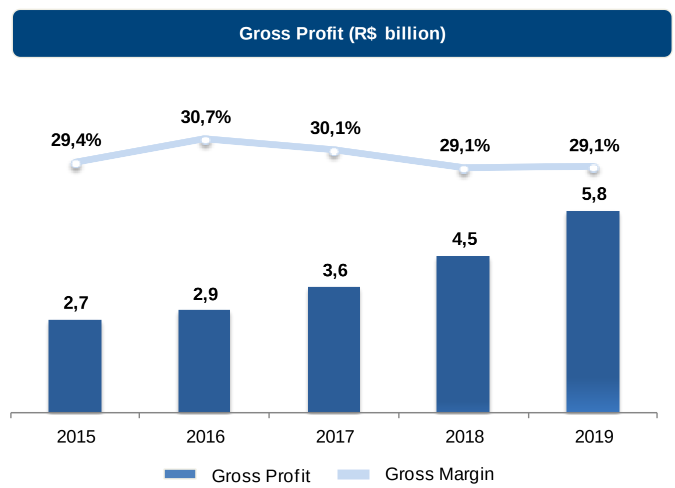
Gross profit reached R$5.8 billion with a stable gross margin of 29.1%. The gross margin is explained by a significant increase in the share of e-commerce, new categories, specially Netshoes and the marketplace performance.

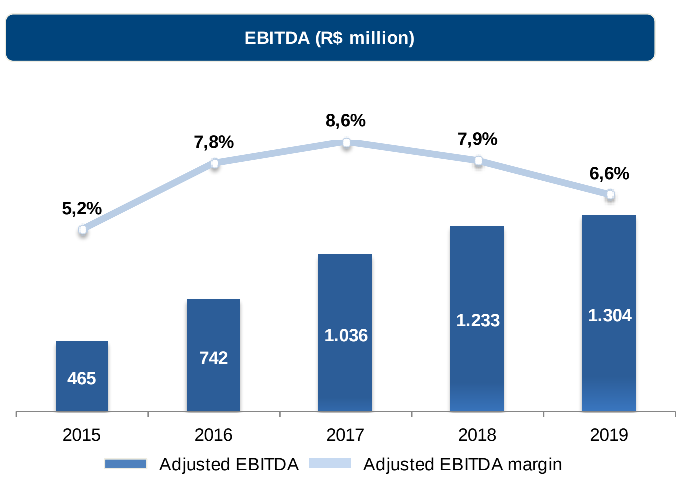
Sales expenses represented 18.6% of net sales, +1.0 p.p. in relation to 2018. This growth was due to Netshoes consolidation, additional investments in customer experience, including logistics, service level and new customer acquisition specially through the SuperApp and Luiza Card. The share of general and administrative expenses was 4.0% of net revenue, equivalent to an increase of 0.2 p.p. compared to 2018. As a result, operating expenses increased by 1.4 p.p. to 22.6% of net revenue.

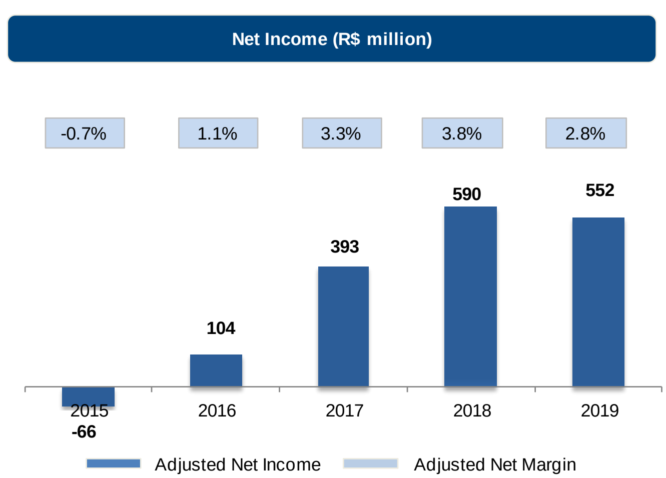
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) reached R$1.3 billion, equivalent to an EBITDA margin of 6.6%. The growth in sales and the positive contribution of e-commerce, including marketplace, contributed to the significant evolution of EBITDA. In line with the new strategic phase of customer focus, additional investments focused on improvements in service levels and Netshoes consolidation reduced the EBITDA margin by approximately 1.3 p.p.

In 2019, net income totalled R$552.1 million.









MANAGEMENT STATEMENT

In compliance with the provisions under article 25 of the Brazilian Securities and Exchange Commission (CVM) Instruction 480, the Board of Executive Officers declares that it has reviewed, discussed and agreed with the opinion rendered in the Independent Auditor's Report issued by KPMG Auditores Independentes S/S on February 17, 2020, along with the Financial Statements for the fiscal year ended on December 31, 2019 and 2018.

RELATIONSHIP WITH EXTERNAL AUDITORS

Pursuant to CVM Instruction No.381/03, we inform that the Company and its subsidiaries and jointly-owned subsidiaries adopt as formal procedure to consult the independent auditors KPMG Auditores Independentes S/S (KPMG), in order to assure that the rendering of other services do not affect their Independence and the objectivity required to perform independent audit services. The Company's policy when engaging independent auditor's services assures there is no conflict of interests, loss of independence or objectivity.

In the fiscal year ended December 31, 2019, KPMG did not render other additional services to exceed 5% of the audit fees of Magazine Luiza S.A.'s consolidated financial statements.

When contracting these services, the policies adopted by the Company are based on the principles which preserve auditor's independence. These principles, pursuant to the accepted international standards, consist of: (a) auditor shall not audit his own work; (b) auditor shall not perform managerial duties at his client, and (c) auditor shall not legally represent its clients' interests.

KPMG Auditores Independentes S/S (KPMG) declared that services were rendered in strict compliance with the accounting standards referring to auditors' independence and they do not represent situation which could affect independence and the objective performance of their external audit services.

ACKNOWLEDGEMENTS

We would like to take this opportunity to thank all our clients, employees, shareholders, suppliers, partners, and the community in general for the trust and partnership throughout 2019.

São Paulo, February 17, 2020

The Management